Corrected Transcript

21-Nov-2017

Caleres, Inc. (CAL)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Ian, and I'll be your conference operator today.

At this time, I'd like to welcome everyone to the Third 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] Thank you.

I'd now like to turn the call over to Ms. Peggy Reilly Tharp. Ma'am, you may begin.

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 third 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 and 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.

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Diane M. Sullivan

Chairman, President & Chief Executive Officer, Caleres, Inc.

Thanks, Peggy, and good morning, and thanks for joining us as we report results for what turned out to be a very fluid quarter. After a strong start in August with weekly positive comp sales at Famous Footwear, September, including back-to-school and Labor Day, was interrupted by hurricanes in Texas and Florida. These events were then followed by an unseasonably warm start to October. Even though the quarter became progressively more challenging, we delivered improvement in gross margin and generated strong cash flow, while paying down our revolver borrowings. However, the weather related events had a negative impact to top line sales of approximately $35 million, and resulted in third quarter earnings per share of $0.80. But as more seasonal weather has arrived in November, business has improved, and sales are performing accordingly.

As a result, we are confirming our full year adjusted EPS guidance of $2.10 to $2.20. With the fourth quarter still ahead of us, we are confident our strategy is working, and that our teams are focused on the right short-term efforts and longer term initiatives.

Now for a few specifics on Famous Footwear where comp sales were up 2.6% for the back-to-school selling season and up 0.9% in the third quarter. As in the second quarter, comp sales were up both in-store and online. We also saw an improvement in conversion rates in-store and online and for the first nine months of the year e-commerce sales represented nearly 10% of total sales.

In the third quarter, we anniversaried another double-digit quarter of growth in lifestyle athletic sales with key brands driving the improvement. The brands that made up a significant share of our back-to-school sales last year were once again big contributors this year. In particular, women's and girl's athletic sales maintained their lead and were up high-single and mid-double digits respectively, as these consumers continued to respond to sport styles.

On the seasonal side of our business, sandals were, not surprisingly, up 3% overall in the third quarter. Women's sandal sales were up low-single digits and delivered significant margin improvement.

As discussed, the third quarter was a challenging one for boot sales, and we plan this category down 5% year-over-year at Famous Footwear. Women's boot sales were down approximately 20% in the third quarter while our inventory position was down mid-single digits at quarter end, as we adjusted flows and managed inventory accordingly throughout the quarter.

Obviously, as the weather has gotten colder, boot sales had begun to trend positively. While the biggest days for 2017 boot sales still remain ahead of us, there is the potential for margin degradation in the category if the industry becomes increasingly promotional this holiday season. The impact from unseasonably warm weather for the Brand Portfolio boot sales was actually a more significant. And while we had planned boots down about 10%, the actual year-over-year sales decline was in the high teens.

Even with this headwind, total Brand Portfolio sales were up 14% in the third quarter, sales excluding Allen Edmonds were down 2.6% due to those slower boot sales related to this warm start to fall. In the third quarter, Sam Edelman, Naturalizer and Dr. Scholl's, and Vince, all continued to show great progress.

I'm particularly pleased with the continuing improvement in Naturalizer as this demonstrates the successful execution of our strategic efforts to re-imagine this brand. The newest brand in our portfolio Allen Edmunds

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delivered comp sales improvement of 7.8%. We are excited about the direction the team is taking with this brand and look forward to sharing more details with you in the very near future.

In addition, our focus on growing our e-commerce related business continued to deliver results in the third quarter, and represented approximately 30% of Brand Portfolio sales, up from 14% of sales in fiscal 2015. As a reminder, while e-commerce related sales drive higher gross margin, these sales also carry higher SG&A expense.

But before I turn things over to Ken, I'd like to quickly update you on our Brand Portfolio speed-to-market initiative and on the progress we have made at Famous Footwear with our consumer acquisition strategy.

