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# Caleres, Inc. (CAL)

Q1 2018 Earnings Call

# CORPORATE PARTICIPANTS

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

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

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

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

Molly Adams
*President, Famous Footwear, Caleres, Inc.*

# OTHER PARTICIPANTS

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

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

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Renato Basanta
*Analyst, Susquehanna Financial Group LLLP*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good afternoon. My name is Erica, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2018 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.

Ms. Peggy Reilly Tharp, you may begin your conference.

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

Thank you. Good afternoon. I'm Peggy Reilly Tharp, Vice President of Investor Relations for Caleres, and I'd like to thank you for joining our first quarter 2018 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 for SEC filings for more information on risk factors and other factors which could impact forward-looking statements. Copies of these reports are available online. The company undertakes no obligation to update any information discussed in this call at any time. Joining the call today are Diane Sullivan, CEO, President and Chairman; Ken Hannah, Chief Financial Officer; and Rick Ausick, President of Famous Footwear.

Now, I'd like to turn the call over to Diane Sullivan.

## Diane M. Sullivan

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

Good afternoon, everyone, and thank you for joining us today to talk about our first quarter, as we delivered adjusted earnings per share of $0.43, up 7.5% on a consolidated sales that were essentially flat. As same as like most in the retail space, we battled unseasonably cold weather early in the quarter. But as expected, spring arrived and so did the customer.

Here are a few stats to give you an idea of the magnitude of the positive shift we've seen since the warm weather has broken. For February, comps were down 4%, then the trend improved slightly in March to flat; and for April, comps were up 1.1% in total with the last two weeks of the month up more than 13%. Additionally, as you know, nearly 50% of our sales at Famous are in the Northeast and North Central portions of the country.

The good news is, this positive momentum continued across the country into our second quarter with year-to-date comp sales up 1% through yesterday. This is just another great example of how the consumer shops on their calendar; not on a retail or earnings calendar which is why we felt it was very important in the quarter to maintain a consistent promotional calendar. We're pleased to how quickly the environment improved and our expectations for 2018 remain very much on track.

For the Brand Portfolio, sales were up 1.4% in the first quarter and the strong shipments we saw at the end of the fourth quarter are selling through at rates outpacing the market. In fact, we posted significant market share gains in the first quarter. We expect these terrific trends to result in replenishment orders in the second quarter and we plan on leveraging our sourcing capabilities and existing speed-to-market programs to meet this demand.

For both the Brand Portfolio and for Famous Footwear, we have continued to see that shift to digital that's really driving demand. For the Brand Portfolio, e-commerce-related sales were up 12% with drop-ship up 50% year-over-year. At Famous, e-commerce-related sales represented 10% of total Famous sales. We continue to capitalize on this shift to digital demand and that's why our speed-to-consumer initiative is so important.

E-commerce is growing even faster than we expected. And as we mentioned on last quarter's call, our strategic shift to in-house fulfillment for our Brand Portfolio will enable us to more efficiently process smaller order quantities on a more frequent basis. In addition to this effort, we continue to prioritize other opportunities to advance e-commerce-related sales, such as our new content management system which we also discussed earlier this year with you. As you can imagine, the flexibility it provides has empowered the team to create more digital experiences.

While we're still early in the process, the team has already launched a gender-focused sneaker shop versus one generic shop. We've added brand-landing pages for some of our mid-size brands. We've delivered 112% more content pages in the first quarter of this year, and the new content pages are now converting at a rate 36% higher than last year. And of course, this is all designed to create better consumer engagement and ultimately drive increased sales through improved connectivity with our consumer.

Finally, I'd like to talk a little bit about the continued diversification of our portfolio of brands. Allen Edmonds had just a terrific first quarter. The consumer-facing team is now based in St. Louis, and our rebranding is set to launch in the third quarter. That said, we always get asked a lot about what's next. Well, we would be very excited to expand our overall business with the right brand, and we're looking for partners that give us consumer exposure beyond our current portfolio. We have the culture and the infrastructure brands are looking for in order to achieve their long-term growth potential. And there are many opportunities out there to partner with and support these growing brands. More to follow on that topic in the coming months.

