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Caleres, Inc. (CAL)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Kenneth H. Hannah

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

Good morning, everyone. Welcome and thank you for joining us this morning. We've got an exciting day planned. It's a bit of a long day, so get some coffee and enjoy. We've got – our leadership team is here and really excited to share with you what's going on at Caleres and really give you some insight into our three-year strategic plan.

Before we get going, go ahead and just make sure that everyone understands that we are going to share some forward-looking information today. And in our discussion and our materials, it does contain forward-looking statements, and expectations regarding the company's future performance and the performance of its brands. Such statements are subject to various risks and uncertainties that could cause actual results to differ materially.

The company reports to the Securities and Exchange Commission contain detailed information relating to such factors including, without limitation, the information under the caption Risk Factors in item 1a of the company's Annual Report on Form 10-K for the year ended February 2, 2019 that information is incorporated by reference herein and updated by the company's Quarterly Report on the Form 10-Q. The company does not undertake any obligation or plan to update these forward-looking statements even though its situations may change.

So, with that behind us, what I'd like to do is have Diane come up and get us going here. And we've got a great day planned. We certainly are excited about what's going on here at Caleres. We're excited about the leadership team that you're going to get a chance to interact with today. And I'll be back at the end to kind of sum up the discussion in terms of our financial outlook.

So with that, I'll turn it over to Diane.

Diane M. Sullivan

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

Thank you, Ken. Good morning everybody. Great to see you. A lot of familiar faces. Great to see the ones I know, nice to meet a few new people and seeing new folks as well. And welcome to everybody on the webcast too. We're really – I was saying to a few people this morning, I'm really looking forward to this day because it has been a while since we had been together to really talk about what we were doing here at Caleres with some kind of scope. We had done a little bit of deep dives over the last couple of years but really wanted to lay out a strategic plan for everybody.

So, really want to share our progress today and the work that we've been doing to really expand the potential of our company. We're very confident about the strategies that we have in place. When you step back and you think about – for those of you who have been following us now for a while, we've had that North Star up there for quite a bit of time. And that North Star was we were going to build a powerful portfolio of consumer brands, all built on strong consumer connections and we were going to have the absolute best team in the industry. And that we believe that that was going to drive consistent profitable sustainable growth.

So, that North Star for us, that vision, that thing that was out there it has really not changed. But today is a bit about what the next chapter is for Caleres and we're going to provide you with insight into how we're focusing our people, how we're focusing our investment and really how we're focusing the priorities in the company.

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And this isn't a plan that we just put together for October 2 here for our Investor Day. This is really a plan for the people and for our company. We're going to give you a little bit of a peek behind the curtain about how we think about how we do all of these things.

But to take you there, I really first need to – give you, share with you a little bit about the history of the company and where we've been, a little bit of a perspective. So let me start with this – the point that this CAL101 that we really put the consumer at the center of everything you do. You hear this from a lot of companies, don't you? I don't think that's anything new. But we actually have an authentic story to tell about this because Caleres and Brown Shoe Company before was really driven by consumer insight from the very beginning.

Our company was founded in the 1860s by George Brown that – because he knew he wanted to make sure that he developed the perfect shoe with the perfect fit. He also was the founder of right and left in the late 1800s. That star that you see under the Caleres name, that was a promise about a [ph] fit feel ideal (04:58). So this isn't something we made up about putting the consumer at the center of everything. This is something that's been going on and part of our history for a long time. And then it was about driving marketing to different consumer segments. And then it was about big-box retailing. And then it was about some dot-coms and then it was about building out omni-channel. So the idea that our company has put the consumer at the center has – it's part of our DNA. It's part of our history. We didn't just think about it yesterday.

Secondly, we have an incredibly diversified and relevant portfolio of footwear brands. And they are very much focused and targeted against a very specific consumer segment and we support that by product and design and marketing teams to make sure that they stay relevant with the consumer. And when we say authentic and differentiated, we mean that we work day in, day out to make sure that they stay that way.

The other thing about Caleres is we are footwear experts, again, back to that history, right? We are footwear experts, that we have an unmatched commitment to continued innovation. And if you think about how we would separate ourselves, we think about the feel of the shoe, the fit of the shoe, the quality, the craftsmanship [ph] yet (06:15) it's got to all be trend right and all of that. But what is inside our footwear really matters and we have an unmatched capability to make sure that fit and feel is fantastic.

So, the fourth thing is we're really service leaders. We can today and we did last year, deliver to the consumer, any way she wanted to shop over 100 million pairs of shoes. So, our capabilities in our own stores through our retail partners, through our distribution centers and what we've built out there, as well as all of the eCommerce platforms that we have across the company has allowed us to do that. So, you could basically shop any way that you want.

And together, you add all of those things together and it really provides us with a unique set of advantages that is important for the foundation for us to be able to compete and win in a very changing and fast-paced environment. So, that really is who Caleres is. And if you step back and you think about the companies and the company we keep, right, who do we work with?

It's a range of companies because of the diversification and our philosophy of how we deal with partnership is really all about collaboration and making sure that we learn and we grow together and we have a really – the company we keep is second to none.

Now over time, we have been elevating our ambitions and our outcomes. And in 2011 to 2015, I would call this maybe the first chapter. The first chapter, we were really focused on being a leaner and stronger and more

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profitable company. We focused on three consumer platforms. We were restructured. We drove earnings growth and we were really trying to make sure that we had transformed ourselves to be that consumer and product-centric and brand-centric culture.

The next phase of 2015 to 2019 was really a time of investing for growth. And we evolved the portfolio, as you know. We incubated and we acquired brands. And importantly, we made significant investments in the infrastructure to make sure that we were going to be capable of meeting the demand from the consumer in the future. And because we all know that the consumer expectations and the behaviors today have changed dramatically, I don't think I need to tell you guys. I think you all know it but I'm just going to make a couple of points here.

The proliferation of choice for the consumer has exploded and expanded dramatically. There is virtually nothing that you can't find or get that's personalized almost for you. That's one of the things. The second thing is obviously how – right now, if you want it now, you want it seamlessly, you want it easily, you can do that. There's been, in our own space, this blurring of athletic and fashion that's happened and that's been a significant amount of change. Sustainability and social consciousness and responsibility is the latest thing that everybody is now talking about. What kind of sustainability attributes do your products have? What kind of purpose-driven mission does your company have? That is a big deal right now.

But at the end of the day, the other thing that I think is really important is this concept that brands matter. Brands matter because they are a shortcut and shorthand to a feeling of trust and an understanding and what a consumer knows about what they're purchasing. So brands are definitely things that matter. And when you think about how we've responded to make sure that we are able to meet these changing consumer demands, we looked at the portfolio.

We re-imagined a number of brands in our portfolio. We acquired new brands. We incubated a few new ones. We expanded our partnerships and we've exited a number of brands too. So, we're constantly looking at that portfolio to make sure that we maintain its relevance. The other thing that how Caleres changed to meet the needs of the consumer is we really started to look at our capabilities. What were the capabilities that we were going to need in order to continue to thrive and to grow and to make sure that we were increasing our overall shareholder value?

And it came in along the lines of speed to market which we've talked a lot about and you'll hear more about that from the teams later. The diversified sourcing base that we have, it cuts across many continents and countries. We have a lot of capability there which many of you know very well. Our consumer fulfillment capabilities has expanded and improved dramatically. Our cost and our time to ship is getting better and better.

But the key thing is the big investment in that in the last couple of years to be able to do that. eCom capabilities across the company growing, we're putting in a new eCom platform today, buy online, pickup in-store. So, again, all those capabilities over the last couple of years have we have built out. So, there's virtually nothing today that we can't figure out how to satisfy the consumer with.

And then, lastly, our team. Our team also has evolved over this time as you would expect. And we have had to redirect resources. We've had to do a number of other things to where the growth was coming from. So, whether it was in brand development and product design leadership, whether it was in consumer marketing or insights and analytics, which is I think something that everybody's going to be talking about for quite a while and we're going to give you a little bit of a look at what we're doing with respect to that today.

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And then, [indiscernible] (12:23) from our leadership perspective, we're happy to have Molly Adams with us today who joined the company about 15 months ago now, Molly, I think it is. And Angela Bass who joined us, I think it's all of day eight today now to – as our new Chief Human Resource Officer. So, those are just two examples of lots of other folks that are in our company today that are really helping us continue to build Caleres for the long haul and lead us into the future because what you did yesterday isn't the thing that's going to keep you moving forward.

So, that's how we've changed. And then by many measures, not all, but many measures, we've been winning. Our market share as a company has increased from 4.6% to 5.3%. Our eCommerce business has grown as a percent of sales from 7% to 21%. We now have brands in – going from the top four according to NPD – the 4 of the top 25 according to NPD, to 6 now, which is a nice accomplishment. And our eight consecutive back-to-school comp store growth sales. So, it's been clearly, in many respects, the ways – the consumer is responding and our strategies have been working well. And I think one of the most – the last thing I was thinking about, I wanted to mention to you, too, in terms of how we're winning. We've obviously been able to see how our brands actually can flex to move to other categories. Our sports business and lifestyle business – because you kind of think about us not so much Famous, but you might think about some of our other brands as being a little more dress oriented, we've been able to really expand our categories and classification. So, close to 20% of our business now is in that sport and lifestyle area.

So there, we've been able to move to make sure that we continue to meet the changing landscape of the consumer. So, what is going to happen next? What's the next chapter? How are we thinking about this? I mentioned the two, so I'm not going to rehash the first two chapters. But what I will say when you look at our performance financially in those two segments and in 2011 to 2015, we had a 3% sales CAGR.

At that same time period, we had about a 30% CAGR in terms of our earnings per share. In 2015, yes, we had a 4% CAGR in terms of our sales and our top line and growth there, a lot of it has come from our acquisitions. And our earnings per share was at 5% growth over that time period. We did that – I'm going to say it this way. We did that while at the same time investing in all of those capabilities that we just talked about, significant investment in those capabilities and brands to make sure that we position ourselves for the future.

It did not meet our own internal expectations. It did not. But it was at a time period where it was essential to make sure that we positioned ourselves well for the future. So, what the next chapter is really about is, I can tell you honestly we stepped back and we said, what's it going to take to unlock shareholder value anymore? How do we accelerate our performance?

And frankly, I did a little bit of what I did in 2011. I said I'm putting everything back on the table. There are no sacred cows. We're going to look at what is it that we have to do – no assumptions that what we're doing is right. We can't assume that. It's back to what I said a minute ago. You've got to be thinking about changing and moving all the time to meet consumer needs. So, we've spent the last six months, I would say, maybe even a little longer but certainly for the last six months thinking about what's it going to take to accelerate our performance and that's what we've been working on. And that is what we're going to tell you the story about today in a lot of sort of ways, I guess I'd say.

But it started with just coming back and even asking ourselves the question what makes us Caleres and what unites us? I mean, it wasn't just like a little bit of our company, but we looked at the foundation and everything. And we challenged ourselves, is the passion is what we said about what unites us in our goals, is it this idea that we're experts in one thing, and of course it was. Well, that's what we are. That's what we do and we're ferocious about fit.

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We talked about – we went back and we looked at our purpose statement. Our purpose and our mission, why do we get up every day to come to work, it was really about to inspire people to feel – I think we used to say good, now we say we inspire people to feel great, feet first. We don't think that was needed to be a change in what we were doing.

