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Caleres, Inc. (CAL)

Q4 2016 Earnings Call

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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 2016 Caleres' Earnings Conference 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. Ms. Reilly Tharp, the floor is yours.

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

Thank you, Sarah. Good afternoon. I'm Peggy Reilly Tharp, Vice President of Investor Relations for Caleres, and I'd like to thank you for joining us on our fourth quarter 2016 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.

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

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

Good afternoon and thank you very much for joining us today. As always, Ken Hannah, our Chief Financial Officer; and Rick Ausick, our President of Famous Footwear are here with us today and are ready to answer any questions. As you saw in our release we reported fourth quarter adjusted diluted earnings per share of $0.33, an increase of 26.9% over last year. However, there were clearly a lot of moving parts. In addition to the acquisition of Allen Edmonds, we took a deeper look into our Brand Portfolio business and the opportunities available to us. As a result, we made some additional changes to better position our company going forward, and Ken is going to address all of those items in detail during his financial review.

But before that, I think it's important to talk through 2016 from an overall strategic point of view so you can have a complete and thorough perspective before we get into all the puts and takes of our performance, and much of the strategic initiatives that we had going on in 2016 are going to continue into 2017. I'd like to begin by taking a few moments to cover four key areas where we have focused our time, energy and investments, starting with the continued diversification of our portfolio of brands. For a while now, I've been talking to you about the benefits of our diversified portfolio strategy, because for many years investors would ask us why we operated both retail and wholesale segments.

As we wrap up 2016, I think the answer is becoming clearer. Not only is each side of our business contributing equally to our adjusted operating earnings, we're also stronger overall and better able to navigate the new retail landscape together. Thanks to our portfolio strategy, which is fundamentally about strong consumer brands, we have the ability to be more flexible with our resources across our businesses. We continue to strengthen and diversify our portfolio in the fourth quarter with the acquisition of Allen Edmonds in December. This addition to our Brand Portfolio has allowed us to rapidly increase our exposure in men's footwear and it's going to provide our exiting men's brands a benefit of their knowledge and expertise.

Conversely, we expect Allen Edmonds to gain from our brand and product development, raw material sourcing, and design capabilities. And as you all know, Allen Edmonds is a strong brand, [ph] trading (04:08) with a proven business model, and we certainly feel it's well-positioned for growth. In 2016, retail doors made up about 45% of brand sales, while e-commerce was approximately 35%, and wholesale represented roughly 20%. We really think we've acquired one of the great gems in men's footwear. The next key area of investment was all around speed. For our Brand Portfolio, this centered around our speed-to-market initiative. We have made great strides in our efforts to achieve the shortest possible lead times and still deliver consistent quality.

For 2016, our focus was on building our rapid replenishment program, and responding to in season sell-through for existing products. We're now evolving to include design modification where we bring new trends quickly in season by introducing a different material, color or pattern on an existing construction. And we're also adding a fast track program to bring new ideas swiftly to market and to test in small quantities. And both of these efforts are going to continue to help us to be more responsive to consumers. On the Famous Footwear side, our speed initiative is focused around our speed to consumer and includes the expansion and modernization of our Lebanon distribution center. I'm pleased to say this work is complete and the DC is fully operational with performance ahead of plan.

Through this initiative, we have enhanced our operational efficiencies and our shipping flexibility as this DC can also [ph] serve (06:00) and fulfill for our Brand Portfolio. The work we've completed has also enabled us to expand our logistics infrastructure capacity, and prepared us to support ongoing growth in e-commerce sales. Most importantly, this investment allows us to make the omni-channel demands of today and tomorrow, and to provide faster order processing and faster delivery to consumers, with the facility capable of two-day delivery. The final key area we targeted was related to our investments in digital and talent.

For our Brand Portfolio we took proactive steps as part of our restructuring to align our resources against our strategic initiatives. These actions allowed us to dedicate resources within the Brand Portfolio to focus on fee to market. This effort is expected to help us drive consistently across all of our brands and lead to more accurate buys, higher order fulfillment and fewer inventory markdowns. We also took this opportunity to centralize our Brand Portfolio marketing efforts, create a new digital team and realign our international strategy and resources to better position Naturalizer, Allen Edmonds and Sam Edelman for global growth.