But before I pass it over to Ken, to give you an update on the financials, I'd like to take just a moment to thank the one and only Rick Ausick for his 20 years of service here at Caleres. He joined us as Famous' Senior Vice President and Chief Merchandising Officer in 2002 and has been President of Famous in 2010. In all seriousness, his leadership has been critical not only to the outstanding performance at Famous Footwear, but really has helped transform Caleres as well. His reputation, credibility, and character have helped to cement Famous Footwear as an outstanding partner for the brands we work with, and the terrific and capable team he has built will just be one of his lasting legacies.

Now, I know you've all heard Rick refer to his superior merchandising skills from time-to-time, quarter-to-quarter and that's certainly true and we will miss that, but I know we are going to be in great hands with Molly Adams, who joined us on Tuesday. Molly spent the past decade at The Walt Disney Company, where she was Executive Vice President of Global Merchandising and Product Development and is really an expert on the consumer.

We're excited to have her as part of the team, especially as we face continually changing and evolving consumer shopping patterns. Molly's focus on the consumer experience, her energy and her curiosity, will bring a fresh perspective as we continue to focus on consumer engagement, store productivity and omni-channel initiatives. Molly will be with us next week at Market New York, and we're looking forward to introducing her to everyone.

And as I turn the call over to Ken, I'd like to remind you that we are maintaining our guidance for the fiscal year and remain on track for 2018. Ken?

## Kenneth H. Hannah

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

Thank you, Diane, and good afternoon, everyone. In the first quarter, we reported earnings per diluted share of $0.40. Excluding $0.03 of previously announced Allen Edmonds' integration charges related to the transition of the brand's consumer-facing activities to St. Louis, adjusted earnings per share was $0.43 and up 7.5% over the first quarter of 2017.

Consolidated sales for the first quarter of $632.1 million were essentially flat versus last year. At Famous Footwear, first quarter sales of $363.4 million were down 0.8% compared to last year's first quarter, as we operated 39 fewer doors year-over-year. Same-store sales were also down 0.8%, driven by unseasonable weather across the majority of the U.S. And as you know, two-thirds of our sales at Famous Footwear are in what we consider to be cold or moderate climates.

However, trends improved across all of our climate zones as the quarter progressed. By the end of April, only our cold climate zone was still down slightly, a trend which has been reversed as weather improved significantly in May. We're pleased with the acceleration of Famous Footwear so far this quarter and we remain on track year-to-date to reach the 2018 goals we laid out at the beginning of the year. For our Brand Portfolio, first quarter sales of $268.7 million were up 1.4% versus the prior year. And as Diane mentioned, we're building on great sell-through rates and market share gains.

Let's turn to gross profit which came in at $274.9 million in the first quarter, up 1.5%. Gross margin of 43.5% improved 59 basis points over the first quarter of 2017 on a reported basis. As a reminder, first quarter 2017 gross profit included $3 million of Allen Edmonds' inventory adjustment amortization costs. Excluding that amount, first quarter 2018 gross margin increased 11 basis points year-over-year.

At the Famous Footwear, gross margin was down 30 basis points in the first quarter, driven in part by growth in our e-commerce-related sales and associated increases in shipping expenses. For the first quarter, 10% of Famous Footwear sales were e-commerce-related. For Brand Portfolio, first quarter gross margin was up 188 basis points as reported and up 74 basis points adjusted for last year's Allen Edmonds' inventory amortization.

Our SG&A expense for the first quarter of 2018 was up 1.5% year-over-year. As expected, SG&A expense included $2.2 million in duplicative distribution center costs in the quarter, as we began the transition to our in-house fulfillment for our Brand Portfolio in an effort to meet rapidly increasing digital demand and consumer expectations. We expect to see a similar amount in the second quarter and this is included in our 2018 guidance.

Our depreciation and amortization of $14.8 million was down 6.1% in the first quarter versus the same period a year ago. Operating earnings were $22.9 million in the first quarter on a reported basis and $24.7 million adjusted. We delivered operating margin of 3.6% on a reported basis and 3.9% adjusted. As a reminder, a new accounting standard required a reclassification of $2.4 million of retirement plan income from first quarter 2017 SG&A expense to other income. There was no impact to the first quarter 2017 net earnings or earnings per share due to the adoption of this standard.

Our net interest expense for the first quarter was $3.7 million, down more than 20% versus the first quarter of last year. As a reminder, we were borrowed against our revolving credit facility for most of 2017 to finance our December 2016 acquisition of Allen Edmonds. Our tax rate for the first quarter was 23.1% on a GAAP basis and 23.4% on an adjusted basis. Capital expenditures were $9.4 million for the first quarter, down 24.3% year-over-year, reflecting a reduction in the number of new doors.