Our speed-to-market initiative remains on track as consumer interest in our products is driving more in-season replenishment, thanks to the structures we've put in place, we are now able to read and react more rapidly to align with shifting trends and respond to consumer demand. With this program we have essentially put the consumer in charge and each brand is able to react in season to changes in trend.

At Famous Footwear, we continued to see results from our strategic efforts focusing on acquiring, retaining and growing our share of wallet with targeted high-value customers, individuals who are emotionally connected to Famous Footwear. Year-to-date, the number of these consumers have increased by 12% and these individuals now make up nearly 14% of our total rewards members. As a reminder, rewards members drive more than 70% of our sales and membership in this program was up approximately 4% in the third quarter.

While these are good results, we have a realistic view of the consumer environment and recognize that we are competing against many other retail categories and industries who are vying for the consumer [ph] size and (07:53) dollars. So to win, we must maintain focused on the day-to-day execution, and on managing the factors under our control. We remain confident in our ability to drive results, and believe we have the right strategy, plan and people in place to deliver consistently.

So yet again, as we have many times before, we are maintaining our adjusted earnings per share guidance, which calls for year-over-year improvement of 5% to 10%. However, based on the potential for margin degradation related to a shortened and likely more promotional 2017 boot season, we could trend towards the lower end of our guidance. But as I commented earlier, the biggest days and most important days for the 2017 boot sales still remain ahead of us.

And now I'll turn it over to Ken.

Kenneth H. Hannah

Chief Financial Officer & Senior Vice President, Caleres, Inc.

Thank you, Diane, and good afternoon, everyone.

For the third quarter, we delivered earnings per share of $0.80 versus net earnings per share of $0.81 in the third quarter of 2016, reflecting the impact related to the hurricanes in Texas and Florida, and the unseasonably warm weather. Our consolidated net sales for the third quarter of this year were $774.7 million, up 5.8% over last year despite a top-line weather related impact of approximately $35 million.

For our Brand Portfolio, third quarter sales of $301.5 million were up 14% versus the prior year, and included $44.1 million of sales from Allen Edmonds. At Famous Footwear, third quarter sales of $473.1 million were up

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1.1% over 2016, as we operated eight more stores year-over-year through the back-to-school timeframe. As Diane mentioned, our comp store sales of Famous Footwear were up 0.9% for the quarter.

Let's turn to consolidated gross profit, which came in at $316.9 million for the third quarter. Gross margin of 40.9% improved 79 basis points year-over-year. In the third quarter, Brand Portfolio continued to drive strong contributions to our consolidated gross margin, delivering 192 basis points of improvement. Our organic gross margin was up more than 30 basis points, including the mix impact from lower boot sales.

For Famous Footwear, third quarter gross margin of 41.9% was up 26 basis points, reflecting primarily the success of our e-commerce initiatives. Our buy-online, pick-up-in store program has been available at all doors since mid-June and represented approximately 13% of famous.com orders in the third quarter.

Our total SG&A in the third quarter was 34.1% of revenue or $264 million, including nearly $20 million of expense from Allen Edmonds. Excluding Allen Edmonds, our Brand Portfolio, SG&A expense was up 9.6% year-over-year, primarily reflecting increased investment in our fulfillment program and distribution centers and also an investment in our lead portfolio assets.

At Famous Footwear, as I mentioned, we operated eight more doors year-over-year through back-to-school resulting in 11 basis point increase in SG&A expense as a percent of sales. We anticipate expense leverage in the fourth quarter as we ended the third quarter with nine fewer doors year-over-year and expect to close more than 20 additional doors by year-end.

Our consolidated operating earnings of $52.9 million were down 4.7% year-over-year primarily due to the higher expenses we discussed earlier.

I do want to point out that Famous Footwear delivered operating margin of 7.1%, up 14 basis points year-over-year. Our depreciation and amortization was $16 million in the third quarter, up 15%. This year-over-year increase includes, among other items, the addition of Allen Edmonds and its retail doors, the Lebanon distribution center modernization and expansion, and the operation of additional doors of Famous Footwear through the back-to-school timeframe.