Our values – this is critical because how you do things is as important as what you do. And these values around passion and accountability, curiosity, creativity and caring and I think I've talked with you in the past about this. But those, we mean that when we say it. And even that curiosity and creativity thing we think is essential part of who Caleres is because to be really terrific companies in the 21st century and those qualities of curiosity and asking questions and going deeper and asking why is going to be essential as well as this idea of creativity for us in every aspect of how you think about the business and you re-imagine it. And then always about making sure you care about your stakeholders, your shareholders, your associates, your partners, everybody so this culture of caring. So, our values we really are – felt great about.

Our vision that I talked about a little earlier that North Star of building this powerful portfolio of footwear brands that were built on deep consumer insights. That doesn't change but you know what we said, we said that deep consumer insight piece and I want to come back to that, we have to actually even double down a little bit more on those deep consumer insights. I'll come back to that in a second.

Again, our advantage, again these authentic differentiated brands that span diverse consumer segments, I think I touched on that. That's very much about how we think we will win in this environment. And then, of course, always about people make a huge difference in all of this, too. And you've got to make sure that we strive to be the very best. We think we're really pushing this concept that agility has to be really our signature and we have to respect one another on how we do things. So, the people aspect is what's really important.

But let me come back to the consumer insight piece. You've seen, for those of you who have followed us for a little while, we've evolved how we've looked at the portfolio. Like to give you a really simple example, in 2011 and 2012 in that time, the data analytics and insights weren't the way they are today but we've talked about three lanes, healthy living, contemporary fashion and family. And it was really based on a lot of what we knew about the consumer and qualitative data and some quantitative data. We created these segments that we were attaching our brands to what was going on out in the marketplace.

Well, it's a different world now than what it was then. And so, one of the things that we've done that you're going to hear a lot about is how we have gone back and really looked at the brands that we have in our portfolio and how they are linked to this very specific consumer segment and how we tie them together based on these deep consumer connections along each one of the lines that you see upfront there.

And I'm going to leave it at that because we have someone that's going to share a little bit more with you about that. But we have – so this deep insight and unlocking the power of our deep consumer insights is going to be very important as we go into the future.

So, this next chapter, I say it's going to be radically, quietly different. And what I mean by that is that on the surface, some of it may sound a little bit the same. We're going to broaden the reach of the portfolio, we're going to strengthen the consumer segments, we're going to accelerate our innovation around our operations.

But actually, under the surface of all of that, there are so many things that are going on. We are rewiring so many new things to make sure that we continue to move ourselves forward. So, that's why I say it's radically and quietly

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different. So, those are kind of our three strategic priorities. And they're going to guide our decision-making as we move into this next chapter for Caleres.

And I'm not going to run through all of these, but the first big idea here is that we want to make sure that we continue to broaden the reach and the power of our brands and products. And I think you've seen us do this already over the last couple of years. We're going to continue to do that. We're going to use data analytics and consumer insight to do that.

We're going to make sure that we keep the brand portfolio relevant. You're going to hear a little bit from Molly later about the – an evolved thinking around the go-to-market strategy for Famous Footwear and how we continue to drive relevance there. There is – as you've seen, we have begun to really think about how we grow our business internationally. We think that's, again, something for the future, but really an opportunity there. So, really broadening the reach and the power of our brands and products is one of our key things.

The second thing will be about strengthening our connections with consumers and making sure that we are obsessively meeting their needs. The first one there is really about what I was saying a little bit earlier that it really is about making sure that we're fulfilling that promise, that Star-Five-Star promise, about the absolute ideal, perfect fit and feel in our products and making sure that that in effect is carried out throughout even our sourcing operation.

We talk about the five-star quality programs that we put in all of the teams that we have in the Far East and in Asia to make sure that the footwear is outstanding. We're going to continue to make sure that there's consistency around and amplification of our messaging to consumers in the right ways with all the new media and digital capabilities that are out there. So, you're going to hear a lot of this from the teams over the course of the next couple of hours.

And the third strategic priority is about accelerating the innovation of our capabilities and operations. And what I mean by that is really leveraging and taking care of the investments that we've made to really fulfill the consumer demand out there. So, everything from the leveraging our speed to market capabilities to maximizing the opportunities that we have in our fulfillment capabilities, we're – you'll hear Ken talk a little bit about continuous productivity within our company going forward, so really looking at efficiencies in the company, productivity of inventory. We're going to capitalize on eCommerce and we'll hear some things about from Molly also about our retail footprint, so really, a very high level across the portfolio, really accelerating the innovation and the capabilities that we've built over the last couple of years.

And the important point I think I want to make on this, which I probably should have a little better a minute ago, so this is about really – this next chapter is about leveraging our investments and our insights. That's how we think about what we really have to do next. We've made a ton of investment. We bought some brands. We've built a lot of capabilities. We want to make sure that we really take advantage of those. And when we do that, we see – and I think that those of you who read the press release earlier this morning that we're talking about low single-digit sales growth and double-digit adjusted earnings per share growth. We think that we have a real plan and a strategic outline and a formula for how we can really go forward and drive this consistent, profitable, and sustainable growth that we have talked about for many, many years. And I think the thing to note is we have – not only do we believe we can do that but we also believe that the investments that we've made have put us in a very, very powerful position to take advantage of what the landscape is looking like over the next couple of years.

So we're going to share with you for the next hour, a couple hours I guess this is going to be, like, unpack a lot of those ideas and those strategies and the thought in the strategic plan. So you get a feel and an understanding

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about what each one of those things are. And the lineup, what this looks like is Stephen Henderson is here today. We're going to – he's going to walk you through a little bit of the work that we do around data analytics and consumer insights. I think you'll find that kind of interesting.

Molly is going to share her thoughts and her vision around Famous Footwear, Jay on the brand portfolio. We're going to open it up obviously for Q&A along the way. And then, as opposed to just having to listen to people chatting at you from here the whole day, which I know is not an easy thing to do all the time, we're going to try to have a couple of fireside chats where a discussion around our capabilities with some of our team here. And then we've also invited other brand partners, so the Veronica Beards are going to be here, our new brand partner, just I think around noontime. We have Chris Gallagher. We're glad to have him from Vionic. And Sam is going to join us, too, to talk about – really about partnership here at Caleres. And then, of course, Ken will come up with the wrap up on the financials and he and I will be happy to take questions at the end of the day as well. So, that's a little bit about the lineup.

So, I'll leave you with we're really confident about our strategies, what we put in place. We're excited. We feel like every move that we've made has just moved us forward to even a much better position to compete in the landscape. It's not easy, right? It's not an easy thing. We don't – we understand that you've got to be at it day-in and day-out but we believe that we've really taken the view of making sure that we're really thinking about building this company for the long term.

So with that, I will turn it over to Stephen Henderson who I don't think any of you have met before. So, this is a – this will be a treat. Stephen, how many years now have you been here at Caleres?

Stephen Henderson

Senior Vice President-Marketing & eCommerce, Caleres, Inc.

A little over 5 years.

Diane M. Sullivan

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

Five?

Stephen Henderson

Senior Vice President-Marketing & eCommerce, Caleres, Inc.

5.5 years and in the brand portfolio for 2.5. And my name is Stephen Henderson and I'm happy and I'm privileged to be with you this morning to talk a little bit about consumer insights. And I want to cover a couple of topics that will help to define what are consumer insights but mostly what I want to do is show you how we've been using consumer insights inside of Caleres to drive strategic decision making. We're going to show you how we broaden the reach and the power of our portfolio. I want to show you how we strengthen our connections with consumers.

We think that consumer insight is our advantage and our differentiation compared to other companies like ours and other brands that we compete with. The differentiation starts with what Diane mentioned, which is that consumer insight has been with us from the very beginning. 140 years of innovation has been delivered based on observation about consumers, how they live, what they want more of or less of in their lives. Consumer insight is nothing new to Caleres. But what is new is the acceleration that's happened with consumers that Diane also mentioned a few minutes ago in her opening remarks.

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Internet, Wi-Fi, mobile devices, social media, smart home, wearables, open networking, compute horsepower, have all changed the game for consumers. When we think about the three years that are ahead of us, we can only anticipate that that change will continue to accelerate. 5G networks are coming next year. That's a big deal. Driverless cars, drone delivery that we've been like sort of thinking about for couple years, might actually happen soon. AI and machine learning are getting better and better. The future will be more intelligent, more personalized, more specialized, more custom. The barriers to entry for new brands and companies will get lower. There will for sure be a place for big mono brands in consumer lifestyles, but the proliferation of consumer choice is only going to get broader. It forces companies like ours to change our game. And so what we've been talking about at Caleres is something that's a little bit different. The insight that's driven us for the last 140 years, when we look at the decade that's to come, based on new consumer orientations, is a thing that we're beginning to call being consumer-obsessed.

And to be consumer-obsessed is to start by observing, understanding, and this is important, building empathy for the people who buy and wear footwear, our footwear and others. Being consumer-obsessed means that Caleres must anticipate needs in order to solve problems, to create emotional connections and commercial outcomes in order to create shareholder value.

We rigorously integrate technology, analysis, and creativity to meet consumer desires. We use many, many sources of insight at Caleres in order to drive our strategic decision-making. I have like 10 examples listed here in front of you. This is just a handful of them. Everything from commercial market intelligence, how we look at brands, retailers, product segments, how they're trending, what's up, what's down, what's sideways, yhe way that we look at fit intelligence, which helps us understand at a SKU and person level what's the best fit for her or for him, through to behavioral analytics, where we can understand how consumers behave and shop in our stores and also online. These 10 blocks, along with others, including first-party data that we get from our own stores, eCommerce sites, and consumer services teams, are the building blocks for consumer obsession.

Now I should say that data doesn't replace great instincts and intuition, at least not yet. Caleres has powerful brand leaders and associates with a great intuition making choices for their brands day in and day out. The purpose of all of this data is not to replace human decision-making, but it's helped to validate the choices that they make, to increase the odds of winning, so that our brands remain sustainable over time.

The insights we build fuel our strategic decision-making. These building blocks have direct and practical application, so this is not just academics. This is practical in its purpose for how we manage our brands. And this is everything from our brand origin or purpose if we're starting a new brand, or if we're looking to pivot an existing brand to meet and underserve the audience. It helps us understand what's the line and style detail that's required, where we make our product and source it, how we advertise it, where and how we sell it, and how we build individual consumer relationships in order to build repeat purchase and lifetime value.

When we look at insight on the consumer level, we are looking for breakthroughs, and the breakthroughs typically are non-obvious. They're a little below the surface, and it takes some work to get at. We look at rational and emotional dimensions of consumers. And when we talk about rational dimensions, what we mean is practical stuff, like can I afford it? Can I get it easily? Can I wear this with jeans and also a dress? For many consumers, rational benefit is enough. But what we see with higher-value consumer segments, emotional dimensions become really, really important.

And so when we talk about emotional dimensions, we think about things like how does this product, how does this brand make me feel when I buy it and wear it? Does it transport me to a different place? Does it transform me into

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someone who I am not? Or does it affirm who I am already? Does it reflect who I want to be? Or it could be as simple as do I just love this. It's not easy to understand these things because people are complex.

Unverified Participant

[indiscernible] (00:36:42)?

Stephen Henderson

Senior Vice President-Marketing & eCommerce, Caleres, Inc.

