

S&P Global

Market Intelligence

Shoe Carnival, Inc.

NasdaqGS:SCVL

Earnings Call

Thursday, November 16, 2023 1:30 PM GMT

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Call Participants

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Presentation

Operator

Ladies and gentlemen, good morning, and welcome to Shoe Carnival's Third Quarter 2023 Earnings Conference Call. Today's conference call is being recorded and is also being broadcast via webcast. Any reproduction or rebroadcast of any portion of this call is expressly prohibited. I would now like to introduce Mr. Steve Alexander with Shoe Carnival Investor Relations. Mr. Alexander, please go ahead.

Steve R. Alexander

Investor Relations

Thank you, and good morning. Thanks for joining us today. Earlier this morning, we issued our earnings press release for the third quarter of 2023. If you need a copy of the release, it is available on our website in the Investors section. Joining me on today's call are Mark Worden, President and Chief Executive Officer of Shoe Carnival; Carl Scibetta, Chief Merchandising Officer; and Patrick Edwards, Chief Financial Officer. Management's remarks today 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. And with that, I'll hand the call over to Mark.

Mark J. Worden

President, CEO & Director

Thank you, Steve, and good morning, everyone. I'd like to start today by introducing Patrick Edwards, who in September was promoted to the role of Chief Financial Officer, Treasurer and Board Secretary. Patrick has served as an Executive Officer of the corporation since 2021 as our Chief Accounting Officer and Board Secretary. Previously, he served as our Corporate Controller since joining the company in 2019. Patrick brings over 30 years of progressive financial leadership experience to his new role and has been instrumental to our financial performance. I'm sure you will all enjoy working with him going forward, and I know he's excited to get to know you all.

Now moving on to the quarter. We started out Q3 with a very successful back-to-school campaign and strong results. We saw momentum building in key categories, market share growing and moderating sales trends compared to earlier in the year. However, once back-to-school shopping concluded, the sales trend softened significantly heading into Labor Day weekend, and we saw disappointing seasonal sales for the remainder of September and October. For the quarter, sales were \$319.9 million, down 6.4% versus the prior year. This result was at the low end of our expectations, yet, I would like to commend the team's achievement of approximately \$320 million in sales, which is a level of quarterly sales that the company had never come close to achieving in any quarter prior to 2021. I'm so proud of our team's customer focus and strong commitment to delivering results in the face of a challenging environment.

Our EPS delivery was \$0.80 in the quarter and \$2.11 year-to-date. Both are below our expectations and were impacted by the very sluggish start to the fall season. Looking at how these results compare over the longer-term strategic horizon, our 2023 year-to-date EPS is more than 40% higher than any full year EPS results prior to 2021. In fact, the Q3 EPS result of \$0.80 is more than any full year EPS delivery prior to 2018. I am disappointed with our performance shortfall versus our expectations that we set too high, yet by steadily advancing our long-term strategies, the company has achieved transformative profit growth compared to results just a few years earlier.

Moving to a recap of the August back-to-school season. I believe Shoe Carnival is the leader of the family footwear business for kids and has been for over 4 decades. We pride ourselves on delivering kids a fun back-to-school shopping experience with the best depth and breadth of the brand's kids want to show off as they head back to school. When I look back at this challenging year, the result I'm most pleased with is the sales growth achieved during the month of August, growing our kids categories low single digits versus the prior year. The 2023 back-to-school season resulted in the second highest kids category sales in the company's 45-year history, surpassed only by 2021. Our kids sales grew to over 30% of total sales during back-to-school as compared to a typical full year historical range of 18% to 20% of total sales. This category acceleration was driven by growth in athletic sales led by court and basketball in both girls and boys, record-high transaction value as well as conversion and margins that were among the highest levels in our history.

Similar to Q2, we invested aggressively this quarter, supporting our back-to-school advertising and marketing campaigns as we were seeing encouraging sales trends. This growth contributed to significant market share gains year-to-date for our company within the backdrop of the family footwear industry where sales have declined approximately 10% year-to-date 2023. To summarize, momentum was improving as we headed into our last earnings call, and that gave us increased confidence that balance of year trends appeared likely to continue to moderate. In hindsight, we were wrong about trends moderating for the balance of the year. After back-to-school finished, our top line performance quickly softened as the normal seasonal business and fall season did not kick in. The weather was persistently hot and dry in most of our geographies during September and October, and sales turned to high single-digit and low double-digit declines for multiple weeks in the early fall period.

From a category perspective, boot sales have been very soft with the warm dry weather. Total boot sales declined low 20s in the quarter and certain seasonal segments barely started at all. Given the unexpected top line challenges in the latter part of the quarter, we are lowering our full year 2023 sales and EPS guidance. Patrick will go into detail on guidance in his remarks, but I will highlight that our revised guidance reflects a Q4 outlook that comp sales decline steeper than prior quarters and is based on our limited visibility into customer holiday shopping and the broader macroeconomic drivers that continue to be volatile.

We continue to experience softness in the segment of our customers with household income under \$30,000, including our urban lower-income customers. For some perspective, our overall customer mix is split about evenly above and below household income of \$50,000. In the segment of our customers that are above \$50,000 household income, we're seeing a mix shift to more affluent customers with household income over \$75,000.