Now, turning to our balance sheet. We ended the first quarter with cash and equivalents of $96.5 million, up nearly $25 million versus last year. As you recall, in the fourth quarter of last year we paid down the remaining borrowings against our revolving credit facility which have been used to finance the December 2016 acquisition of Allen Edmonds.

Our consolidated inventory position at quarter end was $579.9 million. For Brand Portfolio, overall inventory was down 5% year-over-year. At Famous Footwear, inventory was up 6.8%; however, on a 52-week basis, inventory was up less than $1 million. We ended the first quarter with 1,013 Famous Footwear doors; and as previously mentioned, we operated 39 fewer doors versus the first quarter of last year. For our Brand Portfolio, we opened four new doors in the quarter and closed five, leaving us with 235 doors at quarter end.

Before we begin questions and answering, I'd like to remind you that we are maintaining our fiscal 2018 guidance which calls for adjusted earnings per diluted share to be up 11% to 16% over 2017, including an expected benefit of approximately $0.13 per share due to our lower effective tax rate and excluding approximately $0.07 to $0.08 of total Allen Edmonds' transition costs as previously announced. Our guidance as usual includes a number of store openings and closings, and these details can be found on the earnings slides available at caleres.com.

As a reminder, 2017 included a 53rd week which increased Brand Portfolio sales by $3.7 million and Famous Footwear sales by $19.7 million that have an immaterial impact on our 2017 earnings. In addition, due to the related calendar shift, week 27 will move from the third quarter of last year to become week 26 in the second quarter of this year. As a result, we expect our second quarter sales to be up mid-single digits, while the third quarter will be down mid-single digits. We will also see one week of back-to-school shift into the second quarter from the third quarter versus the prior year, and you will see related impact to the gross margin on a year-over-year basis.

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

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Your first question comes from Laurent with Macquarie.

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

Thank you. Good afternoon, everyone, and thank you for taking my question. And thank you, Rick, for your time over the years. I think it was called out that the comp year-to-date is up 1%. Just curious does that imply comps are up mid-single digits for May?

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

That would be what it'd imply.

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

Yes.

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

Okay. That's good to hear. And I think, I believe last year's first quarter had some pretty significant swings in the comp by quarter. Can you remind us what those were between the months?

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

Yeah.

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

You're asking about last year?

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

Last year, all-in, in the quarter, I know we were down 0.6. And the swings, we are looking at, Laurent.

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

Yeah. I think it was like down high singles in the first month of the quarter...

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

A

Yes.

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

Q

...then up. So you had really tough compares for the last month of the quarter?

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

A

So actually, Laurent, we were down a little more than 7% in February of 2017. For March, we were down about 2%; and for April, we were actually up 6.5%.

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

Q

Okay. Tough compares. Okay. Great. I didn't hear any comments about trends within Famous Footwear in terms of athletic or sandals. Any comments on that for the first quarter.

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

A

Yeah. Go ahead, Rick. It's your last call.

Molly Adams
*President, Famous Footwear, Caleres, Inc.*

A

He's really anxious to answer the questions today.

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

A

Not particularly.

Molly Adams
*President, Famous Footwear, Caleres, Inc.*

A

Go ahead.

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

A

Obviously, the biggest impact was the lack of selling in sandals in the first quarter. Obviously, weather related impacted by that. It also affects some of our athletic business in the sense that most of those shoes are mesh-based. And when the weather gets bad, cold, snowy, whatever, that's not a category that people flock to. So, as that passed, and then the last actually five weeks, six weeks, if we look into the last two weeks of April that I think Diane mentioned that as well, those categories came back to where we had expected them to be and are trending in the approximate range that we had hoped for, for this season.

So, it's really just been a tale of when the customer was ready to buy. We had the product, we didn't go out of our comfort zone on promotional activities because we thought there was opportunity to sell the shoes at good margins when the weather broke and they have. And so, I think, and it has, [indiscernible] (00:17:58). And although it's not anything special than you would think if it's the sports sandal category is very strong, the footbed category is very strong, and our athleisure business in athletics – that lifestyle business in athletics is very strong, particularly on the women's side.

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

Q

Okay, very helpful. And then my last question. I think, Diane, you mentioned in your prepared remarks, M&A still is a top priority. Can you remind us some of the metrics that you're looking for, whether that's the revenue size, margin profile, category? And how much leverage would the company be willing to take on?

