26-Aug-2019

Caleres, Inc. (CAL)

Q2 2019 Earnings Call

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

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

Laura Champine
Analyst, Loop Capital Markets LLC

Rick B. Patel
Analyst, Needham & Co. LLC

Christopher Svezia
Analyst, Wedbush Securities, Inc.

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

Sam Poser
Analyst, Susquehanna Financial Group LLLP

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the Caleres Second Quarter Earnings Conference Call. My name is Jessie, and I will be your conference coordinator. 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] As a reminder, this conference is being recorded.

At this time, I'll turn the call over to Ken Hannah, Senior Vice President and Chief Financial Officer. Please go ahead.

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

Good afternoon. I'd like to thank you for joining our second quarter 2019 earnings call and webcast. A press release with detailed financial tables as well as slides are available at caleres.com. Please be aware today's discussion contains forward-looking statements which are subject to a number of risks and uncertainities. Actual results may differ materially due to various risk factors including, but not limited to the factors disclosed in the company's Form 10-K and other filings with the U.S. Securities and Exchange Commission.

Please refer to today's press release and our SEC filings for more information on risk factors and other factors which could impact forward-looking statements. Copies of these reports are available online. The company undertakes no obligation to update any information discussed in this call at any time. Joining me on the call today is Diane Sullivan, CEO, President, and Chairman.

I would now like to turn the call over to Diane.

Diane M. Sullivan

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

Thanks, Ken, and good afternoon, and thank you for joining our second quarter call and for your continued support of Caleres. During the quarter, we continue to successfully execute on our strategies to strengthen the emotional connections we have with our consumers. Our deep insights combined with our industry-leading footwear capabilities allowed us to deliver relevant products supporting continued growth in the Brand Portfolio, positive same-store sales growth at Famous Footwear, and record second quarter total sales. Our focus on expense discipline also allowed the top-line performance to translate into improved profitability for the quarter, resulting in a solid increase in earnings per share.

Turning to the details of the second quarter, we are pleased to have delivered a product that resonated across multiple consumer segments this quarter. The weather certainly resulted in a later spring that impacted our sandal business and there was a noticeable increase in demand for novelty and newness.

We also experienced retailers managing their inventories which led to a moderation in replenishment orders. Fortunately, the investments we have made in product design, development and speed to market allowed us to manage and respond to these trends in a timely, efficient, and profitable way across our Brand Portfolio.

We also made excellent progress injecting more freshness into the assortment at Famous Footwear, contributing to a 1.5% increase in same-store sales and successfully worked our way through certain underperforming athletic styles from a key vendor in the quarter. We are pleased to have returned to positive growth with this brand heading into back-to-school.

We expect our underlying momentum at Famous to continue into the third quarter as we have experienced a solid start to back-to-school and are confident that we are on track to deliver our eighth consecutive year of positive back-to-school same-store sales growth.

In addition to delivering compelling products, we also increased consumer engagement through our loyalty and marketing efforts. We've seen encouraging results from our revamped loyalty program, Famously You Rewards by driving increased engagement among existing members and continued growth and engagement of our new and reactivated membership base. Existing rewards members are shopping more frequently and they're spending more per shopping occasion. We look forward to hearing and learning more from our consumers throughout this important back-to-school season.

We also experienced a solid response to our new marketing approach with a return to TV advertising at Famous Footwear contributing to the sequential improvement in performance during the quarter. We have also [indiscernible] (00:04:27) investments in the in-store environment in order to ensure that we deliver an exceptional and consistent experience across our stores and are pleased with the initial response from our customers.

These types of initiatives are not limited to our Famous Footwear operations. We have seen a positive reaction to recent collaborations with local makers that we have launched in our newest Naturalizer stores on Chicago State Street and in Herald Square, New York. These pop-up shop experience offer a revolving assortment of artisanal products that sit alongside the core Naturalizer merchandise introducing our products to new consumers while ensuring that our stores stay exciting for our loyal Naturalizer customers.

Also, during the quarter, we continue to evolve our portfolio, enhancing the relevance and diversity of our offering, establishing a new partnership with Veronica Beard and relaunching Zodiac. We see great potential in our exclusive partnership with Veronica Beard, the most exciting and fastest growing new brand in the contemporary fashion space, and I have to tell you it is run by a dynamic and powerful team of women.