Sure.

Unverified Participant

How much money are you spending on third-party companies like [indiscernible] (00:36:50)? Or are you spending money with that and how much of the insights were coming from that?

Stephen Henderson

Senior Vice President-Marketing & eCommerce, Caleres, Inc.

I'm not going to talk about how much we spend. I will tell you that the work that I'm going to show you now is work that we've done internally.

Unverified Participant

Okay. And [ph] looking at (00:37:20) on this last slide that you had up, the emotional versus rational...

Unverified Participant

[ph] Hey, Tim (00:37:23), there's going to be a time for Q&A, [ph] a bit (00:37:27) more appropriate time for Q&A.

Unverified Participant

Okay.

Stephen Henderson

Senior Vice President-Marketing & eCommerce, Caleres, Inc.

It's okay. I mentioned that people are complex. To iron out the complexity, we apply deep analysis against our audiences. There are 200 million contactable adults in the United States today. Each one of those 200 million is composed of a number of characteristics that make them who they are. In order to make sense of all of this, what we do is we cluster these characteristics together and form different lenses for analytic insight.

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I'm going to show you a few examples for how we do this. We look at lots and lots of dimensions of people. Three that we look at on a regular basis are these that I have in front of you, which are affluence, higher to lower income, household structure is more family to more single, and age from older to younger. We look at upwards of 100 consumer segments across the US, and what I'm showing here in front of you is a map that we look at on a regular basis to understand specific characteristics about each one of these 100 segments, things like what brands do they buy, what retailers do they have attachment to, and things like what are their fashion orientation. So like this segment I've got highlighted here for you in blue, she says that she has a trendy fashion style, but she doesn't prefer designer clothing.

We look at thousands of characteristics for each of these segments to understand who they are, and then what motivates them. About 25% of these segments represent high value in the United States. I have them outlined here for you in gold.

Okay. I've spent a little bit time talking about what are consumer insights. I want to show you a couple of practical examples for how we've applied our learnings from strategic insight to create winning outcomes for our brands. Let me start with Naturalizer. The strategic priority to broaden reach and power of our brands and products began a few years ago when Naturalizer brand was sort of at a pivot point about designing what should its way forward be.

The process was started by doing a deep dive to understand who is the target audience for this brand, to know who is the appropriate growth audience to go after and target. We sought to understand her motivators, which are emotional. From those emotional orientations, we were able to set a new emotional core for the brand to guide our messaging and our tone. We look at her financial circumstance to understand what's our share of wallet, how much could it grow, and what's the potential of size of the prize commercially. We look at her channel, we look at how she shops to understand how should we try to engage with her, acquire her, and where should we try to sell to her. And we look at what's her style point of view to form a new epicenter for fashion and design for this brand.

After we identified this growth audience, we started to make strategic choices to change. Specifically, we implemented three new initiatives. One was a brand new design philosophy. Second was around consumer media targeting to find these audiences out in the wild. And then this past spring, we launched a new consumer purpose and communication platform that we called Today We Will, formed on the emotional core of the consumer that we had identified.

Jay is going to talk to you a lot more about the color for what's happened with Naturalizer over the last few years in a couple minutes. But I want to show you how this audience composition has shifted over the course of the last few years. Okay. You remember our math from a couple of slides back.

In 2014, we had a number of consumer segments that were with the brand, and the way to read this is I've ranked them from highest to lowest. Now there's 100, and so this stopped to 25. So I'm just showing you top 25 segments, okay? There's an index to the right that shows the strength of the audience size compared to the US population. This is 2014. There were three consumer segments I've outlined in green that sort of paid the bills, high-value, affluent segments who have been with the brand for some time. We wanted to keep them. We knew we wanted to evolve the brand, but we wanted to keep and respect the core consumer. We identified one segment, I've highlighted in orange, that represented low-value consumers, not particularly profitable, known for only really shopping when she has a coupon in her pocket.

We spent a lot of time and energy on a consumer audience that didn't create profit for us. So our growth audience, which I've highlighted in blue, Piper we call her, represented an ideal growth segment to potentially

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replace lower-value segments over time. So three segments we wanted to keep, one we needed to grow, and one we thought might erode from the brand as we've made some change. And so now we're going to time travel. This is 2014.

Here's 2015. The brand team in 2015 is beginning to ideate and plan for what the future should be; 2016, the first wave of new product begins to arrive; 2017, a full wave of product begins to arrive, the brand changes its identity, new logo, new website; 2018, we begin media targeting and acquisition against new consumer audience; 2019, where we are today.

We use this type of insight to understand, are we making the right strategic choices and are they creating an effect. And what you can see here is that our target audience of Piper that represents high value has moved up from a lower indexing segment to among the very highest. The segment that we thought would begin to erode and be replaced has begun to do that, but the three segments who paid the bills for us in 2014 are still with us and are in fact stronger with us today than they were a few years ago.

It's a difficult thing to achieve, to pivot like this, to keep a core consumer with us, while also driving a new growth audience into the brand. Jay is going to talk a little bit about the commercial [ph] results that have (00:45:19) happened with the brand that connect back to this, so I'm not going to go there, but he will a little bit. Okay. That was Naturalizer.

I want to talk for a few minutes about Famous. Diane mentioned our strategic priorities and the second one of strengthening connections with our consumers. Back to our map, so far I haven't shown you anything to do with size and scale of these audiences. They all look kind of the same. So let me show that to you. And by the way, I should say that the data I'm showing you today is actually a simulation. This isn't our actual data. For the purpose of this demonstration and this publication, we didn't want to show it all, but this is kind of like what we look at. The orange rings represent the audience size for each segment. The blue rings represent what's the average annual spend in footwear. So we're looking for disproportion. You see segments that are older and single up to the far right, big audiences with smaller spend. You see a few big audiences that are younger families, who have more correlation between audience size and spend, and then there's a whole sea in the middle.

So I said that this is simulation. What I will reveal to you is that in Famous, the most over-indexing segments, the largest, are these two that I've highlighted in blue. This represents the last 24 months of active audience purchase at Famous. These audiences are large. And because they are large, they are lucrative. They don't represent the most spend every year in footwear, but because of their size and scale and because of their potential for growth and consumer lifetime value as they age, this is a great place for us to play.

She loves to shop in specialty stores, in stores and online. She thinks shopping is a great way to relax, which I think is insane personally, but who am I to judge? She's connected. She prioritizes known trends and national brands. She's a smart shopper. She won't trade quality for fashion. Molly is going to talk more about what she's doing with Famous Footwear and her priorities that align to this consumer audience. It's a great place for Famous to play. It's a unique audience that it owns in a very powerful way.

I'm going to give you one last set of analysis. And this is related to how we ensure our portfolio brands remain relevant across consumer segments over time. Here's our map. We know where each brand in our portfolio pops on this map. Almost all of our brands are very diverse, so they span many, many of these consumer segments, but each of them has a highly pronounced area of over-index.

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We look at these four brands, and what we saw was a concentration of over-indexing in the area that I've highlighted in orange. These tend to be younger families. We looked into the data to understand more of their characteristics, and what we saw were active families who prioritize ease, value, and style while living conscientious, balanced lifestyles, and balanced means budget, but it also means balanced in competing priorities, things like career and family, managing time. Conscientious is because she wants to do good and give back. She has a perspective on how her purpose is large in the world and the community that surrounds her. We call this segment Essential Balance.

We looked at Naturalizer, Allen Edmonds, and Via Spiga brands to understand where did they over-index. And generally, they're in this area I've highlighted in purple. We look at the data here and what we saw were people who possess strong personal sensibilities and desire authenticity that remains ever-current. They have strong fashion orientations. They would say that their style is classic or timeless. They love brands. We call this segment Modern Heritage.

Then we look at Sam, Franco Sarto and Fergie, and what we saw was a more diverse reach than other segments, quite affluent, a bit younger than Modern Heritage. And what the data told us is that these are people who hold fashion-first orientations. They chase excitement, escape, and discovery. They also have strong fashion orientations like our Modern Heritage consumers do, but they're interested in newness and novelty. She describes her sense of style as being more trendy and trend-aware. We call this segment Self-Expression.

Finally, we looked at Vionic, Bzees, and Ryka, and we saw that this segment, also quite diverse, generally over-indexed in the segment that I've highlighted in blue. We looked into the data here and what we saw were people who are motivated by healthy choices related to their total wellness and well-being. These are consumer segments that spend the most on things like fitness trackers, they have [ph] outside (00:52:00) spend on alternative medicine and healthcare, and it's partly because they're a little bit more aged than other segments, but mostly it's because they want access, they want freedom, they want to be able to do things, live longer, fuller, better lives. We call this segment Forward Movement.

The power of this view of our portfolio is that it tells us who are the current consumer segments that are important to us, that help shape the sustainability of our brands. It can give us cues for when do we need to begin to pivot brands for things like finding a younger or a more affluent or higher-spend audience in footwear. It can tell us when we need to make strategic choices that are different. It also tells us where we have white space, where are underserved segments within our portfolio that we should pivot to, either with potentially a new brand or an existing brand. It tells us where are there consumer segments where we never want to try to play, because we simply couldn't spend enough money to convert them into one of our brands.

Caleres brands over-index with high-value consumer segments from many walks of life, and we think this is a very powerful characteristic and advantage of our brand – of our business.

[ph] One view (00:53:45), this is our takeaway slide. You'll see this a couple times in the presentations to come that illustrate where each brand across Caleres fits against consumer segments. Okay. I showed you some examples of what are consumer insights, how do we leverage them at Caleres, how do we build strength in our analysis in order to be consumer-focused and diversified and relevant.

And with that, I'm happy to introduce Molly Adams, President of Famous Footwear.

Molly Adams

Division President-Famous Footwear, Caleres, Inc.

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Thank you, sir.

Stephen Henderson

Senior Vice President-Marketing & eCommerce, Caleres, Inc.

Thanks, Molly.

Molly Adams

Division President-Famous Footwear, Caleres, Inc.

Good morning. Hi. It's really great to have all of you here, and I'm excited to be able to tell you what's happening at Famous Footwear. I'm sort of tethered to my mic, so [ph] I'll be (00:54:52) trying to click the wrong thing. So there's lots of exciting things happening here. And I thought I would just start with a little bit about what the Famous brand is today. First of all, Famous is a brand. We have a good brand. We have good consumer relationships and we have scale, which you see here on this slide. I think the most important numbers on that slide are the 185 million guest visits that we have – guest list to me, the Disney in me – customer visits, 185 million annually, which is a great number for us and our large store footprint, but notably 85% of our stores not in malls.

So here are some things that are not statistics but sort of qualitative about Famous today. We're trusted and loved. Our customers have confidence in us for style, for service, for value. We are dedicated to understanding them. We're focused on that. We have a broad-based reach and appeal. So there are lots of people that are close to Famous. There are lots of people who like Famous. We sell things that appeal to lots of people that they can wear on lots of occasions. So we do have this great reach. I mentioned before we have strong consumer relationships. We're going to talk about that throughout the day. And we have fresh and compelling product assortments that resonate with these customers.

So here's just a quick look at Stephen's slide. This shows you where we sit in right there, in Essential Balance for these active families. And the same that he told you before, this segment that Stephen talked about is active family – large, attractive, profitable – we see a big opportunity for growth here and a real opportunity to establish a leadership position with this consumer. And when you saw the characteristics that are right here on the right, notably prioritizes known and national brands.

