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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

Steven L. Marotta – Analyst, C.L. King & Associates, Inc.
Laurent Vasilescu – Analyst, Macquarie Capital (USA), Inc.
Scott D. Krasik – Analyst, The Buckingham Research Group, Inc.
Christopher Svezia – Analyst, Wedbush Securities, Inc.
Sam Poser – Analyst, Susquehanna Financial Group LLLP

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Sarah, and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter 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]

It is now my pleasure to introduce to today's speaker, Ms. Peggy Reilly Tharp. Ms. Reilly Tharp, the floor is yours.

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 our fourth 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.

Joining the call today are Diane Sullivan, CEO, President & Chairman; Ken Hannah, Chief Financial Officer; and Rick Ausick, President-Famous Footwear.

And I would now like to turn the call over to Diane Sullivan.

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

Thanks, Peggy, and good afternoon everyone, and thanks so much for joining us today to talk about what was just an outstanding year by any measure.

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In addition to an excellent year, we also had a fantastic quarter and thanks to our team's perseverance and agility, we delivered these great results in the midst of what is a very well documented changing consumer landscape.

Just to give you a few of our 2017 highlights. Sales were up 8% for the year and up nearly 10% in the quarter. Adjusted gross margin improved 85 basis points over last year and was up 54 basis points in the quarter. SG&A expense was well-managed overall in 2017, and we leveraged our spend particularly well in the fourth quarter. Adjusted earnings per share for 2017 were up 8% to $2.16, coming in at the middle of the range we guided to last March and maintained throughout the year.

Famous Footwear comp sales were up 1.4% for the year and were up 2.8% for the quarter. Our Brand Portfolio shipped more than 46 million pairs of shoes in 2017, and they had a record setting shipping month in January. Sam Edelman sales crossed the $200 million mark this year, and our Allen Edmonds acquisition that we acquired late last year remains very much on track.

And with respect to our balance sheet, we reduced our inventory position by 2.8% and maintained our flexible balance sheet and our cash flow strength as we completely paid down the $110 million in borrowings for Allen Edmonds and also made great progress in our 2017 focus areas.

Last year, we focused on areas that we believed were critical to the long-term health of the company and will drive both near and longer term outcomes as well as making sure they help us to maintain our consumer focus. These four key areas included our initiatives around speed-to-market, speed-to-consumer, digital and the diversification of our portfolio of brands.

For 2018, we plan to maintain and amplify the focus on some of these areas and expand the scope for others. And I thought it would be important to just take a few minutes to highlight some of our accomplishments and importantly our expectations for 2018.

First of all, our speed-to-market program delivered against our internal targets in 2017 and helped us respond to consumer demand for newness and freshness throughout the year. Our speed programs accounted for approximately 15% of our source payers in 2017 and enabled us to react to trends in the marketplace like sport-inspired styles and to be proactive in testing new designs. These efforts also allowed us to focus on the styles we believe in and then expand across the marketplace as needed to address consumer demand with additional colors, different materials and other enhancements.

Our work around simplifying and streamlining for speed will continue in 2018 and our efforts are expected to drive even greater visibility into the entire supply chain and allow us to have more productive inventory on the floor.

For 2017, our speed-to-consumer initiatives were focused around Famous Footwear. And we made significant strides in accelerating the time it takes to get product into our consumers' hands or on their doorstep with approximately 70% of shipments in consumers' hands within three days. To further accelerate time to consumer, we launched buy online, pickup in-store in the second quarter this year. This program also helped offset some of the margin pressure related to famous.com orders and help drive our fourth quarter gross margin up 58 basis points at Famous Footwear.

In 2018, our speed-to-consumer efforts are going to be focused around our Brand Portfolio. The shift in consumer shopping patterns is not surprisingly impacting wholesale distribution and fulfillment. And as a result, we need to become more efficient in processing smaller order quantities on a more frequent basis. And we also need to be able to react to increased demand for a loose pair processing on the Brand Portfolio side of our business.

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In 2018, we'll be strategically shifting to in-house fulfillment for our Brand Portfolio, which will result in some additional expense. However, we have no plans to stay still in the midst of this changing consumer landscape, and we're always trying to look to the future. So, similar to our modernization and expansion work that we completed in 2016 at our Lebanon distribution center, this shift to in-house fulfillment for our Brand Portfolio will provide us the flexibility to adapt to the changing needs of our retail partners and consumers.

