PARTICIPANTS

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.

Other Participants

Rick B. Patel – Analyst, Needham & Co. LLC
Steven L. Marotta – Analyst, C.L. King & Associates, Inc.
Christopher Svezia – Analyst, Wedbush Securities, Inc.
Laura Champine – Analyst, Loop Capital Markets LLC
Laurent Vasilescu – Analyst, Macquarie Capital (USA), Inc.
Sam Poser – Analyst, Susquehanna Financial Group LLLP

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Catherine, and I will be your conference operator today. At this time, I would like to welcome everyone to the 2Q 2018 Caleres Earning 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] Please note that today's conference is being recorded. Thank you.

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

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

Thank you, Catherine. Good afternoon. I'm Peggy Reilly Tharp, Vice President of Investor Relations for Caleres, and I'd like to thank you for joining our second 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 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 that's 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 I would 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 everyone, and thanks for joining us today to talk about our results. We're going to follow a similar format like we do most quarters, while I'll give you – while I'll give you a review of the overall business and strategy and then Ken will follow up with more details around the financials and talk a little bit about guidance. And then, we'll finish with Q&A.

So let me start by sharing a few highlights. For the second quarter, we delivered adjusted earnings per share of $0.59 up 23% in line with expectations and consistent with our guidance for 2018. We reported record second quarter sales on a consolidated basis for both Famous Footwear and the Brand Portfolio in addition to record second quarter operating earnings at Famous. We remained on track to deliver our seventh consecutive year of positive back-to-schools comp sales and we continue to grow the top brands in our Brand Portfolio and take consumer share in the market. We also maintained our strong balance sheet, cash flow, and return on invested capital, and as always, we have continued to execute our strategy and invest in the business.

So let's review our performance at Famous, where record second quarter sales of $430 million were up 6.1% and driven by lifestyle-athletic styles and sandals. Same-store sales at Famous were up 2.6% in the quarter and we saw improvements in traffic, conversions and pairs per transaction. E-commerce related sales improved in the quarter as well and represented 10% of total sales up about 15% off this solid base. Without a doubt, women's was the highlight of the quarter with comp sales up mid-single digits. Women's sandals also comped up mid-single digits with strong consumer interest in footbed styles that we have all heard very much about. The women's lifestyle-athletic category performed even better with comp sales up more than 20%. When we looked at the total adult athletic segment, that comped up mid-single digits with lifestyle-athletic again up more than 10%. In fact, retro styles were so strong this quarter that we couldn't keep pace with consumer demand.

Where we did see softness was in kids, which was down low-single digits as growth in athletic could not offset declines in non-athletic. We have work to do in this area and the team is focused on turning around our performance and better aligning the assortment with consumer demand.

In the second quarter also consumers continued to shop their way with more than 23 million people visiting our stores and leaving with approximately 9 million pairs of shoes, nearly 500,000 pairs of shoes were shipped directly to consumers from our stores, while more than 300,000 pairs were individually processed at our distribution centers including our facility in Lebanon, Tennessee. The strategic investment we've made in modernizing and expanding this facility has helped to drive not only our growth, but has improved our speed to consumer, productivity and profitability.

For the second quarter, Famous delivered record second quarter operating profit, up 32.4%, and an operating margin of 7.7%, up more than 150 basis points. This improvement really reflects the changes that we made in the field operations late last year as we reduced the number of regions down to four from eight and eliminated 11 districts to better align with shifting consumer shopping trends. It also demonstrates our ability to manage our retail door portfolio and still profitably grow sales while operating 47 fewer doors year-over-year.

And finally at Famous, we have new a leader in Molly Adams who joined us during the quarter. She is fully integrated into the business, visiting stores, meeting with vendors and working with the teams. Together, they remain committed to being best-in-class in consumer engagement as they continue to drive consistent growth at both the top and bottom line at Famous Footwear.

So, let's talk a little bit about the Brand Portfolio where our product continued to resonate with the consumer and once again, we posted significant market share gains in the second quarter. Five of our women's brands gained market share with growth rates ranging from mid-single digits all the way up to a market share gain of more than 40% for Dr. Scholl's. This strength reflects the success we've seen at executing against our 2018 strategy, which was to take share in the market and to grow our top five women's brands with Sam Edelman and Naturalizer leading the way.

For Sam, the brand delivered its largest second quarter in history, while Naturalizer reported its fourth consecutive quarter of wholesale growth in North America and saw a 4% increase in same-store sales. At Vince, the brand was under pressure from sales and channel shifts, resulting in softness during the quarter. This also impacted overall gross margin as we aligned with the overall parent brand distribution strategy. Going forward, we expect to see some continued shift in sales and channel mix for this brand.

Now from a product perspective, sport inspired styles helped fuel the improvement in the Brand Portfolio with the majority of our brands growing sales in this key category double-digit and even triple-digits. Sandals had an outstanding quarter with sales up more than 20%. E-commerce related sales were another strategic component of our growth, up 24%, with drop-ship up more than 40% year-over-year. In total, Brand Portfolio sales were up 1.9% making this our seventh consecutive quarter of year-over-year sales growth. Excluding the mass channel, which we have been gradually exiting, Brand Portfolio sales in the quarter were up more than 4%.

