13-Sep-2016

Caleres, Inc. (CAL)

C.L. King Best Ideas Conference

CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

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

MANAGEMENT DISCUSSION SECTION

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

Good morning, everybody. My name is Steve Marotta. I'm the consumer soft goods analyst at C.L. King. I follow Caleres, which happens to be a buy-rated name. We're very pleased to have the CFO, Ken Hannah, as well as Director of Investor Relations, Peggy Reilly Tharp, joining us this morning. Welcome, Ken.

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

Thank you, Steve. Glad to be here.

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

We're going to do this in a fireside chat type of format. So, we're going to open it up to questions on the floor. But I will ask Ken, maybe you want to give a little two-minute elevator speech, talk a little bit about Caleres, what you do, where you are, where you want to go.

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

Sure.

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

Yeah.

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

So, we're a $2.6 billion footwear company, formally known as Brown Shoe. So, we rebranded the company last year to Caleres. And really go to market under two different segments. We have a retail business, Famous Footwear, that has a little over 1,100 retail stores, where we sell Nike, Converse, Vans, and products like that, as well as our own products. And then we have a branded business, which is primarily a wholesale business, where we're selling our house brands into a number of wholesalers. We also have our own dot-com sites for that. So, we do go direct to consumer as well.

So, the company has been around 138 years, has been on the stock exchange for over 100 years. And we're headquartered in St. Louis, Missouri, then we do have – our branded business is headquartered here in New York City.

QUESTION AND ANSWER SECTION

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

Q

Excellent. So, I'm just going to ask the one question that's on everybody's mind, and I think I even [ph] don't (1:49) know the answer to it. Given the Hanjin bankruptcy and what is going on with the ships that are currently at sea, can you talk a little bit about your sourcing, your exposure there, and if there are any issues either with brands that you own or maybe from a Famous Footwear standpoint, some products that might still be on the boats?

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

A

Yeah. So, we don't have any direct shipping relationships with Hanjin. So, we do have a few of our carriers that have some indirect relationships, so we've got a handful of containers that are caught up in that. We don't expect that to have a material impact on our financials and we're going back and talking to our big suppliers on the Famous business to make sure that they're not going to be impacted as well. But, I think, from an inventory standpoint, we've got plenty of inventory to be able to sell the shoes that we need to sell in the period.

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

Q

And in the discussions that you've had with the suppliers for Famous, there has not been any issues that have manifested?

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

A

No. I'm not aware of anything that would have a material impact.

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

Q

Cool. First of all, I'd like to congratulate you on the second quarter.

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

A

Thank you.

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

Q

That was quite good. I like to congratulate you even more on the third quarter comps to-date, which were reported on the call at up 2.5%. Our channel checks have shown actually that that's accelerated a little bit, and might be cat out of the bag but that's okay. And since then, and that Famous is performing very, very well during the back-to-school season, can you comment a little bit on what Famous is doing right versus what everyone else is doing because there have been others, which haven't reported such strong result for the August period in particular.

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

A

Yeah. Sure. Sure. So, I think when we announced our second quarter results, we were running, I think, 1% season to-date, which took into consideration, the July weeks and into August, and had continued to see a shift of business coming closer really to the back-to-school dates and accelerate...

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

Q

Excuse me, I want to interrupt you one second. My estimate was 2.5% for August, that was disassembled on what you said on the call with comps accelerating each month in October – in August. And that – and of course, the 1% does include the tail end of July. So, I wanted to make sure everyone's clear, you didn't say 2.5% on the call. That was [ph] my... (4:14)

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

A

Yeah. No. 2.5% was the August-to-date.

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

Q

Okay.

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

A

And I think it's relevant in that as the retail calendar continues to shift, we've seen some swings. So, we'll have a positive month and then a negative month, and then a positive month. And so we closed out the second quarter and the business, we thought, was pretty soft. And on a comp basis, in the last couple weeks of July, were pretty tough. And then as we reported, we were – about two-thirds of our consumers were back-to-school and we had – we were running about 2.5% at that point in time and had seen some acceleration.