In fact, our customer segments below \$30,000 and above \$75,000 are now about equal on a year-to-date basis with both segments in the high 20% range. The growth in the above \$75,000 segment is being driven by e-commerce transactions and our Shoe Station banner.

Turning the Shoe Station, the banner produced excellent results all around in the quarter, with net sales increasing low double digits versus the prior year, margins expanding and sequentially accelerating sales growth versus Q2. We continue to see Shoe Station results significantly outpacing the overall footwear category and generating leading performance within our company.

Growth is largely driven from investments in our CRM platform capabilities that have grown Shoe Station CRM membership high teens versus prior year. The success of this acquisition and the speed of achieving synergies further strengthens our commitment to our M&A growth strategy, which is largely focused on making additional regional acquisitions that can be rolled up into our Shoe Station growth banner. Total company e-com sales increased approximately 10% in the quarter, demonstrating our digital marketing and CRM strategies are driving customer awareness and engagement, helping to partially offset the traffic softness, we are seeing in our lower income urban customers.

As part of our continued strategy to drive long-term sustainable top line growth, at the end of October, we relaunched our Shoe Carnival e-com website, bringing customer-focused improvements to the online experience. As part of this redesign, we have completely reimplemented our search platform, and we are leveraging real-time analytics to display the most relevant trending and recent searches, while also heavily

emphasizing product imagery. We're also leveraging predictive analytics and the power of generative AI across the site to create a more personalized and engaging experience for the customer. Combined with our advanced CRM capabilities, these investments to improve our customers' online interaction, bring us closer than ever to showing the right product to the right customer at the right time. We're very excited about the relaunch site, and we believe that this user experience will drive a higher level of customer engagement, whether the customer is looking to purchase online or to simply get more information before visiting one of our over 400 stores.

Gross profit margin in the quarter was 36.8%, representing the 11th consecutive quarter above 35%. When taking a longer-term view of our profit transformation, the margin expansion is the key driver of improved results as evidenced by an increase of 590 basis points in Q3 2023 versus Q3 2019. As I discussed previously, competitive intensity was high during the back-to-school season with many competitors, deep discounting products and running profit-losing promotions. Comparing to the back-to-school period 4 years ago in 2019, our gross profit margin in the 2023 back-to-school season increased 820 basis points, driven by our targeted promotional plans, smart buying strategies and continued growth of our Shoe Perks CRM membership. And as I shared earlier, we gained this long-term margin expansion while also growing our kids business to the second highest level of any prior back to school.

During the quarter, we continued our strategic investments, advancing our store modernization program. As we have discussed in the past, our store modernization and in-store experience investments continue to drive fleet profitability and productivity. Over 2 years into the program, we now have 55% of the fleet remodel complete and continue to be approaching approximately 65% of all stores to be completed summer of 2024. Additionally, we now have approximately 70% of the fleet updated with Nike shops or multi-branded athletic shops, bringing a differentiated athletic shopping experience to our customers across most of our store footprint.

We also continued executing our inventory optimization improvement plan in the quarter. We are ahead of schedule, reducing inventory levels while sustaining strong gross profit margins and providing the freshest mix of branded products for our customers. Carl will cover more details in a few moments, but our inventory coming out of back-to-school and Q3 is in a good position.

Our balance sheet has continued to strengthen as the year has progressed with approximately \$71 million in cash and marketable securities on hand at the end of the quarter. Additionally, we continue to fund our strategic investments in the business from operating cash flow and carry no debt. In the current interest rate environment, our zero debt position puts us in a great place to efficiently and strategically fund both internal and external growth opportunities with cash generated by the business.

Given the strength of our balance sheet and the expectation for a lower level of near-term growth, we made the decision to increase our dividend by 20% per share during the quarter. With this recent increase, we have now increased our shareholder dividend by 166% since the third quarter of 2020 and provided 46 consecutive quarterly dividends. Additionally, with a portion of our excess capital, we began making share repurchases. We repurchased \$5.4 million worth of our shares in the quarter and have approximately \$44.6 million still available under our share repurchase program at the discretion of management.

Before I turn it over to Carl, I'll briefly summarize our Q3 performance by saying that we won the August back-to-school period, growing our kids business low single digits and once again growing market share. We invested aggressively behind advertising and marketing to drive growth in kids. And while that pressured short-term profitability, it resulted in more profit generated in Q3 alone than in any full year EPS prior to 2018. We have a playbook in place that grows our kids' business and can be replicated to drive success in future back-to-school seasons.

September and October were challenging after a strong start to the quarter. The seasonal business and the fall season never really got started, resulting in soft top line performance in the latter part of the quarter, with poor results in boots and certain other categories. We invested behind advertising and marketing in September and October, driving continued market share gains, but sales were below our expectations. We're taking a cautious approach to the balance of the year guidance given the limited visibility into customer holiday shopping and poor seasonal category performance to date. During the

quarter, we continued to drive accelerated growth in Shoe Station as well as strong growth in our total e-com sales. As part of our profit transformation strategy, we delivered a healthy gross profit margin and are on pace to deliver approximately 36% gross profit margin for the year, up approximately 600 basis points from 4 years ago.

