PARTICIPANTS

Corporate Participants

Peggy Reilly Tharp – Vice President, Investor Relations, Caleres, Inc.
Diane M. Sullivan – Chairman, President & Chief Executive Officer, Caleres, Inc.
Kenneth H. Hannah – Chief Financial Officer & Senior Vice President, Caleres, Inc.
Richard M. Ausick – Division President, Famous Footwear, Caleres, Inc.

Other Participants

Laurent Vasilescu – Analyst, Macquarie Capital (USA), Inc.
Jay Sole – Analyst, Morgan Stanley & Co. LLC
Scott D. Krasik – Analyst, The Buckingham Research Group, Inc.
Jeffrey Stein – Analyst, Northcoast Research Partners LLC
Will Gaertner – Analyst, Susquehanna Financial Group LLLP
Steven L. Marotta – Analyst, C.L. King & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Ben, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q1 2017 Caleres Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Peggy Reilly Tharp. Ma'am, you may begin your conference.

Peggy Reilly Tharp, Vice President, Investor Relations, Caleres, Inc.

Thank you. Good afternoon. I'm Peggy Reilly Tharp, Vice President of Investor Relations for Caleres, and I'd like to thank you for joining us for our first quarter 2017 earnings call and webcast. A press release with detailed financial tables and slides are both available at caleres.com.

Please be aware today's discussion contains forward-looking statements, which are subject to a number of risks and uncertainties. Actual results may differ materially due to various risk factors including but not limited to the factors disclosed in the company's Form 10-K and other filings with the U.S. Securities and Exchange Commission. Please refer to today's press release and our SEC filings for more information on risk factors and other factors which could impact forward-looking statements. Copies of these reports are available online. The company undertakes no obligation to update any information discussed in this call at any time.

And with that, I'd like to turn the call over to Diane Sullivan, CEO, President and Chairman.

Diane M. Sullivan, Chairman, President & Chief Executive Officer, Caleres, Inc.

Good afternoon and thank you very much for joining us. As always Ken Hannah, our Chief Financial Officer; and Rick Ausick, our President of Famous Footwear are here with us today and ready to answer any questions.

But I'm going to start by saying that we're really off to a good start and tracking well for 2017 despite all the continued noise in the industry. As you saw in our release today, we reported a total sales increase of 8%, a solid first quarter with Famous Footwear, Brand Portfolio and Allen Edmonds all contributing.

Before we get into more specific segment details, I'd like to provide updates for just a few key areas which I believe are leading indicators for 2017. First of all, as we have maintained our investments and our company-wide omni-channel efforts, we've continued to see meaningful growth in e-commerce sales. For the first quarter, total e-commerce sales including famous.com and all Brand Portfolio e-commerce related sales represented 14.1% of consolidated sales versus 10.3% in the first quarter of last year.

Next, we saw adjusted diluting earnings per share for the quarter come in at $0.40, with contribution more balanced between Famous Footwear and our Brand Portfolio. As we continue to grow our portfolio, we expect to maintain this more balanced division of our earnings. Additionally, our Allen Edmonds integration is on track and we expect the bulk of our transition efforts to wrap up by the end of this year, with synergies being built incrementally in the second half.

As part of this work, we are accelerating Allen Edmonds new product launches in the fall of 2017 and expanding the brand assortment for spring of 2018. We've remained on plan since we acquired the brand in December and are very, very pleased with this acquisition today.

Finally, before moving into segment specifics, I'd like to discuss our speed initiative. This program enabled us to be more agile and to more rapidly shift with changing consumer trends. For example, as consumers have shifted toward more sport-inspired product, we have been able to rapidly ramp-up and meet their demand. In the first quarter sport-inspired product grew to 22% of our business from 18% last year.

On the Famous side, our speed initiative has allowed us to reduce the number of days it takes to get products from our distribution centers to our consumers, with approximately 90% of our first quarter orders in consumers' hands within three days. In May, we began offering buy-online-pick-up-in-store with the complete rollout across all doors expected by the end of June, and this effort leverages on our successful shift from store rollout in the third quarter of 2015.

