Corrected Transcript

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Caleres, Inc. (CAL)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Mike, and I will be your conference operator today. At this time, I would like to welcome everyone to the 1Q 2019 Caleres Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Peggy Reilly Tharp. You may begin your conference.

Peggy Reilly Tharp
Vice President-Investor Relations, Brown Shoe Company, Inc.

Good afternoon. I'm Peggy Reilly Tharp, Vice President of Investor Relations for Caleres, and I'd like to thank you for joining our first quarter 2019 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, 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; and Ken Hannah, Chief Financial Officer.

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

Diane M. Sullivan

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

Thanks, Peggy. And good afternoon, and thanks for joining our first quarter call and for your continued support of Caleres. As we're fairly deep into the earnings cycle, I know a lot of what we're going to discuss today will sound familiar to investors in the footwear and retail spaces, so let's get right to the point.

As you read in our release, while we still expect to see year-over-year gains in 2019, we are realistic about the impact the slow start to spring had on our business and our ability to regain those lost sales. As a result, rather than maintaining the midpoint of our adjusted EPS guidance at a 13% growth rate, we are prudently bringing the midpoint for earnings growth down to 9%. We believe this new rate more accurately reflects industry challenges to-date and the gradual improvement we expect to see over the balance of the year.

Now with that in mind, I'd like to start with the metric no other footwear company can match. Once again in the first quarter, our Brand Portfolio owns six of the top 25 women's footwear brands, and grew sales ahead of market rate while gaining share. In total, Brand Portfolio sales were up more than 20% in the first quarter, and that includes both the addition of Vionic and Blowfish sales, and the planned reduction in Allen Edmonds sales.

Over the past several years, we have made strategic investments in a number of areas, and these have enabled us to continue to adapt and grow our Brand Portfolio. Specifically, as you know, we have invested in product development and design in order to give our retail partners and our consumers' fresh relevant styles. We further invested in our speed program to ensure we can get those styles in stores and on feet faster, and we also diversified our global sourcing operations. And finally, we continue to respond to changes in consumer shopping patterns by putting investments in our overall digital and fulfillment solutions.

Together, these investments form the foundation of our Brand Portfolio and are integral parts of the strategies that we've been developing over the last several years to make sure we diversify and to drive the sales and earnings power of this half of our business. In the first quarter we were able to leverage these strategic investments to drive sales. And not only did we benefit this quarter, we expect to do so going forward. First and foremost would be our 2018 investments in Vionic and Blowfish which contributed to sales, gross profit, operating earnings in the first quarter. We're very pleased with both of these additions to our Brand Portfolio and our retail partners are also thrilled that we've added these brands to our lineup.

Next, our investments in our industry-leading sourcing capabilities enables us to maximize our speed to market program, as we continued to adapt to changing consumer and retail dynamics. For the first quarter, replenishment orders showed considerable growth, enabling our partners to keep fresh relevant product on their floors. Thanks to the investments we've made and the new distribution and fulfillment center for Brand Portfolio, we helped create value for ourselves and our partners by enabling expanded digital commerce opportunities.

As a result, total e-commerce related sales were up high teens and represented approximately 30% of Brand Portfolio sales. Drop ship sales which go directly to our retail partners and consumers accounted for a quarter of our e-commerce sales, up more than 40% year over year. So all in all, a good quarter and continued progress for the Brand Portfolio.

Now let's turn to Famous Footwear where clearly our performance was frankly not what we wanted it to be. February comp sales were down high-single digits, but improvement came with better weather in March. April comp sales were up mid-single digits, and the month was also a record April for athletics sales. Unfortunately, it was difficult to offset the February decline and we ended the first quarter with comp sales down 1% and total sales down 3.1% as we operated 28 fewer doors.

There were several macro trends that impacted the retail space and quarter, specifically February and the slow start to spring delayed, and in some cases eliminated sales, and in turn drove increased promotions across the industry. As a result, we were more promotional at Famous Footwear during the quarter in response to the unseasonable weather and increased peer activity.

