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Shoe Carnival, Inc. (SCVL)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Shoe Carnival's First Quarter 2022 Earnings Conference Call. Today's conference is being recorded. It is also being broadcast via webcast. Any reproduction or rebroadcast of any portion of this call is expressly prohibited.

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

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

I'll now turn the conference over to Mr. Mark Worden, President and CEO of Shoe Carnival, for opening remarks. Mr. Worden, you may begin.

Mark J. Worden

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

Good morning, and welcome to Shoe Carnival's first quarter 2022 earnings conference call. Joining me on today's call is Kerry Jackson, Chief Financial and Administrative Officer.

I'm encouraged to share that our customers returned to a more normal shopping pattern during Q1 of 2022. Lower category trends and customer behavior closely resembled the first quarter of 2019, before the pandemic began.

Importantly, during this quarter, we gained valuable insights into how our customers would shop for footwear without the massive government stimulus distributions during 2021 and without the retail store closures from the pandemic in 2020. As such, I'll be comparing results versus Q1 2019 throughout my speech as we see it as the most relevant and normalized quarterly benchmark since the pandemic began.

Three key learnings emerged for Shoe Carnival. First, our strategies to double our profit generation model compared to the levels before the pandemic have worked. Second, market share growth from new customer acquisition and loyalty enhancements continues to advance our plans to become a multi-billion-dollar retailer. Third, customers are highly engaged with the dress, casual and sandals product categories, demonstrating a strong return to pre-pandemic lifestyles and trends.

More specifically, profit for the first quarter of 2022 significantly exceeded expectations. Earnings per share were \$0.95, achieving growth of 107% versus Q1 2019. Results were driven by double-digit operating income and net sales growth of 25.1%. This marks the fifth consecutive quarter of growing sales by over 20% versus 2019. Further, the 2022 results highlight the staying power of the customer growth achieved. I'm thrilled to share that we've surpassed 29 million loyal customers at the end of Q1, which is up over 10% from last year and over 25% from 2019.

During the first quarter of 2021, the government distributed over \$400 billion in consumer stimulus, contributing to Shoe Carnival growth of over 120% versus the prior year. As included in our 2022 annual guidance, Q1 sales and EPS were planned lower than the prior year. However, our EPS over delivery versus planned at Q1 reinforces our confidence for the remainder of the year.

As a result of the strong start, today, we are reiterating our sales guidance to achieve net sales growth of 4% to 7% on top of the 36% annual growth achieved last year.

Additionally, we're raising our EPS guidance range to \$3.95 to \$4.15. Combined, this generates a return on beginning equity between 24% and 26% for our shareholders. We faced inflationary and supply chain headwinds throughout the quarter, yet our team of seasoned merchants continue to navigate the complexities with excellence.

The teams partnered with our strategic vendors to ensure a solid inventory position and, ultimately, strengthened our delivery against our customer expectations. Our inventory position in stores has us set up well to capture rapid growth in non-athletic seasonal products, dress, and casual categories. We started seeing these categories re-emerge as growth trends last year and the team brought 2022 for the consumer to return to more historic splits between athletic and non-athletic categories.

During Q1, we saw that shift happen with an approximately 600-basis-point shift from athletics back to non-athletics for the total corporation. This returns our category mix back to our normal split of approximately 50/50 athletic and non-athletic. Our balanced business model gives Shoe Carnival significant advantages to take it rapidly as customer trends shift like they did over the past three years.

Despite the supply chain challenges globally and the backup of goods at the ports, our inventory per door is up approximately 20% versus last year and versus 2019. We are positioned to win the back-to-school season with these inventory levels. Kerry will discuss the supply chain and inventory positions further shortly.

Overall, enthusiasm to rapidly grow sales and profits permeate through the organization. We are consistently executing on our core strategic priorities, which I will now provide a brief update on. Number one, delivering the most modern store fleet and shopping experience. Our bricks-first retailer mindset ensures we constantly reimagine our store design, our shopping experience, and customer service processes. A total fleet modernization plan is well under way, and the new store design and enhanced shopping experience has generated exceptional customer response.

I shared earlier this year we have accelerated investments to complete the program faster. Today, 31% of the fleet modernization has been completed. Over 50% will be complete by the summer of 2023, and the full fleet plan will be completed by the end of fiscal 2024. One of the major advantages of the new design is to create distinct brand experiences and present customers with shop-in-shop destinations.