On the Famous Footwear side, we made the decision to fortify our leadership team, and added a new position of Chief Merchandising Officer in early 2017, bringing even more strength to an already capable team. Going forward, this role will help us to take a more strategic approach in our stores and online and drive growth amidst this challenging and changing retail landscape. At the same time, we added an SVP of e-commerce to help us to continue to provide a consistent experience, and to capitalize on our expanding digital presence and growing e-commerce sales.

Since 2013, we've invested approximately $15 million into our digital efforts, and we've seen a correlated increase in famous.com sales, up more than 50% last year. In 2016, we took full advantage of our expanded ship-from-store program, and also introduced a redesigned mobile e-commerce site. Both of these efforts have helped to drive growth at famous.com with improvements in traffic and conversion. And even with all of these investments in our business, we maintained our flexible balance sheet and our cash flow strength in 2016. We ended the year with cash from operations up 23.1% over 2015. We reduced the borrowings against our revolving credit facility to $110 million, using cash on hand to pay down a significant portion following our $255 million acquisition of Allen Edmonds.

And excluding Allen Edmonds, we reduced our overall inventory position by 2.3%. Throughout 2016 we maintained our consistent focus on managing the areas under our control, while continuing to rapidly respond to changing consumer shopping behaviors. And while we are confident about the long-term outlook for our diversified portfolio, we are taking a cautious view of the near-term as we expect to see continued pressure in retail based on the current environment. However, we believe the foundational work completed over the past few years has made us more agile and capable of reacting to the more rapid pace of change.

I can't thank our teams enough for their outstanding work and the energy with which they are tackling our opportunities. So no matter what changes are in store for retail in 2017 and beyond, we will as always remain forward looking and proactively manage outcomes to deliver overall shareholder value.

And with that, I'd like to turn the call over to Ken to give you a review of our financial performance.

Kenneth H. Hannah

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

Thank you, Diane, and good afternoon, everyone. As Diane mentioned, our fourth quarter results had a number of moving parts related to the acquisition of Allen Edmonds and some other actions. I'd like to start by taking a moment to walk you through each of these non-recurring items. First, we recorded $0.29 associated with the acquisition and integration of Allen Edmonds, and for the reorganization of our men's brands, including the impairment of our investment in Jack Erwin. Second, we recorded $0.08 for the restructuring of our Brand Portfolio as we took proactive steps to realign and reallocate our resources against our top strategic initiatives. Third, we recorded $0.12 for an impairment related to the shoes.com announcement late in the fourth quarter of 2016, that they would be seizing operations. This amount is for the book value of our convertible note related to our 2014 sale of shoes.com, and for a small amount of accounts receivable for recent product sales.

As a result of these proactive, strategic and non-recurring decisions, we reported the net loss per share of $0.16 in the fourth quarter. The adjusted earnings per share, excluding these non-GAAP charges was $0.33, up 26.9%

over the same period a year ago. For the full year, adjusted diluted earnings per share of $2 came in at the lower end of our guidance range, and was flat to last year's adjusted earnings per share. Consolidated sales for the fourth quarter of $639.5 million were up 5.1%, with e-commerce representing 16% of total sales. For the full year, consolidated sales of $2,579.4 million were essentially flat versus 2015. At Famous Footwear, fourth quarter sales of $367.5 million were up 1.9% over 2015 as we operated nine more stores year-over-year, while same-store sales were up 0.3%. Famous.com sales increased nearly 40% to comprise 8.2% of total Famous Footwear fourth quarter sales.