And so as the rest of the other one-third with back-to-school, we saw similar trends. And so, we were very pleased with the back-to-school season overall. The lifestyle athletic product continues to be very strong. Anything sport-related right now is strong. Skate business has been soft, and so we had planned that business down and brought some more retro product in. And so I think Rick and the team have done a great job at Famous, making sure that they stay relevant and stay on trend. And clearly, our Nike business, our Converse business have been very good. And we continue to get great product from those suppliers. And I think it's proof if you have good product and a good experience, consumers will find you and will buy what you have to offer.

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

Have you done anything during this particular season that was a little more proactive on the digital marketing side, either pushing coupons to app users, to your rewards customers in order to drive traffic into the stores? That was different until last year.

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

I think the big thing is we've shifted almost 100% of our spend to digital, and so not a lot of national media. And so we are trying to talk directly to our consumers. Last October at our Investor Day, we laid out our plans for this high value consumer that Rick and the team we're targeting specifically at Famous. And we're early in that process in talking directly to that consumer. But, all the results that we've seen are, we do get a larger share of their wallet. And so, we want to make sure we're communicating directly with them and inviting them in.

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

Have you tested any new programs, specifically with the app, recently that might be rolled into something, say, for holiday or is there anything else that's really new from – more specifically – I know the 100% of your spend is now digital, but specifically, are there targeted traffic drivers that are currently being tested that could roll out?

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

Yeah. Nothing specific. I mean, we continue to upgrade the platform, continue to bring in more data analysts so that we're able to go in and really get a read and the ability to react to what we're seeing. And so, I think that's probably the biggest thing. We have upgraded the platform. Feedback has been very positive, and we're excited about continuing to enhance that. Our dot-com business has been up handsomely. And so, we continue to see nice strides there.

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

As you look into spring of 2017 from a product standpoint, how do you see the mix evolving? And what will keep you current and what will keep traffic [ph] driven in (8:02) the stores?

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

Well, I think, we continue to see canvas, particularly Converse, continues to be strong. We've got a great relationship with Nike. We continue to get better product from them. And our AURs in store have been up, I think you may have noticed at the end of the quarter, inventory was up. It was not really up on a pairs basis, it was up on a cost basis and a lot of that was we really bought heavily into the lifestyle athletic, the Nike product, the Converse product. And so, we see that continuing into spring. And so, anything that has a sport influence is selling very well both on the retail business with Famous and then same thing on the branded business, big shift in trend to sport-related product.

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

And that's interesting too because tall shaft boots, of course, are not trending so well during this particular season. They tend to be higher AURs. Do you think that that AUR trend will continue through the balance of the year as well as next year?

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

A

Yeah. The tall shaft boot business, it's not a huge percentage of the Famous business. And so, we saw last year a shift out of tall shaft boots into booties. And we've been able to get really good AURs on the booties but I think it has a much bigger influence on the branded business. And it really does at Famous. Famous is still predominantly a sport-related business in the lifestyle athletic business. This is a bigger piece.

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

Q

What keeps you up at night regarding Famous Footwear?

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

A

I think just continuing to look at the brick-and-mortar footprints and making sure that we're proactive on making sure we're addressing stores, and we've continued to open stores. We'll open approximately 50 stores this year. And then, those that where we have leases coming due and we don't believe the market is going to be strong enough there to support [indiscernible] (10:13), we're being proactive and exiting some of those markets.

So, I think the dot-com business, while it's been very successful, it's still roughly 10% of the business. So, if you're just looking at growth, you'd say why don't you just go 100% dot-com. If you're looking at your sales, you say, well, because there's $1.5 billion of sales coming from brick-and-mortar.

And so, we continue to watch those behaviors, and the team has been able to fulfill from the stores. So, we're – you can go online, buy a product, we'll ship that product to you directly from the store. So, it allows us to put the inventory in the stores where the consumers are and not have to keep it all in our warehousing and distribution systems.