An example of this is our athletic shop-in-shops which provide a large, open, easy-to-shop environment with the nation's most sought-after athletic brands for the entire family. Another example is our seasonal pop-up shops that are focused on the hottest casual and sandals brands currently. Our new design is full of digital elements that allow us to pivot rapidly from one season for the next to the hottest new product or to market the latest new brand in conjunction with our strategic vendor partners.

Number two, our advanced CRM, analytics and digital marketing. Understanding the footwear customer best and how to communicate effectively with them, the top strategic priority and core driver of our profit model. We elevated our capabilities in this space to accelerate profitable growth and to pinpoint desirable real estate. The loyal Shoe Carnival customer base expanded over 10% this last 12 months, and is now over 29 million customers that we can effectively engage with.

Investments made in technology and team capabilities have transformed our promotional model into a highly profitable, personalized digital-first approach. This has structurally shifted our gross margin level upward by approximately 600 basis points during Q1 2022 versus the previous high to pre-pandemic. Combined with our increased scale, the margin growth results in a sustainable operating income level that is double-digit and EPS that is more than twice the levels generated historically. This in turn creates strong operating cash flow characteristics to invest in accelerating future growth.

Number three, leading store productivity. We completed our multi-year store productivity improvement plan this past year. The strategic plan eliminated all underperforming stores and those that were not positioned well to reach our core customer target. All comparable stores across the fleet generated positive cash flow and profit contribution last year. This past year, our sales per square foot also surpassed \$300 for the first time, compared to historically delivering \$225 to \$250 range.

This quarter, we continue to deliver over \$300 per square foot and all comparable stores generated positive cash flow and profit contribution on a trailing 12-month basis. Based on our guidance, we expect to end fiscal 2022 with a strong cash flow generation and top-tier productivity.

And strategy number four, rapidly expanding scale. The existing fleet is highly productive, the modernization program is progressing quickly and we have structurally more than doubled our ongoing earnings per share. We are now positioned to rapidly expand our scale profitably. During December of 2021, we completed the acquisition of Shoe Station, a leading footwear retailer in the South. The second banner added a growth platform to expand store counts across the southern markets. We have smoothly completed the integration phase of the acquisition; and during 2022, are building out the banners, advanced CRM, analytics and marketing capabilities.

We opened our first Shoe Station store since the acquisition this past quarter and sales have far exceeded our plans. Another handful of Shoe Station new stores have leases executed or near completion, and many more new stores are following on the heels. The Shoe Station's CRM and dot-com platforms are on track to go live ahead of plans and support our customers' holiday shopping this year. We're on track to double the footprint and the sales of the Shoe Station banner in the next two to three fiscal years.

The Shoe Carnival banner is also expanding store counts and is moving into an accelerated growth mode in 2023. We opened a new store in Morgantown, West Virginia during Q1, and it also exceeded our sales plans and customer response. I'm bullish on sales growth and store count expansion for both banners. The total company fleet will reach 400 stores this fiscal year and over 450 stores during fiscal 2024.

In closing, we see tremendous market share potential and a long runway for further store growth for our banners in the years ahead. Our inventory position is ready for a big spring sandal season that we are now in, ready for the upcoming back-to-school season, and is well positioned for the customers' return to a more normal 50/50 athletic/non-athletic balance between categories. I'd like to thank our nearly 6,000 team members, our customers, and vendor partners for contributing to our many successes in Q1.

I would now like to turn the call over to Kerry, and then we will open up for your questions. Kerry?

W. Kerry Jackson

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

Thank you, Mark. I'm excited to share with you some financial highlights from a very successful first quarter. And in doing so, we'll help demonstrate the sustainability of the structural changes in our profitability profile. In my remarks, I will continue to compare our first quarter results with first quarter 2019, but also weave in comparisons to our record-setting first quarter last year where appropriate.

Net sales in Q1 were \$317.5 million. This is the second highest first quarter sales results in our history. Excluding last year's record Q1 performance, this was the highest Q1 sales results being any other Q1 by more than 20%. An indicator of the strength of the quarter against the more typical first quarter of 2019, total sales were up 25.1% and comparable store sales were up 16.8%. Breaking this down further, our brick-and-mortar comparable store sales were up 9.1% and e-commerce increased 154.4%.