And third, from a digital perspective, we saw gains in e-commerce sales in 2017. Famous Footwear e-commerce related sales were up 14% and represented 10% of total Famous' sales. For our Brand Portfolio, e-commerce-related sales accounted for 28% of 2017 sales and when they were up 47% over last year. In total, e-commerce-related sales were up 34% in 2017. And these transactions now comprise 17% of total consolidated sales. Not surprisingly, this is the fastest growing area of opportunity for every brand here at Caleres.

We're also moving to a new e-commerce platform in 2018 as we continue to expand our direct and e-commerce proficiency. This platform will work in conjunction with the content management system we implemented at the end of 2017. Together, these will enable us to more rapidly react to evolving consumer expectations online and assist us in our efforts in acquiring and retaining consumers.

Our Famous and Brand Portfolio teams will be able to manage website content much more dynamically. What took us two weeks last year will now take us close to two days to make those changes on our sites.

Finally, last year, we talked about the diversification of our portfolio of brands through our acquisition of Allen Edmonds, and we remain focused on this exciting addition to our company in 2018. This year, we plan to begin transitioning the brand's consumer-facing activities to St. Louis to leverage our infrastructure and to take maximum advantage of our extensive consumer direct experience here at Caleres.

At Allen Edmonds, we'll also be investing capital into improving manufacturing and also focus our attention on consumer acquisition and retention so that we enhance both the online and the in-store experience as each of these areas are critical to the continued growth of the brand.

In total, we expect to pay critical attention to our speed, digital and diversification efforts in 2018. We also expect to leverage our 2017 successors to deliver adjusted earnings per share of $2.40 to $2.50 in 2018, as we continue to benefit from the foundational strength of the diversified portfolio of brands that we have here at Caleres.

And with that, I'd like to now turn the call over to Ken to give you some detail around the financial performance.

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

Thank you, Diane, and good afternoon, everyone.

I'd like to begin by echoing Diane's remarks about our strong performance in 2017. Once again, we maintained our earnings per share guidance throughout the year and delivered against our original expectations put forth last March.

For the fourth quarter, earnings per diluted share came in at $0.47 on a reported basis and $0.48 on an adjusted basis, up 45.5% year-over-year. While there was only $0.01 difference in the reported and adjusted numbers, I'd like to walk you through the components.

First of all, we completed some restructuring in the fourth quarter of 2017, primarily in Famous Footwear field operations where we reduced the number of regions down to 4 from 8 and eliminated 11 districts to align with shifting consumer shopping trends. This proactive effort resulted in a pre-tax charge of $942,000 or approximately $0.02 after tax.

Secondly, due to the Tax Cuts and Jobs Act, we re-valued our deferred tax assets and liabilities and accounted for the tax on un-repatriated cash, earnings and profit. When combined, these items resulted in a $0.01 benefit to our fourth quarter diluted earnings per share.

Finally, as a reminder, while the 53rd week delivered additional sales of $23.4 million in 2017, it did not drive any benefit to earnings per share. This is due to the additional wholesale and corporate expenses without related sales.

For the full year, reported earnings per diluted share came in at $2.02. Including the aforementioned fourth quarter items and the $0.13 of previously recorded charges related to the acquisition, integration and reorganization of the company's men's brands, adjusted earnings per share was $2.16 and up 8% over 2016. Consolidated sales for the fourth quarter of $702.5 million were up 9.8%. For the full year, consolidated sales of $2.7856 billion were up 8% versus 2016.

At Famous Footwear, fourth quarter sales of $393.1 million were up 7% over 2016, and included $19.7 million of revenue related to the 53rd week. For the fourth quarter, same-store sales were up 2.8% on a 52-week basis. For the full year, total sales at Famous Footwear of $1.6376 billion were up 3% while comp sales were up 1.4% on a 52-week basis.

For our Brand Portfolio, fourth quarter sales of $309.4 million were up 13.8% versus the prior year, including $3.7 million of retail sales attributable to the 53rd week. As a reminder, the fourth quarter of 2016 included approximately 6 weeks of contribution from Allen Edmonds, while this year's fourth quarter included 14 weeks of revenue. Excluding Allen Edmonds sales from both periods, the Brand Portfolio sales were up approximately 5% in the fourth quarter. For 2017, Brand Portfolio sales crossed the $1 billion mark coming in at $1.148 billion, up 16% year-over-year.