With the relaunch of Zodiac, we'll also be able to effectively target a more casual segment through their offerings and more of a bohemian in western design trends. Both of these brand launches will really capitalize on today's consumers' love of newness and new brands.

Looking forward to the second half of the year, we are well positioned with relevant product from across our diverse portfolio. This diversification is the foundation of our business that ensures that we can consistently deliver sales and earnings growth in both expanding and contracting markets. We have also built flexibility into our model which is allowing us to meet increasing consumer demand for newness in an environment where retailers have become even more focused on inventory discipline.

We are well positioned to deliver on these changes in consumer and retail preferences given the investments we have made and the speed to market and in our improved direct-to-consumer fulfillment capabilities. We have reflected this in our expectations for continued growth in the Brand Portfolio in the second half. We also recognized the need to continuously identify opportunities to improve efficiency across the organization, creating the fuel we need to fund the long-term growth opportunities that we see ahead of us. With everything going on right now, we must focus on what we can control. This has included moving quickly to adapt our supply chain to mitigate the impact of increasing tariffs for footwear produced in China.

We have actively diversified production away from China and outsourced approximately 40% of our products outside of China, up from less than 15% five years ago. We continue to leverage our sourcing expertise shifting additional production out of China, working with our partners to reduce cost while also selectively exploring price increases where they will be least disruptive to our consumers. While the situation remains fluid, we are working this real time and are confident that we will find the right solutions to minimize the risk associated with tariff throughout the balance of the year and into 2020.

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

Kenneth H. Hannah

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

Thank you, Diane and good afternoon everyone. For the second quarter, we reported earnings per share of $0.61. Our adjusted earnings per share was ahead of last year and expectations at $0.62 excluding $0.01 to Vionic integration related expense. Our consolidated sales for the quarter of $752.5 million were up 6.5% over the prior year including the addition of Vionic and two additional months of Blowfish sales as well as the planned reduction in Allen Edmonds sales.

Our Brand Portfolio, total sales were up 17.9% year-over-year in the quarter or 0.4% excluding the impact of acquisitions and the planned reduction at Allen Edmonds. Famous Footwear delivered a strong second quarter reflecting significant progress on our product assortment and marketing initiatives. Same-store sales were up 1.5% for the quarter, reflecting sequential improvement throughout the quarter and are up 0.4% for the first half. Total sales of Famous Footwear were $419.8 million, down 2.2% as we operated 35 fewer doors versus the prior year and ended the second quarter with 973 total doors.

Let's turn to consolidated gross profit and margin. For the second quarter, consolidated gross profit of $305.9 million was up 4.4% and our reported gross margin came in at 40.7%, down approximately 80 basis points from the prior year reflecting continued growth in the Brand Portfolio. Our Brand Portfolio reported gross margin of

34.7% in the second quarter, down approximately 80 basis points from the prior year primarily driven by markdowns on spring inventory, less replenishment and retailer concessions.

As Diane mentioned, the later spring impacted our sandal businesses, retailers were managing inventories and there was a noticeable increase in demand for novelty and newness all impacting margin in the second quarter. For Famous Footwear, second quarter gross margin of 43.4% was down approximately 15 basis points year-over-year. This was considerably better than we had expected as the team effectively cleared inventory in advance of back-to-school.

Our consolidated SG&A expense for the second quarter was up 3.4% including the addition of both Vionic and Blowfish. SG&A represented 35.6% of sales, a reduction of more than 100 basis points from the prior year. Our teams have done a great job managing what they can control.

Our depreciation and amortization for the second quarter of $16.3 million was up 10.9% versus the prior year, primarily due to the additional trademark amortization related to our Vionic acquisition.

Our second quarter operating earnings were $37.8 million or 5% of sales. Our adjusted operating earnings of $38.4 million were up 10.4% year-over-year and represented 5.1% of sales. For the Brand Portfolio, second quarter adjusted operating earnings were $13.9 million or 3.9% of sales, with adjusted operating earnings for the first half of $34.6 million, up more than 10%, including the addition of our acquisitions. Adjusted operating margin was down 211 basis points versus the same quarter a year ago, reflecting the declines in gross margin mentioned earlier and a tougher selling sandal selling season, particularly at Vionic. Adjusted operating margin for the first half was 4.9%, down 40 basis points from last year.