Part of our success in this quarter, as it has been in the past, has been our ability to read and react to trends in the marketplace through our speed-to-market program. We think this is really reflected very well in our retail selling rate, which was up 10% in the quarter. This summer, we performed quite well and were able to rapidly get the best-selling styles back into stores as more than 20% of our total second quarter sandal sales utilized our speed-to-market program.

At Brand Portfolio, we're also focused on the second leg of that journey to the consumer, and our speed-to-consumer program is focused on efficiently accelerating this process. While I have shared a few details about our strategic shift to in-house fulfillment on previous calls, I'd like to provide just a few more specifics. As I mentioned, we continue to see success and growth in e-commerce related sales, and our new distribution center will enable us to more efficiently process these orders and allow us to continue to grow our business and meet consumer expectations.

The investment we're making in this new facility will help drive productivity through automation and give us increased capacity as we continue to grow. The first half of the campus is up and running with our investment in automation coming next year. While the expense associated with getting to this point is having a short-term impact on our Brand Portfolio operating margin, with an in-house solution we are creating a competitive advantage and gaining agility a third-party provider just isn't motivated to deliver.

We're going to be able to better respond to rapidly shifting customer requirements and improve service levels. We'll actively manage the cost to ship on a per pair basis and offset future cost increases with productivity gains.

Now, I thought I would just make a few comments around our brand diversification efforts and Allen Edmonds, where we saw same-store sales up 2.6% in the quarter and e-commerce comp sales were up more than 20%.

We continue to be excited about this brand and what we've accomplished over the last 18 months. We've improved the quality of some of our core product. We've added new product. This spring, we relocated all consumer-facing activities to St. Louis and we are in the middle of launching a rebranding effort, all designed on making Allen Edmonds a better American luxury brand.

We've refreshed our brand strategy and storytelling. We've added new merchandise like the – something called the Artisans of Freedom apparel and accessories collections, which are American made, brand-enhancing and differentiated. And you'll be able to see them in our stores in the next 30 days.

And our new television campaign will roll out the last week of September. And again, all of this effort was designed to broaden our consumer appeal and to bring new consumers into the franchise and keep the growth going.

In total, we are investing more than $3 million in our focused rebranding effort and look forward to sharing more with you as we progress through this relaunch. We also further continue to expand and diversify our portfolio of brands with the acquisition of Blowfish Malibu in the second quarter. Not only did the acquisition allow for continued expansion of our overall business, it gives us additional exposure to a younger consumer and the growing sneaker and casual lifestyle segment of the market.

The decision to partner with Blowfish was an easy one; thanks to the longstanding relationship that Famous has enjoyed with that team. And with our newly expanded relationship, we now have even greater insight into the power and potential of that brand. And we're pleased with what we're seeing in these early days.

As I mentioned, I think, last quarter as well we remain excited to expand our overall business with the right brand or brands, and we continue to look for those that have great consumer exposure beyond our current portfolio. It's clear that we have the infrastructure and the bench strength that's necessary to take on additional acquisitions, and are really looking for brands that have long-term growth potential.

And with that, I'll turn it over to Ken to cover our financials in a little more detail. Ken?

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

Thank you, Diane, and good afternoon, everyone. For the second quarter, we delivered adjusted diluted earnings per share of $0.59, up 23% over the prior year. Reported earnings per share was $0.55 and included $0.04 per share for the previously announced transition of Allen Edmonds' merchandising, marketing and e-commerce teams to St. Louis and for the purchase accounting cost associated with the acquisition of Blowfish Malibu.

Through the first half of the year, adjusted diluted earnings per share of $1.02 were up 15.9% year-over-year, consistent with our fiscal 2018 earnings per share guidance calling for growth of 11% to 16%.

Consolidated sales for the second quarter of $706.6 million were up 4.4% versus the prior year. At Famous Footwear, comp sales were 2.6% in the second quarter; and total Famous sales of $429.5 million were up 6.1%. This amount included approximately $20 million for one week of sales which shifted into the second quarter of this year versus the third quarter of last year. As a result of actively managing our store portfolio, we operated 47 fewer doors year-over-year.

For our Brand Portfolio, second quarter sales of $277.1 million were up approximately 2% in total and up more than 4% excluding the planned reduction in sales to the mass channel. Year-to-date 2018 consolidated sales of $1.3 billion were up 2.3% versus 2017.

Famous Footwear first half sales of $792.9 million were up 2.8% in total year-over-year, driven by strong e-commerce growth, offset by fewer stores. Our same-store sales at Famous were up 1% in line with our annual guidance. For Brand Portfolio, sales of $545.9 million or 1.6% ahead of the first half of 2017, driven primarily by our Sam Edelman and Naturalizer brands.