As we turn to gross profit, which came in at $293.4 million in the fourth quarter, up 12.5%. Gross margin of 41.8% improved 97 basis points over the fourth quarter of 2016 on a reported basis. As a reminder, fourth quarter 2016 gross profit included $2.8 million of cost associated with the acquisition of Allen Edmonds and the restructuring of our Brand Portfolio. Excluding that amount, fourth quarter 2017 gross margin increased 54 basis points year-over-year.

For the full year, consolidated gross profit was $1.1686 billion and up 10% year-over-year on a reported basis and up 10.2% on an adjusted basis. Consolidated gross margin was also up on both the reported and adjusted basis in 2017 with a year-over-year improvement of 78 and 85 basis points respectively.

For Famous Footwear, gross margin was up 58 basis points in the fourth quarter, a continuation of a trend from the third quarter and a reversal from the first half of the year. For 2017, Famous Footwear gross margin of 44.2% was up slightly over 2016.

Brand Portfolio fourth quarter gross margin was up 173 basis points as reported and up 71 basis points on an adjusted basis. For 2017, the Brand Portfolio team delivered full-year gross margin of 38.7% on a reported basis and adjusted gross margin of 39.1% with both metrics up more than 200 basis points.

SG&A expense for the fourth quarter of 2017 was up 7.9% year-over-year, primarily due to the addition of a full fourth quarter of Allen Edmond's expense at Brand Portfolio and the addition of a 53rd week at Famous Footwear. Despite these increases, we leveraged SG&A expense in the fourth quarter coming in at 37.3% of sales, down 68 basis points versus the prior-year fourth

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quarter. For the full year, SG&A expense was up 10.4% mainly reflecting the addition of Allen Edmonds.

Our depreciation and amortization of $15.9 million was up 1.4% in the fourth quarter versus the same period in 2016, primarily due to our acquisition of Allen Edmonds and the expansion of our Lebanon distribution center. For the full year, depreciation and amortization of $64.1 million was up 14.1% versus the prior year.

Net interest expense for the fourth quarter was $4.1 million, which was flat versus the fourth quarter of last year. For the full year, net interest expense was $17.3 million and up from $13.7 million as we borrowed against our revolving credit facility for most of 2017 to finance the December 2016 acquisition of Allen Edmonds.

Our tax rate for fiscal 2017 was 28.9% on a GAAP basis and 29.8% on adjusted basis. Of note, our reported tax rate over the past four years has averaged approximately 28%, while our average adjusted tax rate for the same timeframe was slightly higher at approximately 29%. And we expect that rate to come down to between 25% to 26% in 2018.

Our capital expenditures were $51.2 million for 2017, down 14.1% year-over-year reflecting the completion of our Lebanon distribution center and as we opened fewer retail stores during the year.

Now turning to our balance sheet. We ended the year with cash and equivalents of $64 million, up 15.8% and paid down the remaining borrowings against our revolving credit facility, which were used to finance the December 2016 acquisition of Allen Edmonds.

Our consolidated inventory position at the end of the year was $569.4 million. For our Brand Portfolio, inventory was down more than 5% year-over-year excluding Allen Edmonds. At Famous Footwear, we ended the year with inventory down 2.4% year-over-year. We ended 2017 with 1,026 Famous Footwear doors after opening 34 and closing 63 doors. For our Brand Portfolio, we opened 15 doors in 2017 and closed 13, leaving us with 236 doors at year-end.

Before we begin Q&A, I'd like to provide our initial fiscal 2018 guidance which was presented in today's earnings release. Consolidated net sales of approximately $2.8 billion, with same-store sales at Famous Footwear up low single digits and net sales for the Brand Portfolio segment up low single digits.

Our gross margin is expected to be up approximately 5 to 10 basis points, and we expect to leverage our SG&A expense as a percentage of sales 5 to 10 basis points. Interest expense is approximately $16 million and our effective tax rate of between 25% and 26%, down from a four-year historical average of approximately 28% on a GAAP basis and 29% on a non-GAAP basis due to the Tax Cuts and Jobs Act. And our earnings per diluted share of between $2.40 and $2.50, up 11% to 16% over 2017, including an expected benefit of approximately $0.13 per share due to our lower effective tax rate and excluding approximately $0.07 to $0.08 of the remaining Allen Edmonds transition costs that Diane discussed earlier.