Our net interest expense for the second quarter was $4 million, up nearly 30% year-over-year reflecting the borrowings against our revolving credit facility to finance the acquisition of Allen Edmonds in December of 2016. Our consolidated corporate tax rate was 29.6% in the third quarter, and 30.6% year-to-date versus 33.6% and 32.3% in the same periods a year ago.

Capital expenditures were $11.5 million for the third quarter. For the first nine months of the year, capital expenditures of $38.9 million were down $9.8 million year-over-year.

Now turning to our balance sheet highlights. We ended the quarter with cash and equivalents of $31.4 million. Our outstanding revolver borrowings at the end of the third quarter were $20 million, down from $110 million at the end of last year. Throughout 2017, we've continued to pay down our revolving credit facility with cash flow from operations, and we expect to completely pay off this amount within 12 months of the Allen Edmonds acquisition.

Our consolidated inventory position at quarter end was $598.4 million, up 14% year-over-year including Allen Edmonds. At Famous Footwear, we ended the quarter with inventory up 1.6% per store on a dollar basis, and up 0.3% per store on a pair basis.

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For Brand Portfolio, inventory was up 10.6% excluding Allen Edmonds and primarily reflecting investments in growth at our Sam Edelman and Naturalizer brands. In our progressively more challenging third quarter, we continue to see improvement in gross margin, generated strong cash flow and maintained our financial flexibility, while continuing to pay down the revolver borrowings related to our Allen Edmonds acquisition.

Before we begin Q&A, I'd like to review our fiscal 2017 guidance, it's consists of consolidated net sales of $2.7 billion to $2.8 billion. Comp 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 70 basis points to 80 basis points reflecting strong improvement through the first nine months of the year. SG&A expenses as a percent of sales up 70 basis points to 80 basis points due in part to higher retail facilities expense at Famous Footwear as we kept more doors open through the back-to-school timeframe. And effective tax rate of between 30% and 32%. And as Diane mentioned, adjusted earnings per diluted shares between $2.10 and $2.20 excluding the $0.13 of acquisition, integration and reorganization costs in the first half of the year related to the Allen Edmonds acquisition.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from the line of Scott Krasik from Buckingham Research Group. Scott, your line is open.

Scott D. Krasik
Analyst, The Buckingham Research Group, Inc.

Q

Hi. Sorry about that, I had the mute on. Hey, guys, how are you?

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

A

Hi, Scott.

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

A

Good, Scott. How are you?

Scott D. Krasik
Analyst, The Buckingham Research Group, Inc.

Q

Good. Thanks. So just first on Famous, can you just parse through exactly what that comp impact, if you break down the $35 million, what the hurricane impact was to Famous?

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

A

Yes. It's probably easiest for me to kind of cover it in total, Scott and then break it down. So, in total for Caleres, we'd say, the hurricane impact was roughly $5 million and a little more than half of that will be attributed to Famous.

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Scott D. Krasik
Analyst, The Buckingham Research Group, Inc.

Q

Okay, okay. That's helpful. And then you alluded to the athletic, fashion athletic category being the biggest driver. We've also now heard about some changes in the fashion, bottoms fashion in particular from various retailers. When do you think VAT starts to affect your results of Famous, and do you view that as incremental or cannibalistic to fashion athletic?

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

A

Well, I'll take a stab at that and Rick can fill in. I think, yeah, we look at our business in the third quarter and again, we've been on this fashion athletic piece for quite a while now, and when we look at our athletic business that includes that in the third quarter. In women's, we were up high-single digits in athletic, men's up low-single and kids' up high single digits. So we really think, we're still hovering through extraordinarily well based on the great decisions that the merchant team is making in the assortment of that product, so we don't see that slowing down at any time soon. I think the space that we see a little more of a slowdown would be on the canvas side. But the fashion athletic, we feel has got a little bit more runway in it. I don't know Rick, how would you characterize it?