In addition, as we said on our last call, in order to drive freshness in our product assortment for back-to-school, we started this year really working to reduce inventory. And although this negatively impacted gross margin in the quarter, we felt it was essential to follow through on our decision to eliminate certain products from our assortment and to reduce overall inventory. As a reminder, we expect to continue to actively reduce inventory into the second quarter.

Finally, we still had excess levels of certain underperforming styles from our lead vendor partner. However, we expect significant improvement to become apparent in the second half. We're not there yet but we're moving in the right direction and we are seeing improvement and good strength in the new product.

In the first quarter, we also invested in our rewards program and officially launched Famously YOU Rewards. A refresh of this program needed to be done and it's essential in our go-forward plans. We are on track with our expectations and are already receiving a good response. We expect to see continued and significant improvement during back-to-school and rolling into the second half of the year.

In total, we added $1.1 million new rewards members in the first quarter, re-activated nearly 700,000 existing rewards members and drove positive improvement in our retention rate. Rewards sales were up approximately 1% in the quarter with April up 10%. Sales to reward members represented approximately 80% of all first quarter sales.

But before I turn things over to Ken, I'd like to reiterate something I said on our fourth quarter call. Our vision to become a powerful portfolio of footwear brands and the strategic underpinnings of what makes us Caleres remain relevant and unchanged. Our direction is sound and we are picking up both our pace and our focus in 2019.

And as a reminder, for our Brand Portfolio, we will extend our winning results by intensifying our consumer focus, continue to drive our investment in our digital capabilities, being out first when it comes to product design, development and relevance, and most importantly by continuing to drive share gains for our top women's brands.

At Famous Footwear, we will elevate our product assortments by strengthening our relationships with all of our vendor partners. We are also deepening our relationship with our consumers through our new rewards program, and we are investing in digital and consumer marketing to drive growth.

And with that, I'd like to turn the call over to Ken for a financial review.

Kenneth H. Hannah

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

Thank you, Diane, and good afternoon, everyone. For the first quarter, we reported earnings per share of $0.22. Our adjusted earnings per share was in line with expectations at $0.36 per share, excluding $0.11 of Vionic transaction-related expense and inventory adjustment amortization, and $0.03 of Brand Portfolio expense related to the exit of the Carlos footwear brand.

Consolidated sales for the quarter of $677.8 million were up 7.2% over the prior year, including the addition of Vionic and Blowfish sales and the planned reduction in Allen Edmonds sales. Our Brand Portfolio total sales were up 20.3% year-over-year. At Famous Footwear, same-store sales were down 1%, as Diane already discussed. Our total sales at Famous Footwear were $352.2 million, down 3.1% as we operated 28 fewer doors versus the prior year and ended the first quarter with 985 total doors after opening 4 and closing 11 in the quarter.

As a reminder, last month we announced a change to our segment presentation and provided recast results for 2017 and 2018 on a quarterly and annual basis. Beginning this quarter, we are eliminating Brand Portfolio sales to Famous Footwear in our other segment. We made this change to reflect the growth in Brand Portfolio, given the 2018 acquisitions.

Let's turn to consolidated gross profit and margin. For the first quarter, consolidated gross profit of $279.8 million was up 1.8%, and our reported gross margin came in at 41.3%. Adjusted to exclude the $7.2 million related to Vionic inventory adjustment amortization and for the markdown expense related to the Carlos brand exit, consolidated gross profit was $287 million and up 4.4% year-over-year. Our adjusted gross margin of 42.3% was approximately 115 basis points, reflecting continued growth in both e-commerce and in the overall Brand Portfolio and increased promotional activity at Famous Footwear.

Our Brand Portfolio reported gross margin was 37.2% in the first quarter and adjusted gross margin was 39.3%, up approximately 90 basis points over the prior year. This increase was due to the addition of Vionic and Blowfish and also reflects an increase in e-commerce-related sales and a decrease in sales to the mass channel.

For Famous Footwear, first quarter gross margin of 43.4% was down approximately 210 basis points year-over-year. As Diane discussed earlier, the team aggressively cleared inventory in advance of back-to-school, and we expect to see similar pressure from this effort in the second quarter. Additionally, e-commerce continued to grow as a percent of our overall Famous Footwear sales.