As Mark mentioned earlier, we planned on our annual guidance, lower Q1 sales when compared to Q1 last year. Against last year's stimulus-enhanced Q1, total sales were down 3.3% and comparable store sales declined 10.6%. These results were against a net sales increase of 122.7% and a comparable store sales increase of 125.8% in Q1 last year. Our Q1 gross profit margin was 35.5%. This was the second highest quarterly margin in our history and was up 590 basis points over Q1 2019. This increase was driven by a 680-basis-point increase in our merchandise margin, partially offset by a 90-basis-point increase in buying, distribution and occupancy expense as a percentage of sales.

Against last year's first quarter, our merchandise margin decreased 130 basis points, and buying, distribution, occupancy expense as a percentage of sales increased 280 basis points. Due to the current global supply chain issues and transitory inflation, we incurred in Q1 this year significantly higher transportation and fuel costs, which reduced our merchandise margin by 150 basis points and increased our distribution costs by 190 basis points. I'd like to point out, excluding the unusual 150 basis points in fuel costs, our merchandise margin would have increased in Q1. Furthermore, these additional costs decreased EPS in Q1 by \$0.29.

While we expect to incur a higher transmutation and fuel costs through the remainder of the year, we feel the year-over-year increase will moderate in Q2 and beyond partly due to mitigations we have put in place.

SG&A expense in Q1 was \$77.5 million or 24.4% of sales. The increase in SG&A against Q1 last year was driven primarily by increased investment in advertising and store-level wages, partially offset by lower incentive compensation expense. Q1 operating income was \$35.4 million or 11.1% of sales. This is in line with our expectations of annual double-digit operating margins, which are more than double our historical run rate.

Net income for the first quarter 2022 was \$26.9 million or \$0.95 in diluted earnings per share. Once again, this is the second highest Q1 diluted EPS only surpassed by Q1 last year. However, to put this in further context, with the transformation of our profitability, earnings in Q1 by themselves would be the fourth highest annual earnings in our 43-year history. We closed out the quarter with inventory of \$345 million, which is up \$76.4 million compared to the prior year or 22.6% on a per-store basis.

Approximately 40% of the increase was due to the addition of Shoe Station stores, with the remaining increase due to the accelerated receipt of merchandise to help protect our store inventories against supply chain delays. The acceleration of merchandise receipts has put us in a solid position for spring and should position us well for back-to-school.

We continue to have ample liquidity to fund our growth initiatives Mark outlined earlier. At the end of Q1, we had total cash, cash equivalents, and marketable securities of \$97.1 million and no outstanding debt. During the quarter, we repurchased approximately 683,000 shares of our stock at a cost of \$20.5 million. We currently have \$29.5 million remaining on our \$50 million share repurchase program.

With Q1 sales results in line and diluted EPS ahead of our expectations despite higher supply chain costs, we are reiterating our sales guidance for fiscal 2022 of 4% to 7% growth and raising our diluted EPS guidance to \$3.95 to \$4.15 from previous expectations of \$3.80 to \$4.10.

In closing, this morning we announced the continuation of financial results, which are significantly elevated from our pre-pandemic profit levels. We have confidence in the sustainability's elevated earnings levels, and we are better positioned financially than ever before to execute on our growth strategy, which combines organic store expansion and modernization on the one hand and a selective acquisition strategy on the other.

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

QUESTION AND ANSWER SECTION

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

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Yeah. Thank you. I've got maybe a handful of questions. So, Kerry, could you start – you talked about the higher transportation and fuel costs. I think if I add up the merch margin BDO, it's about 300 – like a 340 basis points hit on the quarter. You mentioned that you expect that to moderate through some mitigation strategies. Can you maybe just elaborate on that? Like, what do you think that is maybe in the second quarter or for the year? And then talk a little bit about the strategies that you're employing to bring that down. And then I've got some other questions.

W. Kerry Jackson

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

A

Well, Mitch, we're not going to get specifically into it because there's still a little bit of unknown because we can't control the fuel cost on that. We expect to see diesel to be about the same looking out. So, we do not expect to see much on that.