So we have the brands she loves, and we are a brand she loves, but we need to think and act more like a brand. I think some of you know I came from Disney, where there's best-in-class brand experience. And I have real passion and conviction about the importance of the brand and its relationship to the customers. And I've been raised to believe that there's nothing more important than the brand and the consumer. Some good product is a nice bonus.

But at Disney, we work all day, every day thinking about how to use the power and the magic of the brand to improve the guest experience at every touch point. We never break the spell, so every touch point. So when I met Diane and the team at Famous, I thought I saw an opportunity to create a little of our own magic here at Famous.

And there are lots of things that I thought were great foundations, but we really weren't acting like a brand, and I thought that was exciting. So since I've been here, we've shifted our focus so that all of our decisions, our investments, our strategies are all consumer-facing, and they're all in pursuit of delivering this brand promise, and building on our new brand positioning, which says that everyone deserves to feel a little famous.

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So how are we going to do that? We had a solid foundation. We have engaged customers, who give us the opportunity to deepen these relationships that we have with them, but what was missing was this: We didn't have a consistent brand with an experience across all of our touch points. So our vision became to be my favorite place to shop for shoes by creating this consistent voice. And we had to do that by executing strategies on these three important areas.

And it's really important to note that they have to all work together to be able to deliver this brand. I'll tell you a little bit more about each of those. So merchandising, here we have brands, we have styles, we have value. We're focused on this active family and this broad audience that really love Famous. There are some practical things here like reducing SKUs, driving depth in key items, really recognizing these things that have broad appeals where we can sell big numbers, and managing our SKU productivity better. We've done a good job so far, and we're just getting started on elevating our assortment, so that we have more premium styles, higher AURs, adding iconic brands, which has really been a driver of our business especially during the back-to-school period, and as we go into fall, we expect that to continue, more premium brands.

This next thing about localized assortment strategies, so we've done some things in some store groups, a couple of markets that we chose that were going to be priority markets, so that we could put a lot of new initiatives and test things there to see what really worked and sort of get some things all working at the same time and working together. Obviously we can't do that across all of our stores, but in a couple of markets, we've done these things, we are seeing those markets outpace the rest of the chain and we're seeing some real traction on some of those initiatives, and we had some store groups. We did not before have real statistically valid test stores. We tested things but they weren't real test groups. So, we do have that now. A few of them, different sized groups, but we have real tests going on all the time and we're testing all kinds of things, product, marketing, things that the associates do on stores, [ph] house or looks (01:00:13), all that sort of stuff.

We have a group, the power stores. It's just stores that we think have the ability to outpace growth from the rest of our stores based on a number of metrics. We have a high household income store. These are stores where we have a very high penetration of kids' business, not as much women's business. They tend to buy on the higher end of our athletic assortment. So, we felt like we're missing mom – affluent mom who's shopping for her kids and maybe buying her athletic shoes but not buying her fashion. So, we have that group going. And we've done some special things for the assortment there. And so, there are a few others like that, but that localized assortment strategy is really working for us, and of course, we're leveraging our strength in athletic and athletic-inspired shoes.

This part is interesting because we've always been known as a place to buy athletic shoes and we have all the top brands in athletic shoes. But as we add more non-athletic shoes and a fresh new curated assortment for this customer that's more fashionable, we have a great opportunity in the sport leisure category. These have been identified by NPD as the highest growth classes upcoming, and nearly 40% of our sales come from these categories already and they're outpacing the growth of our other categories. So, this is right in our sweet spot, a natural authentic extension of what we're already most known for.

In marketing, we have a whole lot of new things going on. The biggest is that we have turned all of our attention to consumer-facing things. We're going across all channels. I think you all know we've added radio and TV for back-to-school, which we hadn't done in a long time. Our social, our – everything that we're doing has a new look and feel. We launched a new brand campaign for back-to-school, Feel A Little Famous. So, we're doing everything we can to strengthen our brand voice and connect with these customers wherever they are. And we've also evolved a new Rewards program. I think again we've talked about this publicly. We launched this – re-launched it in the spring and it has been a huge success. Here's a little look.

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These are the metrics that we established to measure the success. Every one of them is exceeding our expectations, just six months in. So more new members; more Superstar members, which is our highest level of spender; improved retention rate every month since we started, and we had not seen that for years; increased average spend; increased frequency of visits; many, many more members shopping multiple channels, as opposed to we had a lot before who were only shopping in-store or only shopping online; and the percentage of our total sales that these Rewards customers represent is growing as well. So, we're really pleased. We have a lot more to come there. It's still evolving. There's some new benefits and phase two and three to come, but we feel like this is something else that really helps us connect with these customers.

And then, the consumer experience. So, this is where we really bring Feel A Little Famous to life in lots of ways, and there's a lot in these little words on this slide that I want to talk to you about. First of all, we're meeting the customer where she is and wherever she wants to shop for us, with us, we're delivering or attempting to deliver a consistent, seamless brand experience, so that's job one, and over-delivering on her expectations of style and service and values in every channel.

We are driving dot-com as the primary sales growth. That's not new news to anybody, that that's where all the growth is happening. But that said, we're still doing just fine in our stores. So, we're excited about how that business is working together. We have a very tight connection where our online business and our stores are interdependent or we do better online, where we have stores, we have a very high sort of crossover now of people who buy online, pick up in store or buy online, exchange in store and all that sort of things. So, that is really working for us.

We are – Diane mentioned earlier, we're launching a new eCommerce platform in January. I look right at Willis when I say that. And we're on track for that and it gives us all kinds of new capabilities and new customer experiences that are really relevant and modern and things that our customers are looking for, so super excited about that.

I would be remiss if I didn't call out that we're looking at the dot-com profitability. You all know how that works. As this online business grows, as a percent of our total, it puts pressure on our margins. We know that. We have already done a number of things both in assortment and pricing and distribution that have helped us. So, we're seeing improvement there, but we've got our eye on that ball for sure.

And then, I want to talk – the next three points on here really about real estate. So, we are looking at an optimized store count. We don't have a particular target or number in mind, but we want to evaluate how many stores we have, and most importantly, where they are and how they're positioned. So, we have some key markets where we feel like we need to reposition. We have a lot of stores there, we're doing great business there, but maybe we're not right – quite in the right spot, or we have three kind of good stores and we could go to a couple of really good stores.

So, we're looking at some key markets for repositioning. We are looking at some new markets where based on who our consumers are and what's happening in our Rewards business and all that where our eComm business is coming from. We think there's some white space in some markets that we're not currently in or we're not in a big enough way. So, we're looking at that. And there are some spots where we think we should build stores because it drives dot-com business. So, we have a lot going on in real estate. You all know that that's not a quick change. If I could bring my magic wand from Disney and wave it, I would do that, but it takes a little while to get the repositioning going but we have a very definite plan and we're excited about where that's going to take us.

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And then, the stores that we have now, so to the consistent brand experience and brand voice, all of our stores don't look as good as they should for a Famous brand. Some look great and some don't. Our associates are amazing. They're passionate, they're knowledgeable, they're committed, but the stores themselves, some of them are tired. So, we are accelerating to refresh on some of our stores so that we can get those stores looking like we like them to look to best represent the brand sooner rather than later.

And here is [ph] short and sweet (01:06:44). This is what we're looking forward to and what I want to leave you with before we get to Q&A. We're really confident in our team and confident in our business and feel like we have the strategies in place to do this. We're committed to growing sales and profit. We are focused on this consumer, the obsession that everybody's talking about really permeates in Famous. I mean, it's – every single week, we look at what's selling, who is that person, where is she wearing that, what else does she wear and where is she going, just constantly thinking about her and what we can do to be more important to her. And the strategies are in place to deliver both this vision and improved financial results.

And that's the short story of Famous. So with that, I'm going to turn it over to Jay to tell you about Brand Portfolio.

John W. Schmidt

Division President-Brand Portfolio, Caleres, Inc.

Thank you, Molly. Welcome. Good to see everyone. Okay. So I have a lot to share, so I'll get right to it and jump in, get to look all over. So, couple quick stats on the Brand Portfolio, $1.2 billion in revenue; you can see the pairs shipped; we have 15 brands, both owned and brand partnered; wholesale, owned retail and eCommerce distribution mix.

I'm also pleased to say that based on two important measures, our brands are creating winning outcomes with consumers. Our market share is 8.3%. That's in women's fashion footwear, largest and growing. And then, the second is our Net Promoter Score, which we define as excellent. However, I'd like to keep it real here. We're never really happy with it and we're always looking for ways to improve on it.

And then, further, as Diane said in her early piece, we owned 6 out of the top 25 women's fashion footwear brands in the United States. And you see some really impressive stats. Sam did an amazing number 9, Naturalizer at number 13, LifeStride at 15, Vionic at 18, Franco Sarto at 19, and then, Scholl's with a big climb up into number 22, and that's how NPD tracks them and that would be a 12-month rolling stat.

So looking out to the next three years, we are projecting low to mid-single sales growth and we see that as at or ahead of market. And this growth is going to come in several ways. First is through our ability to evolve brands for the future. The second is to connect with new and existing brand partners. And then, third is to create brands for the future. And then, along the way, we are going to develop our capabilities in product innovation, our eCommerce management and new international markets. And so, I'd like to take you through some real-life Brand Portfolio examples of where we show, how we've done that.

The first is with Naturalizer. Brand was created in 1927 and has an amazing story, the first women's brand to make a shoe on a woman's last. Fit, comfort and femininity were our signature and that happened as women entered the workforce. And I'd like to say, you can hardly see it there but there's a little clue in the top-left box from one of the early ads, and it says the shoe with the beautiful fit, and that'll become very important as we talk further about it.

So, I've been with Caleres for quite a while, a little over 10 years. I started working with Naturalizer in 2015. And I have to say that at that time, we were at a pivot place. We had lost some of the signature of the brand. And I have

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to say our brand attributes, rather than about fit, comfort and femininity, might be better described as, well, let's see, practical, comfortable and mature, and so, where most of our core demographic there was on the mature side. We envisioned a better future. And so, our work began.

You can kind of see a timeline. It kind of helps us define what we did. But in 2016, we started working on our consumer research. And as Stephen pointed out, we really identified a new target consumer. And in doing that, we called her the confident explorer. She was a subset of the millennial, highly valued, independent, making her own style choices, though not really trendy. She was the smallest segment of our brand, and yet, she was the fastest growing. And by doing this, we jumped over from our core consumer over her daughter and went to her granddaughter. And also by doing this, this consumer also showed no baggage with the brand, no preconceived notion about it, that it was – there was anything about it being mature and she just looked at it for what it was. And so, we took that as kind of our North Star and we started designing beautiful feminine shoes.

So, a lot happened as we've stressed for it. In 2017, the brand evolution began in spring. We had new product, brand and packaging. As you can see, that is our new label/brand mark here which has served as both things, and you'll see it in and outside the – on the box and also inside the shoes, how it works. In 2018, we added more product categories, and our speed capabilities within Caleres helped accelerate growth. At that time, the consumer profile began to shift.