Let's turn to gross profit, which came in at $293.1 million in the second quarter up 2% year-over-year. Our consolidated gross margin of 41.5% for the quarter was down nearly 100 basis points on a reported basis, driven by a 170-point decline at Famous Footwear due in part to the additional week of BOGO sales in the quarter and continued strength in our e-commerce business.

For Brand Portfolio, second quarter gross margin of 38.2% was down 4 basis points year-over-year driven by Vince as this brand continues to be impacted by changes to sales and channel mix. Before we get into expense, I do want to remind everyone of the new pension accounting standard effective this year, which required a shift of $2.7 million of retirement plan income from the second quarter 2017 SG&A expense to other income. There was no impact to second quarter 2017 net earnings or earnings per share due to the adoption of the standard, but it does impact the geography of the income statement, including our operating profit and operating margin.

Our SG&A expense for the second quarter of 2018 included approximately $3 million of duplicative distribution center costs as we invested in the transition to our in-house fulfillment solution for our Brand Portfolio. Despite this additional investment in warehousing and distribution expense, consolidated SG&A decreased to 36.6% of sales, down approximately 120 basis points versus the second quarter of 2017. On a year-to-date basis, SG&A decreased to 38% of sales, down nearly 40 basis points, including total duplicative warehousing and distribution center costs of more than $5 million as we in-source this important fulfillment capability.

Our depreciation and amortization of $14.7 million was down 10.2% in the second quarter versus the same period in 2017 driven by fewer store openings. Our operating earnings were $32.1 million in the second quarter on a reported basis and $34.8 million adjusted, both numbers including the $3 million of duplicative distribution expenses. We delivered operating margin of 4.5% on a reported basis, up 35 basis points year-over-year while adjusted operating margin was up 2 basis points, including the duplicative distribution center costs. At Famous Footwear, operating earnings of $33.2 million, were up 32.4% over the prior year second quarter while operating margin of 7.7% increase more than 150 basis points, reflecting changes we made in field operations late last year to align with reductions in our overall store counts.

For Brand Portfolio, adjusted operating earnings of $15.9 million were impacted by the investment in future capacity and profitability we are making with our transition to an in-house distribution center for our brands. As discussed for the second quarter, we saw approximately $3 million of duplicative warehousing and distribution center expenses. Our net interest expense for the second quarter was $3.6 million, down nearly 20% versus the second quarter of last year when we were paying down our December 2016 acquisition of Allen Edmonds.

Our tax rate for the second quarter was 25.3% on a GAAP basis, a reduction of more than 860 basis points versus the second quarter of 2017 rate of 33.9%. Our capital expenditures were $12.1 million for the second quarter, down 19.2% year-over-year reflecting a reduction in the number of new doors across the portfolio.

Now, turning to our balance sheet, we ended the second quarter with cash and equivalents of $102.9 million up nearly $50 million versus last year. This also reflects the acquisition of Blowfish Malibu which was financed with cash from operations in the quarter. Our consolidated inventory position at quarter end was $715.7 million as we continue to manage our investments in inventory.

For Brand Portfolio, overall inventory was down 3.1% year-over-year. At Famous Footwear, inventory was up slightly at 0.4% reflecting the one week shift in the calendar. On a 52-week basis, inventory was up less than $1 million. We continue to actively manage the real estate portfolio at Famous Footwear and ended the second quarter with 1,008 Famous Footwear doors, 47 fewer than the second quarter of last year. For our Brand Portfolio, we closed two Naturalizer doors in the quarter leaving us with 233 total Brand Portfolio retail doors at quarter-end.

The strength and flexibility of our balance sheet continues to provide us with a strategic advantage. As we effectively manage our invested capital and strengthened our overall returns, we've delivered an adjusted return on invested capital of 17.8% in the second quarter, that's up approximately 140 basis points over the same period last year.

Before we begin Q&A, I'd like to remind you of our fiscal 2018 guidance, which reflects earnings per diluted share to be up 11% to 16% over 2017. This growth rate includes an expected benefit of approximately $0.13 per share due to our lower effective tax rate. It excludes approximately $0.07 to $0.08 of total Allen Edmonds transition costs as previously announced, an additional $0.02 to $0.03 of Blowfish Malibu acquisition expense.

For the third quarter you should expect to see approximately $0.02 to $0.03 related to these events.

Our guidance as usual includes a number of store openings and closings and these details can be found on the earning 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, but haven't had any material impact on our 2017 earnings. And as we've already discussed due to the related calendar shift, we expect third quarter 2018 sales at Famous Footwear will be down approximately $20 million.

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

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

No, I think we'll go to Q&A.

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

All right.

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

How does that sound?

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

There you go.

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

All right.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we'll take our first question from the line of Rick Patel with Needham & Company.

<Q – Rick Patel – Needham & Co. LLC>: Thank you, good afternoon, everyone.

<A – Diane Sullivan – Caleres, Inc.>: Good afternoon.