We're ahead of schedule on our inventory optimization plan with inventory levels down and product assortment in a good position. We are disappointed with the soft Q3 ending and declining trends carrying into Q4. Yet, our balance sheet is very strong with no debt, and we are generating solid cash flow. This positions the company to fund increased shareholder value and future growth opportunities as they become available in 2024 and beyond with cash generated by the business. And now I'll hand it over to Carl to provide further color on the quarter and our category performance. Carl...

Carl N. Scibetta

Senior Executive VP & Chief Merchandising Officer

Thank you, Mark. I think it's helpful to start with a level set on the consumer backdrop and inventory positioning heading into the third quarter and back to school and how it impacted our results. We knew the family footwear consumer would be cautious with their purchases given persistent inflation and the highest interest rates in 17 years. Our consumer would be focused on essentials and more importantly, we knew they were looking for value, especially in the case of our lower income urban consumer, who continues to be challenged and is more price conscious in the current economic backdrop. The athletic supply chain disruptions experienced last year eased, and we were ready for this value-conscious consumer with a significantly improved athletic merchandise assortment. As we saw, this consumer behavior played out in our results for Q3 and more specifically in our strong performance during August back-to-school, our assortment delivered on our customers' needs.

Our total athletic business performed well in the quarter, down only mid-singles, reflecting this focus on essential purchases. And one of our most essential categories, Children's athletics, we grew the category low single digits. Said another way, when it comes to the essential footwear brands that kids wanted as they headed back to school, we had them. And for parents who were looking for value on purchasing essential footwear for their kids we delivered. As Mark discussed, our performance during the key August back-to-school season was very strong, particularly in the children's category where we grew comp sales low singles in August. We have been the leader in the children's category for decades. And once again, this year, we grew our sales and market share in children's footwear across Shoe Carnival and Shoe Station during the most important season of the year. Our marketing strategies drove what demand was out there and our merchandise assortment, modernized fully staffed stores and easy-to-shop e-commerce platform provided the right backdrop for the consumer to make purchases.

I will provide more details on our category performance for the quarter later, but I first wanted to highlight the strong performance in the month of August. We grew our children's comp sales low single digits driven by both girls and boys athletic sales, led by court and basketball. We invested aggressively behind advertising during August and our investments paid off as our market share continued to grow. Our strategy to deliver children's sales growth during back-to-school worked and it can be used again successfully to deliver growth in the future. Competitive intensity was high during the quarter, and we continued to see aggressive promotional activity on seasonal and fall merchandise all the way through October. In the quarter, we delivered gross profit margin above 35% for the 11th straight consecutive quarter, and we remain committed to our profit transformation and targeted CRM strategies to continue delivering strong gross profit margin.

Our merchandise margin in the quarter decreased by 120 basis points versus prior year as unseasonably hot weather and softness in boots, which were down in the low 20s, resulted in increased promotional activity in September and October. For a long-term perspective, compared to 4 years ago in Q3 2019, our merchandise margin significantly expanded by 645 basis points in the quarter, demonstrating the success of our long-term profit transformation strategy and our ability to leverage our advanced CRM capabilities and analytics.

During the third quarter, we continued to further optimize our inventory levels and we are ahead of schedule. Inventory at the end of the third quarter was approximately 6% lower on a dollar basis than prior year and on a unit basis, total inventory was down 11% versus prior year. Our inventory content is clean,

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and we continue to manage inventory flow to ensure our stores are stocked with the product offerings that our customers want. We will continue to generate additional efficiencies as we execute our inventory strategy for the balance of the year, and we continue to expect that our inventory at year-end 2023 will be down more than 10% on a dollar basis versus 2022. To be clear, our strategy to further optimize inventory levels and drive more efficiency while maintaining the freshest product assortment for our customers is ongoing and will continue beyond the end of fiscal 2023.

Now moving to the quarter. Total Q3 comp sales were down 7.4%, which reflected the increased headwinds coming out of August and going into Labor Day weekend. Our back-to-school performance was successful with an improving trend in comparable sales versus both Q1 and Q2 comp sales and was led by growth in children sales. After back-to-school finished, our top line performance softened as seasonal business and fall sales, particularly in boots were below our expectations for September and October. From a category perspective, for the quarter, children's comp sales were essentially flat with low single-digit growth in athletic led by court and basketball, while nonathletic was down high single digit. Comp sales in both men's and women's adult athletics were down mid-singles, and improved inventory assortment helped stabilize athletic sales even in this cost-conscious environment.

As we optimized athletic inventory levels versus prior year and had a solid performance as part of the August back-to-school, basketball grew high 30s in the quarter, but this growth was more than offset by skate down high 30s and running down mid-teens. Third quarter comp sales in women's non-athletic footwear were down mid-teens with boots and dress down in the 20s. Sandals were down low double digit and sport was down high single digit. Casuals were down mid-single digit in the quarter, led by low double-digit decline in flats, partially offset by mid-20s growth in tailored. Men's non-athletic comp sales were down low double digit, dress was down low 20s and boots were down mid-teens. Casuals were down mid-single digit.