So now, let's take a few minutes to talk a little bit more about Famous Footwear. As discussed on our year-end call, February was tough as expected. However, we saw improvement as the quarter progressed. Total sales were up 0.5% while same-store sales were down 0.6% with an improved conversion rate across both brick-and-mortar and dotcom. What's worked in the past is really what's continuing to work and the lifestyle athletic trend remained strong, with court-inspired and inspired-by-running products doing very well.

Sandals had a tough quarter. However, we were able to reduce inventory in this category in the first quarter while delivering improved gross margins. We also saw our sandal sales pick up nicely as the quarter progressed.

Overall, gross margin at Famous Footwear for the first quarter reflected increased famous.com sales resulting in higher shipping cost. We have several initiatives in place to help reduce the cost to ship including continued refinement of our in-store fulfillment sourcing logic and, as mentioned, our launch of buy-online-pick-up-in-store. We also expect to see benefits in the back half of 2017 as our new distribution center continues to scale and reach full efficiency.

For operating earnings, we will continue to see pressure at Famous throughout the first half of the year as we ramp-up our Lebanon distribution center expansion and continue to operate more doors year-over-year, resulting in increased rent and facilities expense. However, we expect the pressure in this first half to slowly normalize as we move through the year. As a reminder, while we expect to

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close a total of 70 Famous Footwear doors this year, the majority of these will close after the back-to-school selling season.

For our Brand Portfolio, we saw improvement across all key metrics with growth in sales and growth in operating margin, thanks to our diverse portfolio of brands. For sales, we saw an increase of 20.4% including Allen Edmonds, and more modest growth of 1.1% on an organic basis.

Our best-performing brands, in addition to Allen Edmonds, and the outstanding performance of Sam Edelman, included Vince, LifeStride and Ryka with sport-inspired categories really continuing to excel. Brand Portfolio adjusted gross margin of 40.1% was up 415 basis points, with the majority of our brands contributing, including Allen Edmonds. Similarly, adjusted operating margin of 6.5% was up 211 basis points. Throughout the quarter, the Brand Portfolio team maintained its focus on expense control in an effort to continue to deliver improved margins.

So, as I said earlier in the call, the first quarter provided us with a really solid start to the year, and we remain very confident, proactive and feel like we are right on track. Despite all of the continued noise in the industry and no matter what changes are in store for retail in 2017, we're going to remain forward-looking and proactively managing outcomes to deliver overall shareholder value. Our performance in the first quarter is clearly an early indicator for 2017.

Now, before I turn the call over to Ken, I'd like to update you on our Annual Meeting which was held this morning in St. Louis. In addition to declaring our 377th consecutive quarterly dividend, we also welcomed our two newest board members, Wenda Harris Millard and Brenda Freeman to Caleres.

Wenda is Vice Chairman of MediaLink and Brenda is Chief Marketing Officer for Magic Leap. With their strong marketing and digital backgrounds, we know both are going to bring those additional consumer insights to our Board of Directors, which is especially important as we continue to focus on staying agile and responsive to changing consumer shopping patterns.

And with that, I'd like to now turn the call over to Ken.

Kenneth H. Hannah, Chief Financial Officer & Senior Vice President, Caleres, Inc.

Thank you, Diane, and good afternoon, everyone. While Diane has already covered some of our first quarter results, I'd like to drill down into some more specifics. For the quarter, we delivered diluted earnings per share of $0.40, adjusted to exclude $0.05 related to the acquisition, integration and reorganization of our men's brands.

Consolidated sales for the first quarter of $631.5 million were up 8%, including $42.5 million of Allen Edmonds sales. For the first quarter, e-commerce sales represented 14.1% of total sales, up from 10.3% last year as Diane previously mentioned.

For our Brand Portfolio, first quarter sales of $265 million were up 20.4% versus the prior year, and as mentioned, included our first complete quarter of contribution from Allen Edmonds. E-commerce-related sales increased to 25.8% of total Brand Portfolio sales in the first quarter, up from 19.9% last year.

At Famous Footwear, first quarter sales of $366.5 million were up 0.5% over 2016, while same-store sales were down 0.6%. Famous.com sales comprised 5.7% of total Famous Footwear first quarter sales, up from 4.6% last year.