<Q – Rick Patel – Needham & Co. LLC>: I was hoping you could talk about the outlook for kids at Famous. As we think about the merchandizing enhancements that are underway, any details on where the most work needs to be done and the timing of when you expect that part of the business to turn around and I'm sorry if I missed it, but can you talk about the performance of men's at Famous as well?

<A – Diane Sullivan – Caleres, Inc.>: Yeah, sure. Let me start with your kids question first, and the kids business just – we actually just signed a new DMM at kids, a woman named [ph] Liz Robertson (00:23:33) who's been with our team for a while, we're really happy to promote her and she and Karlyn and Molly are beginning to take a look at what we're – what we need to do in the kids business. It primarily worked with, around – well, the performance segment of our business is pretty good. The non-athletic side of it was a little bit weaker and we basically are doing everything we need – that we can do to change that assortment as quickly as possible and make sure we put better product and great product in front of the consumer. So, the expectation around the time period I would think is a quarter or two. And, I fully expect that we'll be back into positive comp territory in no time.

On that, as it relates to the men's business, our men's business was good on the athletic side and basically flat on our non-athletic side. Again, as I mentioned on the call, our big news and the strongest point across all of our merchandise categories was really women's virtually in every aspect with the exception of maybe performance athletic but the lifestyle athletic really was able to replace any of the lost business there. So, generally speaking we feel like within a couple of quarters we'll certainly have that kids business back on track if not sooner, we'll see.

<Q – Rick Patel – Needham & Co. LLC>: That's helpful. Can you also talk about buy online, pick up in store? I believe it launched in June of 2017, but Famous didn't really tap these abilities until earlier this year. As you make this into a greater focus, I'm just curious how customers are responding and whether you see this as a needle mover.

<A – Diane Sullivan – Caleres, Inc.>: Yeah, we do. We think it is. Consumers absolutely love it. I think I mentioned in the script we actually had shift close to 0.5 million pairs of shoes from our stores just in this quarter, which ultimately gives us the opportunity obviously to get the customer back into the store and sell them on other items. And we're currently in the process of really figuring out how we track and measure that even better than we are today. And then, with the growth in e-commerce, and people wanting to shop online, we think this – and the cost actually of servicing the consumer. We think this actually is going to continue to be an advantage for us. So we like it and you're going to see and hear more of it from us going forward.

<Q – Rick Patel – Needham & Co. LLC>: And one more if I may on the Brand Portfolio, I was hoping you could talk about the outlook for drop-shipping. So I think that's been a pretty terrific area in terms of your performance. I'm just curious what percentage of the assortment that touches right now and whether you have a long-term target. And if that does get bigger, what does that imply to the economics of the Brand Portfolio?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. I think, in general, what we're really trying to make sure we do is allow the consumer to find our brands in whatever way and shop our brands in whatever way that they can. So whether it's drop-ship, whether we are selling our brands on other's dotcom, our own dotcoms in-store, I mean it's really kind of a whole basket of opportunities. We have seen just tremendous growth in terms of drop-ship. We had almost 40% growth in that segment of our business this last quarter. Total direct to consumer for us now is close to 28% of our total business. That's what it looked like in the quarter.

So all the work that we're doing in our distribution centers and the investments that we're making, as you heard me mention and as Ken spoke about in his remarks as well, those are absolutely essential and critical capabilities that if we want to continue to grow and service the customer the way they need to be serviced, we're going to have to do that. So I think that's only going to get to be a bigger and bigger piece of our total business.

Many retailers today, as you know, they are seeing upwards of 40% to 50% of their business coming from online, and we're going to have to continue to figure out how we grow with the way the customer wants to buy shoes. So we think we're in a good position on that, Rick.

<Q – Rick Patel – Needham & Co. LLC>: Thank you. All the best for back-to-school.

<A – Diane Sullivan – Caleres, Inc.>: Thanks.

Operator: Your next question comes from the line of Steve Marotta with CLK Associates.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Diane and Ken, good evening.

<A – Diane Sullivan – Caleres, Inc.>: Hi.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Diane, do you want to comment a little bit on the third quarter to-date comps?

<A – Diane Sullivan – Caleres, Inc.>: Sure. We are seeing comps right in the same range that we saw in the second quarter, Steve. So very similar.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Okay. And besides the retro look, which I assume is spilled over into the third quarter as well and strengthened that, can you talk a little bit about other categories which are outperforming and maybe a category or two that's underperforming?

<A – Diane Sullivan – Caleres, Inc.>: I would say the trends that we've seen in the second quarter have continued all the way through back-to-school, so not a whole lot of new news there. I would say that we're also seeing some good, early reads on booties in particular. So we're hopeful that boots and booties into the fall selling season will be good.

Sandal sales continued, as you heard. I mean we typically, what, call them seasonal categories. We don't really think about them that way anymore. They're in many ways year-round category. So we think that there's opportunities on both sides of the equation for us. So good reads on boots. Sandals continue to sell, slowing down a little bit now. But after this weekend, I don't know where you were, but it was hot. And sandal sales continued. And other than that, pretty much the same trends that we've seen, Steve.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Sure. Given your comments on investments in automation, can you remind where guidance is this year on CapEx? And I know you're not giving guidance next year, but you mentioned that this automation investment will be spilling over for the next 12 to 18 months or so. Can you talk a little bit about what CapEx could be next year in light of those investments?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. Sure. Ken, do you mind taking the...