To summarize, our kids business performed very well during the key back-to-school season, growing sales in August, low single digits on a comp basis. And in adult basketball delivered strong high 30s growth in the quarter. However, in September and October, our top line performance softened as seasonal business and fall sales were below our expectations with persistently hot dry weather in most geographies and a lower income urban customer that remains challenged. As we have seen in other past recent seasonal periods that challenged customer is reducing nonessential purchases, including seasonal footwear. The softer top line trend coming out of Q3 has carried into early Q4 and visibility into holiday shopping is limited.

In the quarter, we continued optimizing our inventory. We are ahead of schedule and remain on track for inventory to be more than 10% lower on a dollar basis than prior year at year-end of 2023. We remain committed to our profit transformation and targeted CRM strategies and are excited about fresh new products that are coming into our stores the balance of this year and in early 2024. And with that, I'll turn the call over to Patrick for a review of our financials. Patrick...

Patrick C. Edwards

Senior VP, CFO, Secretary & Treasurer

Thanks, Carl, and thank you, Mark, for the earlier introduction. I am excited to be in my new role and to continue supporting the future success of Shoe Carnival and execution of our growth strategies. We have a strong foundation, and I am confident in our ability to continue growing and driving shareholder value and growing market share. I look forward to getting to know each of you and working with you.

Now moving on to our financial results. Starting with top line. Our net sales in Q3 were \$319.9 million. This was down 6.4% versus the prior year and down 7.4% on a comparable store basis. As Mark discussed, our results during the key August back-to-school period were sequentially improving compared to Q2 and Q1, including growth in the children's athletic category. We invested in advertising and marketing, and we gained market share. Our strategy worked. Going into Labor Day, top line trends for our Shoe Carnival banner softened versus the prior year on warm weather impacting seasonal merchandise, including boots. That trend continued into September and October. September and October, both reflected high single-digit comparative sales declines more than offsetting the improved back-to-school trend. The 7.4% comparable sales decline for the entire third quarter was driven by an approximate 11% reduction in traffic, partially offset by a nearly 10% increase in e-commerce net sales.

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Shoe Station banner total sales for Q3 came in at a low double-digit increase versus prior year on the strength of new stores and e-commerce. And Shoe Carnival banner total sales came in at a high single-digit decline, particularly impacted by September and October activity. I would like to take a moment to discuss the success of our Shoe Station banner acquired in December 2021. Our expectations were that the transaction would be immediately accretive to diluted EPS in 2022, contributing approximately \$100 million in incremental sales. Shoe Station delivered on both.

At the time of the deal, we started with 21 stores, and we currently operate 28 with clear line of sight on several more. Integration was completed ahead of schedule, delivering efficiencies and synergies that, as expected, have continued to increase the banners gross profit margin. As we have discussed today, Shoe Station net sales are growing at an accelerated and profitable pace, driven by both storefront and e-commerce.

Shoe Station results are significantly outperforming the overall family footwear category. Within our own operations, the Shoe Station banner leads in operating income margin with a margin in the low double digits year-to-date. In summary, the Shoe Station acquisition is delivering a very attractive return on investment for our shareholders and the success of this acquisition and the speed of completing the integration and achieving synergies further supports our commitment to M&A as a growth strategy.

Now moving back to total Shoe Carnival results. Q3 gross profit margin was strong at 36.8%. Our increased level of gross profit margin over the long term has been a key driver of the company's profit transformation. Compared to pre-pandemic Q3 2019 gross profit margin in third quarter 2023 expanded significantly with, as Carl mentioned, that increase driven by higher merchandise margins. Compared to Q3 2022, gross profit margin was down 150 basis points, with merchandise margins decreasing 120 basis points, reflecting increased promotions on seasonal merchandise in the back half of the quarter. Buying, distribution and occupancy costs declined in the quarter but deleveraged 30 basis points as a result of the lower sales. BDO expense reductions were primarily the result of continued lower freight and distribution costs, partially offset by higher investment in store modernization and increased rent associated with operating more stores.

SG&A expense in Q3 was \$89.8 million, representing an increase of \$2.5 million over Q3 2022. The increase was primarily from advertising investment that drove growth in children's sales during back-to-school and market share gains throughout the quarter. Net income for the third quarter of 2023 was \$21.9 million or \$0.80 per diluted share. As Mark mentioned, these results were below our expectations given the unseasonable weather post Labor Day. It is worth reemphasizing that over the long term, the \$0.80 earned this quarter is more than any full year EPS delivery prior to 2018. Over a 5-year period, ending with Q3 2023, we have delivered a 22% EPS CAGR, a special thank you to our team members and our vendor partners that have helped us achieve this kind of growth and profit transformation. And also thank you to our long-term shareholders for supporting this growth over the last 5 years.

To further support shareholder value, during the quarter, we increased our dividend by 20% to \$0.12 per share. The increase in the quarter represents a 166% increase compared to 3 years ago. In the quarter, we also repurchased 230,696 shares at a weighted average share price of \$23.60 totaling \$5.4 million. Our strong balance sheet, liquidity position and history of generating steady operating cash flow are key drivers to internally fund growth and deliver these dividend increases and share repurchases.