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

Yes, I think Diane said it pretty well. I think, there is always things we're looking at on the casual side of the footwear business that is non-athletic to see if there's opportunities there. And there has been a few things that look promising, but nothing that I would say are taking over from that athleisure sports style trend that we've been seeing for the last 12 months, 18 months.

Scott D. Krasik
Analyst, The Buckingham Research Group, Inc.

Q

Okay. And then, Rick you tend to sort of not participate in the extreme boot promotions that go on around Black Friday, and some of these things leading up to Christmas, so maybe is there a change in strategy there? I'm just wondering based on a comment you made on or was that more on the branded side of the Caleres business?

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

A

Well, it's really more on the branded side. I mean, at Famous we have our marketing and promotional plan set for the fourth quarter. They're pretty consistent with our philosophy and the way that we've run our business on for a number of years. If the marketplace changes significantly maybe we have to respond to it, but fundamentally, Scott it's really more about our Brand Portfolio and the impact that we might see from other retailers on our business. Rick?

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

Yeah, I think, Scott, we've pretty much been very consistent on. We read the selling. We have plans of how many you want? How much we want to sell on a weekly basis if we see declining rates of sale, we look at price actions, if we don't, we let the prices roll until the customer tells us, whether or not that price will sell. So, it's been successful for us, merchants work hard at it every week, every day almost, [ph] as we get (20:00) to these kind of times. So I don't think there's anything yet that tells us that it's going to be extremely promotional. I'm sure there are people out there that are still run – in fact I know people who have already run buy one get one free boots in

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some places in October when they thought the business was soft, but we haven't done that and we won't do that this holiday either.

Scott D. Krasik
Analyst, The Buckingham Research Group, Inc.

Q

Got it. Okay. And just Ken, if you say it, I missed it. Did you say what your Brand Portfolio gross margin was ex Allen Edmonds?

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

A

Yeah, we said that it was up...

[indiscernible] (20:31)

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

A

Up 30 basis points.

Scott D. Krasik
Analyst, The Buckingham Research Group, Inc.

Q

Okay. Perfect. All right. Thanks everyone. Good luck. Happy, Thanksgiving.

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

A

Thanks, Scott.

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

Thanks, Scott.

Operator: And our next question is from the line of Laurent Vasilescu from Macquarie.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Thank you. Good afternoon, guys.

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

A

Hey, Laurent.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Hey there. I wanted to ask about Scott's question about the $35 million, based on the comment, does that mean that there was a $30 million impact to the warm weather in October? Is that the way we should understand that comment?

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

A

Well, I would say in the third quarter there was an impact really, the rest of that is really the way we would think about our boot business. Against – again, make sure we're clear, it's against last year right. So against last year, we'd say at Famous Footwear, we would be down about $10 million, in terms of boots, and on the Brand Portfolio about $20 million. We plan to be down at Famous, as I had mentioned around 5% in total for boots, and down about 12% on women's and on the Brand Portfolio down about 12% on women's. So you shake it that all up, Laurent, and you kind of look at what we think the total net impact would be, it'll be somewhere in – about the $15 million range for boots against our plan, and still the $5 million that would be there because of the hurricane impact in our sales.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. That's very helpful. I'm just doing the math right now, but I think you mentioned that the boots were down 20%. Can you remind us how big the boot business was for the third quarter, and possibly for the fourth quarter at Famous?

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

At Famous, it's less than 10% of the fourth – I'm sorry, 10% of the third quarter business, it's about 20% to 25% of the fourth quarter business.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. And then shifting gears to Naturalizer, I think you mentioned there were some – still some progress in that business.

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

A

Yeah.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Can you provide a little bit more color or context, not specifics on spring business for next year, but should we think of that business continuing to be up for the foreseeable future?

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

A

Yes. We feel really terrific about it. I mean, it was up low to mid-single digits in the quarter. And you look at how the market performs according to NPD data, they were saying that their market was down about 2.2%. So, we were on that brand outperforming the market quite nicely. So, we think it has quite a bit of runway and really fully expect to continue to make lots of progress.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

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Okay. Helpful. And then last question, I think last quarter you mentioned traffic was up 3.5%, some context around bricks-and-mortar versus famous.com. Any updates on those metrics for the third quarter?