Additionally, if the reduced tax rate related to the Tax Cuts and Jobs Act had been in effect for all of 2017, we believe our adjusted 2017 diluted earnings per share would have been $0.11 higher or approximately $2.27. Based on our 2018 guidance, this would equate to a 6% to 10% increase in earnings per share year-over-year on an apples-to-apples basis.

Finally, this guidance includes as usual a number of store openings and closings and these details can be found on the earnings slides available at caleres.com. As a reminder, last year included a 53rd week, which increased Brand Portfolio sales by $3.7 million and Famous Footwear sales by $19.7 million that had an immaterial impact on our 2017 earnings.

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Overall, 2017 was a great for Caleres. And once again, we expect to deliver consistent, profitable and sustainable growth in 2018.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Steve Marotta with our K.L. King & Associates (sic) [C.L. King & Associates].

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Good evening, everybody. Congratulations are on a great quarter and a great year.

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

<A – Ken Hannah – Caleres, Inc.>: Thanks and good evening to you.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Couple of quick questions. A lot of consumer companies that we're seeing reporting earnings and offering initial guidance for the coming year are plowing back some of the benefits associated with the new tax plan into SG&A and demand creation activities. Given the leverage that you're showing on the SG&A line, it looks like that you're not doing that. Could you talk a little bit about the calculus that went into your decision making on basically uses of funds associated with the tax benefit in the current year?

<A – Ken Hannah – Caleres, Inc.>: Yeah. Sure, Steve. This is Ken. I think, in the past, in order to deliver the earnings that we've delivered, we've continued to invest in our business. And we do not expect 2018 to be any different. I think when we looked at it on an incremental basis, the incremental expense that was coming through our SG&A was really tied to acquisitions and customer acquisition, and that looks like it's an incremental $4 million to $5 million.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Okay. From a CapEx and a D&A estimate standpoint for 2018, could you just go over that?

<A – Ken Hannah – Caleres, Inc.>: Yeah. The expectation is that the CapEx will be approximately $50 million.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: And D&A?

<A – Ken Hannah – Caleres, Inc.>: The D&A should be pretty consistent with 2017.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Okay. That's fair enough. And is there any cadence from an EPS standpoint in first half versus second half? Are there any SG&A costs in particular that you would expect to be sloshed from quarter-to-quarter?

<A – Ken Hannah – Caleres, Inc.>: Yeah. That's a good question. I think for the most part unlike last year when we had the addition of Allen Edmonds coming in and we spent a lot of time talking about how that was going to be calendarized, our 2018 earnings are much more consistent with the guidance that we provided quarter-to-quarter. The only expense to be noted, as Diane mentioned, we are insourcing our wholesale distribution warehouse. And there is some expense in the first couple quarters of the year associated with that, couple million dollars.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Okay. And lastly, can you talk a little bit about product and how you see the – specifically from a category standpoint, obviously, sneakers as well as fashion sneakers continue to do well. And as you look out through spring and then fall as in the Famous Footwear as well branded portfolio, maybe just talk a little bit about product? And that would wrap it up for me. Thank you.

<A – Diane Sullivan – Caleres, Inc.>: Okay, Steve. It's Diane. Couple things done on product. We're seeing actually early reads on spring. Looks, pretty – quite good, I would say. I'll talk about the brands side first, and then Rick and I can share the duty on the Famous side.

But as you would expect, we're seeing anything that's sport-related continues to be very strong, not only in sneakers but also in trainers and actually even sport sandals right now look to be very strong. Any foot bed kind of product is great, wraps are good, hybrid concepts are great out there where they're lightweight. So, when you turn to fall and you think about boots, boots are – people are kind of planning them to be relatively flat to where they were last year. No one's really finished on the way they're really thinking about what direction they're taking.

But I would say that there are a number of actually pretty interesting key items across the landscape that seem to be driving a lot of volume right now. And it seems to be interesting the consumer and as we look at our retail selling right now, seems quite good on a lot of the areas that we would hope for. And I think the same thing is true with, at Famous too. I mean, across the board with respect to athletic and sport and sneaker, I mean, it has been continues to be great, just different brands are coming up in terms of importance I think in that Rick, right?