As of the end of 2022, we have maintained no debt at year-end for 18 consecutive years, and we have continued funding our operations without debt through the third quarter. At the end of the third quarter, we had total cash, cash equivalents and marketable securities of approximately \$71 million with no debt outstanding.

Cash and cash equivalents increased almost \$23 million in third quarter 2023 versus Q3 2022 and on a Q3 year-to-date basis, cash flow from operations increased over \$50 million versus year-to-date 2022. We continue to expect cash flow performance to more than fully fund store remodels and new store activity planned in the balance of the year and provide the capacity for M&A opportunities if conditions are appropriate.

As previously discussed, the Shoe Station transaction that closed in December 2021 was consummated with cash on hand. While no debt was incurred or was any stock issued in that deal, we have the flexibility of doing so in future acquisitions if desirable.

Now moving on to guidance. We provided a detailed updated outlook for fiscal 2023 in our earnings release earlier this morning. Given the softness in the latter part of Q3, continuing trends we have seen into November and uncertainty with holiday shopping, we are updating our net sales guidance for fiscal 2023 to \$1.16 billion to \$1.18 billion compared to the prior range of \$1.19 billion to \$1.21 billion. We now expect comparable store sales to be down 8.5% to 9.5% for the full year. That range reflects our expectation of a comparable store sale decline of 9% to 12% in the fourth quarter of 2023.

We expect gross profit margin to be approximately 36% and SG&A to be between \$323 million and \$327 million or approximately 28% of net sales.

For the year, including the extra week, we are lowering our diluted EPS guidance to \$2.65 to \$2.75 from our previous expectation of \$3.10 to \$3.25. We continue to expect inventory at the end of fiscal 2023 to be approximately \$40 million or 10% lower than the prior year.

After a promising start in August, with children's sales growth, improving trends and continued market share growth, September and October slowed at our Shoe Carnival banner compared to last year. As Mark discussed, with a softer-than-expected start to the fall season continuing into November and uncertainty regarding customer holiday shopping, we are taking a measured approach to the balance of the year.

Our strategy to drive growth remains unchanged. Our balance sheet is strong and our cash flow is steady. This puts us in a great position to fund internal growth, execute on desirable M&A opportunities, and most importantly, the continued ability to deliver long-term shareholder return. This concludes our financial review. We would now like to open the call up for questions. Operator...

Question and Answer

Operator

[Operator Instructions] And we will take our first question from Mitch Kummetz with Seaport Research Partners.

Mitchel John Kummetz
Seaport Research Partners

And Patrick, congratulations on the promotion. I've like a half a dozen questions, I hope that's okay. Starting with the quarter, you guys gave Carnival and Station sales but you didn't give comp, could you give us comp on those 2 businesses for 3Q?

Patrick C. Edwards
Senior VP, CFO, Secretary & Treasurer

Mitch, this is Patrick. I'm glad to talk to you, I can't wait to meet you in person. We're not going to give out comp guidance for the individual banners at this time. It's just not what we do. We think the total number is just fine 7.4% down.

Mitchel John Kummetz
Seaport Research Partners

Okay. Can you say if Station was positive comp in the quarter? I know that the growth was double digits, but I imagine a lot of that's from stores.

Mark J. Worden
President, CEO & Director

Mitch, it's Mark. Let me build on it again. We don't delineate comps between it. Here's what I'll tell you though. Shoe Station performed excellent in the quarter. If you go back over the last 3 quarters, Station declined single digit in Q1, in Q2, it grew single digit, in Q3, it grew double digit. We're seeing great acceleration and continuing trends. So we're very pleased with where it's going. We just don't delineate the comps between the banners.

Mitchel John Kummetz
Seaport Research Partners

Got it. And then you mentioned that boots -- the comp on boots was down low 20s. Can you either give us what the boot penetration was in the quarter? Or can you tell us what like your consolidated non-boot comp was for 3Q?

Carl N. Scibetta
Senior Executive VP & Chief Merchandising Officer

Mitch, this is Carl. Boot penetration is really not high for the quarter to the total. It runs approximately just under double digits for the quarter. What I would say is the entire non-athletic category was affected by a lack of the consumer in September starting fall and boot which certainly falls into that shopping. So they were all affected in the non-athletic area about the same. And we gave you on the prepared remarks where kids and adult athletic directionally finished.

Mitchel John Kummetz
Seaport Research Partners

And then Carl, and on boots, was it broad-based softness? Can you maybe speak to your boot performance by any sort of subcategory, if there was any variation in the performance? And I'm also curious on boots. Have you seen any uptick in November, particularly the first week of November because I know there was some colder weather that week.