Our consolidated SG&A expense for the first quarter was up 4.8%, including the addition of Vionic and Blowfish. Our SG&A represented 38.7% of sales, a reduction of more than 90 basis points despite the addition of two new brands. For the Brand Portfolio, SG&A represented 33% of sales, down more than 50 basis points versus the prior year. And at Famous Footwear, SG&A was down $1.5 million, a 1% reduction in expense and included the incremental investment we made in our new rewards program.

Depreciation and amortization for the first quarter of $16.4 million was up 11% versus the prior year, primarily due to the additional trademark amortization related to our Vionic acquisition. Our first quarter operating earnings were $16.9 million or 2.5% of sales with adjusted operating earnings of $24.9 million representing 3.7% of sales. For Brand Portfolio, first quarter reported operating earnings of $12.9 million were up 11.2%. Adjusted operating earnings of $20.7 million were up more than 50% including the addition of our acquisitions. Adjusted operating margin of 6.1% was up more than 140 basis points versus the first quarter a year ago.

At Famous Footwear, first quarter operating earnings of $10.8 million represented 3.1% of sales and was down year-over-year, reflecting the team's conscious decisions to clear through certain products and reduce overall inventory levels of Famous Footwear. Our net interest expense for the first quarter of $7.3 million was up $3.7 million as we used our revolving credit facility to finance the October 2018 acquisition of Vionic.

Our first quarter tax rate was 25.2% on a GAAP basis and 25.4% on an adjusted basis. Our capital expenditures were $21.4 million for the first quarter and up approximately $12 million year-over-year, reflecting our continued investment in the automation of our new Brand Portfolio distribution center.

Turning to our balance sheet where we ended the quarter with $35.8 million of cash and equivalents and outstanding borrowings under our revolving credit facility were $318 million at quarter-end, down from $335 million at year-end but up on a year-over-year basis due to the 2018 acquisition of Vionic.

Our consolidated inventory position at the end of the first quarter was $648.1 million. For our Brand Portfolio, we saw an increase in inventory primarily related to the Vionic and Blowfish acquisitions. At Famous Footwear, we ended the quarter with inventory down approximately 2% year-over-year as previously mentioned. Our first quarter operating cash flow was $49.9 million. Famous Footwear continued to be a solid and consistent contributor to our operating cash flow and once again delivered growth in the quarter.

Wrapping up our review of first quarter performance, our trailing 12-month adjusted return on invested capital at 20.2% was up approximately 350 basis points over the same period last year. And finally, I'd like to review our guidance. As Diane already discussed, we now expect the midpoint of our earnings per share guidance range to reflect year-over-year growth of 9%. This new rate reflects the slower-than-expected improvements at Famous Footwear in the first quarter, both due to unseasonable weather and as we actively cleared through inventory in advance of back-to-school.

While we expect to see improvements in the back half of the year, we believe the second quarter will remain challenging for Famous Footwear as we continue to reduce inventory levels. And additionally, while we are confident in our brand portfolio and its ability to offset weakness of Famous Footwear, we believe it's best to remain prudent as we monitor activity across the industry and at our retail partners.

And before we begin Q&A, I'd like to turn the call over to Diane to provide a brief update on the footwear tariff situation.

Diane M. Sullivan

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

Thanks, Ken. And as you all know, additional tariffs of up to 25% were proposed in May for footwear produced in China. As a reminder, we have been actively diversifying production away from China over the last five years and now source approximately 60% of our products from there. And our powerful sourcing base gives us a competitive advantage in the footwear space.

While nothing is final yet and we are certainly hopeful for a positive resolution, we are actively working through contingency plans, which include potentially shifting additional production out of China, working with our factory partners to reduce costs and exploring price increases. While we are treating this issue with the same sense of urgency we're applying across our entire business, we are taking nothing for granted.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Rick Patel from the Needham & Company.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thank you. Good afternoon, everyone.

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

A

Good afternoon, Rick.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

I'm hoping you can give us some more context on why you're being more conservative with second quarter guidance. Perhaps, is there any way to provide context on comps during the month of May that might be difficult to overcome? And also in terms of the inventory actions that you're taking, it sounds like it's a function of the marketplace being more promotional and some sluggish product, but I'm hoping you could provide insight on which of those factors might be the bigger pressure point right now.