<A – Rick Ausick – Caleres, Inc.>: Yes. I think again pretty consistent what Diane said, finding – as we refresh, we've been at this for a while. So, I think our strategy has been to refresh with color, refresh with material, make sure the brands that we have represented we have an appropriate inventories positions where again not everybody is a winner, some things are getting lesser and some things are getting more. So, making sure our inventory is in position to take advantage of that.

I feel pretty good about how we are positioned as we – at this moment in time in the quarter. Probably we need a little less of cold and snow weather in the Northeast to really see how much we can do but outside of that, the other parts of the country are showing pretty good returns on those businesses today, Steve. And we think that'll continue. We think we'll have a – that would still be strong for first quarter and into second and third.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Very helpful. Thank you.

Operator: Your next question comes from the line of Laurent Vasilescu from Macquarie.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Thank you. Good afternoon. Congrats on great results. I wanted to ask about Allen Edmonds. I think last year in the fourth quarter, it generated about $24 million. I was curious to know how much the brand generated for this quarter, for the full quarter. And then any indication on how much it contributes to the EBIT line?

<A – Ken Hannah – Caleres, Inc.>: Yeah. I mean, we're not going to get into the specifics around brand-by-brand. Now, I think as we had talked earlier in the year, it was in the low 40s in the first quarter and kind of ramped and it ended up in excess of 50% in the fourth quarter and was accretive to our overall earnings per share.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Okay. Very helpful. And turning to Famous Footwear, I think November comps were running mid-single digits as of November 21. Can you provide clarity on how much the comps performed by month for the fourth quarter?

<A – Ken Hannah – Caleres, Inc.>: Sure. We're pretty consistent actually. They were all in that mid-single-digit range pretty much across the board. So, with December being the biggest, November being second and January being the lowest percentage, we attribute all within a couple of tenths, they weren't that – it wasn't that much difference, it was pretty evenly spread.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: That's great to hear. And then turning to the full year guidance on gross margin, the gross margin guided up 5 to 10 bps. It's a little bit lower than the growth rate given your historical trends. Can you talk about the puts and takes for this guide?

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<A – Ken Hannah – Caleres, Inc.>: Well, I think that when we looked over the last three or four years, I mean, we're up almost 200 basis points. And so, as we look into kind of the 2018 timeframe, we think we're going to continue to see improvements there. I think we're just a little bit more conservative in terms of our expectations.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Got you. Okay. Thank you very much. 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 Scott Krasik with Buckingham Research.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Hey, everyone. Congratulations.

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

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

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

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Hi. Just going back to your comment, Diane, you had a record shipping month in January. I'm wondering is that a reflection of retailers are sort of lean after Christmas, or are they just excited about a couple of your specific brands? How would you characterize that?

<A – Diane Sullivan – Caleres, Inc.>: I think it's a combination of couple things. I think they're very excited by a couple of our brands. I think the work that we've been doing around our speed-to-market project, again, has that's really coming back in on items that are strong performance, so we were able to really drive that really nicely. So, I think it's a combination of a number of things, Scott. So, it was a phenomenal month though for sure. The teams did a great job.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Your guidance for the branded side of the business is low single digits, you just did 5% in the fourth quarter. What would be the hindrance to growing, let's say, mid-single digits this year? And do you think you'll grow faster in the first half of the year or the second half of the year?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. Well, ex-Allen Edmonds for the full year were basically flat all-in. So, we showed a nice pop in the fourth quarter. So, I want to see us continue to drive that trend. And so, I thought mid-single digits made or low-single digits made a whole lot of sense as we're coming out of the gate and we'll see how we perform as the quarter and the seasons go. So, but I think it's prudent to chase a little bit, because I'm sure you're hearing from most retailers, they really like to chase goods, those initial orders do not come in upfront. So, to get those 5% increases, it's not a simple task. So, we want to make sure we're very thoughtful in the way that we guide.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Sure. And then the in-house fulfillment on the branded side, so you were just using a 3PL facility, what happened there?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. Nothing. Really, we made the decision, I would say, in the middle of last year that we just decided it was going to be much more prudent long-term for us to bring it in in-house. And we had already finished and completed the work at Lebanon. It made a whole lot of sense. We looked at our ability to be able to service the customer, frankly, in the time and then at the cost that how we saw things projected out in the next couple of years. And we have a terrific team of logistics folks that are here with the company. And we felt it was time to do so and it was going to be better for the shareholder if we did that.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Good. And then – sorry.