However, on the transportation side, what we saw was a shortage of availability to transport goods out of the ports because of the congestion, that congestion is kind of slow – is clearing out a little bit. So we're seeing more favorable rates on transportation costs. That's why we think that we're going to be able to improve on that as the year goes along. And we're working aggressively to lower those costs because that was quite [indiscernible] (00:20:59) in Q1 for us.

What we would see is that both of those – that BD&O would not be leveraged to that extent in Q2 and beyond as we did in Q1. We think that's going to be the high watermark.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Okay. What was the Shoe Station contribution in the quarter from a just sales and EBIT perspective, if you have it?

W. Kerry Jackson

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

A

We look at Shoe Station as one of our store growth. It's a separate banner, we call it. But we're not going to break out the pieces between the two because we look at it as one enterprise, a similar customer base, similar shoe base. So, it's going to be one company.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Okay. And then, on the comparable store sales, I think on a year-over-year basis, down [ph] 10.6% (00:21:48). How does that break out kind of traffic versus ticket? I think your prior full-year outlook was maybe sort of like flattish. So, I'm kind of curious how you think about that playing out for the balance of the year.

Mark J. Worden

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

Hi, Mitch, it's mark. Good morning.

A

Mitch Kummetz

Analyst, Seaport Global Securities

Hi, Mark.

Q

Mark J. Worden

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

As Kerry stated, we're confident in our guidance of sales growing 4% to 7% for the year. And importantly that we're past the Q1 stimulus and major headwinds, we see us in a growth mode in that range starting off this quarter and continuing to grow the sequential quarters for the rest of the year.

A

In terms of the diagnostics, traffic has been in line with expectations. During Q1, we saw lower conversion rates, which was driven primarily due to the \$400 billion of stimulus consumers had available from mid-March to the end of the quarter last year. That made the conversion record highs last year. We're very pleased with where our conversion landed this year, but we would say that the less discretionary funds and the high inflation didn't slow down traffic, but it slowed down their ability to make multiple purchases or the higher ticket purchases in the category this quarter.

Mitch Kummetz

Analyst, Seaport Global Securities

Okay. And then, kind of to your point, Mark, on the accelerate – so, when I look at the sales, kind of the run rate on a three-year basis, I guess Q1 was up 25%. The sales guide on the year implies a three-year sales growth of kind of mid-30s, which is an acceleration from where you were in the first quarter. Is the confidence that you have in that largely due to – I mean, the better inventory position you are in today versus kind of what you were in going into the quarter? Are there other things that are also contributing to what you would expect to be an acceleration of that three-year sales growth rate?

Q

Mark J. Worden

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

It's multiple factors. The largest is just the comp we had to go against for Q1, and the stimulus, again, versus one...

A

Mitch Kummetz

Analyst, Seaport Global Securities

Yeah. But I'm talking about on a three-year basis.

Q

Mark J. Worden

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

Yeah. On a three-year basis, we captured significant share growth since 2019 or three years ago, but consumer did not have those discretionary funds available in Q1, and the inflation, as I said, was a challenging headwind. We're seeing that already mitigate in the early part of this quarter and are very encouraged with the early trends we're seeing in the first weeks of Q2. We're seeing the consumer now get into a more normalized state and accelerated growth compared to 2019, to your question.

A

Q1 was truly an anomaly, with the inflation shocks, I think, consumers were digesting. We're seeing that get into more normal stage in these first few weeks of Q2, and very pleased with the growth being able to deliver in line with the 4% to 7% guidance.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Got it. That's helpful. And then lastly, just on sandals, it sounds like you're encouraged about sandals. And, I guess, just – I'm curious, kind of, how they perform in the quarter. I think the weather wasn't necessarily ideal, that your inventories for sandals weren't ideal in the quarter. And probably a lot of that has improved subsequent to the end of the quarter. Can you just talk a little bit about that? And then I'm good. Thank you.

Mark J. Worden

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

A

Sure. Thanks, Mitch. I'm going to ask Carl Scibetta, our Chief Merchandising Officer, to elaborate on that one. Carl?