Now, let's turn to consolidated gross profit which came in at $270.9 million in the first quarter. Gross margin of 43.4% improved 100 basis points, excluding the $3 million of expected Allen Edmonds inventory adjustment amortization cost. Brand Portfolio drove strong contributions to the gross

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margin in the first quarter and delivered 415 basis points of improvement on an adjusted basis. Excluding Allen Edmonds, organic gross margin was up more than 200 basis points versus the first quarter of 2016. This performance was primarily driven by improved volume and reduced closeouts.

For Famous Footwear, gross margin was down 51 basis points for the quarter, primarily reflecting shipping expense related to the continued strong sales growth at famous.com. SG&A expense for the first quarter of 2017 was up 11.4% year-over-year including Allen Edmonds, where our Brand Portfolio SG&A spend was flat year-over-year excluding Allen Edmonds.

For Famous Footwear, SG&A expense increased 3.1% as we operated nine more doors year-over-year in the first quarter including three high-volume destination doors, and we'll operate six more doors year-over-year in the second quarter.

We also saw increased depreciation related to the ramp-up of our Lebanon distribution center expansion in the first quarter, which will continue throughout the remainder of the year. In total, first quarter consolidated depreciation and amortization of $15.7 million was up 20.2% over 2016, including Allen Edmonds and the Lebanon distribution center.

Net interest expense for the first quarter was $4.8 million, up from $3.4 million last year as we borrowed against our revolving credit facility to finance the acquisition of Allen Edmonds in December of 2016. We will continue to see higher year-over-year interest expense related to our increased revolver balance throughout the remainder of the year.

Our tax rate for the first quarter was 28.8% on a GAAP basis and 30.5% on an adjusted basis. First quarter capital expenditures of $12.4 million were down 32% year-over-year as we wrapped up the investment in our Lebanon distribution center expansion in the fourth quarter of last year.

Now, turning to the balance sheet. We ended the quarter with cash and equivalents of $71.8 million, up 29.8% from the end of 2016 even as we paid down acquisition-related borrowings against our revolving credit facility. At the end of the first quarter, revolving borrowings of $85 million were 22.7% down from the $110 million at the end of last year. And as we previously communicated, we expect to completely pay-off the revolver by the end of this year.

At the end of the first quarter, our consolidated inventory position of $565.1 million was down 3.5% from the end of 2016 and up 15.8% versus the first quarter of 2016 including Allen Edmonds. At Famous Footwear, we ended the quarter with year-over-year inventory down 0.8% per store on a dollar basis.

For our Brand Portfolio, year-over-year inventory was up more than 60% including Allen Edmonds and up approximately 20% excluding Allen Edmonds. For our Brand Portfolio, we have continued to invest in inventory to support our growing drop-ship businesses. As retail continues to shift online, we remain focused on staying agile and responsive to the changing consumer shopping patterns. Our solid performance in the first quarter reflects our continued execution, including our 8% sales growth and 100 basis point improvement in adjusted gross margin.

We also maintained the strength and flexibility of our balance sheet in the first quarter even as we paid down another $25 million of revolver borrowings related to our Allen Edmonds acquisition. In the first quarter, we also saw a 12.9% increase in free cash flow which was defined as operating cash flow minus capital expenditures.

Importantly, we delivered $0.40 of adjusted earnings per share despite the highly promotional and challenging retail environment. And while we're pleased with our first quarter performance, we remain realistic regarding the challenges facing retail as consumers' shopping patterns continue to shift rapidly.

So, before we begin the Q&A, I'd like to remind everyone of our fiscal 2017 guidance which has not changed since we first issued it back in mid-March. Consolidated net sales of $2.7 billion to $2.8 billion; same-store sales at Famous Footwear up low single digits; net sales for the Brand Portfolio segment up in the high-teens including Allen Edmonds; gross margin up 45 to 55 basis points; SG&A expense as a percent of sales up 30 to 40 basis points; and effective tax rate of between 31% and 33%; and adjusted earnings per diluted share between $2.10 and $2.20 excluding approximately $0.06 of expected acquisition, integration and reorganization cost in the first half of the year related the Allen Edmonds acquisition.