For the full year, total sales at Famous of $1,590.1 million were up 1.1%, while same-store sales for the year were up 0.6%. Throughout 2016, we delivered steady performance at Famous Footwear, despite the overall promotional environment and shifting consumer demand patterns of retail. Lifestyle athletic product continued to resonate with consumers, and our top vendors maintained their strong performance. For our Brand Portfolio, fourth quarter sales of $272 million were up 9.6% versus the prior year, and included approximately six weeks of contribution from Allen Edmonds, which was acquired in December of 2016.

E-commerce sales including our branded dotcom, drop-ship and pure-play dotcom sales increased nearly 90% to approximately 27% of total Brand Portfolio sales in the fourth quarter. For the full year, Brand Portfolio sales of $989.3 million were down 1.5% year-over-year, reflecting a significant and planned shift away from the mass channel throughout 2016, and an industry wide overall reduction in initial orders. The team performed well despite continued retailer caution in the rapid pace of retail change, and delivered exciting designs and fresh product throughout the year.

Let's turn to gross profit, which came in at $260.9 million in the fourth quarter. Gross margin, adjusted for $2.8 million of costs associated with the acquisition of Allen Edmonds, and the restructuring of the Brand Portfolio improved 48 basis points to 41.2% in the fourth quarter. For the full year, consolidated gross profit was $1,062 million. Consolidated gross margin was up on both the reported and adjusted basis, with year-over-year improvement of 52 basis points and 63 basis points, respectively. Brand Portfolio drove strong contributions to gross margin in 2016, including the fourth quarter, and delivered more than 260 basis points of improvement for the year on an adjusted basis. Throughout 2016, the team de-emphasized low margin businesses, target overall improvement and supply chain productivity, and continued to effectively manage their inventory.

For Famous Footwear, gross margin was down for both the quarter and the year, reflecting product mix shift and sales growth at famous.com. Throughout 2016 we saw lower margin sandals outperform boots, and a continued shift within the boot category from tall shaft boots to booties, combined with continued strong e-commerce sales. Our SG&A expense for the fourth quarter of 2016 was up 5.1% year-over-year due to the addition of Allen Edmonds, and as we operated nine more doors at Famous Footwear versus 2015. Despite these increases, we maintained our SG&A expense rate at 38% of sales in the fourth quarter. Depreciation and amortization of $15.7 million up 20% over 2015 due in part to our acquisition of Allen Edmonds and our Lebanon distribution center expansion beginning to ramp.

For the full year, depreciation and amortization of $56.1 million was up 9% versus the prior year. Net interest expense for the fourth quarter was $4.1 million, this was up from $3.5 million in the fourth quarter of last year, as we borrowed against our revolving credit facility to finance the acquisition of Allen Edmonds in December. For the full year, net interest expense was $13.7 million. Our consolidated tax rate for fiscal 2016 was 32% on a GAAP basis, and 29.5% on an adjusted basis. Our capital expenditures were $10.9 million for the fourth quarter, and $59.6 million for the full year, reflecting the investments in our consumer fulfillment initiative and new retail stores.

Now, turning to the balance sheet. We ended the year with cash and equivalents of $55.3 million. And as Diane mentioned when we acquired Allen Edmonds for $255 million in December, we borrowed against our revolving credit facility to finance the acquisition, but plans to use cash from operations to pay down the revolver. At the end of fiscal 2016, we had a $110 million of borrowings remaining against our revolving credit facility, and we fully expect to pay down this amount within one year of the acquisition. Our consolidated inventory position at the end of the year was $585.8 million. Excluding Allen Edmonds, inventory was down 2.3% year-over-year. For our Brand Portfolio, inventory was up 1.8% to support spring orders, and at Famous Footwear we ended the year with inventory down 5.1% per store on a dollar basis.

We're very pleased with our fourth quarter performance, as we delivered solid adjusted earnings per share improvements of 26.9%, despite a highly promotional and challenging retail environment. Throughout 2016, we continued investing in our business, delivered strong cash from operations of $183.6 million, and maintained the strength and flexibility of our balance sheet, even as we acquired Allen Edmonds. So we'll fully begin Q&A. I'd like to quickly review fiscal 2017 guidance that we presented in our earnings release. Our consolidated net sales of $2.7 billion to $2.8 billion. Our same-store sales at Famous Footwear up low single-digits. Net sales for the Brand Portfolio segment up in the high teens including Allen Edmonds. Our gross margin is expected to be up 45 basis points to 55 basis points.