<A – Ken Hannah – Caleres, Inc.>: Yeah. Our CapEx guidance for 2018 was approximately $50 million. And so, that had contemplated some of the initial investments into the distribution centers. And as we look into the next couple years, I think we'll be able to balance that investment in the distribution center with some of the store opening numbers that we have had historically. So we wouldn't expect that number to differ by too much.

If you recall back when we were doing the modernization of Lebanon, I think we had taken that traditional $50 million number and had taken it up I think $60 million to $70 million. And so, that was back when we were opening approximately 50 stores a year at Famous. So that number now, opening this year is 20. And so, we wouldn't expect the number to differ a whole lot from the $50 million that we have in the 2018 guidance.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Okay. That's helpful. Last question. Ken, you mentioned that there's a $20 million headwind in the third quarter associated with that calendar shift at Famous. Is it $20 million just for that or is Famous expected to be down $20 million on an absolute basis?

<A – Ken Hannah – Caleres, Inc.>: Just the $20 million associated with the shift from the third into the second.

<Q – Steve Marotta – C.L. King & Associates, Inc.>: Got you. Okay. I just wanted clarity on that, and I'm all good. Thank you so much.

<A – Ken Hannah – Caleres, Inc.>: Thanks, Steve.

<A – Diane Sullivan – Caleres, Inc.>: Thanks, Steve.

Operator: Your next question comes from the line of Chris Svezia with Wedbush.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Good afternoon, everyone. Thanks for taking my questions. I guess, first, just on the – just the cadence of comp in the second quarter for Famous. Could you just maybe walk through that, how it played out May, June, July?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. Hi, Chris.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Hi.

<A – Diane Sullivan – Caleres, Inc.>: Let's see, May was mid-single digits and June and July were low-single digits.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. Was June-July any different between the two of them or are they both pretty comparable?

<A – Diane Sullivan – Caleres, Inc.>: No, it was pretty close actually. It was pretty close, all-in. The weeks obviously...

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay.

<A – Diane Sullivan – Caleres, Inc.>: ...a lot of variation by week. But total, very similar.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. And can you remind us what you're up against going to Q3 as the cadence unfolds August, September, October?

<A – Diane Sullivan – Caleres, Inc.>: Sure, I can. Let's see, up 2.6% in August, down 0.7% in September, and down 0.5% in October.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay.

<A – Diane Sullivan – Caleres, Inc.>: So, all-in, up 0.9% in the third quarter.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay, okay. Got it. What about the Famous Footwear, the 170 basis point gross margin pressure, how much of that is just related to the extra week and a BOGO moving in and could you just give us some idea what the underlying gross margin looks like and how that maybe changes as you go into Q3, that's what I'm trying to get at?

<A – Ken Hannah – Caleres, Inc.>: Yeah, on the 170 basis points, about 100 basis points of it, a little over 100 basis points is tied to that $20 million that shifts out of Q3 into Q2. And then the rest is really just the incremental growth in the e-commerce related sales. I think the famousfootwear.com site sales were up almost 30%. So obviously with that, the shipping and stuff coming out of there it has an impact back through to the actual gross margin rate and then obviously we made that up in SG&A dollars to deliver a pretty solid operating margin.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. So would you expect [ph] any reason (00:34:05) to think that gross margin would not improve in Q3 or is that still a shipping headwind will still put pressure on that Famous Footwear gross margin?

<A – Ken Hannah – Caleres, Inc.>: Well, when you say improve you're talking about Q3 year-over-year...

<Q – Chris Svezia – Wedbush Securities, Inc.>: Yes.

<A – Ken Hannah – Caleres, Inc.>: ...or Q3 to Q2?

<Q – Chris Svezia – Wedbush Securities, Inc.>: No, year-over-year.

<A – Ken Hannah – Caleres, Inc.>: Yeah, we would still expect that to be up year-over-year as you take up, you don't have the pressure of the week like we did in the second quarter and then you're really offsetting it. It depends on the mix of the sales from e-commerce in the third quarter.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. With regard to – just want to go back to your overall guidance on earnings for the year up 11% to 16%, you did up 16% in the first half of the year, I think initially you felt some of the expenses related to the fulfillment center would maybe put a little pressure on that earnings growth, you ended up delivering something a little bit stronger. Anything we should think about as we go into the back half of the year that we should be considering given the fact maybe I thought initially there would be stronger growth in back half of the year.

<A – Ken Hannah – Caleres, Inc.>: Yeah, no. I think Diane had mentioned we do have some investments that we're making into the Allen Edmonds brand. And so a lot of that is happening in the back half. So, I think what you see is obviously we're not expecting the same level of duplicative distribution center costs, but we are planning to make some investments in the Allen Edmonds business.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. So it's fair to say whatever costs you were assuming potentially now you're – were the investments always assumed in the model or is that something new. I thought that was as already in model?