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

A

Yeah, Rick. I'll give you a few a few numbers and then Diane can share some of the specifics. But I think as we as we were working through the period, I think we had said on our last call that we expected the Famous Footwear margins to end up around flat this year. And as you noticed, we were down a little over 200 basis points at Famous Footwear in the first quarter. We had taken about half of that into consideration. The other half, the incremental 100 basis points was a result of really just the back half of April really dropping back off and some of the clearance activity that we had done to move through the product that we needed to move through to make sure we were clean going into back-to-school. And so we're expecting that margin basis point decline to continue into Q2. We would expect it to be down roughly 100 basis points. So improving but still down year-over-year in the second quarter.

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

A

So Rick, maybe just a little more color. We did add a few unplanned promotions during the quarter in order to continue to drive the inventory down. We also are really looking at speeding up the lifecycle of some of the product categories that – and particularly in the non-athletic side of the equation and then the glide path really out for our key vendor partner was a little bit longer. So that was a little bit of the newer news sort of post our first quarter or late last year – end of the last year call that we had.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

And can you also touch on the outlook for the back half? What is it about the assortment or the strategy that you have in place that gives you confidence and what's the sustainability of that from 3Q to 4Q?

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

Right. We feel very good about the third and fourth quarter, and there's a couple of reasons why we have the degree of confidence that we do. First of all, a lot of the new products that are coming in and replacing some of the non-performing categories are working exactly as we had hoped. The investments that we've made in those appear to be the right correlation of what we're going to need to show improvement as we move into third and fourth quarter. That's both on the athletics side and our key vendor partners there, as well as on the non-athletic side with a lot of new iconic brands that we're bringing in and actually getting allocated more inventory in order to support those brands going into the third quarter.

And then, of course, we made a bet on launching this rewards program in the first quarter. Not exactly the easiest time to do it, but we wanted to get ahead of our back-to-school time period and third quarter. So as we go into the third quarter and back-to-school, that program is going to be up and running and performing well. And probably the last thing is we feel very confident about the marketing plans that we have. There's a few new shifts in terms of what we're going to be doing in a positive way. And the good news is we've tested some of those things and we like what we see.

Rick B. Patel
Analyst, Needham & Co. LLC
Q

Thanks, guys, and good luck with back-to-school.

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

Thanks.

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

Thank, Rick.

Operator: Your next question comes from Laura Champine from Loop Capital.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

Thanks for taking my question. Could we get a little more color on what's going on with the comp in the Brand Portfolio? I know it's a small part of sales through your own stores in Brand Portfolio, but just to see such strong growth for the segment as a whole, but not so much on the comp, if you can kind of bridge the gap for us that would be helpful.

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

Yeah. I think a lot of that is really we're seeing a lot of our growth in the Brand Portfolio with our replenishment programs and then a lot of our drop-ship. And so, our e-commerce related sales there continue to be 30%. So that's a big piece of what's driving the growth there.

The initial orders, the traditional way that we would take an order and ship through continues to be a smaller and smaller piece of that Brand Portfolio. So when you flip that over on the retail side and you go to comp, a big piece of it is Allen Edmonds which we had planned down. So when we look at our comps and in total, right, you've got Sam Edelman in there, his online business continues to be strong; and then the same thing on Naturalizer. So a lot of that's really driven by our planned reduction at Allen Edmonds.

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

A

Laura, just I'd like to add one other thing to what Ken already said and that really – it does come back to the e-commerce growth. All of the dot-com businesses across whether we own them, whether they're pure plays, or they're a portion of many of our department store partners. All of those businesses are really strong and the investments that we've made and our capabilities the last two years have really allowed us to take advantage of the opportunity that's there now with the consumer and the way they're shopping. So a lot of our growth came from there.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Understood. Thank you.

Operator: Your next question comes from Laurent Vasilescu from Macquarie.

Wilson Au
Analyst, Macquarie Funds Management Hong Kong Ltd.

Q

Hey, guys. It's Wilson on behalf of Laurent. I wanted to start on Nike. I think for Nike in your FY 2017 10-K was 25% of sales and then in the latest 10-K it was 22%. So it implies a mid-teens decline. Any sense as to what we should expect out of Nike for this year?