At Famous Footwear, second quarter operating earnings of $31.5 million represented 7.5% of sales and reflected the planned clearance of certain products ahead of back-to-school. Our net interest expense for the second quarter of $7.4 million was up $3.8 million from a year ago as we used our revolving credit facility to finance the October 2018 acquisition of Vionic.

Our second quarter tax rate was 23.7% and our adjusted EBITDA for the first half of 2019 was $101.5 million with an adjusted EBITDA margin of 7.1%, essentially flat when compared to the same period a year ago. Our capital expenditures were $8.8 million for the second quarter and down approximately $3.3 million year-over-year. We've completed the implementation of our new automation capabilities in both of our facilities and our capacity as ramping in line with our expectations.

Turning to our balance sheet, we ended the quarter with $42.6 million of cash and equivalents. Our outstanding borrowings under our revolving credit facility were $300 million at quarter-end, down from $335 million at year-end but up on a year-over-year basis due to the October 2018 acquisition of Vionic. We bought back $30 million of common stock in the second quarter and returned close to $36 million to shareholders in the first half of 2019.

Our consolidated inventory position at the end of the second quarter was $792.1 million. For our Brand Portfolio, our inventories were up year-over-year, primarily related to our Vionic acquisition, in-transit inventory for new and fresh product as well as a moderate increase in carryover of core spring goods. We fully expect to be able to sell through this core spring inventory in the coming months and that our Brand Portfolio inventory will be down on a year over basis by year-end.

At Famous Footwear, we ended the quarter with inventory down 0.5% year-over-year. Our operating cash flow for the company was $116.6 million for the first half, up 28% over last year. Famous Footwear once again delivered solid and consistent cash flow in the quarter.

We are reiterating our guidance for the year, which I will remind everyone is total revenue of approximately $3 billion; Brand Portfolio sales including acquisitions to be up low to mid-double-digits; Famous Footwear same-store sales of flat to low-single-digits; and adjusted earnings per share of between $2.35 and $2.45 per share, up approximately 9% year-over-year at the midpoint. This obviously takes into account what we knew about the tariff situation at the end of last week as it is changing daily.

Now before we begin Q&A, I'd like to turn the call back over to Diane to provide some closing remarks.

Diane M. Sullivan

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

Thanks, Ken. And just to wrap up before questions, we're pleased with our ability to react quickly to the changes that we've seen in the environment, which we see is an important validation of the capabilities of our people and our model. As a company, we remain focused on operating with excellence and creating consistent profitable and sustainable growth over the long term. We look forward to sharing more with you about our plans and long-term vision for Caleres at our upcoming Investor Day on October 2.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Laurent Vasilescu with Macquarie. Your line is open.

Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Q

Good afternoon. Thanks for taking my question. Congrats on the progress in the second quarter. I wanted to first focus on Famous Footwear. I think in the prepared remarks as well as the PowerPoint presentation, you talked about the products by month. Maybe could you guys maybe parse that little bit more how the months progressed and maybe the quarter-to-date comp trend?

Diane M. Sullivan

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

A

Yeah. Hi, Laurent. Thank you for the question and for the comments. It really [indiscernible] (00:16:30) very pleased with the great execution that the team did in the second quarter. And it was a combination of three factors: It was great execution from an assortment and merchandising standpoint, making sure we were giving our customers access to very high demand styles and brands across categories. I think they really were super sharp in terms of their assortments. We also saw improvement in our athletic assortment, with our return to growth at Nike. That helped us a bit. And also, the enhancements in our marketing and our loyalty programs, including that return to TV advertising, which generated a response that we were really expecting to. So, it really wasn't any one thing. It was really a combination of all of those things that allowed us to continuously improve our performance sequentially in the quarter. And as I said, we are really feeling very confident that we're going to show the eighth consecutive positive comp for back-to-school season at the end of the third quarter when we report. So, really it feels like everybody has done a terrific job on staying hyper-focused and executing well at Famous.