In 2019, we added a purpose-driven consumer platform and we improved our marketing with this Today We Will, which features real-life influencers that we used in the campaign and they allowed them to tell their own stories. We opened two new flagship retail stores where we're able to tell our story in a way that we think is strong, with one of them being here on 34th Street. We also launched additional categories. And I think that was the great thing about the Naturalizer brand, is that it was able to spread so many different product choices. We had a social occasion business going back to that feminine spot. We had weather-ready or cold weather boots that were actually launched. And then, we also launched a brand called 27Edit, which was a more contemporary version coming out of Naturalizer, which came from the same consumer research that told us that she would pay more to get more and that she did want more fashion out of it.

So all of that gave us a brand headline over here, which you see, is that the brand grew from number 19 market share to number 13 during that time. Even more amazingly, which a lot of people we had a doubt about, including myself, but we kept checking in to see we're on the right path, the millennials and Gen X now represent 45% of our total, which is completely inverted to where we began.

So, what were our big takeaways? Consumer focused. We did two different things. We respected the existing consumer who was in the brand while targeting a new growth audience and making more product for. We also respected what was important and true from the brand's legacy. And we really focused back to that shoe with the beautiful fit, and we stopped talking strictly about comfort, science and things that she was less interested in when we market it.

In terms of the evolution of team, it's an evolved high-performance team that drove every facet. And everyone pulled together on this, from assortment planning, marketing, media, eCommerce and retail. So, we've pulled an entire group of people together and we invigorated a culture of change within this. That still is there today and continues to evolve. And that's a good thing because we will need to continually evolve as we go forward in the portfolio.

The next example is Allen Edmonds, and I'd like to begin with a full disclosure, as I have been working with Allen Edmonds for about two months right now. And I'd like to say fortunately for everyone, I'm a quick study and I like

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a challenge. So here, we begin. The brand and the consumer are obviously very different from Naturalizer. But at the same time, the pathway and the journey that we're on has some similarities. The brand was created in 1922 based on craftsmanship with that made in the USA. It's about heritage classic dress, Goodyear welts, an amazing core consumer loyalty, 62% repeat rate, and yeah, we had a promotional issue that we had to deal with.

So, let me tell you what's been done so far and then we'll talk about the go-forward priorities with Allen Edmonds. We identified a high value existing consumer. It was actually 15% of our audience and represented 30% of our spend. And so, we use that to really continue to message more to him and increase that share. We call him the discerning man, nice name. And our recent messaging has shown us that we have some promising results against this audience.

We look forward, we're looking to continue to reduce promotional posture. We went out there and said we were going to reduce it by 15%, and we've done it so far. We're looking to expand offerings, particularly in casual, and I'll get to that in a second. We're going to improve storytelling around product and craft. We're looking to rebuild wholesale partnerships and go back when we feel that we're absolutely ready. And I'm happy to say also, leverage the Brand Portfolio capabilities, which we do think will be helpful as we integrate.

The big idea here which reflects, I think, probably some big movement is to shift more toward casual. And if you can see, we call – we kind of put these into four segments. The first is heritage classic dress, and today, that represents 65%, the shoes that people know Allen Edmonds for. We respect that. They will always be a very important piece of the brand. However, as a percentage total, that will drop down as we go in – as the consumer is really asking for more casual product.

So, we're seeing the reimagined business casual. Today, it's at 15%. We're looking to take that to 20%. We have a weekend casual segment that we believe needs new energy. We're going to hold that at 15% but continue to make that more modern. And then, the exploration, which is the lux sneakers. Today, that's a very small part of the business, and yet, it's a very important category for men, and we see that going from 5% and to increase that to 20%. And again, our early signs tell us we're on the right pathway. So, we'll continue to update and give you – on your – our progress with Allen Edmonds as we continue to meet with you.

Okay. So, this one's easy for me because I was here from our very first meeting with Vince, and this is really a story about the brand partnership. It [ph] began (01:20:04) with the original brand founders, who were Rea Laccone and Christopher LaPolice, and we spend a lot of time working with them. And I think it's one of the reasons that we had really a very good outcome, and I'll say fully, it wasn't easy at times. They were very tough taskmasters but we learned what was really special about Vince and we were able to recreate it in our footwear.

So, what was it? The brand was built on three key words: relaxed, luxury and casual with a West Coast ease; luxe materials; deep rich colors; monochromatic detailing, which you'll see in all the shoes; and we had a seamless paring back to apparel. And one of the things about a Vince shoe is you'll never see anything tricky about it. It's completely clean, almost architectural in its appeal.

As we look forward, where are we today? We're now in our third contract term with Vince Corporate. We have a global dual gender brand selling in over 400 doors. Sports, flats, sandals and boots all scale as we continue to go into more casual categories for the consumer. And during this period that we've had Vince, the Vince Corporation has gone through a lot of some turbulence as they've looked through design changes and leadership changes, and yet, our footwear continued to sustain. And we think it was that deep connection that we had from the beginning with our partners that allowed us to do it and that we were really very good stewards of the brand during that timeframe in terms of designing those brand attributes.

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And one of the things I continue to hear when I speak to new partners who want to partner with Caleres is that they come to us and they take a look at Vince and they say, I can't believe that's a licensed brand because that's how seamless it goes into a store, and yet, it perfectly stands alone as a key business.

And this is from some of the recent campaigns that have been out there and you can kind of see it just really fits beautifully with the clothes and the aesthetic of the brand and it really never stops since the whole time we've been there.

Our second example of brand partnership is Veronica Beard. And I can say a lot of great things about our newest brand partner, but I'll probably let them both tell you today more about them, which will be really fun. I'll give you a couple clues, though. They are – for those who don't know, they are sisters in law who married brothers, okay? They became best friends, though, and their love of fashion inspired their brand launch. We really see Veronica Beard as the epitome of self-expression.

Their brand pillars, confident, discerning, versatile and feminine, but it's really this love of print, color and silhouette that makes her feel like a woman, and those are their words and that's how they see that. And so, we see a perfect complement to our Vince with no overlap. They're always careful with quality and fit, but I think it was really the connection with them as partners that really made us want to join up when we first met them.

They share our values, our passions and ambitions, and it just felt this way from the minute we met them. Like us, the consumer is at the center of every conversation that they talk about, and they talk in rapid fire. And I'd like to say, they're in it to win it, and so are we. So, our partnership we look forward to. We just showed our first collection of footwear with Caleres in the August Market, and you'll see it later today during the lunch period, that's laid out, and we're excited for your feedback.

So this slide is called brand creation, but really, technically, it's a brand recreation, and this is from Zodiac. And all I can describe about Zodiac is this was a gem in the Caleres vault that was just waiting for the right time and the right people to return it back to the marketplace. It's created in 1962, known for the urban cowboy boot. As Stephen kind of referred to in his insight piece is that that's drove us to really go further on the consumer profile with this free-spirited woman with her own unique style which was distinctly casual, and we saw a white space in the marketplace. And as we checked in with our retail partners, they confirmed that with us. So, we think it's a perfect time for this revival of heritage boho and western flavor, which are all very relevant; craft-driven; and again, distinctly casual, which is the key growth.

I'd say full pun intended but it did grow like a tumbleweed in terms of the enthusiasm on this brand, from the people who worked on it to the people who saw it. And we have a great presentation to show you down the hall today, and again, it's a very exciting piece that we've gotten a great reaction to it and we think it's the perfect complement to bring an own brand back to our portfolio.

Okay. So, one of the things I love about working at Caleres is that there are incredible capabilities that we have as a company, and you'll hear a little bit more about them. But it's really – it feels great to know that when we identify an opportunity in the marketplace, we can go after it and scale it and we don't worry about our ability to make it or to make it well, and sport, we think, is a great example of this.

Since I would say probably since 2015, we obviously saw the growth in fashion sneakers. It kind of snuck in with us on our Vince brand, and yet, we had great capabilities in the company in between the Dr. Scholl's, Rykä and

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Bzees business, all being in part of that. So, we're able to capitalize quickly on Caleres's design, production and to provide a competitive edge in this.

A lot of people make sneakers but not all of them felt great on your foot, and that was, I think, the advantage we had across tiered price points in the portfolio. And our ability to scale that quickly allowed us to really emerge in this category. So, there was a 620-basis point growth since 2015 to 20% of our portfolio product. And very quickly, the number one item in Vince, Naturalizer and Dr. Scholl's in pairs is sneaker.

Okay. We're going to take a similar approach to sustainability, and we do think sustainable design is the next frontier. It's going to be the teamwork on this and the partnership that's going to make this happen with us, and we obviously know that it's of high concern to our biggest target audience that we're focusing on. So, we've used Dr. Scholl's as our innovation pioneer. As we do in a lot of cases, we start something in one brand and then those learnings spread to the others. We're looking across at every piece of our componentry, our packaging and where we can make improvement, and the whole real answer to this is improvement and we'll keep working on this and updating you here.

Again, outside on the hallway, we have a little setup of what we've done with Dr. Scholl's and we'll have someone that'll be able to explain it to you in as much detail as you care to hear because it gets very deep very quickly, but we have a lot of enthusiastic people. The interesting thing about this is that this came from a group of people in our company who were, I would say at the youngest in junior area who really cared so much about this, they wanted to make a difference, and their work on this we're now able to spread and cascade to other parts of the company as we see fit. So, a lot more on that later.

Okay. I'm looking at Mark Schmitt, who will be on later. But all I can say is we have a lot of discussion about this. We made a lot of investments in our ability to fulfill [ph] loose pair (01:28:50) processing and to really stimulate the eCommerce growth. And all I can say is that good thing we did, okay? The eCommerce business has – will exceed 30% of the Brand Portfolio sales in 2019, and that's up 400 basis points over 2018.

It really has been our catalyst for growth and in lots of ways. We get faster reads and product adoption from looking at this, that we're then able to take to our speed program and actually roll out to brick-and-mortar stores. We get incredible insights about consumers about who she is, what she does and what motivates her. And then, finally, it's not just our processing, but it's really our ability to plan on this, and that's something that I think a lot of people don't have, is that we do have a great team that actually is working on this and continuing to flow inventory in order to fulfill this. Because if we don't have the inventory placed at the right time and working with our sourcing teams and our capacity, we wouldn't have achieved these results. So, we see this as strong and continuing.

And then, with international, it will be a stronger capability over the next three years. So, this is something that we're working on as a big growth initiative for us. The big piece of it that has been announced before is our joint venture in China with our partner, Brand Investment Holdings. It's primarily Naturalizer and Sam Edelman. And we are opening seven locations that are actually open today plus on T-Mall and we're looking for further rollouts as we go across the year that are still in development with great proof of concept and traction as we get there. The great opportunity here is that if we get a great proof of concept, we can add additional brands as we see fit or we can take the joint venture concept with us to other countries and other markets.

What I like about it so far is in the stores that we have, there's really a very seamless connection. I think that was something we had done, I would say, in Naturalizer not our best in the past but we now see a Naturalizer brand that looks like Naturalizer in the United States and has been overseas. And Sam looks amazing over there and he's recreated his complete aesthetic internationally.

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So, in summary, I hope you understand more about the power of our brands and how excited we are about that, that the consumer comes first and consumer insights are critical to what we do. We are footwear experts. And finally, it's our capabilities that allow us to make this happen and make it happen big. And based on these factors, we really do believe it's our time.

So with that, I'd like to say thank you and I believe that we're moving...

Unverified Participant

We're going to do a little break...

John W. Schmidt

Division President-Brand Portfolio, Caleres, Inc.