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

A

We are expecting Nike to be up, and I think that's really the dynamic that we're seeing here through the first half and then the confidence that we have going into back-to-school. The new product, as it is showing up, we're actually seeing some nice gains. And it's really the clearing out of the older product that's putting the pressure on the first half of the year. But we are expecting Nike, in total, to net to a positive.

I don't know, Diane, if you'd like to add anything to that?

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

A

I think you said it well.

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

A

Okay.

Wilson Au
Analyst, Macquarie Funds Management Hong Kong Ltd.

Q

Okay. Thanks. And then on Vionic, how did Vionic perform in the quarter and any thoughts on growth for this year?

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

A

Vionic performed well. They were certainly a contributor, as we had mentioned, in sales, in margin and in operating earnings. We did have almost an incremental $4 million of interest expense just as we're paying down the line. And then, remember, they have a little over $3 million of amortization of their intangibles. And so, with all of that, they were slightly accretive in the quarter.

Wilson Au
Analyst, Macquarie Funds Management Hong Kong Ltd.

Q

Okay. Thanks. And then on Allen Edmonds, any update on Allen Edmonds? Any visibility into the repositioning of the brand in terms of both the top and bottom line?

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

A

Yeah. We actually, as you know, made some tough decisions and a bold move at the end of last year in order to reposition Allen Edmonds. We think we reduced our top line to about 15%. And so far, so good. We're tracking nicely against our targets there. We took out some of the excess promotions. We run two of the major ones anyway. That seems to be going well. So, so far so good. Three or four months into the year we feel much better about the direction of that business.

Wilson Au
Analyst, Macquarie Funds Management Hong Kong Ltd.

Q

Okay, great. And one quick last question. On your – at the EPS level, you guide down of $0.10.I just want to make sure that that's fully driven by Famous?

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

A

Yes. I think the direct reduction is driven by Famous. I think we were very cautious about what's happening on the wholesale side of the business just with some of the recent announcements and some of the issues that some of our key partners are having beyond footwear. And so we try to be prudent and not bet on a lot of upside from that in the second half. I mean, we still are up 9% at the midpoint.

Wilson Au
Analyst, Macquarie Funds Management Hong Kong Ltd.

Q

Okay. Great. Thanks and good luck.

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

A

Thank you.

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

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

Q

Hi, Diane, Ken and Peggy. Just, Diane, you mentioned Allen Edmonds. For the finer point on it, would you say that was within your plan within the first quarter given...

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

Yes.

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

...the changes...

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

Yes.

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

...that are going on from promotional. And there were no additional incremental promotions in the first quarter...

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

No.

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

...that were not planned at the beginning?

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

No.

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

Okay.

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

None. Fewer days on sales. Still not enough but we're working our way down, so that's still the intention.

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

Okay. And then can you talk about – there was a distribution center, inefficiencies late last year if I remember correctly. Can you give a little update where you are there and are you in line? And do you expect further optimization as the year progresses?

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

A

Yeah. We fully transitioned into our – in our new distribution center. The team there has done a great job in terms of just building confidence with our teams internally. The growth that we talked about with our e-commerce related sales was all really fueled by the capabilities that we invested in there. And just remind everyone, the automation, really, the benefits of that come in the back half of the year. We did the cutover on CAL-2. And so we're in the process of fine tuning that automation and then the CAL-1 automation happens over the course of the next 30 days. So with that, you'll start to see the productivity as we start to take some of the manual labor out in the back half of the year. So we've got about 1.5 million square foot of capacity, and that incremental space was required as we went through and automated those facilities. But the team's done on a great job and they're on track and we've got some pretty nice improvements in the back half of the year.

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

Q

That's very helpful. And last question, just a little bit of housekeeping, you added $1.1 million rewards in the first quarter. Can you talk about what you entered the quarter with and what the net number was coming out of the quarter?

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

A

Oh, yeah...

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

Q

In other words, including shares.

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

A

...we've got to look that one up.

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

Q

You know what, we can do that offline. It's not that important.

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

A

Okay.