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

Q

That's great to hear. And then maybe, Ken, I think slide 6 of the PowerPoint presentation parses out about $0.16 in expenses related to brand acquisitions and exits. Could you possibly parse that out by brand and maybe by quarter for us?

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

A

Yeah. I mean, most of that is all associated with the acquisition of Vionic. So, we have taken all of the markdown expense that was associated with the announced exits and that was of the Carlos Santana brand and DVF. So, all of that is behind us. And for the most part, all of the Vionic integration expense that we had called out for this year, which I'll remind everyone was the amortization of the purchase price back through the inventory, the purchase accounting and that pretty much turned through the first half of this year.

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

Q

Okay. That's very helpful. And then can you parse out – in terms of the guidance, it's encouraging to hear that you're reiterating it in the face of day-to-day tariffs. Does the guidance include the incremental tariffs at 10% or 15% we'll see from List 4A and 4B? And then secondly, where should the revolver stand by the end of the fiscal year?

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

A

Yeah. So the revolver, we're at $300 million and when we had expected we would be down below $250 million at the end of the year.

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

A

And then in respect to tariffs, Laurent, our guidance obviously up through Friday. That's what it includes and it's certainly the tariffs and everything is the subject at the moment and I think it's important to keep in mind that we do have this diverse portfolio and we expect less than 40% of our business is going to be impacted by those proposed tariffs. As we mentioned in our last call, we have taken the steps to diversify the production. We want to make sure we continue to deliver quality to the customer where 40% of our products are outside China. We leverage our sourcing expertise. We're continuing to, because of the sourcing powerhouse that we have, we're able to move at an appropriate pace of what we think is right and we're selectively taking a look at price increases where they're really going to be least impactful to our consumer.

So, the situation continues to be really fluid and everybody I think eyes went up on Friday with the latest tweet and now you never know here on Monday what it's going to be, but we're working in real time and are confident that we're going to find the right solutions to minimize the risk associated with the tariffs for the balance of the year. So we're working it every day and doing everything we need to do.

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

Q

Okay. Very helpful and we look forward to seeing you guys at the Investor Day.

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

A

Thanks, Laurent.

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

A

Thanks, Laurent.

Operator: Your next question comes from Laura Champine with Loop Capital. Your line is open.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Thanks for taking my questions. Really a follow-on. So what is the assumption for the impact of tariffs? So, your guidance is unchanged, it seems like you're executing well. What are you putting in for the downside from tariffs? I've presumed the gross margin if not gross margin and sales in the back half?

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

A

Hey Laura, I think what we tried to do is take into consideration what had been communicated as of Friday. And so there's the list that goes into effect September 1. And then a lot of the athletic products that was pushed really out to December 15. And so there was lots of tweets and rhetoric on Friday about potential for it to go higher. This morning there were talks of it being canceled altogether. But we feel like we have contemplated in our outlook what we knew as of and what is currently on the list that was going to be effective on September 1 and what was on the list to be effective December 15.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Got it. And then on the Brand Portfolio, the comp is down, but that doesn't seem to be hurting growth. Is that cannibalization? What am I seeing in that comp?

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

A

No. Most if that comp is really the planned reduction in Allen Edmonds.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Got it. Thank you.

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

A

Yeah. That's really their direct business that we took down is showing up in that negative comp.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Understood. Great. Thanks.

Operator: Your next question comes from Rick Patel with Needham. Your line is open.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Hi. Good afternoon, guys. And I'll add my congrats on the strong execution as well. Just to follow up on the tariff questions, any context about how much of the assortment is affected by the September 1 tranche versus December 15 one?

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

A

Yeah. On the September 1 one, it's about 70% of products that are made in China for us.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thank you, Diane. And then just hoping you guys can talk about the outlook for the Brand Portfolio. So, obviously, the department store space is challenged right now and you touched on how they are managing inventories in a tighter way. How do you see this affecting the Brand Portfolio and could you put your growth expectations into context for us for 3Q and 4Q?

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

A

Yeah. I think I would start by saying that segment was really what had a negative impact on the margin for Brand Portfolio in the second quarter. As we tried to make sure we had accounted for the appropriate level of markdowns and also discounts and allowances that were required. So we believe that we have taken that into consideration in the outlook and have closed out in the second quarter reflecting a lot of that in our second quarter results.