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

Q

Could there be a store rationalization plan dissimilar from what we've seen from other retailers recently like the Macy's of the world where you take a certain percentage of your store base that might be underperforming, endeavor to close those stores and migrate as much as you can online?

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

A

Well, I think we're doing that as part of our natural review process with Famous. And the real estate team, when we have our strategy meetings, we're looking at all those stores that have leases coming due, trying to project out what the expected cash flows are going to be for those stores. And we've been closing 40 to 50 stores, the last couple of years. So, I think we've been continuing to do that. We haven't seen a precipitous drop off to where there is an abnormal increase in the number of stores that we would be looking at. So, we do that as a normal course of our process and we'll continue to do so.

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

Okay. I know you do not guide quarterly, but you could drive a truck through some of the estimates for the third quarter. Can you talk a little bit about how you feel about the comparison against last year, where the puts and takes are, where the Street might be a little bit off?

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

Yeah. We've seen that throughout the year. I think when we initially guided our $2 to $2.10, I think everyone kind of came in with their annual estimate, and then, rolled that back across the four quarters evenly. And I think there was an element of the guidance that either we didn't do a very good job communicating or was misunderstood and that was the tax rate. So, second quarter was – we had a $0.04 benefit in the tax rate and it didn't appear that all of the Street estimate had taken that into consideration. So...

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

Q2 of year ago?

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

Q2 of a year ago.

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

Right.

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

Yeah. So, we – our tax rate, we had some discrete items a year ago with our ability to utilize some NOLs. And we had a rate that was in the 26% range and our guidance on tax rate this was 30% to 32%. And we were just below 32% in the second quarter. So, we had another $0.03 pickup last year in tax rate that will not repeat this year.

So, we delivered $0.80 a year ago, so $0.77 excluding the tax benefit. And so, – I think, third quarter isn't expected to be all that different in terms of our year-over-year comparisons than what we saw in the first two quarters. And then we do have a little bit bigger fourth quarter this year with the branded business, and particularly Contemporary Fashion continuing to grow. We've weathered three quarters now of an exit on – at Walmart with some Dr. Scholl's business. And so that business starts to rebound back in the fourth quarter as we put some new product in there. So, I think this year has got a little bit larger fourth quarter than prior years. And the first three quarters have been pretty similar.

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

Are there any material shifts in SG&A spend from either second quarter to third quarter or third quarter to fourth quarter or back and forth?

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

A

Not so much. Not so much in terms of shifts.

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

Q

[ph] I think mostly of the timing. (14:30)

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

A

I think it's mostly the tax rate.

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

Q

Okay. Any questions from anybody?

Q

How much of the branded business goes through your stores [ph] roughly? (14:42)

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

A

It's roughly 10%. 10% to 12%.

Q

And how [inaudible] (14:48) the branded business, ex the Walmart situation, [ph] is up (14:52) this year?

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

A

See, the Contemporary Fashion business was up around 4%. So, yeah, we've guided the whole segment up flat to low single-digits. And the Healthy Living businesses have been down. The Contemporary Fashion businesses have been up.

Q

Which business has the better return on investment? Which has the better capital [inaudible] (15:22)?

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

A

Well, the branded business in – I mean, there is no brick-and-mortar investment, and so it's just inventory, which we've continued to manage very well. And then we've got some good improvements. Our margin was up in the branded business some 85 basis points last quarter. And so we continue to see improved cost position there and then have been continuing to take the inventory levels down to generate those higher ROICs.

Q

That has no digital business [inaudible] (16:00)

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

A

It does. Each of those brands have their own dot-com site. But it's a relatively small percentage of their total.

Q

[ph] Now that you (16:16) mentioned a lot of brands you've added [inaudible] (16:19-16:26) a lot of Skechers.

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

A

Yeah. There's a lot of Skechers. Skechers has been a big part of the mix. And it's one of our top five brands in the store. And so really – but for the skate business, all of those top five brands have been performing very well.