Carl N. Scibetta*Senior Executive VP & Chief Merchandising Officer*

Sure. Sure. Sure, Mitch. For the quarter -- for the third quarter, we saw some signs, positive signs in the fur category. And we -- I'm sorry, faux fur for a category, let me get that out right. And we did see though not a big category, stronger sales in tall shafted boots than in booties. So more traditional booties that are a big, big piece of our business started off very slow. I will tell you that earlier in the first week of November when weather cooled the boot category did improve quite a bit and that booty category that we have, that's a little more traditional, did pop up quite a bit as weather cooled. However, once the weather -- second week of November got warm again, we saw the -- it revert back to what happened in the third quarter.

Mitchel John Kummetz*Seaport Research Partners*

Okay. And then you mentioned inventories down 10% year-over-year. How are you feeling about your boot inventory in particular? How does that look? And what does that kind of portend for 4Q, particularly on the margin side?

Carl N. Scibetta*Senior Executive VP & Chief Merchandising Officer*

I'm very pleased with the job the team did, our planning boots and purchasing the styles and boots. They left themselves, frankly, with a lot of flexibility and we'll react to that flexibility if needed. But as a result, the way they planned and purchased the category, I do not see any margin erosion liquidating boot inventory to hit our target at the end of the year.

Mitchel John Kummetz*Seaport Research Partners*

Okay. And then maybe my last one, and I'll get back in queue. In terms of the 4Q comp guidance, I think down 9% to 12%, how did you guys come up with that? Are you basically extrapolating September and October over the balance of the year? And actually, maybe you can give us comp for the first 2 weeks of the fourth quarter, but how did you come up with that as your comp guidance?

Patrick C. Edwards*Senior VP, CFO, Secretary & Treasurer*

Mitch, this is Patrick again. The high single-digit comp decline that we saw in October and in September, have continued into the first part of November, and we're seeing very similar results to that. The 9% to 12% comp decline in Q4 sort of brackets what we're seeing right now and also encompasses the comp decline that we saw in Q1 of 2023 that was around 11.9%. So it's within that range. Also just one other point, too, on that. There's a lot of limited visibility on the holiday season. We're uncertain how this holiday season is going to go, given our low-income customer and consumer sentiment all over. So I would just indicate that the targeted days on which we sell, we don't know how that reaction is going to come around day after Thanksgiving.

Operator

And we will take our next question from Sam Poser with Williams Trading.

Samuel Marc Poser*Williams Trading, LLC, Research Division*

And Patrick, congratulations as well. I want to just talk about the inventory for a second. And could you tell us, Carl or anybody, what your optimum inventory turn would be? Because even getting the inventories down to where you're planning to get them, it still leaves you with a far greater of forward weeks of supply than you've had back -- if you want to go back -- if you want to go way back to when your business was smaller. So I'm wondering what that optimum turn -- annual turn would be and where you're trying to get the inventories too?

Carl N. Scibetta*Senior Executive VP & Chief Merchandising Officer*

Sam, as in the past, we're not going to give out what inventory turn targets we have. What I'll tell you is the rightsizing or in our mind, the optimizing where we think the inventory should be, continues out through 2024, and we certainly feel we'll have improvements in '24 to where we were in 2023. As I said before, we're carefully surgically reducing inventory to ensure that we're not damaging the business and we're still able to deliver the shoes and the products our customers want and fill back into what's working. So it is an ongoing process like I have stated and like we've talked in the past, it is a long-term strategy more than a 90-day strategy to get where we want to go and keep the business as healthy as it could possibly be.

Samuel Marc Poser*Williams Trading, LLC, Research Division*

And then can you talk also about -- you talked about the traffic and you talked about the e-commerce sales. Can you, one, give us the variance of e-commerce sales between Shoe Station and Shoe Carnival? And secondly, can you tell us what your -- you had the traffic down 11%. Can you talk about -- I assume that's store traffic, can you talk about conversion rate within that as well, please?

Patrick C. Edwards*Senior VP, CFO, Secretary & Treasurer*

Hi Sam, it's Patrick. Thanks for the question. With respect to e-commerce growth, it's split about evenly between the 2 banners, the growth this period. And with respect to conversion, our conversion rate remains the highest that it's ever been. It has some variation within it from quarter-to-quarter but overall, it remains about 400 basis points higher from where it was back in 2019.

Samuel Marc Poser*Williams Trading, LLC, Research Division*

When you say e-commerce was evenly split, so it was up 10% in both -- at both?

Patrick C. Edwards*Senior VP, CFO, Secretary & Treasurer*

Well, the e-commerce website didn't exist at Shoe Station last year, so its growth is 100%. But just on balance, the growth in our overall e-commerce business was evenly split with growth out of both banners.

Samuel Marc Poser*Williams Trading, LLC, Research Division*

So you were up at shoecarnival.com as well as up against nothing?

Patrick C. Edwards*Senior VP, CFO, Secretary & Treasurer*

Yes.

Samuel Marc Poser*Williams Trading, LLC, Research Division*

Okay. I mean, I want to ask the same -- I want to ask the same question. I mean you talked about how good how -- good you felt about Shoe Station. It sounds like it's quite good and you're giving overall comps. So I mean, I think from a disclosure perspective, providing -- for people to understand -- to understand your business to provide the comp for both banners it may be time for an exception here, just so people can sort of understand what's going on. I know it's not a thing you normally do, but people want to hear it. And I think it's important. I don't think it's giving away the farm to tell anybody that.