... a break.

Unverified Participant

...a 15-minute break then we'll come back for the Q&A.

John W. Schmidt

Division President-Brand Portfolio, Caleres, Inc.

Okay.

Diane M. Sullivan

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

We're going to have a number of opportunities for Q&A. But we thought after just kicking it off this morning and I don't know whether we need to sit or whatever but [indiscernible] (01:32:23). We wanted to open it up for any questions that you have so far. I know we have a little more material to cover for sure through the rest of the day but wanted to – any questions you have, Laurent?

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QUESTION AND ANSWER SECTION

A

And if we could wait for the microphone [ph] since we are webcasting (01:32:41).

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

A

Yes, yes, yes, we're webcasting, so good reminder. Thanks, [ph] Christian (01:32:45). We have to have the mic.

A

Thank you.

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

Q

Thank you very much. Laurent Vasilescu from Macquarie. I wanted to ask about the Brand Portfolio, the guidance for low to mid-single-digit growth over next three years. How should we think about the growth for the really for the big three brands, Vionic, Naturalizer, and Allen Edmonds, the dynamics there, or should we think about the smaller brands really growing faster than that rate? Any color on that would be very helpful.

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

A

Yeah, I think we're going to talk a little more about, obviously, the financials and our outlook as we get through the rest of the day. But here, we believe that the information that we've given you, so far, around the brand, the Brand Portfolio and that growth rate, we're not going to break it down any further because we think that each one of our brands at different points in times are going to be growing at different rates. So, that mid-single-digit number we feel is enough guidance around what we want to talk about.

And then you'll hear a little more as it gets stacked up with the total for the company. We'll be able to give you a little bit more color on that. But right now, not so much on each individual brand. We're committed to meeting those overall targets. We're going to drive that through all of our brands including Famous. And that's kind of how we want to handle it, Laurent. Steve?

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

Q

Steve Marotta from C.L. King. Molly, I believe you mentioned that Famous Footwear, some of the stores are test stores among other different stores. Can you talk a little bit about what you're testing there? Is it specifically for goods for future seasons? Is there any overlap with the Branded Portfolio to use within the testing store so that the Brand Portfolio can react to what's working at Famous?

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

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Yes, and yes, and yes. We are testing product, we're testing pricing, we're testing promotional activities, we're testing marketing, we're testing store labor models, we're testing, to some extent, store design. We haven't done anything radical there yet, but we have a few things in mind and some little changes that are freshening things up. We're testing shipping and buy online and pick up in store and fulfillment and all kinds of things like that.

So, operational and product and marketing and yes, particularly in the power stores and the high household income stores, there is a bigger opportunity for our own brands to play a bigger role in the Famous assortment and we're actively working on that.

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

Q

What percentage of the stores are the test stores or the [ph] power stores (01:35:17)?

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

A

[indiscernible] (01:35:19).

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

Yeah. So, we have identified two 50-store groups and two 25-store groups that we cross over and they all have control groups against them. So, 150 are actively in test mode of 970-ish. And then there are – we're approaching 100 power stores, we started with less than that, we have 25 to 30 household income, but they're not all mutually exclusive. So, some of the power stores are also high household and stuff like that. So, it's meaningful but not most of the stores in any one of those groups.

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

Q

Great.

Q

Hi. Good morning, guys. Thanks for putting this together. A question for Molly, so, on the Famous side, you touched on a number of drivers in merchandising, so, reducing the number of SKUs, increasing AUR, growing iconic and premium brands. Can you paint a picture for where you are now in that journey and what you see as your long range targets in 2020 – 2022? And then I also have a question for Jay.

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

Okay. I would say what you saw in our stores for back-to-school is directionally where we are. We're not 100% converted on what our assortment looks like but there are new brands and there are some brands that we've had in small ways that we now have in all stores where we have a much bigger presence or we have it across men's, women's and kids, so we've expanded our presence with those brands. So, that's fairly well [ph] on our way (01:36:51) but we have some other brands that we're talking to. And obviously, we're going to keep looking for more iconic brands to add.

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In terms of the rest of the assortment, I mean it's – merchandising is always changing. I mean I'll never be done changing the merchandising. But we're moving in that direction. And the AURs have partially to do with the brands we're acquiring inventory position with and partially due to our promotional strategies because we were a little more promotional a lot of times during last year than we needed to be. And so, we've gotten a little smarter about how we're doing that and that's part of our testing as well, figuring out where and when to promote and what gives us the best advantage there financially.

Q

Great. And a question for Jay as well, so you talked about eCommerce penetration at 30%, very strong growth there. Can you break that down into how much of that represents your own websites versus what might be considered drop-shipping with your partner website and any updates on the profitability of eCommerce channel on the Brand Portfolio side?

John W. Schmidt
Division President-Brand Portfolio, Caleres, Inc.

A

So that's a mouthful. Let me think if I could break that apart. But I think really we don't talk about our specific customers here. I will say what we do talk about is roughly half of our – that eCommerce number in the Brand Portfolio is direct-to-consumer and half of it is just a regular normal eCommerce business that we do both internally and with external partners. So, we're fulfilling that in – through the drop-ship method. And I think we....

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

A

[indiscernible] (01:38:30) we have drop-ship that's probably 5-or-so-percent of that 30%.

John W. Schmidt
Division President-Brand Portfolio, Caleres, Inc.

A

Yeah.

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

A

And then it's what we do through our other eCommerce channels with our partners. And in terms of the margin profile of that business, good news is that it's actually, it's not as dilutive to the total. It's actually accretive to the total. So, it's not – it's different, a little different on the retail side of it versus the wholesale side. Retail, as Molly said a little bit earlier, that's something we really have to work on and make sure that we're focused on addressing that and making sure that that margin profile improves and all the work that we have to do there on the wholesale side is not an issue right now.

Sam?

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Hi. Sam Poser from Susquehanna. Thank you for doing this today. All right, let me get to the questions I had earlier. Stephen, what percent – when you look at the, on page 32, you talk about the rational and the emotional decisions. What percentage, when you look at the world, do people make a rational purchase decision for shoes versus an emotional decision? And if your brands are – if your brand message or brand visions are enticing and

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compelling, doesn't that make the entire decision an emotional decision by just linking on to what the wants and needs of that person is?

Stephen Henderson
Senior Vice President-Marketing & eCommerce, Caleres, Inc.
A

It's a good question, Sam. I don't know that I can answer what percentage are the emotional versus rational. I wish that I could.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Well, you're the one with the key, you're unlocking. You're unlocking according to this.

Stephen Henderson
Senior Vice President-Marketing & eCommerce, Caleres, Inc.
A

Yeah.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

So, which has a bigger key, the emotional or the rational?

Stephen Henderson
Senior Vice President-Marketing & eCommerce, Caleres, Inc.
A

Here's how I would say it. It's different by segments like some of these segments are actually totally motivated by rational benefit. I can't tell you what the percentage is because I don't know it off hand.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Give me an example of which segment.

Stephen Henderson
Senior Vice President-Marketing & eCommerce, Caleres, Inc.
A

Well, a segment that's more rational in their decision making is probably going to be segments that are, how do I want to say this, let me tell you about the emotional side. We see, across more affluent segments, a stronger fashion orientation. We see in a number of lower income segments a stronger emotional orientation. It's sort of interesting how it's polarized like this. There's a sense of identity that's wrapped up in the brand and the footwear that's bought and worn.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Correct. And doesn't that happen at all segments, for instance, in your more Blowfish which is more moderate in your world. But they're competing against the Madden Girls and others of the world. Within that, you have to win that emotional battle even though they may be price point limited which is the rational decision. But that's how much money you have in your pocket, and isn't it all emotional after you get past that?

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Stephen Henderson
Senior Vice President-Marketing & eCommerce, Caleres, Inc.

A

Sometimes.

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

A

There's no black and white. There's no black and white on that on that, Sam. There's a mix of rational and emotional in all of those different segments to some different degree. And the – so, there's always that balance. So, it's really about making sure that you understand sort of what the characteristics are of those segments are, what kind of value they represent in the footwear landscape, what kind of promise they represent for the brands, are those characteristics the ones that we want to go after because they are higher-value customers for our brands. So, it really is – it's a mix of all of those things. It's not just I won a rationale or emotional.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Well, that leads on to my next question and then I'm going to stop. How much does Sam Edelman formally do any of this within your organization with the Sam Edelman brand, not with whatever is going on with Circus, with Sam Edelman? And how much of this does he do in the formal manner which you presented throughout the [ph] decision profile (01:43:27)?

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

A

And actually, the reason we spent quite a bit of time this morning sharing a lot of this approach with you and what we're doing is because this is a developing and emerging capability and competency here in the company. And it's a way, as part of the ecosystem, it doesn't replace great product creation. It doesn't replace intuition. It doesn't replace leadership. It doesn't replace all of that. But what it does is it gives you more data and more insight in order to make the right kind of decisions about what consumer segments to target, what kind of products to go after, where to add other brands in our portfolio. So, in Sam Edelman's particular case, he is phenomenal merchant. And he has – he does have this sixth sense about where the consumer is going. So, yes, that's not his priority focus right now about looking at these data and insights, but I can tell you is he's seen what we've been able to do and develop through the work that we did with Naturalizer. He also has come and said, I'm going to need to continue to grow this business in the right, smart, profitable way. And so where do I need to go? What is that next consumer lens that I have to take on in order to be able to make sure I'm targeting that next high-profile and high-value customer?

So, and in particular, where it really is beginning to help him and he has an interest in a big way is around the Circus brand particularly as you have your core brand and then where are you going to go with another consumer segment. So he came back and really wanted to understand not just about layer it in at a new price point, right, but who is that customer that we're going to go after and where are we most likely going to be successful. So it really is, Sam, an emerging capability. It's why we've spent the time with you this morning sharing it with you.

We're applying it to – starting to apply to many of our brands in the portfolio. And that will continue as we go forward but never ever does data alone replace good judgment, good product creation, understanding where the market and landscape is going, it is really just additive to that total basket of skills and capabilities that we're going to have to have to manage the portfolio and our business going forward.

My [ph] friend's in the (01:46:03) back there.

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Q

Thanks.

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

A

He's had his hands up a few times [ph] and I left them back there (01:46:08).

Q

Sometimes you're fast, sometimes you're slow.

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

A

Well, it's that beard that's thrown me off. I didn't recognize you.

Q

I think so. You mentioned that 15% of the sales at the Branded division are direct-to-consumer through eCommerce. As you think about that developing in the future is that an emphasis, do you want to drive more direct-to-consumer through your own websites, and is it a focus? What do you think about it, is it an area that can grow relative to wholesale?

John W. Schmidt
Division President-Brand Portfolio, Caleres, Inc.

A

We should probably go back to when Diane said 5 out of the 30, when you're really thinking about everything that she manages, it's probably close to that number so relating it to a different segment. But we're continuing to follow the consumer on this and really set ourselves. I think we're set up to go whichever way we grow which is the fastest growth.

We have certain customers that send us orders every week and so it in effect acts like that and then we have some that we go direct. And then at the same time we are looking to build our own branded websites and continue that growth. But I have to say it's really more about following the consumer and where the consumers are for our brands that we need to connect with. And what's the quickest path to go there which I'm always looking for. [ph] You want to say anything further (01:47:32)?