This guidance includes the closing of 70 Famous Footwear stores and the opening of 40 new doors as part of our normal lease renewal process; the closing of 11 Naturalizer stores and opening of four new locations; the opening of 10 new stores for Allen Edmonds and one for Sam Edelman; depreciation and amortization of approximately $60 million; capital expenditures of approximately $55 million; and an additional $12 million of operating expense related to the 53rd week in 2017.

Additionally, I would like to once again stress that we expect our 2017 earnings to be weighted more heavily to the back half. This is due to a continued shift in the seasonality of our Brand Portfolio shipments and the expected benefits from our investments in Allen Edmonds and our Lebanon distribution center will build incrementally as the year progresses. As a result, we expect the second quarter will look a lot like the first quarter with earnings flat to down on a year-over-year basis.

And with that, I'd like to turn the call back over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Laurent Vasilescu from Macquarie.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Thank you very much and good afternoon. I wanted to ask about the comment about February being really tough. Could you give a little bit color by months how the quarter shaped up in Famous Footwear?

<A – Ken Hannah – Caleres, Inc.>: February, bad. March, better.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Okay.

<A – Ken Hannah – Caleres, Inc.>: April was really good. [ph] It's been (18:40) pretty similar to what everybody's [indiscernible] (18:42) that you've heard from other people in that context.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: And the context is quarter-to-date, pretty good?

<A – Ken Hannah – Caleres, Inc.>: Yes.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Okay. And then also on – did you guys post a big – the change year-over-year for Healthy Living and Contemporary?

<A – Diane Sullivan – Caleres, Inc.>: It should be on the slides, Laurent.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Okay. Thank you. I'm sorry about that. And then maybe just one more question, if I may. Thank you for parsing Allen Edmonds revenues, and also – I just had to do the math by giving us the gross margin SG&A ex-Allen Edmonds. But on the revenues for the $42 million, that's a little bit higher than I thought it would be for the first quarter. How do we think about the progression of Allen Edmonds contribution to the top line over the next quarter? Should it build, and if you could, could you give us maybe some kind of idea of what it should be for the full year?

<A – Ken Hannah – Caleres, Inc.>: Yeah. So, we've – the way we laid it out, it builds throughout the year. So, we would expect that second quarter would be a little bit higher than the first; third quarter would be a little bit higher than the second; and then, fourth quarter would be the highest of the four.

So, I mean, I think it's pretty consistent in terms of the way it fills throughout the year which is one of the reasons why we keep wanting to make sure people understand that the contribution, not only do you get the volume benefit of the growth in the back half, but then you also start to see the synergies associated with the acquisitions as – because we will have the financials and a lot of the integration here done in the first half of the year.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Okay. Thank you very much and best of luck.

<A – Diane Sullivan – Caleres, Inc.>: Thanks, Laurent.

<A – Ken Hannah – Caleres, Inc.>: Thanks, Laurent.

Operator: Your next question comes from the line of Jay Sole with Morgan Stanley.

<Q – Jay Sole – Morgan Stanley & Co. LLC>: Great. Thank you. Diane, I thought it was interesting that in the Brand Portfolio, e-commerce sales now account for 26% of the total. Can you talk about what part of that total business is represented by the company's owned stores and then what part is really through third-party brick-and-mortar, and then what part is through third-party websites at this point?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. It's been, it's actually – I'm glad you're asking the question, Jay, because it's a very interesting part of our business right now and it continues to gain steam, really, across the board, whether it's any of our own websites as part of famous.com or any of our branded websites and also, really, all the businesses that we are selling to that have dotcom sites as well and our ability to be able to drop-ship and the fact that we carry the inventory, it really makes a huge difference.

So, when you take a look at how we would parse it out as it relates to the Brand Portfolio in total, drop-ship business represents some, I'm looking here at Brand Portfolio, total would be about 25% of it. The dotcoms that we have is – let's see, excuse me – 61% on the Brand Portfolio, all of it's the drop-ship, and then 39% of it would come from our dotcom businesses.

<Q – Jay Sole – Morgan Stanley & Co. LLC>: [indiscernible] (22:15) so in other words, the 26% represents the company's owned websites but then also the drop-ship business to like a macys.com, for example?

<A – Diane Sullivan – Caleres, Inc.>: Yes. Yes. Yeah.