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

Q

I'd like to segue to the branded portfolio for a moment, can you talk a little bit about the drivers and drags there currently and a little bit from an expectation standpoint as well?

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

A

Yeah. I think the branded business, the measure has been on shipments year-over-year. And we came out of the fall season with a lot of our top wholesale partners having heavy inventory. So, we saw a pretty significant shift in the first half of the year on their initial orders.

And so they were more interested in reducing inventory levels across their stores than they were about really investing in things that we're selling. So, we were very encouraged by what we were seeing on the sell-through particularly on the Contemporary Fashion brands. But we did see some impacts from a shipment standpoint. As we got into the second quarter, there's not same mix of that business. And so, we were – I think we fared pretty well in the second quarter.

As we go into the fall season, obviously, third quarter is back to initial orders and shipments. And we've seen a shift over the last four years, five years from what typically was kind of 80%-plus of the business being an initial order, and then a fulfillment through a reorder or replenishment. That number continues to come down into the low 70%s.

So, we talked a lot last October about our supply chain initiative. We've invested about $50 million in our warehousing and distribution systems to be able to respond and really address the overall cycle time. So, it's a big push internally to be able to support our key partners with the ability to chase goods in season.

So, like last fall, we were piloting a lot of our brands' ability to do, what we call, rapid reorder and really get those cycle times down in the 40-day to 50-day range. And so, the supply chain teams were able to demonstrate that capability, and that's been very helpful this year, as we've seen, initial orders come down, the ability to respond to something that's selling through at a nice rate and be able to get more of that product back in.

So, that – well, it has an impact early on in the cycle and year-over-year shipments. You've seen the pickup in margin. So, markdowns, allowances are a lot lower, because you're selling in based on what's actually selling through. So, while there's a little bit of a shock to the system on the initial order comparison, when you look at the overall profitability, it's actually much more profitable for us to operate that way. So, fortunately, we were ahead of the curve and started working on those rapid reorder cycle times last fall, and we're starting to see the benefit of that.

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

So, when one of the wholesale account reorders, you don't have that in stock; actually you'll take the reorder which is firm and go to a new factory, some place close. Can you talk a little bit about that process?

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

Yeah, it's an existing factory network. Part of that supply chain initiative was doing a supplier management function and making sure that we were going and ensuring we're working with the best factory. So, we have capacity that we've reserved as part of those relationships. And then, we have material that we have staged. And as we see those reorders come through, we can then place the order in the factory, get the capacity, and then ship those products back into the wholesale customers.

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

What's the risk to you if the reorder doesn't occur? Does the capacity reservation – is there a cost associated with that or do you assure that the materials can be reused in different designs?

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

Yeah. So, from a capacity standpoint, that capacity is shifted from brand to brand, and so that's part of what we're – when we build our factory network, making sure we have that flexibility. And then, the materials, we've done a lot of work on the materials management side to rationalize common materials and make sure that we have the ability on basic leathers and suedes to be able to share those across like brands, and in doing so you can go bulk buy that material; save a little bit on that initial purchase, but have that available for that reorder cycle.

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

If you're in the 70 to 30 range now roughly, where do you see that going in the future? And can that affect shifts in sales from quarter-to-quarter, given that first quarter and third quarter are big – previously, first quarter and third quarter were big, order quarters, and then, of course, second quarter and fourth quarter are bigger reorder quarters?

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

Yeah. I think you'll continue to see that shift a little bit more level loading of the stores and of the network. And I think it's indicative of the overall shift in the retail calendar. The department stores used to set their spring business in February, and if you wanted that product, you had to go to the mall in February to get it. But the advent of the digital business and the ability to go online and purchase product, you've seen a shift throughout the calendar where people buy those products when they need them. And so, it forces a little bit more of a level loading across the year of those businesses.