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

A

Yeah. I would maybe add to that, Ken, too that we entered the year knowing that the environment was going to be volatile [indiscernible] (00:24:20) happen in the last 90 days and really our view about how we're managing it hasn't changed and it's really comes back that we've got to keep our eye on the consumer's needs because they're changing more than ever. And there's no doubt about it that as retailers continue to manage their inventories more carefully, we have to make sure we redouble our efforts on this front of making sure we create new product and a sense of urgency and newness all the time because we could see already this spring that the consumer, she wasn't interested in core products, she wasn't interested in anything that she had seen before. It was really all about newness. So we've really redoubled our efforts on that front in the second quarter, really looking at our business in the quarter, thinking about what we had booked for the third and fourth quarter, and then making sure that we are responding to that.

And I think, Ken, you've heard us say that we've really been trying to diversify our business model so we can adapt quickly in these kind of environments and we think ultimately that is what allows us to drive this consistent profitable and sustainable growth no matter what the environment is. So, it really is making sure we stay incredibly agile and flexible and that our teams are really paying attention day-to-day on what the consumer wants.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Great. And lastly, can you just provide some color on the outlook for operating margins as we think about Famous versus the Brand Portfolio for 3Q versus 4Q? I know there were some lumpiness in expenses last year and you'll lap the Vionic acquisition later in the year so it'd be great to have some context on modeling.

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

A

Yeah. I think as we look at kind of the year, obviously, there's been a little bit of a shift. There's about 60% of the earnings that's actually coming in the back half of the year this year. And obviously, a big piece of that is third quarter and back-to-school. So, the margin profile we had initially thought that Q2 could be for Famous down as much as 100 basis points, ended up down [ph] 15 basis points (00:26:36). I think the teams did a nice job managing through that and we're able to come through a little bit favorable.

The Brand Portfolio with the question you started with and what we've seen in the department store space in our sandal business, which is a big piece of our first half results, that looks very different as you get into Q3 and Q4, and we start to see less of a margin impact from those areas of the business.

I don't know, Diane, if there's anything you would add to that?

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

A

Yeah. Well, I think we feel pretty good about how we're lined up in terms of the category newness, assortments really across the company, both the Brand Portfolio and the Famous going into the third and fourth quarters. And, again, back to the sandal penetration, we don't really have that headwind because we had a pretty high sandal penetration here. We've really taken all of the medicine that we need to take on that and still have delivered a decent quarter. So, we're feeling I think, Ken, to your point, we're feeling as optimistic as you can be about how we've positioned ourselves, and it's on us to continue to execute well against that.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thanks very much. Good luck in the back half.

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

A

Thank you.

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

A

Thank you.

Operator: Your next question comes from Chris Svezia with Wedbush. Your line is open.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Hey, good afternoon, everyone, and congrats on a positive performance there.

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

A

Thank you, Chris.

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

A

Thanks, Chris.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

So, I got a couple things here. I guess, first to go back to Laurent's question, I don't think you answered it, Diane, but what was the cadence of the Famous Footwear comp throughout the May, June and July periods? What was the trend by month?

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

A

I didn't. I didn't give the trend by month and I'm really not going to give the trend by month, Chris. I think what we basically said was there's sequential improvement that we saw throughout the quarter. I think you can see that the power of the portfolio and we believe that we will finish the back-to-school season show on a positive comp for the eighth consecutive year. So, I didn't go through it month by month, but really nice sequential improvement and really pleased with the consumer response to everything really that the Famous team has put into place. We're feeling very good about the foundation going forward.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. So, let me ask it this way. As I kind of look forward, everything that you've done at Famous, the team that's done there, in terms of product, Nike getting incrementally better, you brought in a kids refresh with some brands as well. You have a loyalty program, marketing. Just the question is I know the guidance is flat to up low-singles for the year, you're kind of flattish for the first half of the year. Seems like momentum is building. Any reason why comps would incrementally accelerate from here or at least hold these levels? I know it's positive for back-to-school, but I'm trying to see that a little bit more about sustainability given everything you've put forth.