<Q – Jay Sole – Morgan Stanley & Co. LLC>: Got it. Okay. Maybe can you also talk about, give us a little bit more detail about what effect the ramp of the Lebanon, Tennessee distribution center had on sales and margins in the quarter? Obviously, we know about the extra expense, but just on maybe how it helped sales and that kind of thing?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. I would say so far, really, we're going to see that kind of an impact as we move through the rest of the year, Jay. First quarter, not so much so, but as we move into the back half of the year, that's where we really see the benefit from the investment in that distribution facility.

<Q – Jay Sole – Morgan Stanley & Co. LLC>: Okay.

<A – Ken Hannah – Caleres, Inc.>: Yeah. It certainly did not hurt sales. So, I think it's mostly – if you just take the calendarization of Famous sales throughout the year, the depreciation is flat and consistent month-to-month, quarter-to-quarter, and so obviously the productivity is ramping. And we're very pleased with the performance of that center. Just, unfortunately, when you turn it on, you take the full depreciation or the life of the investment consistently, so as the business grows throughout the year, then obviously, it has less of an impact on the overall financial performance of the segment.

<Q – Jay Sole – Morgan Stanley & Co. LLC>: Okay. Got it. And then maybe, Diane, can you just walk us through the highlights from the quarter for Naturalizer, Sam Edelman and Dr. Scholl's?

<A – Diane Sullivan – Caleres, Inc.>: Sure. Actually, Sam Edelman had just an absolutely outstanding quarter this quarter. He is certainly hitting, I think, all the trends exactly right. And so, our performance, both in terms of shipments, Jay, as well as our sell-through at retail has been very strong.

We also kicked off a digital campaign late in the month of April that's continuing into May and into early June. And the response that we've been seeing in terms of total impressions and click-through rates, and actually, we'll have to give you more of an update at the end of second quarter, but we really think that that's going to have a meaningful impact on driving traffic, not only to stores and websites and really, basically, sell-through of the branded multiple channels. So, right now, feeling really very good about his business.

Naturalizer had a very, very solid performance this quarter. If I would sort of break that up a little bit and look at the components of it, I would tell you that wholesale is definitely showing strengths. They're seeing growth in every product category. They introduced a lot of new sport product. All those new modern icon products that we had talked about last year is really starting to retail.

And their ability, they've really had a pretty sizable dotcom business already and good drop-ship business, so they've been able to continue to build the momentum there. But I would say maybe the real new news there is sport. The sport introduction has been really fueling the growth and their operating margin productivity has been improving pretty consistently over the last number of quarters, too. So, we feel pretty good about where Naturalizer is.

And Dr. Scholl's ex-Walmart is fantastic; with Walmart, we're still struggling. It's – now it's really – as they're rationalizing the space in Walmart, now in Canada, we're fighting a fight there. But in terms of all other channels, again, because Dr. Scholl's has had some tremendously successful sport products, they've been growing their mid-tier in better channels and we're just trying to get to that point where that tipping point is sort of out – the mid-tier and upper outweighs really that Walmart business, so we can add the growth to the top line there. But the team's been doing fantastic job continuing to drive great sell-through. And they've been – the whole Brand Portfolio's done a nice job in terms of managing the expenses to drive very, very good operating margins.

<Q – Jay Sole – Morgan Stanley & Co. LLC>: Got it. Thanks so much.

<A – Diane Sullivan – Caleres, Inc.>: Okay.

Operator: And your next question comes from Scott Krasik from Buckingham.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Thanks. Hey, guys, good job. Congrats.

<A – Diane Sullivan – Caleres, Inc.>: Thank you, Scott.

<A – Ken Hannah – Caleres, Inc.>: Thanks, Scott.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: One brand you didn't mention and it's in a little bit of a unique situation. I'm just wondering about Vince. I think, this is the first time ever you have a business that might be bigger than the entire enterprise value of the company and I'm just wondering strategically how that work is going forward?