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

A

We are looking – hold on.

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

A

Yeah. Traffic was down both at brick-and-mortar and famous.com, I think in the third quarter.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. Any context to that?

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

Well, on the dotcom which is, I think, the biggest change that you'll see, part of our strategy was for most of the year has been trying to understand how we can gain some margin back in that business, because it's very expensive for us to run and fulfill. So, we managed through our promotional calendar a little differently in the third quarter, and that's a place where when the customer – when we go promotional, the customers find it and shop it really hard. So, we lost quite a bit of traffic on a couple of handful of days in the third quarter that would have been highly promotional that we didn't repeat this year.

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

A

Yeah. Conversion there was up double-digit and the AURs were up. So, I think we tried to call out in the script a little bit about the margin improvement at Famous. So, despite what we talked about in boots, Rick and team were up 26 basis points in the quarter. And so, I haven't seen many retailers that are communicating increases in their gross margin year-over-year. And that was a strategic shift that the team made as one of their e-com initiatives, and we certainly saw it pay off in additional profitability.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. Thank you and best of luck.

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

A

Thanks.

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

A

Thanks, Laurent.

Operator: And our next question is from the line of Steve Marotta from C.L. King & Associates.

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Steven L. Marotta
Analyst, C.L. King & Associates, Inc.
Q

Good evening, everybody.

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

Hey, Steve.

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

Hi, Steve.

Steven L. Marotta
Analyst, C.L. King & Associates, Inc.
Q

Just to reiterate, I believe you said that the monthly comp sequentially through the third quarter was weaker. So...

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

Yeah.

Steven L. Marotta
Analyst, C.L. King & Associates, Inc.
Q

...August, September to October. Can you give a little bit – I know you don't give monthly comps, but maybe mid-single digit, low-single digit...

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

Sure.

Steven L. Marotta
Analyst, C.L. King & Associates, Inc.
Q

...can you give a little bit of guidance as to what they were?

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

Yeah. Yeah, sure, no problem. Up low-single digits and down slightly September and October.

Steven L. Marotta
Analyst, C.L. King & Associates, Inc.
Q

Okay. And what is November running to-date?

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

It's running in the mid-single digits up.

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Steven L. Marotta
Analyst, C.L. King & Associates, Inc.
Q

Okay. And why did the expectations change for the year from a gross margin and an SG&A standpoint? Ken, I believe you mentioned some improvement in gross margin a little bit better than expected and then more retail facilities open deeper into the year, is both of that accurate or did I get that wrong?

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

Yeah, we had originally had our guidance up around 45 basis points to 55 basis points for margin, and we've been running ahead of that. And so, we went ahead and updated that and left ourselves 10 basis points of room for the promotional nature that could occur. And then we made a conscious decision in the real estate for Famous to go ahead and as we were renegotiating leases, and communicating closings, we were able to go month-to-month on a number of leases, and so we held those doors open through the back-to-school timeframe.

So even in addition to Rick and team being up 0.9% on a comp store basis, they were up 1.1%, 1.2% in total and that's where we got the benefit of holding those stores through back-to-school. So there was additional SG&A expense that was incurred. So we went ahead and updated the SG&A guidance as well.

Steven L. Marotta
Analyst, C.L. King & Associates, Inc.
Q

Great. Last question is on lease renewals year-to-date. Can you talk about if there's been any either: A, material rent relief; or B, shortened lease life in the renewals that have been signed?

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

Yeah, we haven't really seen shortened lease lives. I think you know typically our leases are five years and so as we're going through and renewing the only thing that would be shortened is where we've given notice that we were going to close a store. And we were paying rents that were 17%, 18%, 19% of revenue. And the landlord came back and said, well, would you go month-to-month and we'll do 8% of gross sales or something like that. So the only shortening would be, where we've went from not renewing to our typical five-year term and going to month-to-month. And yes, we have seen a number of landlords that have come back and given us some reductions in order to renew.