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

A

Yeah. I think we feel very good about the business. But it's not only just Famous, we also have the Brand Portfolio, we're running the entire company and we look at the opportunities and risks across the entire brand. So, we think we've calibrated kind of our guidance and given new insight into that, taking into account all brands within our portfolio. So, while we feel really terrific about what we've seen so far on Famous could be better, but until we see it, we feel like our current guidance is appropriate.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. And just on the – just curious what's your thoughts [ph] then (00:30:38) about the boot business into the back half of the year, just sort of how you're thinking about it either for Famous or for your Brand Portfolio relative to...

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

Yes.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

...to three months ago or where it stands today.

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

Yeah. I actually would say Chris on that point, we feel a bit more optimistic about it. I think everybody in their early days [ph] there of the (00:30:59) second quarter we're really kind of wondering kind of what was going to happen, but kind of what we're seeing early right now Dr. Martens at Famous is terrific, short booties are great, sneaker booties have been, early read on that has been very good as well. So, actually any of the [ph] produced sales (00:31:22) that we've seen, some of our retailers do in the summer here is really shown that boots look good. So I would say where we were maybe a little conservative about where boots were going to be. We actually saw them as [indiscernible] (00:31:36) in the quarter, in the second quarter and kind of think that momentum will continue. So keep your fingers crossed on that because if that works that way, that'll be great for the industry as a whole.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Thank you. And then just last thing here. Just on – Ken, just maybe a kind of thought process for the third quarter. [indiscernible] (00:31:57) quarterly, but it's always helpful that people have a sense of how you're thinking. I think last call, you indicated third quarter could be up from an earnings perspective, kind of low to high-single-digits. Obviously, we have to back-end to what the fourth quarter looks like. But any refreshed thoughts about third quarter given Q2 came in a little bit better, margins a little bit healthier, comp a little bit stronger, just any color about Q3 from an EPS would be helpful?

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

Yeah. No, I mean I think conservatively, when we were talking before, we said we really thought that would be flat to up slightly. When we look out into the back half, I think as Diane mentioned, we see good momentum sequentially at Famous. And we see lots of uncertainties across some of the other pieces of the business that literally is changing daily.

So when I look at that, the one thing that I think you know we want to make sure people understand is that the timing of the earnings is a little bit more weighted towards the back half, and with that, the corporate expenses that we've continued to manage down, I think three years ago was $45 million in expense coming through that other segment, down to $43 million, to $42 million. I think it's now $40 million. It's kind of what we're expecting this year. And so, there is a little bit of a timing shift between Q2 and Q3 just based on the shift of the earnings. So when I look at SG&A, we were down about 100 basis points in Q2, year-over-year. And we think that that will continue and it will – we'll probably be somewhere around the 35% range in terms as a percent of sales in Q3. And so that should give you a pretty good idea in terms of how to model.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. All right. Thank you. All the best. Talk to you guys soon.

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

A

Thanks, Chris.

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

A

Thank you.

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

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

Q

Hello, Diane and Ken, let me offer my congrats on the quarter as well. Diane, would you say that there was an acceleration from the second quarter in the current quarter-to-date period from a comp standpoint at Famous?

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

A

There's been sequential improvement throughout the quarter. Yes, there has been.

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

Q

I understand. Could you also provide a little bit of historical framework around the percent of sales by month in August, September, and October, trying to determine how much of the quarter has passed.

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

A

Oh, I would say – can I – I don't have that in front of me. We can look that up for you, Steve, but...

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

Q

Well, we can talk about that offline.

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

A

Yeah. Yeah. Be happy to.

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

Q

Ken – sure. Ken, was there any material shift in SG&A in the second quarter to the third quarter or vice versa?

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

A

No, not particularly. I mean the – across the businesses, obviously people were cognizant of trying to make sure that, that anything discretionary, that they were being prudent. But really, what we have talked about in the expense in the other segment would be the only [ph] when we ship (00:35:31). We had a year ago in the second quarter, we had some increases in expense associated with some of our medical and casualty where we're self-insured. And so, those numbers were a little bit higher in the second quarter last year, and so those were favorable in the second quarter. And so, sequentially, there's a little bit more expense that would come through in Q3 there, but that's really tied to the level of earnings and the sales. So, it's pretty straightforward. There wasn't a lot of timing pushes out of Q2 into Q3.