Carl N. Scibetta

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

A

Hi, Mitch. How are you doing? You're right. Sandals, in the first quarter, started slow. The weather was unseasonably cool, especially in the northern – middle to northern part of the country. Late, late first quarter, as weather started changing, we saw a significant increase in sandal performance. And as the warm weather has hit the first two weeks of May, we're seeing customers' acceptance of our sandal offerings very, very strong. We're well positioned from an inventory standpoint, and we look to have a strong second quarter in the seasonal categories.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Great. All right. Thanks, guys. Appreciate all the color.

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

Sam Poser

Analyst, Williams Trading LLC

Q

Good morning, everybody. I just have a few questions. One, I'll get to the good stuff in a sec, but you mentioned on the fourth quarter call that you had with your same-day delivery you had brought on DoorDash to do some of that. I wondered, Mark, if you could give us a little update on some of these improved customer-facing initiatives you have, including that one.

Mark J. Worden

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

A

Good morning, Sam. Thanks for joining us today. We're very pleased with the work our team is doing to make our shopping experience easier and faster, as well as cost-effective for them. We're building in enhanced systems throughout our omni-channel, including upgrading our entire back-end system to the leading sales-force platform, and that has just gone live in the last quarter. We couldn't be more excited with what this new platform is going to allow us to do.

Additionally, on specifics, we're very pleased with the early days of our same-day delivery services and partnerships, our customers for taking advantage of it. It gives them that one more option of whatever is easiest for them. Most we find Shoe Carnival shoppers still love the experience in store and want to come into the store. But many are taking this opportunity as well. So we're very pleased with the capabilities.

Sam Poser

Analyst, Williams Trading LLC

Thanks. And then, historically, you've given us the breakdown by category: kids, adults, athletic, women's and men's now. I wonder if you could provide us that data both on a – versus last year and versus 2019.

Carl N. Scibetta

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

Hi, Sam. It's Carl. Versus 2019, like we said in the earlier remarks, the non-athletic categories continue to accelerate. So women's non-athletic was up in the 30% range really driven by dress and sport. Men's non-athletic was up in the mid-20s. Kids was up in the low-30s. And athletics were down very slightly, singles, versus 2019. Versus 2021, the non-athletic categories continued to outperform the athletic categories versus 2021 in the stimulus money from a year ago. And that has brought us back to our 50/50 breakdown of athletics versus non-athletics.

Sam Poser

Analyst, Williams Trading LLC

Can you give us some specifics as you just did for last year and what you gave for 2019?

Carl N. Scibetta

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

Sure. Let me pull that. The women's non-athletic was up mid-singles. Men's non-athletic mid-singles. Men's non-athletic was up below singles. Children's total was down in the high-teens. Then, adult athletic – actually, yeah, adult athletics was down right at 20%. And that takes us back to pre-pandemic sort of breakdown of our business.

Sam Poser

Analyst, Williams Trading LLC

And with the athletic business, is – how much of that do you think was just the all the stimulus from last year versus delivery timing this year because we're hearing a lot of the athletic guys have been like late, late, late, late, late. And so, just wondering what you're seeing there and how you're thinking about that for the balance of the year.

Carl N. Scibetta

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

A big part of when stimulus money is in the marketplace, whether it's tax refunds or stimulus money, it really accelerates our athletic business significantly. With the amount of money that was in the market last year, it obviously had that great effect. We're now back to where we were in 2019, which is that 50/50 breakdown, athletic/non-athletic, which is, frankly, the strength of our formula. Not going to ignore the fact that there are issues with deliveries coming out of, let's just say, goods manufactured in Vietnam. But we have been very aggressive and we do continue – we do believe we're going to continue to see some slippage there, but we've been able to manage through it for almost two years. So, we're confident we'll get what we need.

Sam Poser

Analyst, Williams Trading LLC

Q

Thanks. And then lastly, when do you anticipate the same benefit of your largest vendor's decision to eliminate quite a bit of distribution? Are you starting to see some of that now, or is that something that – when do you anticipate seeing some of the benefit from that?

Mark J. Worden

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

A

Well, broadly speaking, we've been seeing growth in our athletic market share for multiple years now. And we're confident with the lay of the land that we've got the right strategic partners, a broad diverse set that we're going to continue to grow market share. We can expect that continue to accelerate as we get into back-to-school and holiday season this year based on our relationships across the slate of the world's best brands.