Our SG&A expense as a percent of sales is expected to be up 30 basis points to 40 basis points. An effective tax rate of between 31% and 33%, and adjusted earnings per diluted share between $2.10 and $2.20 excluding approximately $0.06 of inventory adjustment amortization in the first half of the year related to the Allen Edmonds acquisition. This guidance includes the closing of 70 Famous Footwear stores and the opening of 40 new doors as part of our normal lease renewal process. The closing of 11 Naturalizer stores, and the opening of four new locations. The opening of 10 new stores for Allen Edmonds and one new store for Sam Edelman. Depreciation and amortization of approximately $60 million, and capital expenditures of approximately $55 million. And we do want to remind everyone that there's an additional $12 million of operating expense related to 2017, having a 53rd week. Additionally, we expect our 2017 earnings to be weighted more heavily to the back-half due to a continued shift in the seasonality of our Brand Portfolio shipments and as the benefits from our investment in Allen Edmonds and our Lebanon distribution center will build incrementally as the year progresses.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Jeff Stein of Northcoast Research.

Jeffrey Stein
Analyst, Northcoast Research Partners LLC

Q

Good morning, guys and Diane. Question first of all on your SG&A expense at Famous Footwear division. It looks like it was up very significantly in the fourth quarter, and maybe we could start by talking about what caused that.

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

A

Yeah, Jeff. This is Ken. So I think we were operating nine more doors in the fourth quarter of 2016 versus 2015. And then there was also, we had some media spend that we went ahead and spent in the fourth quarter that was roughly about $3 million.

Jeffrey Stein
Analyst, Northcoast Research Partners LLC

Q

Okay. But Ken, if we look at the – so your adjusted gross profit was down, let's call it $2.5 million, but your operating profit was down about $11 million. So I guess, I'm trying to reconcile where most of it came from, so you got $3 million from additional media spends, how much was the nine additional doors?

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

A

Well, it would have been another $3 million.

Jeffrey Stein
Analyst, Northcoast Research Partners LLC

Q

Okay. So there is probably another $3 million or so. All right. We can talk about that offline. Just kind of a higher level question, which is, we're beginning to see a significant contraction in the number of retail doors out there, just be it retail bankruptcies and big box retailers downsizing. So the question is, as we look ahead, and I'm referencing the Brand Portfolio group, how do you grow the top line organically on a go forward basis?

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

A

Well. Hi Jeff, it's Diane. How are you?

Jeffrey Stein
Analyst, Northcoast Research Partners LLC

Q

Good.

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

A

We still think there is tremendous opportunity for the Brand Portfolio going forward, and that while the traditional retail doors are in some cases shrinking to your point, the choices that the consumer has in terms of where they go and how they buy with, whether it's online into all different types of sites, that we think that that's still an opportunity for us. And right now, we have – probably around 20% of all of our sales in the Brand Portfolio right now were through e-commerce sites, whether it's through drop-ship or directly through their site. So we think there is still numerous opportunities for growth for us. And then if you look at within the Brand Portfolio, there are brands that are really continuing to grow nicely, and we think there is a lot of runway, whether it's the new Allen Edmonds that we added, Sam Edelman, whether it's Vince, we're starting to make progress on Naturalizer and turn that around. So we think there is plenty of pockets of opportunity for organic growth within our company.

Jeffrey Stein
Analyst, Northcoast Research Partners LLC

Q

With the growth in your online penetration, wouldn't that put some additional pressure on your gross margin? I noticed you are kind of guiding to higher gross margins for the year. So I'm wondering, where the gross margin improvement comes from, and is part of that expected benefit offset by the higher shipping charges that you're likely to see from the improved penetration [indiscernible] (25:31).