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

Q

Okay. That's helpful. Last question, can you just remind how much duplicative costs there were in the second half of last year associated with the DC?

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

A

So, the duplicative was really across the first half, and then in the second half when we finally settled on the exit that all came out as a non-recurring expense. So, in our non-GAAP numbers, there was very little duplicative coming through there.

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

Q

Got you. Perfect. Thank you. I'll take the rest of the questions offline. Thank you again.

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

A

All right. Thank you.

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

A

Thanks.

Operator: [Operator Instructions] Your next question comes from Sam Poser with Susquehanna. Your line is open.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good afternoon, and Thank you for taking my questions. First of all, what was the total brand – the Brand Portfolio revenue on the – up or down on the existing business including – if you just put – if you put Allen Edmonds into that number?

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

Yeah. So, we had – because we had planned Allen Edmonds down, we have taken it out and it was – and then it was up, and Allen Edmonds as you saw on the – the comp showed the retail [ph] comp of Brand Portfolio (00:37:41) was down 9.3%.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

But in the Brand Portfolio wholesale number there, what was the...

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

Up 0.4%. Right?

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

It was up?

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

Up 0.4%.

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

Up 0.4%. He's wanting to include Allen Edmonds [indiscernible] (00:37:57).

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Right. And then the other – and so you did about $306 million in Brand Portfolio plus Vionic to get to [ph] that number (00:38:08).

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

That's right.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Okay. Secondly, when will this plan down of the – when will it be complete and Allen Edmonds sort of turns around and sort of gets back to where you want it to be?

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

A

Well, I think we're making good progress Sam, on that. As you know those kinds of things don't happen overnight. And we made that move late last year to reposition the business and make sure that we reduce the amount of promotional activity. What we are seeing is improved relevance of our product assortment. We have reduced the level of promotional activity that's been good. Over time, we definitely think we have the right plan in place, but we certainly see, and I think there's no – very obvious out there that the move of men to sneakers and moving out of dress shoes has been faster than ever. So, we really need to continue to get our assortments back in the right balance.

We've introduced sneakers, it's now a growing part of the assortment there we think we've even got to accelerate that some more. So it doesn't happen overnight, but we know that and believe that we have the right plan in place to improve our profitability of that business and connect with the consumers even better. So we feel like we're making the progress that we had hoped. Never fast enough of course. But we feel like we're making the right kind of progress.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

So when you think about the China – I'm going to go to China again, I'm sorry. But when you think of the China exposure, I mean a big chunk of the children's business. I mean that's a business it's hard to get out of China. And when you think about we're hearing some rumblings that prices might start to go up and hit because it's not a movable business. When you think about the margins going forward with the tariff even if the kids business may be pushed to the end of the year. I mean how do you look at – how [indiscernible] (00:40:11) pricing – potential pricing changes going to work? Are you doing it item per item? Are you trying to average it across things or the brands...

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

A

Yeah.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

...that you're working with at Famous, how are they approaching it, how are they thinking about it? I mean I know it's very fluid as you put it. But...

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

A

Yeah.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

...can you give us some color on where things are [indiscernible] (00:40:30)

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

A

Yeah. A couple of things. On the kids side of it, we don't see that that is a big risk for us. [ph] Without it (00:40:38), we would really be affected obviously at Famous. The bulk of our assortments there at Famous are really in athletic and sport and where the pressure really might be is other areas. So, I think right now, the liking kind of what we see in the kids business and the teams will take a look at if increases are coming through, we'll have to assess that at that time, but right now we don't see that as being a significant factor for Famous. And I think again because the big athletic brands and most of their key vendors have diversified their sourcing base and have done that for a while. So I think we're in reasonably good shape there, always you know paying attention though.