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

A

I mean, I think the other thing is – and you said it a little bit earlier, I mean this explosion in the single pair demand over the last couple of years has been just amazing. And we look back at what we were doing in 2015 and at that point in time, we were contemplating what kind of investment do we really need to make in our in our consumer fulfillment capabilities.

And it was a bet, right? It wasn't known that it was going to be potentially grow to 50% because that's what they say the market's going to be in the next two years is the way they think footwear may be. And we said we've got

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to be there. We decided to in-source our fulfillment. We made those investments. We now have the capabilities or – I mean, right now, I think our turnaround time in terms of what we're able to do is second to none. It's a couple of days and we're – we are, right, there's a queue, which we were always worried about. We had in our other – when we were outsourced, we always seemed to have a longer lead time in the queue to get the shoes out was longer. But now with the automation that we've put in, it's really built our capabilities and our capacity to be able to really respond to whatever growth that we see in that eCommerce business. So, it was a bet a couple of years ago that you couldn't have [ph] like just – was it right on (01:48:59) – right here on your nose, you had to think about where you thought – saw the market was going and make sure that we figured out how to do that. And, man, I look back on it today and I say, thank goodness we did, because that's going to be a real growth driver for us in the future. And we're going to be able to satisfy that demand.

Laura?

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Good morning. It's Laura Champine from Loop Capital. A question for Jay and question for Molly. Jay, can you talk about what impact you expect an increase in sport products penetration to have on AUR? And, for Molly, can you quantify the accelerated cost in number of stores that you expect to remodel ahead of plan, prior plan?

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

Do you want me to go first? It's a short answer.

John W. Schmidt
Division President-Brand Portfolio, Caleres, Inc.

A

Sure.

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

I can't. But I will tell you that we're repurposing capital. You'll see from Ken what our capital expenses are for the total company and it's a redirection of capital not necessarily incremental. And it's like I said in the thing, all of our decisions and our investments and our strategies are customer-facing. So, rather than back of house things, we're doing things that the customer sees.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

So a redirection from what, away from?

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

A

For more out of new stores into refresh and remodel...

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

Yeah. We may not build as many new stores. We may not do full remodels and do refreshes, things like that, where we can touch more stores to make them look better without totally rebuilding them, that sort of thing.

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John W. Schmidt
Division President-Brand Portfolio, Caleres, Inc.
A

And I think concerning AUR, it is something we're looking at all the time. And it's very different by brand. In Vince, it's – we have a lot of elasticity in the model. It does represent our opening price point in the brand of a shoe, but we have found with more we will continue there. In Naturalizer, it's right down the middle. It's really where the average of our shoe business is right now.

And then in the brand like Dr. Scholl's, it represented our lowest AUR. And yet when we look at more innovation in that brand, we are seeing that the consumer is willing to pay for it. So [ph] I'd love it (01:51:16) – it's just one answer. But I think it is going to be a little different to it. But what we're looking at all the time is to make sure it's not dilutive to the AUR.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

[indiscernible] (01:51:25-01:51:31)

John W. Schmidt
Division President-Brand Portfolio, Caleres, Inc.
A

Okay. Yeah. Well, that's a – there is a range right now we have in Allen Edmonds, we have sneakers that are $225 and they go up to about $275. And that's where we are today. But our goal is to really give that consumer who buys an Allen Edmonds shoe and thinks – and has a great loyalty and love doing it that same amount of craft and that same experience except in a sports shoe. So work in progress but that's kind of our range right now.

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

Chris.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Hi. Chris Svezia from Wedbush. Thank you, all. So, I guess a question on Allen Edmonds just going back there. So, you've made adjustments on pricing. I'm just kind of curious what's the next evolution? You want to move it more casual that means getting to that consumer used to sort of that brand change and directionally where you're going. What's your comfort level to get the consumer onboard with that, and what's the timing on getting this brand back to growth? That's one question. I have a question for Molly.

John W. Schmidt
Division President-Brand Portfolio, Caleres, Inc.
A

So...

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

He's got it.

John W. Schmidt
Division President-Brand Portfolio, Caleres, Inc.
A

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All right. The last part of your question is as soon as possible, but [ph] because I'm impatient, that's my nature (01:52:57). No, but typically, I'll say that the current team has done a lot of work whatever, call it, exploration in casual product. And from what we've seen, the consumer is responding favorably right now to what's there. Will we make improvements on that and go further? Absolutely. I feel business casual is a great segment to that because I think that's just that same man moving and having something more casual to wear.

And then the weekend casual and sneaker will evolve as we continue to get more data on it. But we have to move it quickly just because there's still a great desire for those shoes, just not the same need for them on [ph] an envious basis of the heritage brand (01:53:42).

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

So, back to growth next year?

John W. Schmidt
Division President-Brand Portfolio, Caleres, Inc.

A

Well, by segment, that we can't divulge. But obviously we've taken our hit this year and we'll see where the next journey is. But obviously our intent is to grow it over time.

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

A

And given what – Jay has been managing this business and leading this business for the last 60 days. So, maybe I'll add a couple of other comments. I think the changes that we made last year and that the posture that we did take about making sure that we wanted to keep the brand healthy, the integrity of the brand and reduce our promotional reliance and all the work that we did about some of the new programs. I'm really happy to say that everything right now, as we look at it today, is hitting the targets that we had expected, which is pretty quick. When you talk about less than a year ago, we talked I think it was November or so we talked about we really wanted to reduce that promotional reliance on the brand.

So, what I'd tell you is we're really right on track and feel good about – so all those little pieces, the breadcrumbs that we laid out there this year, in order to make sure we had a proof-of-concept and proof-of-ideas about how we can continue to grow and elevate that brand going forward. Excited about it. The consumer there is so loyal and believes in that brand so much. And it's so hard to really create that kind of value. So, we're really – I think we have a great opportunity to build on it. So, feeling like we're really moving in the right direction.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Thank you. And, Molly, for you I assume low single-digit comp is what you're assuming for Famous and loyalty. Just what are the next stages or things we should be looking for in terms of that – should be coming up as we move forward? You have a new platform on famousfootwear.com coming.

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

Yeah.

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Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Just curious the integration of that and maybe any other color you can add about what you're learning on the loyalty side.

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

Okay. So, Ken's going to talk to you later about the financial outlook. The loyalty question, we introduced phase 1 in March, as you know. We did a couple of new things for back-to-school, just new benefits and new features. And we have sort of a whole number of things that mostly are either exclusive offers for Rewards members, benefit depending on your level, potentially another level, things like that. I mean I'm not going to share all the inside figures but there's lots of things that you wouldn't think are totally something you never heard of but building on what we have now because it's all still fairly new and we consider it phase 1 and we do have a phase 2 and a phase 3.

How that fits in with the eCom platform, Willis is going to talk about this afternoon, but the eCom platform has a lot more capability. It's much more relevant to how our customers shop today and all the things they can do and personalize and all that sort of thing. So a lot of this is about personalization and it does definitely connect to that and it's a new mobile app as well. We're excited about it. I mean it's really working for us and the customers are responding favorably.

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

A

Okay, great. One or two more questions, Sam.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Just a quick follow-up for Molly. In the presentation, you've mentioned about a little famous the...

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

Feel a little famous?

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

...feeling a little famous.

Molly Adams
Division President-Famous Footwear, Caleres, Inc.

A

Do you feel a little famous, Sam?

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Not now, no but...

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Molly Adams
Division President-Famous Footwear, Caleres, Inc.
A

Everyone deserves to feel a little famous.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

But I guess the question is what does that marketing program or company directive look like in action vis-à-vis commercials or online or when are we going to start seeing it and how do you – what's it going to look like?

Molly Adams
Division President-Famous Footwear, Caleres, Inc.
A

Well, so for now, it looks like what you saw on the back-to-school campaign with TV and radio and our in-store and our online and our social and all of that was completely redone. It will evolve as we go forward. So, it's right now a campaign. It's moving towards a more complete brand repositioning but it's an evolution. We're not going to just like change everything overnight. But we're starting to use that.

And customers are responding to it and when we see it in hashtags, people – they post on Instagram the shoes that they bought at Famous #feelingalittlefamous and we love that. And so, it is definitely starting to catch on but right now, it's a campaign and it will move into more of a brand repositioning as we go along.

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

Steve? Yes.

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

A question for Steve. This is page 41 of the slide deck.

Stephen Henderson
Senior Vice President-Marketing & eCommerce, Caleres, Inc.
A

Yes.

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

Can you talk a little bit about – without divulging any industry secrets, can you talk a little bit about what Naturalizer did over this course of time from a sales and a margin standpoint? And also where the other brands are within the portfolio on this trajectory? Are they more in the 2019 now that it's starting or are they a little bit farther behind?

Stephen Henderson
Senior Vice President-Marketing & eCommerce, Caleres, Inc.
A

Sure. I can't talk about the sales and margin impact of this one, but I would say that each brand is in kind of a different life stage. Famous is – Naturalizer is pretty well along in terms of growing with this new consumer audience. I would also say to you that Scholl's which is showing some pretty remarkable growth is pretty well-developed in its own high-value consumer audience journey. Other brands are kind of just getting onboard with

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this and defining who is the audience segment and then how do we define an updated purpose and then that whole sort of brand management value chain that I showed very early stages on what that will look like for them.

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

There's plenty of opportunity on all of those. I mean I think that statistic that they spoke about with respect to the consumer of Naturalizer that 45% are millennials or Gen Xs, I mean that kind of almost unimaginable if you think about that a couple of years ago. And again, we think that is the kind of work that we can do across all of the brands in the portfolio to make sure – back to we want to make sure that we stay connected, the brands are relevant, we broaden our reach, and all of that, along with all the other good things in the ecosystem of great product, and that is going to really help us continue to really drive and move this portfolio forward. So, I think it's just the beginning. Very early stages of all this and think it is going to be a real differentiator for our company going forward.

One more. Sure, Laurent.

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

Thank you. Thank you very much. Just want to follow up on the international opportunity, particularly China. You've seen SKECHERS succeed.

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

Yeah.

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

Steve Madden [ph] exit (02:00:50) potentially revisit a new partnership. Can you just give us a little bit more color about how you're thinking about that business, especially since you're opening up seven locations...

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

Yeah.

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

...this year?

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

Yeah. Well, I think you know our history. We were – we had been in China for a period of time with Naturalizer and [ph] not (02:01:07) unlike a lot of folks, it takes – it really takes a lot of energy, time, and money to make it work. We were really fortunate in the last – yet last year or two, we were trying to figure out what was the right time to enter, what brands would we want to go into that market with.

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And really, Naturalizer and Sam Edelman were really at that place, because you just – you've got to have a really good brand story to be able to take these brands and travel with them around the world, or else it's – you're not going to be successful. So, they were really at this terrific place. So we started quite a while ago beginning to look for partners in Asia. And we were fortunate to find this group of Brand Investment Holdings (sic) [Holding] (02:01:52), which is a subsidiary and an offshoot of Luenthai.

And they have enormously deep pockets and resources and knowhow and retail and real estate that we were just blown away when we met with them, and their understanding the whole Chinese market, their understanding of how they build and develop brands today, has really evolved how they become great merchants. And the vision that we had for both the Sam and the Naturalizer brands of what the potential was going to be in China was fantastic.