Steven L. Marotta
Analyst, C.L. King & Associates, Inc.
Q

Terrific, thank you that's helpful.

Operator: [Operator Instructions] Our next question is from the line of Chris Svezia from Wedbush.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Good afternoon, everyone. Thanks for taking my questions.

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

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Hi Chris.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Hi. I've got a bunch of them. I guess, first when you look at the $35 million weather related, you would have had 10.5% sales growth in the quarter. I'm just curious, can you give any color, Ken, about what that is from an earnings perspective? What you've lost because of this in the quarter?

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

A

Well, and I think, Diane alluded to earlier, when we talk about this what we try to do is quantify the impact year-over-year and what we've added to that conversation is a little bit of what we had planned. So when we look at year-over-year and we look at $0.81 last year and $0.80 this year. When we talk about that boot reduction I mean that's – that's a pure reduction in boot sales year-over-year. When we go talk about what our expectations were in the category then that's what Diane was alluding to around we had plans that in most of the women's categories were down, I think 12%. I think, Rick, all-in was planned down 5%. So when you look at that and we didn't go into the period, believing that we were going to capture that full $35 million in our Q3 results. So I think that's -there is a little bit of a nuance there as to that $35 million is what we believe the year-over-year impact is associated with the weather and the two hurricanes, and then also the unseasonably warm weather's impact on boots.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Your comment about being up mid-single digit comp in November, can you just remind us what it was November, December, January last year for the same?

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

A

We can, and we are looking it up, Chris.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay.

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

A

Last year?

A

Yeah.

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

A

Yeah, November [indiscernible] (30:30)...

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Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Yeah.

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

A

December was up low-to-mid-singles – low singles and then January was down again low singles. So, down, up, down.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Got it. And when you look at – what's going on the Brand Portfolio side of the business, as you've transitioned into November, just given the whole premise of rapid replenishment reacting, have you seen a similar directional improvement in the business?

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

A

Yes, we have. Yeah, pretty much with all of our customers we've seen an improvement in business not necessarily to the mid-single digit increases, but certainly low-to-mid. And I think it's probably worthwhile, Chris, for me to just give a little perspective about the market and what happened in the market in the third quarter. If you look at total footwear according to NPD in Q3, again, I think I mentioned, it was down about 2.2%, boots and booties in that same Q3 time period were down 18.5% which is obviously a significant decline.

Caleres, when I look at our share of market because we've been looking at this trying to really make sure we understood very clearly what had happened in the third quarter, so we could make the appropriate plans and project throughout the rest of the year. We really spot our share in the quarter actually be in flat in total, and our boot business very consistent with how the market responded. So we really think again during this time period, we actually outperformed the market by a couple of percentage points. And it's a quite a bit of the reason why we feel as we're moving into the fourth quarter along with the trend, since the weather changing to much more seasonable weather we think it's going to continue.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

And Diane when you talk about low-to mid-single, are you talking about your organic business excluding Allen Edmonds?

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

A

Yes, yeah.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. All right, that's good to know. And for Famous, the majority of that mid-single digit improvement in November has been driven by the boot business or you're also seeing lifts in other categories?

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

Well, I think we're seeing lifts in everything, but for sure a significant swing in terms of our boot business.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. And the only risk that you see, so when you articulated, you felt a little bit more comfortable to low end of the earnings range that's assuming the environment gets more promotional to move boots throughout the season. Did I capture that correctly?

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

Yes, yes, you did.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. And Famous Footwear in Q4 last year had pretty much flat EBIT margins, they were down 300 basis points. How should we think about that going through this fourth quarter? I assume you're closing these stores, so that's going to certainly be a plus and I think there was some marketing that you did in the fourth quarter last year that you're either pumping on this year or you're doing something different? But just talk about a little bit about how we should think about Famous in EBIT margin for Q4?