Patrick C. Edwards*Senior VP, CFO, Secretary & Treasurer*

Sam. I appreciate the input, and I enjoy that. We'll take it under advisement, and we will consider that in future calls, but we're just not prepared to do that today.

Operator

And we will take our next question from Jim Chartier with Monness, Crespi, Hardt.

James Andrew Chartier

Monness, Crespi, Hardt & Co., Inc., Research Division

Let me add my congratulations, Patrick as well. Can you just talk about what do you think has been driving the acceleration in the Shoe Station sales over the last 3 quarters? And then following up, what's kind of the store opening plan for next year with Shoe Station?

Mark J. Worden

President, CEO & Director

Jim, it's Mark. Good morning. Thanks for joining today. Three things are working very well for Shoe Station. First, it's a higher-income consumer as I talked about in my speech. The lion's share is over \$50,000 and a large segment is over \$75,000. And we're seeing the health of that consumer significantly better than the health of the consumer in that sub \$30,000 urban consumer. So number one, a healthy consumer base compared to the other parts of our business. Number two, we fully integrated Shoe Station onto our Shoe Perks CRM platform, and we've fully launched the shoestation.com business. So we're now able to rapidly get new customer acquisition and start talking to them through our Shoe Perks program. We gained over double-digit growth of Shoe Perks memberships through Shoe Station, and we're talking to them actively building that loyalty, building those purchase occasions. So we're very pleased with that.

Third, our new store growth is successful. As Patrick mentioned, we have grown from 21 to 28 stores and have line of sight to moving into the 30-plus range over the near term ahead. We're very pleased with the performance we're seeing overall from our Shoe Station new store growth, and it's contributing as we said, to double-digit overall growth in Q3. And as Patrick said, while we don't delineate the comps, I would just share with you the health of the first 21 stores is very good and continues to improve each quarter. I don't have a number that we can share with you to the analyst community that's asked it, but I'd share Q1 was soft for the company. But those 21 original stores continued to improve in Q2 and Q3, it was industry-leading share results for the banner of the comp stores, and it was industry-leading share results for the new stores as well as the dot-com. So I've kind of track-backed it, it's all working.

James Andrew Chartier

Monness, Crespi, Hardt & Co., Inc., Research Division

Great. And then you don't give quarterly EPS guidance, but where did you expect third quarter EPS would have come in back in August?

Patrick C. Edwards

Senior VP, CFO, Secretary & Treasurer

Jim, this is Patrick. We had expected our top line revenues to come in appreciably better than what they came in at. We saw continuing trends in Q1 and Q2, narrowing comp declines. We saw August comp declines narrowing even further. And our initial reactions with that was that we would continue to see that trend then through October into September and October. And our plan was at the time, about \$0.90 per share. We missed it by 10 on top line sales.

Operator

And we will take follow-up questions from Mitch Kummetz with Seaport Research Partners.

Mitchel John Kummetz

Seaport Research Partners

All right. I've got another handful. Carl, getting back to boots -- what is that penetration typically in 4Q?

Carl N. Scibetta*Senior Executive VP & Chief Merchandising Officer*

It's about 40%.

Mitchel John Kummetz*Seaport Research Partners*

Okay. And how do you -- so the comp guide on 4Q is down 9% to 12%. Are you expecting boots kind of be in line with that or are you expecting it to be worse kind of following the 1Q -- or I'm sorry, the 3Q performance?

Carl N. Scibetta*Senior Executive VP & Chief Merchandising Officer*

Here's the way I would answer that, Mitch. Our initial plan for boots going into the season was right at that number you mentioned. But we have the flexibility to manage that based on whether the weather turns cold and we have the ability to drive more sales or if the weather stays the way it is, we are positioned to be able to transfer that consumer out of boots into shoes or athletic product going forward. So the team has done a great job keeping us flexible as we can move through the balance of the fourth quarter.

Mitchel John Kummetz*Seaport Research Partners*

Okay. And then, Patrick, on the guide for 4Q, you've given us sales and earnings, -- comp sales and earnings. Can you say a little bit more about margin, -- gross margin versus SG&A? I'm particularly interested in your thoughts around merch margin in the fourth quarter. I assume that you expect it to be down -- curious down how much?

Patrick C. Edwards*Senior VP, CFO, Secretary & Treasurer*

Mitch, thanks for the question. Overall, we're sitting at like -- I think year-to-date, we're sitting at -- in the high 35s, 35.8% on overall margin and our projection for the entire year is approximately 36%. So we can expect just above 36% margin or in that range for Q4 is what we're planning for. On the merch margin side, we will be down versus the prior year, but it's not going to be anything appreciable.

Mitchel John Kummetz*Seaport Research Partners*

Okay. And then my last question, maybe for you, Mark. You guys have done a great job on the gross margin in particular, with merch margin being up substantially versus 4 years ago. When I look at SG&A for this year, it kind of pencils out to be maybe 27.7%, 27.8%. Back in 2019, it was 24.9%. Now I recognize the business is different in terms of mix and also there is some deleverage on the sales given around the challenges there. But how do you think about SG&A rate longer term? And like are there any levers that are worth pulling here if there are any?