<A – Ken Hannah – Caleres, Inc.>: They were assumed in the model.

<A – Diane Sullivan – Caleres, Inc.>: Yeah.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay.

<A – Ken Hannah – Caleres, Inc.>: So, we fully expect that the operating margins in the Brand Portfolio are higher in the second half than they were in the first half and picking up the benefit of not having those duplicative cost. And then where we've got the growth is where we – when we put our plan together we had made plans to make some additional investments into the Allen Edmonds brand.

<Q – Chris Svezia – Wedbush Securities, Inc.>: And just a point of clarification, when you say higher on the Brand Portfolio operating margins are you talking about year-over-year, not – I mean, sequentially it's obvious because that always happens. So, I'm just curious are you talking about that year-over-year.

<A – Ken Hannah – Caleres, Inc.>: Yes.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay.

<A – Ken Hannah – Caleres, Inc.>: And sequentially, but yes.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. Final thing just Diane, could you just on the wholesale on the Brand Portfolio, maybe we can just get a little more color about the growth in those brand – you talked about gaining market share, I'm just wondering maybe you could just walk through a little more highlights specifically what grew, what didn't grow, and why?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. Hey, the good news Chris was that virtually all but two grew. So let me talk about the ones that did. I mentioned both Sam and Naturalizer. They grew very nicely in the quarter. And they grew and they grew market share in the quarter in addition, so did Franco Sarto, so did LifeStride, so did Scholl's as well as almost every other brand in the portfolio with the exception of what I spoke to which I highlighted this business that as we're beginning to follow the distribution strategies that the brand has – that's meant that we've had to shift some of our business around, so that had a little bit of a negative impact in the quarter.

And that's really been the only two that were challenged in the quarter. The rest of it has been pretty strong stand outs. And what we've tried to do too is not all things are created equal, right. Those top five brands that I mentioned have – are the most meaningful, right, they're in essence, our lead assets. So those are the ones that we really want to make sure that we continue to drive and get the growth there. So we're very focused on that and really happy to – happy that we were able to just deliver that.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Okay. Sounds good. All the best into the fall selling season.

<A – Diane Sullivan – Caleres, Inc.>: Thanks, Chris.

<Q – Chris Svezia – Wedbush Securities, Inc.>: Certainly.

Operator: Your next question comes from the line of Laura Champine with Loop Capital.

<Q – Laura Champine – Loop Capital Markets LLC>: Hi, thanks for taking my question. It's really about the Famous part of the business. It looks like there's an expectation for gross margin reversal as we move through the back half of the year. Could you add some color to what will be driving that?

<A – Ken Hannah – Caleres, Inc.>: Yeah. I mean most of that is not having the same levels of distribution center expense in the back half and that's what most of it is. There is some just seasonal – typically year-over-year, the back half margins are higher than the first half in that segment in total, but for the most part it's just – it's eliminating the duplicative expense.

<Q – Laura Champine – Loop Capital Markets LLC>: And then secondly on the shifts happening with distribution and just sales generally with Vince, how long would you expect the issues that you're facing there to persist?

<A – Diane Sullivan – Caleres, Inc.>: Well, they – basically the partnership there is that it's Nordstrom and Neiman, as well as their own stores and some other independents that they're really selling the apparel in. And so I would expect that it will be a quarter or two and then it will level off. So it's really that we've had expanded distribution outside of that, so we're kind of following their lead on that. They really felt that that was the way to improve the overall profitability to the brand and stay focused on a specific set of consumers. So we're following along with them on that, so let's see.

<Q – Laura Champine – Loop Capital Markets LLC>: Got it. Thank you.

<A – Diane Sullivan – Caleres, Inc.>: Yeah.

Operator: Your next question comes from the line of Laurent Vasilescu from Macquarie.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Hello, good afternoon, thanks for taking my question. I was wondering if you can give a little bit more color around the rationale, the decision making around the acquisition of Blowfish Malibu. Could this platform lead to a larger sandal business and how should we think about earnings contribution for next year since it's [ph] un-negligible (00:41:01) for this year?

<A – Diane Sullivan – Caleres, Inc.>: Yeah, sure Laurent, hi it's Diane. With respect to the decision around it, again we had – we really had good visibility about how that brand was performing obviously not only through all the normal channels but again firsthand with our Famous Footwear folks. And one of the gaps in our portfolio was really the sneaker and California lifestyle, a little more casual as well as more of a millennial kind of consumer, so we thought that was an obvious opportunity for us.

And again, it has been growing pretty nicely and talented people there with the need for a little more infrastructure and a little more help with some of their growth strategies and growth plans. So, it really seemed to be a really nice opportunity to tuck in what is right now a relatively small business, but that we expect that it certainly in the near-term in the next couple of years could double.