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

A

Right. I think, well, first of all, we are mostly interested in brands that we feel have strong consumer demand and have a real point of view in the marketplace, because that – that would be number one. In terms of size and scale, Laurent, it's an interesting one because we see a lot of opportunity in some of the smaller brands that might be even in the $30 million to $50 million range, not unlike how we first found Sam Edelman and then grew that business because they have the infrastructure.

So we think there is a number of opportunities out there in the marketplace that we like with respect to that. So they've got good economic model right now on our infrastructure, would even be more positive. So we would obviously want it to be accretive to the total and we would want it to make sure that we're diversifying into new categories and new consumer segments, and really not overlap with where we currently are.

So that would be anything, and obviously we don't want to throw any Hail Mary pass, as it's really about adding really smart, accretive brands that don't really stress our balance sheet in any significant way is really what we're after.

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

Q

Okay. Thank you very much and best of luck.

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

A

Thank you.

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

A

Thanks, Laurent.

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**Operator**: Your next question comes from Steve Marotta with CLK Associates (sic) [C.L. King & Associates] (00:20:01).

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

Q

Good afternoon, Diane and Ken. Rick, congratulations. Molly, welcome aboard.

**Molly Adams**
*President, Famous Footwear, Caleres, Inc.*

A

Thanks, Steve.

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

Q

Ken, you mentioned in your remarks regarding the second quarter being up mid-single-digit and the third quarter being down mid-single-digit from a sales standpoint. Is there anything else besides that shift in the week in the calendar that would be affecting that dynamic?

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

A

No. In fact – I mean, but for the shift out of Q3 into Q2, the only other thing that is happening in the second quarter like the first is, we will continue to be ramping up our new distribution center. And so, there will be another couple million dollars of incremental distribution expense in the quarter.

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

Q

In the second quarter?

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

A

In the second quarter, yes.

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

Q

Okay. Which actually was my next question is, will it be a similar EPS cadence for those quarters that we should be sensitive to? And I guess, you're saying to add a little bit from a costing standpoint because of that DC in the second quarter.

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

A

Yeah. And I think we had tried to communicate when we had laid out our guidance which, if you recall, was up 11% to 16%. So roughly the midpoint around 13% that – we thought that that was going to play out relatively consistent throughout the year unlike some of the prior years when we were adding businesses. The only difference was, in the first half we were going to have this incremental expense. And so, when we looked at kind of how the numbers had come through initially for whatever reason, the consensus was not taking into consideration the incremental expense. And as a matter of fact, the consensus was actually higher than the midpoint of our range that we had provided.

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

Q

Okay. The last question I had was just related to the competitive universe and door closures at department store level and at lower levels than that. Do you feel that you're taking share – you mentioned you feel like you're taking share at the Brand Portfolio, do you feel the same with Famous? Have there been any changes in the competitive set materially since we've last spoke, either from an inventory stuffing standpoint or somebody being overly promotional? Or is there any sort of irrationality within the marketplace?

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

A

Here is what I would say to that, Steve. It's really more – Famous has been holding its own for a number of years and gaining share. In the first quarter, I would say, you look at NPD and we'd say, we were basically flat in the quarter in terms of our share growth. But it was really the momentum we saw in the first quarter this year was really around on our Brand Portfolio side. And the good news about that is, not only was it in some of our biggest brands like Naturalizer and Sam and LifeStride, Franco and Scholl's; really all of them together and even our Allen Edmonds business was fantastic in the quarter.

You look at any of those data points and we were showing, in many cases, high-single and double-digit sell-through rates and nice movement in terms of our overall retail performance and sell-through relative to the total landscape. So fortunately, I was able to really see [ph] sort of April (00:23:36) for this call and it's quite remarkable. I think the teams are doing a fantastic job on making sure we continue to deliver great products for the consumers. And it just happened to be working out on some of our biggest brands too, which is great.

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

Q

That's very helpful. Thank you.

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

A

Yeah.

**Operator**: And your next question comes from Rick Patel with Needham & Company.

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

Q

Good afternoon, everyone, and thank you for taking my question.

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

A

Hi, Rick.

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

A

Hi, Rick.