Mark J. Worden*President, CEO & Director*

Yes, I'd say we think it's the right size, roughly dollar range to fuel our growth as we get back into an economic landscape where we start to get leverage. Said differently, we've built an organization to be ready to take on more M&A to get growth accelerated in '24 or beyond when it's available. And that organization is now built in the merchandising team, that organization is built now in the marketing team and all the other back-office functions. So we recognize that sales has taken a down cycle for us in the industry, that's deleveraged, but we'll be able to gain leverage on that as soon as things start turning around, and we make those next acquisitions. And longer term, Mitch, we remain committed to double-digit operating margin. We absolutely see we're at a lower portion of our delivery right now as we're in that down cycle and we are investing aggressively in trying to capture the demand out there with

advertising and marketing. We're over-investing for the revenues we are capturing right now to try to offset the soft consumer demand in that customer base right now.

So to reiterate, double-digit operating margins is what we're committed to getting back to as we come out of this downturn, it's going to come from better leverage as we get the next top line driver through M&A as the organization is built for it and ready to go.

Carl N. Scibetta

Senior Executive VP & Chief Merchandising Officer

Mitch, I just want to make something clear here. I may have misquoted. The 40% boot business is of our total nonathletic business in the quarter. To the total business, the boot business is in the mid-20s when you throw in the athletic side of the business. I don't want to mislead you.

Mitchel John Kummetz

Seaport Research Partners

All right. That makes more sense. Thanks Carl.

Operator

And we will take follow-up questions from Sam Poser with Williams Trading.

Samuel Marc Poser

Williams Trading, LLC, Research Division

I have 2 questions -- 2 more. One, Carl, are you finding -- I mean part of what we've heard a lot about this year is the sort of event-driven shopping. So you had a good back-to-school, then it softened post back-to-school. So, I mean, are you expecting holiday to be more event driven or do you think that, that sub-\$30,000 and arguably maybe sub \$50,000 consumer, especially who shops at Shoe Carnival is feeling it more now than he or she may have been feeling it during back-to-school?

Carl N. Scibetta

Senior Executive VP & Chief Merchandising Officer

Yes, Sam, I believe it's event driven. I think your dead on there and that customer -- that consumer that's challenged will wait and shop during the event, I think the softness comes in between. We saw it in spring, and then we saw it pop up for back-to-school, which is an essential necessity kind of time frame. I think we'll see the same thing around holiday as well. I think it will come late but I think in between is where we anticipate the softness.

Samuel Marc Poser

Williams Trading, LLC, Research Division

And then, I mean, you talked a lot about what you did really well with the kids business and the marketing for back-to-school. So when we look at what happened post back-to-school with the warmer weather and everything else, I guess my question to you is, what could you have done better to lessen the impact of those macro-issues that hurt your business, what are you learning from that and applying it to now or into next year during, let's say, softer than expected or times?

Mark J. Worden

President, CEO & Director

It's a great question. And the thing we need to do is continue to invest in getting that limited customer occasion shopping trip to choose Shoe Carnival during this down cycle. And said differently, in hindsight, I probably would have invested more marketing dollars during the quarter to continue to try to gain even faster market share. I said it a few times, we gained material share in a down market in family footwear. We're pleased with that. It's working. And in hindsight, we're taking a queue that traffic is not coming organically. So it's going to be a more expensive period of time to get those customers to choose whoever they choose, and we believe it will continue to be us. We're going to take that perspective into Q4 and into

early next year as economic conditions, as I've said, have certainly not improved in Q4. And we don't see any signs that in early next year, there's going to be a rapid improvement in the economic situation.

So that's the key learning we're going to take the marketing and branding and CRM and engaging with customers is working. We should have done more with it, but we probably balanced the profitability with the sales driving activity, maybe a little too high on the short-term profitability perspective in hindsight.

Samuel Marc Poser

Williams Trading, LLC, Research Division

And are you -- given that you talked about the share gain, can you quantify what the share gain you've seen is? You've mentioned a number of times that there was share gain. Can you quantify what you've picked up?

Mark J. Worden

President, CEO & Director

Sure. If you look at the family footwear industry, year-to-date, it's down approximately 10% in dollar sales, and we are down significantly less than that as we have the numbers. We don't translate to that to an exact share, Sam, but we're down significantly below what the family footwear industry is right now. We're going to continue to drive that. We're in a really good position with good learnings through back-to-school, what worked. And like I said, some good learnings in the Labor Day post period of what we could do even better.

Samuel Marc Poser

Williams Trading, LLC, Research Division

Thanks for that. Happy holidays.

Mark J. Worden

President, CEO & Director

Thank you, Sam. And to you.

Operator

And ladies and gentlemen, that is all the time we have for questions today. I will hand the call back over to management for closing remarks.

Steve R. Alexander

Investor Relations

Thanks for joining the call today. We look forward to discussing Q4 results early next year. This is Steve. I'm around all day, so please reach out with any questions or follow-up you might have. And thanks for joining again.

Operator

Ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.

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