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

Q

Thank you, all.

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

A

All right.

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

Thank you very much.

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

Thanks, Steve.

Operator: Your next question comes from Chris Svezia from Wedbush.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Hey, guys. So I guess my first question is what does the comp that you're expecting I guess more explicitly for the second quarter? Are you expecting to see similar to the first quarter for Famous? Are you expecting to see flat? Just any color about what you anticipate...

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

Yeah.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

...the comp projections or kind of trajectory as you move forward here?

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

Yeah. Chris, it's Diane. I would say we're – second quarter, we're expecting flat to up low-single and then consecutive improvements throughout the rest of the year.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. And the inventory piece that you're talking about, have you, I guess, characterized enough of the potential risk around that inventory in order to prove it based on the implication of Famous Footwear margins being down 100 basis points. Is that true – are you basically looking at that and saying this is more of a worst case scenario, or is this sort of the midpoint scenario that you're thinking about?

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

I think we've gone in and really looked at this sort of every single which way that we could, Chris, and making sure that we left the team enough room to be able to do what we needed to do to start back-to-school in the position that we wanted to begin back-to-school in. I think we were realistic with kind of what we thought about what the impact to margin was going to be.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. And then just, Ken, for you from an earnings perspective, help us out a little bit. Are you anticipating more of Q2 being kind of a flat earning situation or down low-single digits year over year or just sort of kind of characterize how we should be thinking about the earnings for the second quarter?

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

A

Yeah. I mean, I think what we're trying to say is we expect improvement throughout the quarters and so we were down and we had guided down in Q1. I think we're flat to down in Q2, and then it flips over in Q3 to be up kind of low high-single digits. And then Q4, I'll just remind everyone is when we had the dilution from the acquisition last year. So that $2.21 on a reported basis, there was $0.10 of dilution that came through in the October-November-December time period last year.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. And just from last watch, two minor things here. One, what was the organic growth rate for branded portfolio ex the acquisitions? And on the loyalty program, I guess what I thought what it's on, maybe a little bit more to drive the comp in the business in the quarter, just what was successful, what wasn't and why do you anticipate back-to-school for it to really be a much stronger drive to the business?

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

A

Right. Well, if you think about it with the soft launch in mid-February, Chris, so that's when we kicked off the rewards. And as you saw, it grew, I think I mentioned in April. We added – let me pull that number out again. But let's say in April, we were up – reward sales were up about 1% in the quarter, in April we were up 10%. So it's starting to build, it just doesn't kick off and hit the ground running. It takes a while and so we have continued to see that ramp from the first quarter now into May. And everything that we've been looking at is meeting those kind of expectations that we had about how that ought to ramp through back-to-school. So there's nothing right now that would give us any kind of pause to say that things are going to be different than what we anticipated.

And then, Ken, on...

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

A

Yeah. I think on the – so we had the luxury of taking the Allen Edmonds sales down in the first quarter because we did have the two acquisitions. So when you pull out the benefit of the two acquisitions, the Allen Edmonds business, the sales were down as planned.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. And then we're down low-single?

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

A

No, we had planted them down around 15%. That's kind of where it came in.

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

A

Yeah, Allen Edmonds. Yeah.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. No, I'm talking in aggregate. It's okay, I'll find out. I'll catch up later with you guys. Thank you very much. All the best. Appreciate it.

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

A

Thanks, Chris.

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

A

Thanks, Chris.

Operator: [Operator Instructions] The next question comes from Sam Poser from Susquehanna Financial.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good afternoon and thank you for taking my question. I have a few follow ups and some follow ups to Chris. I guess the question is ex the two brands, Vionic and Blowfish, what was the increase of the Brand Portfolio sales or decrease for that matter?

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

A

Well, excluding the two acquisitions, it was down.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Low-singles, high-singles because of the Bed Bath...?

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

A

Yeah. Low-singles...

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you. Okay. How often do – in the past have loyalty customers shopped at Famous and how often do you expect them to now shop with the new program?