<A – Diane Sullivan – Caleres, Inc.>: Well, thanks for asking the question. I mean, first of all, we still remain extremely excited about the Vince brand and obviously the footwear business. Our footwear business is still growing at high-single, low-double-digit increases and we're trying to keep pace with the success of it and we're working very closely, Scott, with Brendan and we know Brendan's got a game plan in place for how he's going to figure out how to turn, I guess, the Vince apparel business around. He's hired a new designer there. And I think everybody is very confident that with some time, that will correct itself. But in the meantime, we're staying focused on driving our footwear business and we have not seen one bit of slowdown in the demand for that product. So, I think it's not a brand issue right now. It's a bit of a, on the apparel side, a bit of an operating and financial issue.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Okay. And then I jumped on the call late, but Rick, can you may be talk about some of the big brands, what – how the athletic pieces are doing? I mean I know you're bringing in some new brands. So what that means for opportunity here or room for the existing brands?

<A – Rick Ausick – Caleres, Inc.>: Yeah. I mean, the branded business is pretty – the athletic branded business is kind of what you would expect happening to the core, people that have core product, and we've talked about that in the – in earlier on in the call that that business is still very, very good where we have lifestyle running product, if you will. Those – that product is really good.

We haven't – we have not received any of the Under Armour athletic shoes. We've had socks and sandals in the stores for a few months and those have performed nicely. And frankly, in that – those two categories, we haven't seen any erosion in our competitive set with those products at all. So, that was a nice surprise.

Our expectation is that we'll do fairly well with the product with the new products at back-to-school. Again, in another – I think we'll have some shoes in the store by the end of June, probably. So, we'll start having some read on how that would actually work. But we're optimistic and we think we planned it correctly as far as how we've invested and what we disinvested in to make that all happen.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: And then, I know, you've historically talked about sort of a leverage point being more like 1.5% on the comp. It seems like the SG&A has been growing faster than that for a few quarters. I'm just wondering how you think about SG&A growth and leverage in Famous?

<A – Rick Ausick – Caleres, Inc.>: Well, I think that's typically been our leverage point. I think, as we work through the rest of the year and we get – we have fewer stores operating in the back half towards the end of the year, that would probably end up being true. It's not true today because our costs are higher in what we're trying to mitigate some of those with closing stores appropriately and having some opportunity to leverage and work on our expense side on the shipping piece of the dotcom business. So if those two things happen the way we see it, I think we'll be back where that 1.5 percentage point or so would be the leverage point.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Okay. Thanks and good luck.

<A – Diane Sullivan – Caleres, Inc.>: Thanks, Scott.

<A – Ken Hannah – Caleres, Inc.>: Thank you, Scott.

Operator: Your next question is from Jeff Stein with Northcoast.

<Q – Jeff Stein – Northcoast Research Partners LLC>: Good afternoon, guys. First a question for Rick. Wondering, Rick, if you're at all concerned or factored into your planning the closings of some of your major department store competitors, J.C. Penney, Macy's and so forth?

<A – Rick Ausick – Caleres, Inc.>: Yeah. We watch it closely, Jeff. I think we've tried to be thoughtful about that. I think it's a – it's harder if the timing is different on all of those things, so to actually kind of pinpoint it. But it'll be one of those things that will – it's going to happen whether or not, right? They're going to close those stores and they'll be aggressive on liquidating. But with the [ph] rash of them all (31:25), whether it's some of the sport athletic guys who have stores closing in places, whether it's the Payless situation, whether it's the Penney situation, there's a lot of going on. It's hard to pin it. We think we've accounted for that. It'll – time will tell.

<Q – Jeff Stein – Northcoast Research Partners LLC>: Okay. And a question for Ken on the Brand Portfolio group. You've seen quite a few quarters now of significant gross margin improvement. And another – again, another 200 basis points which is terrific on an organic basis.

So, I guess, kind of where are we on the curve? How much more do you have to go in your view? Will that continue to be a driver through the balance of this year, and into next year? I guess how far do you think you can take it?

<A – Ken Hannah – Caleres, Inc.>: I mean, you're well aware of the work that we've been doing across the entire supply chain. And Diane mentioned, with the speed project and the work we've been doing on materials, and so we've been very pleased with the benefits that we've been able to reap from that. And I think that supply chain, I think, we still have some opportunity there.