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

Q

Hi. I just had a question on buy online and pick up in store. So, that's a strategy that – or an initiative that you launched in mid-June of last year. So you're about to lap it. Can you update us on what you've learned from year one of having that in place? And as we think about year or two, what's the strategy for recruiting even more customers to participate? Do you offer incentives or store events? Just curious how you continue to drive interest there.

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

A

Yeah. It's Rick Ausick. It has been well received by the consumer. Obviously, we did very little at the beginning to promote it. We just kind of started it up and had it as an option as you've checked out. Didn't really talk about it. And I think from early on the first day to today, it has been pretty consistent 15% to 20% depending on the moment in time in the calendar record. Obviously, right around the big gift-giving times, holiday or something when they're not going to get delivered – can't make the delivery windows to get it to somebody's house, they'll come to the store and pick it up and then it ramps up substantially then.

It's done a couple of things. It's helped to mitigate some of our shipping expenses, because by having them coming to the store and picking it up, that eliminates us from having to ship a package to somebody. That's been a great benefit. We do get benefit at some degree for people coming in and buying other items when they come to the store. So, there's that piece of it. And it also just allows, I think, us to have an interaction with the customer and provide a quick and easy method for them to get their product that we didn't have before. And I think that becomes one of those things in their mind that says, if I need something fast, where do I want to go?

We're located all around the country. We're convenient in neighborhoods and suburbs and things like that. People pass us all the time going to places that they need to go, whether it's a grocery store or soccer practice or whatever. It's an easy thing to do. So I think all those things there have been beneficial. As far as what we will do, we now promote it pretty aggressively. We let people know that we have it, not want to say promote, just tell people that they have the capability. And I think that's where we've been.

We incented for about a week early on, just wanted to see if we needed to – what happen if we gave people the incentive to come in and use it, but we found we didn't have to. It hasn't been something that we've had to repeat. So, right now it's more about making sure that the customer finds it easily in our website, has the great experience when they come in the store. We're working on ways to make that more effective and efficient when they come in, so they have a specific place to go and the product is there and ready for them to go, but we've had very little problem with that. So far it's been pretty terrific. The stores have executed that very, very nicely.

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

Q

It's great to hear. I also have a question on Allen Edmonds. So, I think you mentioned last year that it was running about $20 million a quarter for expenses. As you invest more in customer acquisition and improving manufacturing, what's the right expense profile to think about for that brand? And any updated thoughts on the margin profile or the potential accretion you can attain from that?

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

A

I mean, as we continue to invest there, we're seeing that come through in the productivity in the factory. So, that expense number over the course of the year has not really changed all that much. I mean, we're getting the productivity, we're reinvesting back into the consumer-facing activities. So, not a lot of change there. As Diane mentioned, they had a great first quarter. Their anniversary sale was very successful and we're seeing nice accretion from that brand and expect that that will continue.

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

A

We're really excited, Rick, to continue to be about Allen Edmonds as part of this portfolio. It really opened up a new revenue stream and a new consumer that we were after and really think it's only the beginning. We've a terrific leader there, Malcolm Robinson, and a terrific team that are really working hard to continue to make that brand great, and launching some really interesting things in the back half of the year with collaborations with some very, very interesting brands that are also associated with the whole Made in America idea. So, we're very encouraged about our progress there. People are doing a great job.

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

Q

And just a last one on e-commerce, if I may. Obviously, it continues to be very strong. Is there any way to parse out the benefit that you realize from having a content management system in place versus what you would have expected otherwise? I'm just trying to think about the benefit of having this system in place in future quarters?

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

A

Yeah. Yeah. You know what, it's early yet which is why I tried to give that stat around the conversion rate so far. I think as we begin to really work it, it's been in for really less than a quarter. And as our teams get more capable of telling stories and really addressing sort of the needs and the insights that we're getting from consumers about what to put in front of them, I think we'll see more and more of that. So, Famous has it in now. We're just launching it in Naturalizer and in our Brand Portfolio.

So, I think we'll be able to give you a little bit better feeling of what that's going on due to support us in the next quarter or two, particularly after back-to-school which is such a significant part of our business at Famous. So, that's what I'd say about how that looked so far.

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

Q

Thank you very much and all the best to everyone.

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

A

Thank you.

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**Operator**: And your next question comes from Chris Svezia with Wedbush.

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Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Hey. Good afternoon, everyone. Thanks for taking my questions. So I guess, first, I wonder if – maybe if you can give any color, Ken, what's the impact relative to sort of a comping a little bit below plan for Famous. What maybe earnings impact that might have had in Q1? In other words, if you comp 1% to 3%, maybe what the earnings would have looked like, if you can add a little color about that?