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

Yeah. So we're anticipating a significant improvement year-over-year at Famous, just the current run rate both with what they're seeing on the top line, what they're seeing at their gross margin improving year-over-year we think that continues into the fourth quarter. And then with the closing of an additional 20 stores you get a pretty significant reduction in their run rate on SG&A. So we're expecting the performance in Famous to continue third quarter right into fourth quarter.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay.

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.
A

And the [indiscernible] (34:20) mitigated to a degree as well, Chris, there will be – some of the things we did last year weren't as successful as we would like. So we analyzed that and decided to either reposition the money or not spend it.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Understood. Got it. And then just finally, just on Allen Edmunds. Just remind us again the accretion in the fourth quarter last year, I know you had $20-some-odd million in revenue I believe that probably helped a little bit on the margin. Just remind us again what it did to the branded portfolio business last year for revenues and

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margin and maybe where that business is right now? I would assume apples-to-apples the EBIT margin for that business is probably better given some of the things you've done in terms of the integration process, just maybe talk about where that is and how we should about it year-over-year?

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

A

Yes, we got, I think somewhere around $24 million, $25 million of top line in this [ph] up (35:13) period. So we would – and that was roughly half of the quarter. We closed the middle of December. So we would expect that we will be getting every bit of twice that amount in the fourth quarter. The margin that came through in the period, I mean, we basically were going through and we've taken on the $255 million revolver borrowing, and so we had some interest expense. So it didn't really contribute to the bottom line in the fourth quarter last year, nor has it been all that accretive through the first nine months.

And so that's as we've kind of said all along, it's been running about $20 million of expense a quarter. And so we saw a little bit of a tick up in sales in the third quarter over where we had been in the first quarter and second quarter. We would expect that to tick up again in the fourth quarter and a good portion of that drops through and certainly, will be accretive in the fourth quarter and will be accretive for the year. So, we're very pleased with the progress that that team is making; and as Diane mentioned, excited to kind of share some of those initiatives with all of you as we kind of go through close out this year and get into year two.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. All right. Well, thank you very much and Happy Thanksgiving to all.

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

Thanks, Chris.

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

A

Thanks Chris. You, too.

Operator: And our next question is from the line of Sam Poser from Susquehanna.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good afternoon and thanks for taking my question.

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

A

Hi, Sam.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Hi, Diane. What was the – first of all, what was the sales? What was the inventory levels – excuse me, at Famous? I don't know if you mentioned that or not I may have missed it.

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

A

Yeah, I think it was up 1.3%...

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

1.3% and I think on a dollar basis up 0.6% on [ph] the sales basis (37:24)

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

A

[indiscernible] (37:25)

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And so let me follow up on total then, when you look at the total inventory and sort of implied guidance and so on. What is sort of a target turn for the company here? And what kind of forward weeks of supply of inventory should you have both at Famous and then in total?

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

A

Yeah. So, I think, I mean, we've been turning Famous at 2.3, 2.4, 2.5 turns, I think right now with where we set and a little bit of timing in terms of end of third quarter, beginning of fourth quarter, we're very comfortable with our inventory position at Famous.

On the branded side, we're – if you back out the Allen Edmonds business and you just look at our organic business, I think we were up roughly 10%. And so that 10% is something like $15 million or $16 million. I think $6 million or $7 million of that was boot inventory. So the non-boot is inventory that's associated with the growth that's happening at Sam Edelman and at Naturalizer and at Vince, and then the $6 million I think of boot inventory is really just timing of carryover from Q3 that we would anticipate to be sold into Q4.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

All right. And then on a per – inventory per store up down, was it down from last year? And if you could give us what the store opening and closings were in the quarter, because I don't think that was in the press release?

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

A

Yeah. So, Famous on a per store basis on a unit was I think up 0.6% and...

A

[indiscernible] (39:27)

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

A

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0.3%, yes.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And on a dollar basis?

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

A

1.6%.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then how many stores did you open and close in the quarter?