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

A

Yeah, I think what you're saying is absolutely right. We still will have opportunities for margin expansion through all of our supply chain initiatives, all the work around speed that we're doing, and how much quickly we can get into better selling goods, we think that's ultimately going to help us both on the margin side and the top line. So again, I think, yeah, there's always bits of puts and takes here and there, Jeff. But you look at it all in we still think there is opportunity for margin growth in Brand Portfolio.

Jeffrey Stein
Analyst, Northcoast Research Partners LLC

Q

Okay. Great. Thank you very much.

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

A

Yeah.

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

A

Thanks, Jeff.

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

Jay Sole
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. Diane, maybe if we could walk through the Brand Portfolio, it sounds like there is decisions made to maybe deemphasize some brands that was part of the $0.08 charge. And then at the same time, I don't know if you gave a number for the Healthy Living segment sales and the Contemporary Fashion segment sales, but if we get those numbers that would be great as well.

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

A

Sure. Actually Jay, in terms of taking a look at the restructuring and how we realign some resources wasn't really about any specific brands. It was really about how do we make sure we've got the resources and the right pockets to drive our strategic initiatives around speed and speed to market, and the growth in digital and all the e-commerce businesses that we were seeing. So our first step in all of that was really about driving more consistency in our processes across our entire supply chain, and in our Brand Portfolio. So we created something called an integrated planning team, that is all their job is, is to basically look at consumer and demand, and try to forecast better and work with the brand teams in terms of how we're going to take advantage of things that are selling well in the businesses. So there was a lot around this integrated planning and sales planning piece of it. That was one.

We also decided that there were opportunities to bring together more of our marketing and digital teams. We thought that, that was going to be a better use of resources. We had still a fairly traditional split in some of that, and it was time to pull out all together. And we brought leadership over actually for Famous Footwear to lead our branded digital efforts. So that was another piece of what we did. And with some of that, some people left on all of these, and others got moved around. And then lastly, as we were thinking about the opportunity for our international growth for the future, we saw really an opportunity, while we've been doing all right with Naturalizers, we think that there is even more opportunity with Sam and with Allen Edmonds because of the fact they have their own retail stores that we really believe are going to be critical to growing internationally. So there was a bit of realignment around that.

So that's just a little bit of color around sort of our thoughts around the brands and the restructuring. So it wasn't about anyone in particular. And then as it relates to Contemporary Fashion versus Healthy Living for the fourth quarter, the good news is that actually, they were both about flat in the fourth quarter, and with actually a nice improvement on our Healthy Living businesses, which we had sort of been down trending a bit there in the first three quarters. So some nice turnarounds there. And our Contemporary Fashion business was up a little, but basically flat in the fourth quarter that is. And then as you look at the full year, it was up in mid single-digits.

Jay Sole
Analyst, Morgan Stanley & Co. LLC

Q

So is it accurate to say that in the guidance for fiscal 2017 there's no new planned reductions in the wholesale portfolio, like we saw last year?

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

A

No. No planned reductions. No, we would really think about our 2017 plan as we really be thinking about our Brand Portfolio non-Allen Edmonds in the low to mid single-digits, that kind of growth.

Jay Sole
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And maybe I'll ask one more. Just thinking about that 8% EBIT margin long-term target that you put out there, in light of the environment that you're seeing out there in retail, has that changed your 8% EBIT margin target, and what's the timing right as it stands today that you feel like the company can get there?

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

A

Yeah. It's a good question Jay, and if I told you that we knew the exact answer to that I wouldn't be saying it, telling you straight. I think we are wondering exactly how long that's going to take, and whether that's the best measure of success for us, that we think there is a tremendous opportunity here to continue to show meaningful improvement in our earnings growth and the market share. We think we talked about it a lot on this call, about our balance sheet and cash from operations. We think that's going to be a very, very important part of what we want to focused on going forward, because we still believe that acquisition is going to be a very, very important part of our overall strategy for the future and to grow. So we want to make sure that our cash generation is outstanding, and that we frankly take the sort of a deep breath in 2017, and basically really optimize and take advantage of the investments that we've made up to this point in time and really do that. So that would be, I guess, the best way that I could answer the question at the moment.