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

A

They typically shop three times a year typically. And with the new program, the anticipation is that it's actually about with the reactivation of some of the folks that are not currently in the program, as well as keeping the ones that are in, so we don't have the same kind of attrition rate. So, all in, we had normally have been in the, I don't know, 75% to 78% of people that shopped on rewards in the first quarter already 80%. And, Sam, we'll have to see how it unfolds, but a big piece of this is about to reactivation and the continuous communication and engagement with consumers as opposed to too much of the one-and-done kind of thing. So the churn we're trying to really eliminate.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And April, how much of April do you attribute to the shift of Easter?

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

A

Not too much. You mean against rewards or in the overall business itself?

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

No, in the comp. In the comp. I mean, you had the late tax refund, and how much do you attribute to the late tax refund hurting February?

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

A

Not too much, really. I mean, there were other factors that hurt February and hurt the quarter. But really the tax refund, it was really hard to correlate any of that with our business.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Yeah. I have two other questions. Number one, what percent of Famous Footwear's inventory is sourced in China?

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

A

Good question that I'll have to get back to you. But if you think about the mix of Famous athletic versus non-athletic, I would guess it's probably outside of China probably somewhere in the 35% to 45%, but I'd have to check on that number.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And then it's great that you changed the reporting structure because it gives us more visibility into those sales. But, Ken, why did you change? I mean, why and what made you make you take adjustment to the reporting structure?

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

A

Well, I mean, the fact of the matter is we've got businesses that are selling into Famous, and we wanted to just eliminate those sales and the consolidation like we always do, but do it through our other segment so that you could see the real growth of the Brand Portfolio. So it's consistent with the way everybody else does it.

And at the end of the year, with all of the accounting, it was pretty messy. And so, effective with 2019, we put out a recast of 2017 and 2018, so you can see what those years would've looked like if instead of the sales and margin being eliminated in the Brand Portfolio segment, they were eliminated in other. So when you look at our acquisitions, those businesses were selling into Famous and are going to continue to do so. And so, it just seemed like the right time to clean that up.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And is there anything else in those other businesses other than sales [ph] of the Famous (00:39:33)?

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

A

No. No. 100% of the elimination in the sales and margin is tied to those intercompany sales.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thank you very much and good luck for rest of the year.

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

A

Thanks, Sam.

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

A

Thanks, Sam.

Operator: Your next question comes from Chris Svezia from Wedbush.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Hey. I'm going to ask Sam's question a little differently. I guess when you step back and look at the company, the valuation of where it is and where it has been, can you maybe just walk through what's the value of keeping Famous and Branded Portfolio together? And just kind of walk us through any thought process, consideration of maybe enhancing by splitting the two apart, if that's ever been a more focused consideration or maybe walk through why still keep these companies together?

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

A

Well, so if we want to get into a strategy conversation, I mean, look, at the end of the day, we believe that the Brand Portfolio, the growth, the improvements in earnings, all of that is part of the strategy that we had put together a while back. And, look, the strength of the cash flow at Famous Footwear gives us the ability to continue to grow that Brand Portfolio. And so, I think at the end of the day when you look at where the stock is currently trading, I mean, you can question why anyone is even in this business right now and so I don't think we want to go into details around splitting the company up on this call.

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

Chris, I'm just going to add to that that we feel very confident about the direction that we've laid out for the last two years. This one quarter and the issue that we had at Famous Footwear is not indicative of what we believe the opportunity for the entire portfolio of this company. And in fact, if you take a look at the continued improvement on the Brand Portfolio side, I think we have been executing with excellence against that.

So it really is – not happy with our performance at Famous, believe that that's going to turn around in the back half of the year. And there is a lot of good reasons why to keep the integration of all of the brands that we have, including Famous' part of this network because it all really does work together in terms of its ability to generate cash and to allow us to really invest in other segments. So anyway, that question seems to come up periodically, usually when we've had a great quarter, though.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Fair enough. I appreciate it. Look forward to seeing those results in the back half. Thank you. Bye.

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

Yeah. Thanks Chris.

Operator: And that was our last question. At this time, I will now turn the call back over to Diane for closing comments.

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

Thanks, Michael. I appreciate it. Thanks for everybody for joining us. I look forward to seeing you over the next couple of days and sharing more about how we see the future. So thanks again for your support. Talk to you soon.

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