<A – Rick Ausick – Caleres, Inc.>: Yeah. I'll just add a little bit of color there. I think as we completed the Tejon and Lebanon and really looked at that entire network, I think what we were wanting to make sure is that we could capture the productivity gains in our wholesale distribution center. And so, I think our third-party actually had performed well. And it was really just as it becomes more and more a strategic piece of getting goods to the consumer, we felt like we really needed to have complete control over that.

So, we had selected a site in the fourth quarter and have begun transitioning goods and there will be some duplicate costs in the first half of the year as we are shipping out of both locations, but this is something that we've done before and have a lot of confidence in. And just believe it's the right thing to do as part of moving forward for the consumer.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Now, that's great. And then just lastly, Rick, you alluded to you like a little more whether to sort of test exactly what's working and what's not. So, as you go into Easter here, do you think you've sort of missed some sales? You expect some big weeks ahead of you? How do you feel as of now?

<A – Rick Ausick – Caleres, Inc.>: Yeah, I mean, it's always tricky. You never quite feel like you get everything back, but I think with three of these big storms in 10 days, it obviously has a multiplier effect on the customer in the sense that it wasn't like one event and two days later, everything is back to normal. It was one event, lights were still out, oh, here comes the next one, here comes the next one. So, I think we had – I just don't think we know yet where we have kind of normalized conditions.

Our business is pretty good, and the items that we believe are the things that are going to drive our business are performing very well. So, we just need to have a little bit more of that and obviously that New York, Philly, Boston market, those are all top 10 markets for us. So that's an important part of the country to be out of commission at any time.

So, again, we're not looking at making excuses for first quarter. I think it'll come. We're just starting to get into spring break time and all those kind of things. So, I think that'll help and help us too because it feels like at least in my airport visits more people are leaving those cold places and going to my warm place in Arizona than I've ever seen in my life in the last few years. So, I think there is a lot of that happening too.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: All right. Well, thanks. Good luck and good luck, Rick.

<A – Rick Ausick – Caleres, Inc.>: Thank you.

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

Operator: Your next question comes from the line of Chris Svezia with Wedbush.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Good afternoon, and thanks for taking my questions. Congrats. I guess, first, I just wanted to – on the branded portfolio side of the business, can you maybe just walk through some of the drivers and more specifically as you think about 2018 low single digit, can you just walk through what you're seeing between Naturalizer, Allen Edmonds,

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Sam Edelman, et cetera, Vince, just sort of give us a lay of the land of what's going on with some of the brands from a growth perspective or lack thereof maybe?

<A – Diane Sullivan – Caleres, Inc.>: Yeah, sure. I mean, I think, generally speaking, Chris, we feel terrific about where our portfolio is. There's always people that are winning a little bit more than others. But given if you look at the overall market landscape, we are clearly gaining market share and you can see it in the data that we look at quarter-by-quarter and month-by-month, but let me give you a little bit of a sense of the brands.

I mean, first of all, our Naturalizer business, you should almost think about sort of our lead portfolio assets on the brand side, Naturalizer, Sam, Allen Edmonds, those three big brands that have retail businesses, they have an omni-channel business. All three of those businesses, again, we have done well this year. We believe we're going to continue to do well and really show some really nice growth next year. Sam Edelman is now in the top 10 in NPD. Naturalizer moved up 5 points. They're roughly number 14 on NPD. The storage comped at an 8% comp in the fourth quarter of this year.

So, we're feeling like all the work that we've been doing frankly and it's been some time coming, but we feel that that's all starting to come together. And we're actually even going to be looking at the development of a – with a new Naturalizer concept that we actually are planning on testing this year. So, those three big brands, Naturalizer, Sam and Allen have been very good. And LifeStride continues to – that fighter brand that we have out there that's got really great price value relationship out there has been doing extremely well. So, those are all great.