So, that shift has been gradual over time. I think where it really starts to show up is in, when you're looking at comps and you're looking at week-to-week shifts. But when you go over a season, if you've got distinctive product that the customers are demanding over the course of an entire season, those things tend to work out. So, I think, what we try to do is make sure that – we look at the entire spring season, and then we determine success based on how we performed over the entire season; same thing with fall, so you look at one month or one quarter, and that's not the entire season.

So, as you buy closer to need, the weather has a much bigger impact on those year-over-year comparison. So, we've seen for several quarters now shifts; last year in the fall, it was warm. We were selling sandals deep into the fall season. And then eventually, the weather started to get colder and then we saw the boots and booties start to sell through. So, the important thing for us is to make sure we don't allow our inventory levels to get to a point to where, when we see a shift like that, we have to panic and be very promotional. I think the last couple of quarters the teams have done a great job holding to their promotional calendar, and then when the weather shifted, that product that was seasonal in nature sold through.

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

Q

You mentioned lead times. Two questions, so one on reorders. Now, it's in that roughly 40-day to 50-day range. If the current SKU is on that fast recorder track, where do you see that going? Can that get even lower in the future? That's one question. And the other is, just on your initial lead times, where are they now and are you working to lower those as well?

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

A

Yeah. So, [ph] you can deal – (24:42) that 40-day to 50-day cycle has got a 30-day time on water, and so on something that we need to replenish faster, if needed, we could always air that in. So, depending on your decision on whether to ship by boat or by air, you're going to have an impact on that. We continue to try to focus on increasing the percentage of business that's going to be that rapid reorder. We'd like to see that get up to somewhere around 20%. And so, we're working with the teams to make sure that they're aligned with our wholesale partners to make sure that we can fulfill there. But great progress and still have to continue to reduce the overall cycle times just to be able to respond to consumer demand.

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

Q

So, when you...

Q

It seems like the branded product has not much online business [ph] of the things, but were just (25:46) 20%, 25% of its business online. It seemed like in the numbers you gave out.

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

A

Yeah. The Famous business is the biggest piece of that -

Q

It must be like a quarter in the business with you [ph] that they doesn't have too much (26:04).

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

A

No, it's roughly – I think, what, 10%, Peggy, of the total? So, Famous is little over 5%, I think, of their total businesses dotcom. And then...

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

Q

[ph] Dave, (26:20) after the initial lead times, where are they now and where do you think they could go?

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

A

Well, the initial on – a comment, when we started this project well over a year ago, we were looking at numbers that were kind of up in the 150-day, 160-day, up to 180-day lead times. And so, being able to separate that rapid reorder and replenishment product, and be able to really fast-track that through, was able to demonstrate a capability to the teams, so that they could then have the confidence to go sell that in to our partners. So, overall, as we rationalize the supply chain network, as we continue to improve on materials management and then continue to really get alignment around an integrated planning process, we would expect that overall cycle to continue to decrease as well.

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

Q

Okay. Where is it right – you said it was 160-day a year ago at the start of the process. If you had a target...

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

A

Yeah. We – and so...

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

Q

How many days have you shaved off?

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

A

The focus has really been on the rapid reorder piece of this, so we've separated the two. So, we've got the benefit of the overall reduction, but it's really all come through the rapid reorder.

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

Q

And then you mentioned that direct-to-consumer, with the exception of the Naturalizer stores, on the branded portfolio side was relatively low penetrated. Can you talk a little bit about where you are there? And given there's some rationalization going on in the wholesale channel in general, how you can grow that as a percent of total sales and if that's even a major initiative or not?

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

A

Yeah, I think the – a little over, I guess, a year, beginning of 2015, we separated the direct-to-consumer for the wholesale business from the Famous team. So, prior to that, we had one direct-to-consumer team. And obviously, with Famous being such a big piece of the total, Famous business got the majority of the focus. And so we had made an investment little over a year ago to separate those teams, and then went through Franco Sarto, which is one of our larger wholesale brands, did not have its own site. We were able to go [ph] take a stand (28:45) that up.