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

A

We opened 12 and we closed 25, but keep in mind that we kept a number open through back-to-school [indiscernible] (40:02)

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

Most of the closings came between end of September and the first of November.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then you're planning on closing an additional 20 in the fourth quarter?

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

That's correct.

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

A

Correct.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And when you look at the overall atmosphere here and what you're doing to drive people in and you didn't change your guidance for the full year, I mean, how much of this pressure do you think is going to happen given your inventory levels to me, it looks slightly higher than they should be, is that sort of why if you get promotional you may have to promote just to keep clean or...?

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.

A

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[indiscernible] (40:48) promote any time now. I think we feel pretty comfortable around the boot business right now. And again, this week or the last 10 days or so have proven that it looks like we might be okay there, but we have a lot of business ahead of us, so that's the big weekends coming up with Cyber Monday and Tuesday or whatever is going to happen next week on a weekly basis. Last year we did get a – we've got some weather right before Christmas, so we did have a jump in our boot business right before Christmas last year, it will depend whether how that all transitions this year Sam. But we look at it all the time, and we haven't – right now our margins in boots are actually pretty good. So we're – but we're looking at it. So we'll go to this weekend, we'll look on Monday, and we make price next week to move more goods.

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

Yeah, and Sam as it relates to the inventory at Brand Portfolio, as Ken had mentioned, it's really in Sam and Naturalizer and Vince and all of those brands right now are, again, got terrific trends, and the boot penetration there is actually fairly light. And in fact, I'd say two of them were actually running out of [ph] some top shelf (41:58) boots that we were surprised, actually surprised about. So it's the remaining other $6 million of boot inventory and other brands that we obviously have to watch out for. And I think we've really accounted for that in our thoughtful guidance for the remainder of the year.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Right. And then I know you don't want to guide – you don't want to talk about 2018, but can we talk about it just as it relates to the 53rd week. And since you guys do a huge back-to-school business, and that first week or that first week of August is going to become the last week of – which was the first week of Q3, this year is going to become the last week of Q2. Can you give us some idea of how many – of it's like from a dollar perspective, what the sales shifts are that will like – forget about what the comp is, just like what was that week third, what are those shift weeks, so we can model correctly because there is going to be a huge variance between comp and sales results when you report Q2, especially Q2 and Q3 because of that huge week that moves? Can you give us...

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

Yes. So...

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

...some color there?

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

Yeah. What we had – we had done is we had provided the color on 2017 in terms of the incremental expense associated with the 53rd week. And as we gave our guidance for 2018 and get into those quarters where we see a material shift from one quarter to another as we go from a 53 week year to a 52 week, we're going to provide that color.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

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It's not really the 53 week to 52 week, I get the extra dollars related to the 53rd week. Really, what it is, is that since everything shifts out a week next year, the first that – one of the biggest weeks of back-to-school is going to move from Q3 into Q2. And that's going to move a lot of dollars. And that's something that has nothing to do with guidance that just has to do with how much are those dollars, whatever the comp is, whatever comp you're expecting is a separate conversation. So can you give us some idea of how...

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

Yeah. I'll tell you that. Right now we're focused on delivering the fourth quarter and the year. I don't know about you Rick, but I haven't looked at week 13...

Richard M. Ausick
Division President, Famous Footwear, Caleres, Inc.
A

[indiscernible] (44:19) bought their shoes yet for back-to-school. So, we know what you're asking Sam. That will come later.

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

Yeah, we will share that information as we get out into 2018 where there is material differences shifting between one quarter to another quarter.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

All right, well, I tried. Thanks very much. Have a very Happy Thanksgiving everybody.

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

Thank you.

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

Thank you. You too Sam.

Operator: And I'm showing that we have no further questions. I turn the call back now to Diane Sullivan.

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

Thank you very much for joining us for our third quarter conference call, and we wish everybody a very Happy Thanksgiving and we look forward to seeing you along the way this next quarter. Take care.

Operator: Ladies and gentlemen, this does conclude the third quarter 2017 Caleres earnings call. You may now disconnect.

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