We also think there's a number of brands that are really powered by the sport category. So, whether it's Vince or Bzees or Scholl's or Rykä, all of those, again, are showing like very, very dynamic trend. So we feel very good about where those are. We have a little bit of headwind still with Walmart that hasn't completely gone away yet. And we're repositioning Via Spiga, but it's such a relatively small business in the scheme of it all that is not really material to our overall earnings power for the company.

So, generally, we really feel that we've got all of our brands positioned in a very good way. And right now, the momentum is looking pretty good. But you know it because you've seen it and have lived it too. We have to earn it every single day. And our teams work hard to make sure in a zero-sum game, actually our market share that in this particular segment it's going down. We've really got to work hard to gain even more. But overall, we feel quite good about the direction.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Thank you. And the 8% comp, Diane, is that just for Naturalizer or is that all the branded portfolio stores?

<A – Diane Sullivan – Caleres, Inc.>: That was the Naturalizer fourth quarter comp.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. All right. And rapid replenishment, 15% of the inventory or buys or purchases, what is that supposed to be in 2018? And any color about how – when you step back and look at branded portfolio, I know you're making investments, but how do you think about the margin profile, the EBIT margin profile of that segment based on some of the supply chain initiatives and product replenishment?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. Well, you know what, again, I think it's actually – just we're now starting to be able to really see the real benefit. We're just being able to try to quantify this in terms of how well we can drive retail sales, how well the margin assistance that gives us because of the sell-through and not the get backs that you would normally have and the dilution you would have.

So, we think as we do more and more and more of that, Chris, that not only will the velocity at retail improve, our gross margins are going to improve and ultimately the EBIT margins along with it, we want to make sure though that we're now getting to the point where we got to be smart now about where we do that. It just doesn't going to be have equal impact no matter where you do, you got to pick the right brands and the right categories. So, now we're kind of in the place where we're trying to really refine our thought process around that and really direct our teams against the things that we think are going to get the best return on investment.

So, it's really in 2018 it's less about how much, it's really about even learning more about how to quantify the impact of this and get even more of a return on it.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. Okay. But I mean it's fair to say it's increasing from 15%?

<A – Diane Sullivan – Caleres, Inc.>: Yeah, it'll increase, where it'll land who knows. I think we don't want to force a number. I mean, I think we're at that point now with our teams where we're trying to do what's the right thing as opposed to force a number. And I think we're trying to calibrate that what's right about what that total should look like.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. And Ken a question for you. Just on the – any impact as it relates to the calendar, the 53rd week and the impact? How we think about maybe the Famous business that if it's probably Q1, Q2, huts a little Q3, Q4? Just how should we be thinking about that from a modeling perspective? It is in the sales numbers or it is in the comp number? Just any color around that.

<A – Ken Hannah – Caleres, Inc.>: Yeah, there's a little bit in the sales number, and I'll let Rick give some specific color. I think you've got Easter coming into Q1, you've got some shifts into Q2 from Q3. And so, you see a little more of an impact in the first half of the year, but I'll let Rick kind of give you the color since he's lived this 53rd week thing...

<A – Rick Ausick – Caleres, Inc.>: One too many times actually. If you look at the shifts, the big shifts are between second and third quarter. So, second quarter is impacted on a top line around $20 million positive, third quarter is obviously about $20 million the other direction. And the same thing, fourth quarter is about $20 million, $25 million the other direction. First quarter is about $11 million positive. And those are just a matter of the net effect of what week comes in and what week goes out. So, it's nothing more than that, Chris.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. And last thing, Rick, I guess, is this your last conference call?

<A – Rick Ausick – Caleres, Inc.>: You never know, but so far...

<A – Diane Sullivan – Caleres, Inc.>: No, not necessarily. Maybe, maybe not.

<A – Rick Ausick – Caleres, Inc.>: We'll see our first quarter, and I'll let you know.

<Q – Chris Svezia – Wedbush Securities, Inc.>: All right. Well, all the best and I'll talk to you soon. Thanks.

<A – Rick Ausick – Caleres, Inc.>: Thank you.

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

<A – Rick Ausick – Caleres, Inc.>: Thank you.

Operator: Your next question comes from the line of Sam Poser with Susquehanna.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Well, thank you taking my question. Just to clarify, can you give us what the Healthy Living and Contemporary Fashion breakdown is by sales for the fourth quarter?