Jay Sole
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thanks, Diane.

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

A

Yeah.

Operator: Your next question comes from Scott Krasik with Buckingham Research.

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

Q

Hi, everyone. Thanks.

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

A

Hi, Scott.

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

Q

Bunch of questions. So first, what were Allen Edmonds sales in the fourth quarter?

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

A

Yeah. We're not going to be breaking out the individual brand information.

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

Q

Okay. Well, so then maybe can you talk about what you're expecting for accretion or dilution from the Allen Edmonds brand in 2017?

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

A

Yeah. We're just expecting modest accretion. So there was no meaningful impact in the fourth quarter. And then as we ramp throughout the year, and we start to get the benefit of the synergies that have been identified, we do have modest accretion built into our numbers for 2017.

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

Scott, maybe to help it, the brand is not as big as Naturalizer and Sam, but bigger than Franco Sarto and Scholl's. That gives you just a frame of reference. And their sales skew very much to the back half of the year.

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

So the only problem here that's going to be really difficult to understand how the brand is actually growing, if we don't know what Allen, the rest of the brands are growing, if we don't know what Allen Edmonds is doing [indiscernible] (32:59) really that gives investors pause maybe?

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

Well, Scott, we've never actually divulged any individual brand sales.

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

Okay. You gave $12 million in operating expenses for the extra week. Can you say what the sales level is for that week?

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

It varies.

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

It ends up not being much of a meaningful contribution for earnings. If you take our normal rate...

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

This sort of a normal week from sales, but low margin?

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

It's like $25 million roughly top line.

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

Okay. That's helpful. Thank you. And then, just a question on the fourth quarter. It seems like you came up a little bit short on maybe the Contemporary brands. I'm wondering, if that came about because of cancellations or missing wholesales, or sales you expected to materialize in January didn't happen?

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

No. I don't think it was really any of those things. If anything Scott, most of our brands came in very much about, very close to what we had expected. I think, the one part might have been more in the value channel and special makeups. That got a little tight as the quarter went on. That would be really the only area. So it was [indiscernible] (34:35) very profitable sales.

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

Okay. Then just two more. What is your expectation for interest expense, just given the higher debt and timing on debt pay down this year?

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

Hold on, let me get it for you. We'll be paying the remaining [ph] $110 million (35:04) down. So it's not up a whole lot year-over-year. It's roughly $17 million.

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

Okay. Perfect. And then, just lastly, you guided Famous Footwear comps of low single-digits for the year has obviously well documented challenges at retail given delays in tax refunds and obviously the weather, et cetera. So just wondering, in terms of getting started, I don't know if you want to tell us what the comps are quarter-to-date and what you expect them to be make it up for the first quarter, but it seems like you may be below that for the first quarter. So just wondering, where you expect to make up the difference. Thanks.

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

Scott, it's Rick. We're not going to talk about current to-date, because we've had about three things happened that I don't know exactly how to factor with. We had about 200 stores closed down in last two days up in Northeast. We had the tax shift, all those kind of things, and Easter shifted. So it's a very big moving target. Our expectation is that we will be a low single-digit increase for the first quarter. We were basically on plan on that number, until the weather pattern hit at the end of last week and into this weekend and yesterday and the day before. So we feel like that tells us we're right to be believe that. I think we have to wait and get through the cold of this week and then the shift of Easters, and we'll know more in the second week of April, but we feel pretty [ph] confident (36:46) that we're close to that.

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

That's helpful. Thanks Rick so much and good luck, everyone.

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

You're welcome.

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

Thanks, Scott.

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

A

Thanks, Scott.

Operator: Your next question comes from Steve Marotta with C.L. King & Associates.

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

Q

Good evening, everyone.

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

A

Hey, Steve.

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

Q

Ken, just to rephrase what you just said, the 53rd week [indiscernible] (37:06) is not meaningful to EPS in the current fiscal year. Correct?