And as we continue to look at how we evolve our portfolio as we own that brand, so if we wanted to manage some of the brands that we license the operating margin and return on something like that would be really nice, not to mention the fact that it was reaching a new consumer and it does skew a little bit towards spring versus fall and very much our Brand Portfolio skews a little bit towards the back half, so that was additional help in making the decision too. So that was pretty much some of the rationale and Ken will speak to kind of what you should expect in terms of its earnings impact in the near term.

<A – Ken Hannah – Caleres, Inc.>: Yeah. There's a little bit more detail around coming out in the Q, but what you'll see is a business that you can see on our cash flow statement this quarter, we paid a little less than $20 million for a majority share and we would expect that it would be a couple of pennies accretive going into next year. And as Diane mentioned that it's a big spring business and the teams are doing a lot to grow their fall business, to make it a year-round business. But we're very excited about it and happy that in the first year it'll be accretive to earnings. And as we give our guidance for next year, we'll lay out a little bit more detail around that.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Okay, very helpful. Thank you very much. And then, I don't think Molly is on the call today. But maybe you can talk a little bit about the vision to drive consumer engagement, store productivity, omni-channel initiatives under her leadership at Famous Footwear?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. Well, I would rather have her do that when she has a shot, Laurent. But I would say here – she spent – made sure that she spent her first 90 days or so with the teams out visiting stores, meeting with vendors, looking at the marketplace, looking at the landscape, making sure she had a really good understanding of what our opportunities were, our strengths and our weaknesses, and made sure she got a really good foundation.

And it was such a terrific time to come in during back-to-school as well, because it's sort of one of our peak selling times. So it was great for her to see all of those things in action. I mean, she is terrific in the sense that her bias is very much about consumer, consumer engagement, looking at everything from a consumer lens. Coming from Disney, as you can imagine, it is about the experience.

So we're hoping that certainly within the next six months that what we would love to do is to have another Investor Day. We think that's time, and that would be a wonderful moment to have her have the opportunity to sort of lay out her perspective of what the business is going to look like in the next couple of years.

So we're excited about it; thrilled so far. The team seems to be working really well together, which you always worry about, making sure that the cultural fit and everything works well. And the early indications are that the team is happy and she's happy. So we're going to start to accelerate our plans.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Okay, very helpful. And then last two maybe more short-term questions. I'm sorry, if I missed this, but did you quantify how August did at Famous Footwear? And then any thoughts around the boot category for the second half would be helpful.

<A – Diane Sullivan – Caleres, Inc.>: Yeah, sure. I mentioned that August comping roughly the same as what our second quarter did. So very typical to what that is. And our boot category is off to a nice start. We had planned for it to actually sort of kick off a little bit later in September than we did last year. I'm sort of glad we did that because clearly the weather has been very warm and sandal selling has been great. But the early reads on boots are good. I think we planned it flat. I'm pretty sure that we'll do better than that this year. The bootie category, in particular, we're getting very nice early reads on that, both at Famous and actually with our Brand Portfolio. So we're keeping our fingers crossed. We think it should be a great fall season.

<Q – Laurent Vasilescu – Macquarie Capital (USA), Inc.>: Great to hear, and best of luck.

<A – Diane Sullivan – Caleres, Inc.>: Thanks.

<A – Ken Hannah – Caleres, Inc.>: Thanks, Laurent.

Operator: Your last question comes from the line of Sam Poser with Susquehanna.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Good afternoon. Thanks for taking my question, everybody. A few questions. How many stores are you closing this year at Famous now? And you said you're going to open 20, how many are you closing?

<A – Ken Hannah – Caleres, Inc.>: Opening 20 and closing 70.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: And can you tell us what happened in the quarter and how you see that flowing for the balance of the year?

<A – Ken Hannah – Caleres, Inc.>: Yeah. Year-over-year, we're down, I think, 47 stores year-over-year. And then we see that accelerate after the back-to-school, assuming we don't get any improvements in any rent deals or anything, but that's the plan.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Let me rephrase. How many stores did you open and close in Q2? And then how does that look in Q3 and Q4?

<A – Ken Hannah – Caleres, Inc.>: Hold on. Let me tell you exactly. So, in the quarter, we opened 4 and closed 9. In the first half, we opened 6 and closed 24.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: And then in Q3?

<A – Ken Hannah – Caleres, Inc.>: So then, in Q3, I think we've got like 10 openings and then the plan post back-to-school would be to close the remaining stores.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Do you foresee that happening more in the fourth quarter than the third, however?

<A – Ken Hannah – Caleres, Inc.>: It's split evenly between the third and fourth right now, the way we planned it.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: So around 23 a quarter, give or take. Okay. Let me ask you a couple more. Did you have enough of these footbed sandals to get you through, or is this something where there'll be an opportunity going forward?

<A – Diane Sullivan – Caleres, Inc.>: Definitely an opportunity going forward, Sam.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Okay. And then we didn't understand what you said about direct or the drop-ship. Does the 28% – I just want to clarify what you said there about 28% of your business was direct. Is that meaning you were...