<A – Ken Hannah – Caleres, Inc.>: No, I mean, since we've got the Allen Edmonds numbers in there, I mean, it's not really as relevant. I think we ended up in Healthy Living. And excluding the Allen Edmonds in Contemporary Fashion, I think it was just up slightly, but we don't really even break it out like that anymore.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Okay. And then just that $20 million that moves from Q3 to Q2, I mean, that's going to be meaningful, Ken, for the flow of earnings in the quarters because you're going to leverage, you're going to get that incremental sales and then you're going to lose more in that. Could you give us sort of how you see the EPS impact of that shift?

<A – Ken Hannah – Caleres, Inc.>: Yeah. I think, it impacts Famous and then it's almost equally offsetting in the Brand Portfolio. And I think as we look at the two segments, I mean, we're at that 50/50 contribution. And so, we've got some incremental benefit in Q2 at Famous, and then in the Brand Portfolio in the first half. We do have some incremental investments that we're making in customer acquisition. And as we mentioned earlier, we've got a couple million dollars of expense associated with bringing the warehouse and in-house. So, when you...

<Q – Sam Poser – Susquehanna Financial Group LLLP>: So basically...

<A – Ken Hannah – Caleres, Inc.>: So, when you net it all out, it actually ends up being pretty consistent from an earnings standpoint but for the incremental expense in the first half with the warehouse.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: I got you. All right. So, basically, you're adding about $2 million to $5 million in SG&A in the first half of the year to the Brand Portfolio, and then things sort of flowed – but then you're going to have a shift of leverage in Famous Footwear.

<A – Ken Hannah – Caleres, Inc.>: That's right. And in the back half then you'll see the benefits associated with those investments in the Brand Portfolio segment than offsetting what was a shift forward in the first half at Famous Footwear. So, when we looked at it, if you just take kind of the midpoint of the guidance and you kind of look across, it isn't all that different quarter-to-quarter but for couple million dollars a quarter of investment in the first half.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Got you. And then, Sam is doing very well and Naturalizer appears to be doing very well. Can you talk about how the other brands that are doing because it was noticeable to us when we visited out at platforms that basically those two brands were seemed to be operating on sort of a little bit of a faster pace relative to even like a Franco Sarto and so on?

<A – Diane Sullivan – Caleres, Inc.>: Well, Naturalizer, Sam and Allen Edmonds, again all terrific growth this last year and all in a great trend. I mentioned that there're couple brands also that really because they're powered in a lot of ways by the sport growth, they've also performed extremely well. So, Vince continues to be a great performer. Bzees is growing really nicely. Rykä is growing nicely. Scholl's because of its mix we have upside opportunity there.

More pressure on a brand like Via Spiga, where they're not known in that sport category and we also are repositioning that business, but it's so immaterial to the total Sam. It's not a huge impact,

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which is why I talk about all the others. And the Franco business is looking very good as we go into 2018. We have – it's because it didn't really have any of the sport category, so it was with fundamentally mostly just fashion categories they hadn't really converted as quickly.

So, as we started to begin to do that, get more product that is frankly resonating with the consumer, so less seasonal because we are very heavily dependent on boots. We're trying to make sure that we're more sort of shoe focused I guess and not seasonal category focus to try to get that on right path which seems to be working right now.

So, all-in, very excited about the total portfolio of brands and most importantly is the big brand, the ones that really are sizable, have the omni-channel, have the retail, have wholesale distribution, are really performing out in an outstanding manner.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Thank you very much on continued success.

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

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

<A – Diane Sullivan – Caleres, Inc.>: I appreciate it.

Operator: You have a question from the line of Scott Krasik with Buckingham Research.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Thanks. Just a quick follow up. Rick, the $25 million negative shift in 4Q that doesn't take into account almost $20 million for the 53rd week we have to lap as well. Is that correct?

<A – Rick Ausick – Caleres, Inc.>: Sure, yes. It does.

<Q – Scott Krasik – The Buckingham Research Group, Inc.>: Okay, okay. That's all. All right. Thanks guys.

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

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

Operator: At this time, we are out of time for questions. I will turn the call over to Ms. Diane Sullivan for any closing remarks.

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

Thank you very much for joining us this afternoon. We're excited about the potential for the company, and looking forward to speaking with you again in May, if not sooner. Thanks. Take care.

Operator: This does conclude today's conference call. You may now disconnect.

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