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

A

Correct.

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

Q

Okay. Could you talk a little bit about puts and takes on the quarterly basis for the year? I know you don't guide it a quarter. But if there is any shifts in marketing spend or discretionary spend or anomalies that don't include weather patterns that have already happened, is there anything to look out for the current year on a quarter-to-quarter basis?

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

A

Yeah. I mean, I think the big thing is, the Brand Portfolio contribution to earnings has continued to increase over the last couple of years. And so that naturally shifts some profitability to the back half. With the acquisition of Allen Edmonds, they do a big chunk of their earnings in the third and fourth quarters. And so that at contribution is going to shift. I don't think – our third quarter contribution is not changing all that much, it's really coming out of the first quarter, and kind of into the fourth quarter, is kind of the biggest shift.

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

Q

Okay. That's helpful.

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

A

[indiscernible] (38:19), I mean, I think that's why if you look at this year without anything really abnormal, and that's why we wanted to make sure we communicated our adjusted fourth quarter earnings when we talk about that being up over 20%. That's getting to a level that, we expect that fourth quarter to be an even bigger contribution in 2017 when you add in the amount of business that Allen Edmonds does around the holiday season. So from the back-to-school, all the way through to Black Friday, and through the Christmas holiday season, it's also when they run their big anniversary sale or their America sale.

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

A

Rediscover America.

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

A

Rediscover America Sale. So there's a big waiting there from an earnings standpoint.

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

Q

Okay. And the $17 million in interest considering they're going to pay, when do you expect to materially pay it down? And so I'm assuming that's going to be first half weighted as well.

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

A

Yeah, well remember, it's like $12.5 million or $13 million or so of that is associated with the $200 million of notes. So the variable rate on the revolver itself is pretty low sub 3%. So we will pay that down over the course of the year. And you should expect the [ph] $110 million (39:48) balance that we had end of the year will continue to come down throughout the year as we generate cash from operations.

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

Q

Okay. Lastly Diane, when you look out to the coming year and even two years, where do you see the most amount of white space? What gets you most excited if we look back on fiscal 2017 and it turns out that your initial guidance proved conservative, where do you think that is likely to come from?

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

A

That's a great question, Steve. I would say, that I don't know that it's from any particular sort of a brand or product category. I mean, the ones that have been hot continued to be. So sport is still strong, and right now we see a lot of consumer interest in backless footwear and [ph] seasonless (40:45) footwear. But frankly, I think our growth is going to come from the strategic initiatives that we've been putting in place over the last couple of years. So the works that we have done around our speed-to-market initiative, as we get that going and that really gets ramped up, our ability to respond to those changing consumer preferences, I really think is going to put us in a very, very competitive position.

And the consumer is going to come back many times to our brands, because of our ability to be able to do that. So I think, it's really around the speed piece of it. And then I think our ability to fulfill through all different vehicles, whether it's our drop-ship programs at the distribution facility that we just made that significant investment in, and the work that Rick and the teams have been doing on making sure that, that customer can shop anyway that she wants for Famous Footwear. So for me it's more going to be enabled through the strategic initiatives that we've put in place. That's where I think the growth is going to come from.

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

Q

That's very helpful. Actually can I have one more just to reiterate, when you talked about the Brand Portfolio and what it did in sales in the fourth quarter, did you say that e-commerce was up 90% and that it comprised 27% of sales, I'm assuming that that's also the wholesale dotcom not your direct dotcom?

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

A

Yes. That's correct.

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

Q

Both of those are accurate.

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

A

Yeah. It was 90%, and it's all the dotcom pure-play, drop-ship and then our own dotcom sites.

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

Q

That's very helpful. Thank you very much.

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

A

Thanks, Steve.

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

A

Thanks, Steve.

Operator: And there are no further questions on the telephone at this time.

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

Well, thank you everyone for joining us this afternoon. And we look forward to our follow up calls with everyone, and seeing you along the way this quarter. Thanks so much.

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