<A – Diane Sullivan – Caleres, Inc.>: Yeah. 28% of our Brand Portfolio business was through some form of e-commerce or dotcom business.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Yours, or yours and your partners?

<A – Diane Sullivan – Caleres, Inc.>: Total. Total ours and our partners.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Got you. And then, lastly, Allen Edmonds. Was Allen Edmonds up in the quarter year-over-year?

<A – Diane Sullivan – Caleres, Inc.>: Let me look. They were up 2.6% in the comps. I think they were roughly flat in brick-and-mortar, up a little over 20% on e-commerce – and they're pulling the numbers for me – and then down in wholesale which has been one of – that's been certainly happening for a while. We spent in the stores cleaning out a lot of our non-shoe categories of business. So we were moving through all of that as we were getting ready for our launch here in the third quarter for new products coming in into the store. So a good decent comp, not so great at wholesale.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: So, I mean I noticed on your website, I mean there was a lot of banner promotions for footwear going on seasonal and some regular stuff.

<A – Diane Sullivan – Caleres, Inc.>: Right, yeah.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Is that the clean up? Or I mean there was some new product on the clearance. So, how do you balance sort of your average selling prices here, how you're going to re-launch when you've been very promotional for quite some time?

<A – Diane Sullivan – Caleres, Inc.>: Yeah. So, we certainly had been and that was something that we've been trying to work our way through to – I don't know. How I talk about it is the clutch and gas right, that you have to figure out how you're going to continue to drive your top line and clean out some of the goods and – but make sure you're delivering some earnings along the way with all of it.

So it's been a little bit of a challenge doing some of that. We needed to reduce the amount of promotional activity for sure, not only for our own stores and online, but also for our wholesale partner. So that's the work really of this entire rebranding effort, new product, is to make sure we have enough new products that's focused on certain channels of distribution, that is going to be non-promotional, that has MAP pricing around it.

And in addition to that, we needed to make sure that we continued to offer different kinds of products in our stores, a different experience, not only great new footwear collections, but also new collections through that Artisans of Freedom group that they – that Malcolm has pulled together which is, looks like it's going to be really, really interesting.

We've got something like 6 to 10 different collaborations that'll be going on for the next 6 to 12 months and it's all from American made products from different companies across the U.S. here that are making men's accessories and new categories. So we think that's going to be a really nice way to begin to tell a really fresh story to the consumer.

And then as I mentioned driving some new TV directly to consumers, so we can bring – keep bringing in new consumers into the franchise and which will allow us to not be relying on the same customers that we have, but actually broaden the customer base. And I had a chance to see one of the spots I think late last week and I was surprised to see a guy named Baker Mayfield making a little appearance in one of those ads.

So it'll be interesting to see as we keep focusing on our core customer and figure out – continue to figure out how to broaden it and really become that better American luxury brand. So, it's a work in progress and I think that this fall will be the start of our ability to really begin to reduce those promotions and rebuild our wholesale business.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Okay. I have two more questions. One for you just to follow-up, what's the split...

<A – Diane Sullivan – Caleres, Inc.>: Sure.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: ...of wholesale and direct for Allen Edmonds? And secondly for Ken, do you foresee in Q3 earnings being up or are earnings going to be down because of the shift?

<A – Diane Sullivan – Caleres, Inc.>: It's about 90% direct at Allen Edmonds. So, wholesale is a fairly small portion of our total business Sam and Ken is looking up...

<A – Ken Hannah – Caleres, Inc.>: Yeah. Are you are talking about Famous specifically?

<Q – Sam Poser – Susquehanna Financial Group LLLP>: No. I'm talking about earnings overall. Do you expect earnings overall to be up in the quarter or down because I mean Famous is a good chunk of them anyway, so.

<A – Ken Hannah – Caleres, Inc.>: Yeah, no. We're expecting earnings to be up in the quarter in total. They will be down in Famous with the $20 million shifting out, but we expect the total company to be up.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: And do you expect total revenue to be up with Famous' $20 million and the store closings – with those net store closings or not. Have you not...

<A – Ken Hannah – Caleres, Inc.>: Slightly, yeah it...

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Total core company revenue is going to be up slightly. Famous' revenue likely to be down though, correct?

<A – Ken Hannah – Caleres, Inc.>: Famous will be down, yes.

<Q – Sam Poser – Susquehanna Financial Group LLLP>: Okay. All right. Thank you guys very much, and good luck. Thanks.

<A – Ken Hannah – Caleres, Inc.>: Thanks, Sam.

<A – Diane Sullivan – Caleres, Inc.>: Thanks, Sam.

Operator: And there are no further questions at this time. I'd like to turn the call back over to Diane.

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

Thanks very much, and again, I'd like to thank everyone for joining us as we delivered a record setting second quarter. There's a lot to look forward to as we drive towards our seventh consecutive year of positive back-to-school comp sales as we continue to take market share in our Brand Portfolio and as we look to deliver another year of double-digit adjusted EPS growth. Thanks again. Talk soon.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.