Sam Poser

Analyst, Williams Trading LLC

Q

All right. Just one – I'm sorry, one more thing. With Shoe Station, you originally have guided Shoe Station to do about \$100 million in revenue and at a 10% op margin. Is that – has anything changed within that number, within your guidance, or can you just give us any color as to what you're seeing there, by getting up earlier on some of the – on the CRM and with the shoestation.com, will that potentially facilitate more revenue? Anything you can give us there?

Mark J. Worden

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

A

Sure, Sam. Again, this is Mark. We're very pleased with the early results. We're confident in delivering that early guidance, and there's an opportunity with integrations going so smoothly with our leases starting to get signed and outperforming, and our dot-com coming online before the holiday, there's an opportunity for us to start to capture some of that growth towards the end of this year. Importantly, we think we're set up to grow rapidly as we get into the next fiscal year and have all those pieces in place. But to reiterate, we're very confident in delivering our original expectations and have an opportunity to beat.

Sam Poser

Analyst, Williams Trading LLC

Q

And then, you said you were going to open, like – it sounds like around seven stores – seven or eight stores this year and then accelerate from there into 2023. Is that like – is that – am I – did that I get that right from prior call?

Mark J. Worden

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

A

We're committed to get to 400. So, it's roughly right. We're working hard to get above seven. It's going to come down to this real estate availability if that happens towards Q4 or in Q1. But we're trying to get real clear, 450 is a number we'll surpass as we get into fiscal 2024. We're going as quick as we can. We're finding the most very attractive real estate. Just the matter is how fast we can close those deals. But, yes, we'll accelerate in 2023 into double-digit store growth and accelerate again in the following year, making a minimum of 450 stores for the enterprise at the end of fiscal 2024.

Sam Poser

Analyst, Williams Trading LLC

Q

Okay, great. Well, thank you so much on continued success.

Mark J. Worden

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

Thank you, Sam.

A

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

James Andrew Chartier

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

Good morning. Thanks for taking my questions. First, I believe last quarter you said you expect the first half sales to be flat to up 2%. Just want to see if you're still comfortable with that expectation.

Q

W. Kerry Jackson

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

We are – we're really happy to get past the compare of Q1, and we're expecting comp increases in Q2, Q3, and Q4 as we had originally expected. Like we said before is that we expect the Q2 comp to be on the lower side of the average for the remainder of the year because of some residual still benefits of the stimulus from last year.

But we're still in line with our expectations there.

A

James Andrew Chartier

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

Great. And then your SG&A came in a little bit higher than I would have expected, given that your comping against the big incentive comp grow last year. Were there any incremental costs to integrate Shoe Station in first quarter? And then, you mentioned higher advertising expense. When was, kind of, you expected benefit from that expansion, and what's the plan for advertising for the rest of the year?

Q

W. Kerry Jackson

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

We – our SG&A came in line with our expectations. We're needing to invest in our store-level wages, as we've done before, to – so we have a good positive store experience when our customers come in. And the other one was advertising, utilizing our digital CRM, analytics to drive that spend to be more effective and drive that margin of sales. So, we're in line. The unusual thing that within our SG&A is that offsetting those a little bit was a more incentive compensation compared to last year, because you know last year we had such a breakout first quarter, it was higher than the average typically.

A

Mark J. Worden

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

Good morning, Jim, it's Mark. One build on that, we're very proud to share that our cost structure now includes all Shoe Carnival, our full-time employees are at \$15 or above. And we've been working many years to have what we believe is the strongest employee base also compensated at a strong living wage. And this quarter, we have achieved that and we have that built into our guidance for the annual year, which we just raised today.

A

James Andrew Chartier

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

Q

That's great. And then, the share repurchase is much more aggressive than kind of historical. Has there been a change to your approach to share repurchases? And how do you think about that going forward?

W. Kerry Jackson

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

A

Jim, we typically are opportunistic on that. And we saw our stock under pressure in the first quarter and utilized that to buy back some shares a little more aggressively.

James Andrew Chartier

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

Q

Great. Then, last question. Any areas where inventories constraining sales?