And I think then the other thing on the Brand Portfolio, gee you said it exactly right. There's not a one size fits all. And the good news is when as the consumer wants newness, there's not there, we're really trying to keep evolving the styles because we're looking at – we do look at a brand-by-brand, style-by-style and where we think the perceived value is in each of the products and where we can either add value or do whatever we have to do. So there's no one size fits all. I think we're – teams are doing a great job day-to-day trying to figure out what the best approach is. Some are really easy, some are not so easy and it really depends.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Thank you. And lastly, on Vionic, now Vionic when you bought it, it's a very – it's a premium comfort brand. I would assume that's how you are positioning it or how you like to think about it. Is it a fair statement?

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

Yeah. Sure. That's a fair statement.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Why is it in Famous Footwear? I mean I would put it in – I mean if for the same reason like Sam Edelman shoes were not in Famous, they have some Circus stuff in Famous, but not Sam. Why is Vionic in Famous?

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

Yeah. Well I think the team wanted to see whether or not some of the entry price product in Vionic would resonate with our – and Famous would resonate with the consumer. And so, I think as being taking a look at whether or not that would make any sense that's what the team did. It was a very small portion of the total buy. It was really a test. And I think we continue to test lots of things and same as footwear and they have a number of different test store groupings against I would say high household income stores, stores that have higher penetration of kids. So there's always testing going on of something. So I wouldn't read too much into that one, Sam. I think the teams will do the right thing because it's really all in how the consumer – if it works...

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Well, I understand. But I mean you could probably sell some Sam Edelman shoes at Famous too, if you tested that, but you haven't tested Sam Edelman gentlemen in the store. So...

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

Well, we have a great business with Circus that we're continuing to, Circus by Sam Edelman.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

But that's a sub-brand. And I mean why not just create a sub-brand of Vionic for that. That way from a like the brand itself just stays pure.

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

Well, it's interesting you mentioned that because one of the things actually that Vionic has been working on is something called Vionic Beach and that is an idea exactly about what we're – you're talking about that, that is actually it's primarily sort of sneakers and sandals and flip-flops, and we're kind of positioning it as – and again it's early. We haven't done a lot of [indiscernible] (00:44:19) came in for our Las Vegas selling. But we're looking at that as being an opportunity to reach a different consumer, and different channels of distribution to your point and are hopeful that, that once we get that right, that that would be the avenue for channel stores like Famous and really others as well. So, we're still in the getting everybody aligned around where the opportunities for growth are at Vionic. So, I'm confident that we'll be doing the right things on that, Sam.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

All right. Thank you very much. Continued success.

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

Thank you.

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

Thanks, Sam.

Operator: Your next question comes from Chris Svezia with Wedbush. Your line is open.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Hi. Thank you for taking my follow-up question. I appreciate that. Two of them actually. Just how does the renminbi and the movement we've seen relative to the dollar, what 4% move since August, 8% since mid-May. How does that affect your purchasing? Just curious how you think about that.

And the second question, just with Ken, when you mentioned leverage, 100 basis points. So, that would continue I think the Q3 SG&A rate of 35%. I think last year, it is 34.2%. So, I'm trying to make sure I got that or maybe I'm missing something.

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

Yeah. So, on the RMB, the – as we go and place orders with the factories, we are taking into consideration what the RMB is at that time. That is what the cost for that factory is. So, any changes would come through with new orders placed, specifically tied to RMB. And obviously, we're working with those partners to try to mitigate any impacts of these tariffs, and so we're there getting savings, we're working with them to share that with us to help offset the pure tariff. But there's...

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

And Ken, just quick – how quickly does that happen with the turnaround on that...

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

A

On any orders placed today get the benefit of what the costs are. So with our speed model obviously, we roll that through quicker than a traditional order.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay, all right. And the SG&A question?

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

A

The SG&A, what we said is that we're – we leveraged 100 basis points in the quarter and that the split on the other that was between the first half and the second half would be more closely tied to the earnings contribution in the second half which we said was up in the 59%, 60% when you take the midpoint of our guidance and you back out our actuals through the first half.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Okay. I'll go back and look at that, and I'll circle back to you later offline. Yeah, I'll get back to you on that. Thanks.

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

A

All right. Thanks.

Operator: There are no further questions at this time. I turn the call back to the presenters.

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

Thank you very much for joining us on our second quarter earnings call, and we look forward to seeing you on October 2 at Investor Day. Thanks very much.

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