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

A

Yeah. So, I think it's a great question. And I think if you recall, as we were closing out the year, we had taken some action in Famous. And so, if you look on our summary financial results by segment, you'll see that in a flat, actually, almost down 1% first quarter, the profitability of Famous went from 5.5% to 6%. So, we get a lot of questions around what kind of comp do you need to leverage.

And I think we got ahead of that last year, took some actions and looking at the way that we were supporting the organization, and we're able to make some changes and allow us to deliver a half a point of incremental earnings on what was essentially a flat sales topline. So, we're certainly excited about the leverage we get when that business is up. And as a result of those actions, it's actually delivering a little bit more as we move forward and grow the business.

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### Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Okay. Could you remind us what the comps are as you walk through the second quarter by month maybe? Just sort of what you're up against, that would be helpful. Thanks.

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

A

Is it by month, Chris?

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

A

By month for the second quarter.

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### Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Yeah.

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

A

Oh, sure. Okay. For 2Q, last year's May was up 0.7%, June was up 3.1%, and July was up 4.2%; for a total 2Q of 2.8%.

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### Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Okay. And with regard to just the earnings for a moment, I know sort of first half was likely what's in your initial thought was going to be somewhat at or below that 13% growth threshold, I would guess. As you think about Q2, and I know you said you're still going to have some expenses, but you're also going to inherit a very profitable week for Famous which is going to drive top line and some leverage. But maybe any additional color as to how do you think specifically about second quarter earnings. Could it be – potentially be upper end of that 16% growth because you're going to get a little bit better leverage from that extra week?

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

A

Yeah. I mean, the extra week certainly – as you pull forward those sales, a number of – especially in Famous, a lot of those expenses are relatively fixed. And so, you do get a little bit of a lift. And so, I think what we were trying to illustrate is, absent all of that, just to remind everyone that we did have some incremental distribution expense. And then you can add in that incremental top line that's going to move from the first quarter of last year's third quarter to the last week of the second quarter.

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**Christopher Svezia**
*Analyst, Wedbush Securities, Inc.*

Q

Okay. Just maybe a little more specific, when you look at consensus of roughly $0.58, [ph] we feel like that (00:33:23). Just so there's not some interpretation issue that would have the first quarter, do you feel like [indiscernible] (00:33:28) missing maybe a little bit [ph] just like (00:33:30) expense that's embedded potentially in the second quarter, just to be a little more accretive.

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

A

That is correct.

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**Christopher Svezia**
*Analyst, Wedbush Securities, Inc.*

Q

Okay. Yeah. Okay. Thank you. And then just, Diane, on the brand, just any additional color, Naturalizer – just what really stood out? I know sales were up a little over 1%. But I'm just curious how some of [indiscernible] (00:33:51) really stood out, if you can add some color about that.

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

A

Yeah. Yeah, sure. I'd be happy to. If you remember, our fourth quarter, shipments on the Brand Portfolio were up about 6%. And what we really are seeing in the first quarter is the real benefit of a lot of the work that we did, the shoes that we got out there, the speed-to-market, all the work that we've done to make sure we are trend-relevant. And we basically, Chris, showed shipment gains at Naturalizer and Sam and Allen Edmonds and Scholl's and LifeStride and Franco; the biggest brands that we have in the portfolio.

But the most important thing is not just the shipments in the quarter, it's back to what are our sell-through rates with our retail partners. And you can clearly see with all of them that we are enjoying double-digit increases with our Naturalizer business right now. We've been working hard at correcting that for quite a number of quarters and actually a good year and a half. We are now really showing some great progress on what Scholl's is doing and seeing nice double-digit increases there in sell-through rates in the first quarter. LifeStride was outstanding. Franco did very well in the quarter. Sam is continuing to do really well. Store comp was somewhere in the 3% range. Allen Edmonds was up 10%. Naturalizer was running at about a minus 1%, like Famous it's now running positive year-to-date.

So, back to not just the shipments but back to the sell-through rates and the consumer acceptance of our products at retail is, I think, what we're very excited about which is why we really believe the outlook is good. The guidance we feel is solid. And as always, we will continue to do everything we can to meet and beat all of our expectations.