Our total year guidance increase tries to take into consideration the improvements that we see and we continue to look at that. We know that improving that overall cost structure has been very beneficial to the overall profitability of the Brand Portfolio. And the ability for it to start to get up to deliver the earnings that we've seen at Famous. So, I think we're looking at $17 million or so of contribution from the branded business and $20 million from Famous. And so, a big piece of that is the benefits that we received there.

So, we think, it's going to continue throughout the year. And then, obviously, as we start lapping it year-over-year, it gets harder and harder. But team's doing a lot of good work to continue to try to figure out ways to make the supply chain more efficient and lower the overall cost to provide that product.

<Q – Jeff Stein – Northcoast Research Partners LLC>: And Ken, wondering, as you take a look at your retail customers in the Brand Portfolio group, wondering how tight the inventory supply chain is. If you look at weeks of supply of the products that you sell, is it – I mean, at what pace is it declining? And given the fact that it looks like your organic inventory growth is up 20%, how would you kind of parse that out in terms of fashion products versus replenishment products?

<A – Ken Hannah – Caleres, Inc.>: Yeah. So, I think to answer your question, one of the things that the team's have all been focused on is not only what we ship into our partners but the sell-through at retail. So, I think we've got a pretty good handle and we're not seeing any inventory really building up at retail, and we saw pretty significant reduction in those initial orders a year ago, first quarter. And so, it's been pretty steady since then.

The shift, and Jay was asking earlier about the online business, and when we look at both our e-commerce business and the replenishment business, then there's also what we're doing to drop-ship for a lot of our partners of shoes that are sold on their sites. So there's a little bit of our inventory that we've had to invest in to be able to support the growth in just e-com in general. So, when we look at weeks of supply, I don't see it building. I think it's been pretty steady except for the big reduction that we saw in the first quarter of last year.

<Q – Jeff Stein – Northcoast Research Partners LLC>: Got it, got it. And the final question I have would be with respect to your e-commerce business, which is up about 400 basis points in the aggregate, year-over-year. And clearly, there's some gross margin pressure, but when you look at it all the way down to the operating profit line, how should we be thinking about the impact on your EBIT margins as your e-commerce business continues to grow?

<A – Ken Hannah – Caleres, Inc.>: It's interesting. We've been having a lot of conversation around this. And when you look at across the branded business, the dotcom profitability, because you're really leveraging your broader wholesale business, it's actually accretive on the branded side. So, we're able to continue to see the profitability of that growth in spite of that higher penetration, and I think that's been a nice contribution to our bottom line.

So, we've been looking at it to make sure that the penetration is not going to be something that's going to be creating a lot of headwind on the branded side. And I think because of the base that we've had in our core wholesale business, we've been able to layer that growth on top with an incremental benefit. And so, it's proving to be accretive. And so, we're pretty proud of the margins that we're able to deliver in that e-com business.

<Q – Jeff Stein – Northcoast Research Partners LLC>: That's great. Would the same be true on the Famous Footwear side?

<A – Ken Hannah – Caleres, Inc.>: Yeah. Famous, the profitability has continued to improve. I think it was up almost 300 basis points just in the first quarter. It's not because you have all the cost of the brick-and-mortar and then you have that shipping cost to get it to the consumer, which turns out to be an impact to the gross margin. So, it's dilutive today and most of that is directly associated with the cost to get it to the consumer.

And I think that's why some of the initiatives that Rick and his team have been working on and being able to – whether it's bundle, shipments, whether it is the ability to go through and offer our consumers the opportunity to pick the product up in store, when they're ordering online, those are all things that continue to reduce that shipping cost that we've been talking about as we continue to grow that business.

<Q – Jeff Stein – Northcoast Research Partners LLC>: Got it. Thank you.

Operator: And your next question comes from Will Gaertner from Susquehanna.

<Q – Will Gaertner – Susquehanna Financial Group LLLP>: Hi, guys. Thanks for taking my question.

<A – Diane Sullivan – Caleres, Inc.>: Hi, Will.

<Q – Will Gaertner – Susquehanna Financial Group LLLP>: I just wanted to know when you guys, I think you said organic – your organic inventory growth was 20% this quarter, is that correct?

<A – Ken Hannah – Caleres, Inc.>: Yes.

<Q – Will Gaertner – Susquehanna Financial Group LLLP>: And when do you guys expect inventories to come back in line with sales?