Naturalizer, which has had a dotcom site for a while, has really good penetration. I think it's as high as 20% of its business is direct. So, step one was to go create a dedicated team for the branded business, so that there were people that were waking up every day focused on direct-to-consumer for the branded business. And so we've seen a lot of benefit there.

The other thing is we do a lot of drop-ship for our wholesale partners. So, when you go to Nordstrom.com and you order one of our products on their site, we ship that directly from our warehouse. And so, from a capability standpoint, we've had to invest to be able to respond quickly there. So...

Q

Is that profitable?

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

A

The drop-shipping part of it.

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

Q

Okay. So, in your – you're in the less than 5% now on the branded portfolio side?

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

A

Yeah. I think the total is – the total is around 5%.

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

Q

Okay. And where do you see that, say, do you have goal for that in 12 months to 24 months?

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

A

Well, we've – I mean, when we – I think when we spoke back in October for our Investor Day, we had talked about getting the overall penetration up to kind of 11%, 12%.

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

Q

Okay. Any other questions from the audience?

Q

How is the new store opening done in the last couple of years in relation to what you thought and also compared to [ph] your – all the (30:20) stores?

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

A

They've been – they've done well. The – I think we shifted kind of our focus of where we were opening those stores. And as part of this high value consumer initiative that we undertook several years ago, most of those new stores are being opened in those targeted areas where those specific consumers live and shop. So, markets that we wouldn't normally have fought, there was an opportunity to put new retail store. Because of the success we've seen with that initiative, we've been able to open stores in those markets. So, yeah, new store performance has been good.

Q

And one question, my kids [indiscernible] (31:08) they only buy shoes, I think, from Zappos. [ph] They sound – (31:11) seems like they're really happy. How come you only have 5% of Famous [indiscernible] (31:16) online shipped. Are you [ph] – and you think (31:19) you're emphasizing enough, shouldn't that number be higher?

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

A

Well, the number is growing by 30%, 40%. And so, I mean, our consumers are continuing to shop online and when they're doing so, we're fulfilling that. So, we continue to see that shift, and I think you're seeing – the shift is there and our growth is there as well.

Q

Which is the more profitable [ph] sale, (31:53) in-store or direct?

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

A

In-store.

Q

More profitable?

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

A

Yeah.

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

Q

I think you mentioned in the past too that people actually shop online, but they buy in the store so that they'll utilize the app to find exactly what they want and they'll come into the store and they'll say this is what I want.

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

A

Yeah. I think you see that in the conversion rates. So, while overall store traffic has been under a lot of pressure the last couple of years, the conversion both in-store and online continues to go up. So, when we talk about omni-channel, there's a lot of pre-shopping that's happening online. And then, some consumers still want to come in. They want to try the shoe on. And so, we see a much higher conversion rate in the stores.

So, they're not mutually exclusive. You'll see people come in, try on a shoe, and then on their way to their car, buying it on their phone, and having it shipped directly to their home. So, that online experience does translate to an in-store experience as well.

Q

What is the determinant of how much – how many share you'll buy back into the future? What is the [inaudible] (33:09)?

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

A

Well, traditionally, we've been buying back just to offset dilution with our stock comp plans. And so, in the second quarter, when we saw the stock drop down in the $21, $22 range, we went ahead and just continued to buy what we could on a daily basis with the float. So, I think we'll continue to, at least, offset dilution, and then – I think we still another $1 billion authorized or so on our -- $1 billion authorized on our overall repurchase program.

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

Q

Any other questions from the audience?

Q

[Inaudible] (33:55-34:00)

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

A

Yeah, maybe – I don't remember. I'll, I think, go back and look at that. But, I'll say, we have plenty of authorization under our existing share repurchase plan to buy as many share as we would like, so it was a plan that was authorized prior to my arrival.

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

Q

Ken, is there anything that we didn't go over that you feel is top of mind currently?

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

A

I don't think so. I think we hit it all.

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

Terrific. Thank you very much for your time.

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

Thanks, Steve.