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Okay. Sounds good. And Rick, all the best to you. Thank you for the help over the years and the interesting commentary. And as you depart, I was just wondering if there's any one last thing you want to say on this conference call. Any little [ph] Q2 tidbit (00:36:13) you want to give us, love to hear it.

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

A

Probably I'd have a pass on that [indiscernible] (00:36:19) give my paycheck here for the last couple of weeks, I don't want to disturb that. But thanks for all the comments, Chris, I appreciate it.

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Sure, thanks. All the best to you, and thanks.

**Operator**: [Operator Instructions] Your next question comes from Sam Poser with Susquehanna.

Renato Basanta
*Analyst, Susquehanna Financial Group LLLP*

Q

Hi, guys. This is actually Renato Basanta on for Sam. Thanks for taking my questions.

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

A

Hi, Renato.

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

A

Hi, Renato.

Renato Basanta
*Analyst, Susquehanna Financial Group LLLP*

Q

I guess, first, I was just hoping you could provide a little more color on bringing Molly on board at Famous. I know it's early, but maybe some comments on what her agenda is both in the near term and the longer term. Maybe some details on how the team will leverage her back on at Disney. And then some color on the bench around her to sort of support her in a more footwear focused role, any color there would be helpful.

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

A

Yeah. Okay, sure. I'll be happy to. I think I made quite a few remarks not only in the press release when we announced her coming and also in the commentary that I shared so far today. But I think, first of all, she's an amazing leader, got a tremendous amount of energy. She's worked for a world-class brand on world-class products in product development and in-store experiences. And way back when, 10 or 15 years ago, she also was in retail and was a buyer, and has all of that kind of experience.

So we really expect her to have a really terrific perspective on new ways to think about how we look at consumer experiences and the customers. So, that's number one. Number two, I really think about when we look at recruiting talent in this company, we don't want that one experienced a thousand times; we really want to make sure that we bring and have a talented executive leadership team here that has multiple levels of experience.

When you look at our ELT, it isn't all just in footwear. In our logistics area, we had somebody out of UPS and Express Scripts and Anheuser-Busch. Ken's experience you know was very different. You take a look at Jay Schmidt's experience, any of our ELT members and it really is our – it's the diversity of that experience together that helps you create, I guess, the best thinking about where the future is going to be.

And then, with respect to the bench strength there at Famous Footwear, it's an amazing team of people that have been with us for many, many, many years. And they are phenomenal, they've done a great job. Molly's coming in to a business that's extraordinarily well run. It's got a solid foundation. And she has no agenda yet because her job is to listen and to learn and to understand, and then to think about how we apply the best of what we need to apply for the future. So, I think you'll really enjoy meeting her; I think everybody will, and we're very excited about what we think she can bring to our organization. So...

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**Renato Basanta**
*Analyst, Susquehanna Financial Group LLLP*
Q

Great. Great. That's very helpful. Okay. And then I just wanted to get a better sense for the progress you're making in processing smaller order quantities more frequently. If you could just provide a little more detail around those initiatives? What brands will be most impacted and how much of those benefits you're seeing thus far in the Brand Portfolio?

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

Yeah. I mean, I think all of our brands, as we go direct to the consumer and as we partner with our wholesale partners, there is a need to be able to replenish smaller quantities. So, it really does go across all of the brands. And so, part of what we're doing is, like the way we had automated our Lebanon, Tennessee facility and our Tejon Ranch, California facility, we've brought in-house what was our wholesale facility and we're transitioning the brands into that facility.

And at the same time, we'll be automating it to be able to raise the overall capacity to meet the individual consumer and our customer demand. So, it really cuts across the entire – to shift it, many folks in this space are needing to address. And fortunately, for us, we've automated those retail distribution centers. And this is nothing more than actually providing that same type of automation into our wholesale facility.

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**Renato Basanta**
*Analyst, Susquehanna Financial Group LLLP*
Q

All right. That's it for me. Very helpful. Good luck, guys.

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

Thank you.

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

A

Thank you.

**Operator**: And there are no further questions at this time.

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

Thank you very much. I appreciate everybody joining us. And thanks, again, Rick, for – we'll have more opportunities to say thank you. But just on a public call, I really want to acknowledge and recognize my appreciation for the great leadership you've shown here at Caleres. Love you to death.

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

Thanks.

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

Talk to you later. Bye, guys.

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

Thanks, everyone.

**Operator**: Thank you. And that concludes today's conference call. You may now disconnect.