<A – Ken Hannah – Caleres, Inc.>: Well, I think that if you were to go through and dissect that inventory, it's in a couple of the brands that it's in line with kind of what we've seen in terms of those brand sells. And so, I think we're obviously monitoring it. The margins continue to be improving. And so, I think with that growth in inventory, it's aligned to what we would expect to see in the coming quarters in terms of the growth and sales of those brands.

<Q – Will Gaertner – Susquehanna Financial Group LLLP>: Got you. And just another question on traffic at Famous. Did you guys comment on that at all?

<A – Ken Hannah – Caleres, Inc.>: No. We didn't. I think overall traffic and Rick, if you like to go give some specifics, I think our overall traffic was up and continued. Traffic down in-store and up online, and then, I think in our prepared remarks we've commented that conversion, both conversion at in-store and online, was both up. So...

<A – Rick Ausick – Caleres, Inc.>: Yeah, exactly...

<Q – Will Gaertner – Susquehanna Financial Group LLLP>: Great.

<A – Rick Ausick – Caleres, Inc.>: ...that's the story. Yeah.

<Q – Will Gaertner – Susquehanna Financial Group LLLP>: Great. Thank you.

Operator: [Operator Instructions] Your next question is from Steve Marotta from C.L.K. [C.L. King] & Associates.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Good evening, everybody.

<A – Diane Sullivan – Caleres, Inc.>: Good evening, Steve.

<A – Ken Hannah – Caleres, Inc.>: Hi, Steve.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: A little bit about initiatives planned to drive traffic in the back-to-school season. Obviously, products would be what people come to the store for. But are there going to be additional marketing days? Are there digital advertising network or what do you to drive traffic during the start of the important back-to-school season? And as a follow-up to, given the slight negative comp at Famous in the first quarter, what gives you confidence that the year will increase in the low-single digit range?

<A – Rick Ausick – Caleres, Inc.>: Well, I'll take the first one last, I'll take the last one first, whatever I just said. Anyway, the confidence, I think, is really the fact that the categories that we have invested in were those categories that drove a lot of business in the first quarter. And as that may become a bigger piece of our assortment, we expect that to continue. So therefore, just a mix of mix changes continues to change as we get to back-to-school. So, we feel very comfortable that that business that drove the bulk of whatever increases we had in the first quarter gets bigger in our assortment. So, I think that's why we feel confident, Steve. And the addition of a new brand in our stores too, that should help.

As far as what we're going to do to drive traffic, I'm not sure I'm going to comment on that for obvious reasons since it's only May, whatever today is. And we are preparing all that, but yes, we have digital plans, online plans, email plans, all the things that we think are the tools. Social media plans, we've found some real opportunities on the social media side. So, all those things are part of our mix. We don't, right now, aren't intending to do anything dramatically different promotionally, but we'll see. There might be – that will be a piece of what happens when we see what's going on competitively. But we're believing that we have the right product. We think we're going to market it strongly to those customers that we think are our target customers and we believe they'll buy from us.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: And, Ken, can you remind us of the synergies associated with Allen Edmonds and how that will piece-in in the third and fourth quarter?

<A – Ken Hannah – Caleres, Inc.>: Yeah. I don't' think we had commented specifically on those. But I think from an integration standpoint we're going through the financial integration and the SAP. Now, that's progressing nicely and should be wrapped up here in the second quarter. And so, then we'll start to get some of the benefits of having everything on one financial platform in the back half. But it's really just as we continue to bring them into, we'll leverage our policies and processes, and then that's where we start to see that improvement in the back half.

And there's also a big piece of their business that comes in the back half as well and I think as Laurent was asking about kind of the calendarization of that. I mean, it grows throughout the year with the fourth quarter being the biggest, you know the biggest quarter.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Great. Thank you very much.

Operator: There are no other questions on the phone line at this time.

Diane M. Sullivan, Chairman, President & Chief Executive Officer, Caleres, Inc.

Thank you very much for joining us this afternoon and we look forward to seeing those of you who are going to be in New York next week and on our second quarter call in – late in August. Thank you very much.

Operator: This concludes today's conference. We thank you for your participation. You may now disconnect.

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