Carl N. Scibetta

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

A

Hi, Jim. This is Carl. Not that we see at this point inventory for the shoe – on the Shoe Carnival comp basis versus 2019 is up per door about 8%, and our sales are up just over 16%, as Kerry reported. So we think that's a really good ratio, making good efficient use of the inventory that we have. We're well positioned going in the second quarter for a – as the weather warms up for a great seasonal selling season and preparing for back-to-school.

James Andrew Chartier

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

Q

Great. Best of luck for the rest of the year.

Mark J. Worden

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

A

Thanks.

Operator: [Operator Instructions] The next question is from Mitch Kummetz with Seaport Research. Your line is open.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Yeah. I just have a couple quick follow-ups. One, just on the gross margin. So you've got this outsized growth right now of non-athletic versus athletic. Are there any margin implications to that in terms of that penetration going up?

Carl N. Scibetta

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

A

Yes. Mitch, hi. It's Carl again. Typically, the non-athletic areas run a slightly higher margin than the athletic areas do. And we have that built into our plan for the balance of the year.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Okay. And then, Carl, it sounds like you guys are particularly bullish on casual, dress, seasonal kind of based on what the current reads are there and what your thoughts are for maybe the balance of the year. I'm sure you have a pretty good sense as to maybe how some of your competition is positioned in those categories. Do you feel like there's an opportunity to pick up market share in those areas maybe over the balance of the year, just kind of given the commitments you've made to those areas versus maybe a lack of commitment by some of your competition?

Carl N. Scibetta

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

A

Well, Mitch, I'm going to talk about our competition, but we started seeing the reflow of the categories to the non-athletic categories, frankly, April of 2021. And it really picked up where we were headed in 2019. We took that as an alarm or an opportunity, I guess, I should say, to go after those categories. We continued that throughout the balance of 2021 and aggressively advance ourselves in a position for 2022. We see that continuing. We believe we've taken market share in those areas, and we believe we're ahead of the curve on that.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Okay. That's helpful. Thanks again. Good luck.

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

Sam Poser

Analyst, Williams Trading LLC

Q

Kerry, I was wondering, can you give us some or could you give us some more data on your loyalty members as to how loyal they are, how much business you're getting from them? And you talked about share growth in, kind of, a broad sense, Mark, but where do you see the share growth coming from?

And then, lastly, well, probably for Carl, with the – built into your plans to take into account the mix of product, benefit and mix of product, how do you foresee the promotional environment within your plans, let's say, versus 2019? I mean, last year was almost perfect. So versus 2019, how do you foresee that?

Mark J. Worden

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

A

Sure, Sam, it's Mark. I'll take that first. We talk through our advanced CRM capabilities. It continues to grow faster than we expected. As reported, total membership grew over 10% versus the prior year. We're very encouraged to see that sustained growth during Q1. That puts both our total numbers as well as our gold members, our most valuable customers, were both up approximately 10% for the end of Q1 for the trailing 12 months. And with that, over 29 million members hitting a new watermark. That's so important because now with that enhanced technology, we can engage with that consumer via effective – cost-effective digital vehicles and personalize the messages and offers.

Ultimately, that strength is parlaying to that nearly 600 basis points of enhanced margin that we talk about. That's where the real excitement is, effectively, efficiently promoting our best products, our best brands, without having to dilute the profit per pair or engagement. We couldn't be more encouraged by where we're going there.

There's a lot more upside, though. We always talk about where are we in the baseball game. We're still early innings. We absolutely know how to play the game. We have all the tools, but there are many, many more innings of growth we can derive from this in the years ahead.

Sam Poser

Analyst, Williams Trading LLC

Q

Well, what percent of your sales are coming from those loyalty members? And how does that change, let's say, now versus last year, and now versus 2019?

Mark J. Worden

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

A

Yeah. We're still hovering between the two-thirds and low-70s on any given quarter, Sam. We still have a lot of runway and believe the upside potential is in the years ahead to get that high-70s or 80% of our revenue, which really climb to best-in-class. We've completed all the investment phases, as I said, upgrading to, we believe, the best platform available for what we need. And we think that over the years ahead, we can continue to gain that efficiency for cost and effect in such a reach and move from that range I just said significantly upper year-over-year.

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you.

Mark J. Worden

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

A

Thank you.

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

Mark J. Worden

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

I'd like to thank you all for joining us in our Q1 call and we look forward to talking to you again in the next quarter. Have a great day.

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

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