So, I think we've signed the deal, it must have been in the springtime, and we have seven open already. And again, we're not going to – we're going to make sure that there's a proof of concept to what Jay was saying. It isn't just about [ph] roll them out and let it fly (02:02:42). We want to make sure that we have a real understanding of what it's going to take to work, but these partners are outstanding and have amazing insights around the Chinese consumer and how to grow, and they have done it for a number of brands in the China market. So we're really excited about this one.

You'll see most of this impact we will be spending a little bit in the next couple of years to begin to grow this, but we really see the sales impact of this coming out in the outer-years and then we'll talk a little bit about that this afternoon, too.

Okay. I think that's it for this portion of the Q&A. Thank you for those great questions. And now I think we are moving into a fireside chat version...

Unverified Participant

With no fire.

Diane M. Sullivan

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

Yeah, with no fire, other than it's like who said there's no global warming, when it's like almost 90 degrees outside.

Unverified Participant

So it is my pleasure to have three people here who represent the real capabilities of this organization. We got Willis Hill, the CIO; we've got Mark Schmitt, the Chief Logistics Officer; and Dan Friedman, President of Global Supply Chain. We're going to talk a little bit about how the capabilities of designing, sourcing and delivering footwear and also delivering the consumer insights that support that have evolved over the years. And this is meant to be an open conversation. I really want to start by asking, Willis, how do you think this sort of consumer has changed in ways that you have to respond to? What are the key elements of the consumer that have shifted over the last few years?

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Willis Hill

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

Well, I'd say the biggest change in the consumer behavior is how she shops. Online and mobile has really raised the stakes of that seamless discussion, seamless shopping fulfillment and loyalty and et cetera. But beyond seamless, she has an expectation of an experience, right? So, it's not just about aisles of shoes and results on a page [ph] and then (02:05:11) cart and then checkout. And that's really led to an explosion of content, right? So we've had to really raise our game to some world-class storytellers.

The last thing I'd say is she expects the journey to be personal. So, we have to really know our consumer and listen to what she's telling us directly and indirectly. And that puts [ph] a premium and a (02:05:31) priority on our data analytics and feedback loops.

Can I go back, [ph] Chris (02:05:37), real quick on loyalty discussion, just so you know, we are re-platforming our dot-com. We have a lot of resources [ph] hands down the Ops Dev (02:05:44). But we really had to bring some change to life in the Famous Footwear launch, right? But that touches more than dot-com. So everything that we've done that Molly talked about and enabled in our dot-com space this year, we will bring forward in a new platform, but it's also touched POS. It's also touched our mobile app and all that. And we did all that while we were re-platforming. So, you should know that we continue to move the business forward while we have a lot of folks dedicated towards that re-platforming as well.

Unverified Participant

Yeah. And, Mark, we've talked a bit about sort of the investments that have been made in distribution capabilities and in infrastructure. Can you talk a little bit about what the aims were of those investments that have been made over the last few years?

Mark A. Schmitt

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

Sure. I mean, I think Diane, Jay, Molly, they touched on it quite a bit, right? But I think at the end of the day, we're going to go back to really what we've been talking about. One is going to be speed to market. So we kind of think of ourselves as that last mile of that particular component piece. And in that last mile, as we talk about this loose pair processing, it's more than – the attention goes direct to consumer, eCommerce, and drop-ship.

But there's also this other customer that's starting to come in our retail partners, that's really around what we call replenishment, right? And so when we talk about speed to market, that last mile, we want to be able to process that shoe within eight hours. From the time it drops to the time we ship it, we want to be able to do it in eight hours.

This whole other area that we're talking about with regards to replenishment, right, which happens quite a bit even today with some of our biggest customers, where they want to drop orders on Sunday and they want them to ship by Wednesday, but these are like 8,000 pair, 15,000 pair, those kinds of things go into multiple locations, we're going to have the ability to do that as well, and we want to process those within 48 hours. So you take these two big components of what we call loose pair processing and the capabilities that we've been able to do, we've been able to triple our throughput through the investments we've made. So one is speed to market.

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I'd say the second one is agility. So when we think about agility, I think we're pretty much well-versed in how we're going to fulfill from stores and how we're going to fill from distribution centers. And we can pull one of three levers today. We could pull the cost lever, meaning if we want to make it slow and cheap, we can do that. We could pull the speed lever, which means of the thousand locations, right, we can get it as close to the consumer as we want to be able to deliver it that way, or we can pull the inventory management lever, which is if you got a sandal in Seattle and it's November, you might want to be able to sell that in San Diego and Southern California. And so we'll pull the inventory from wherever we need to satisfy one of those three levers. So we think really, this whole piece around agility and what we've been able to do with regards to that is key.

And then I'd say the third is really what we call distribution. But it's not distribution in the typical way we think about it. These capabilities that we're able to do now with our retail partners, we're actually able to process these replenishment orders or what we call these smaller, more frequent, direct shipments. Similar way, we send it to our wholesale – our retail stores today. We'll be able to do that also with our retail partners. So rather than the normal chain, you think back, it used to be case pack in, case pack cross-dock to our retail partners' distribution center to their stores. Now it's coming in case pack, we break it, make a new case for them and now can send it to their stores directly. So that whole thing about speed to market, agility, and really what we're calling distribution to be able to take what we've done on the retail side and actually apply it to the wholesale side, is going to be key going forward. And that was key to all the investments that we've made.

Unverified Participant

Yeah. And help me understand a little bit better how the sort of fulfillment capabilities for Famous and the fulfillment capabilities for the Brand Portfolio operate today.

Mark A. Schmitt

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

Yeah. I mean, if you think about it today, and I think pretty much most companies today, they kind of separate it. You have retail distribution centers and you have wholesale distribution centers. And [ph] we very much are (02:09:49) set up that way today, but I'll tell you where we're going. In the retail, right, it always has been insourced operation and automated. Why? Because it was always 75% what we call loose, and 25% cross-dock right, or basically coming in as a case and going out as a case.

Wholesale, on the other hand, has always been back to kind of some numbers, back to 2015 when Diane talked about these investments. 80% came in as case and 20% went out as loose. That was in 2014 and 2015. And that's what she's talking about with regards to the [ph] bet (02:10:25). In 2017, we saw that go to 70%/30%. This year it's tracking to 60%/40%. By probably 2021 or 2022, it's going to at least be 50%/50%, if not [ph] flipped (02:10:37) to like 40% case, 60% loose.

So with all that, what we tried to do is take a business model-agnostic approach to our distribution centers. So going forward, we don't want to have retail distribution centers and wholesale distribution centers. They're all going to be automated, so there's now going to be no more manual process in the wholesale side. So they're all going to be automated and we're going to be able to share inventory across those and across those facilities.

So that way then, right, no matter where you want to have the inventory sit, we can make sure it gets to the consumer in the right way and with the right speed, with the right agility, with the right distribution point that we're looking for.

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Unverified Participant

Now there's always a cost to this. How does this play out when it comes to profitability and productivity?

Mark A. Schmitt

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

Yeah, I think you heard Diane and Molly, that I still think on the retail side, I think we got to figure it out. The cost typically comes in the transportation component. And I think that's where we got to keep our eye kind of on the ball. To Jay's point though and Diane's point on the wholesale side, from our perspective, it's actually going to be a stabilization and probably a reduction in costs.

If you think about today, we insource the wholesale operation, or we did insource the wholesale operation until this year. One of the key components of insourcing it was it was manual. It's a manual operation using third-party logistics providers. Think about that. They're walking in a 500,000 square foot building, three stories high with a pushcart, picking pairs off the shelf, right? And when it's 80%/20%, that's an okay concept; when that shift starts going 20%/80%, it almost starts looking more like the retail side, right, which means you got to have the automation.

So what we saw, that trajectory that we talked about, if the business is headed in that direction and the manual operation has 10 to 15x what it is in the automated operation and the business was headed that way, we feel we're going to – our costs were going to get cost-prohibitive, as well as the inventory required to do this loose pair processing plus the space required in a manual mode also becomes cost-prohibitive. So, actually we have stabilized on a trajectory that was pretty – heading into a pretty cost-prohibitive direction.

Unverified Participant

Yeah. And then, Dan, we've talked in the past about speed to market initiatives. Can you talk a little bit about some of the lessons learned from those initiatives over the last few years?

Daniel R. Friedman

Division President-Global Supply Chain, Caleres, Inc.

Sure. I think when we think about speed, we think about it in a kind of a couple different ways. There's a broader context that we've had to be more efficient and streamline a lot of our operations just for the broader context of [ph] sort of totaling for our (02:13:22) brands. We really have kind of a couple things that have enabled us to do that, primarily working with Willis and his team on really connecting this digital supply chain. So today that digital supply chain allows us to track really every key milestone from product creation through in the box. Specifically, there is a speed-to-market process that we put in place, because it's been about three years ago. And that speed-to-market process creates primarily four lanes, including a rapid reorder. And I liken it to if you or any of you are frequent flyers, and you dial into your platinum desk, you're able to kind of stream – go through that process really quickly.

So, it's connected in our digital supply chain. The teams are well-versed. We have to have decisions made within 24 to 48 hours, and that includes from Jay and Sam's world, how they initiate the decision to put something through in one of our speed lanes, to how our factories turn that information around quickly and prioritize those speed products. And that's worked really well for us. We source today about 15% of all our source pairs through

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the speed lanes. We have a goal in the next few years to get to 25%. And again, we have common themes here – agility, flexibility, right? So we're very much locked in, and in on those pieces, data on the supply chain side is really important, too. And it allows us to track our performance. So KPIs from the teams that are developing product and how quickly they develop the product, whether it's on their side of the water, or on the far east side of the water, or even [ph] now your office (02:15:20), that's a clear goal.

Speed for our commercialization teams, that's all tracked, it's all digitally tracked. We have a stamp of every product that goes through. We know what's happening. We also are able to track [ph] our whip (02:15:37) in the factories. So we know what it takes from when they start cutting to when the factories finish and put in the box. We scorecard everyone, right? It's data, right? You still have to have the people that are driving that, but we have that capability and it's been a powerful tool for us.

Unverified Participant

And then Willis, we've talked today a lot about consumer insights and enabling consumer insight. Can you talk a little bit more about the platforms that have been built and where you are in that journey to create deep insights to the consumer, using the best tools available?

Willis Hill

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

Yeah. Well, it really starts with the data. And we have very rich, robust, and clean first-party data. So we have clean POS, eCommerce, CRM data. And we can quickly merge that with external data and relate it to our brands and consumers and the experience. From there, it's about the analytical tools. We think the best analytical tools are those that are self-service, ones that enable our users to answer questions for themselves quickly and easily. They're fast and scalable, but also focused, right? So we don't drown in data, but enable our users to make good business decisions. So we've made smart investments in platforms and capabilities and fast and efficient storage. And it's really driven this discussion about our understanding of our consumer and behaviors.

Unverified Participant

And then one of the messages today is that leveraging investments that have been made. Do you feel that the platforms that you have in place are the ones that are going to drive the company for the next several years, or there are big pieces of investment that still have to be made here?

Willis Hill

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

No, we have a lot. We've made the big investments, I think, for the next couple of years. And we really need to draw the value out of our insights, investments out of our dot-com investments, again, continue to invest. We'll always have dollars to put in the things like the mobile app and places we have to invest. But I think we have a lot of room to really drive investments that we [ph] made them (02:17:33).

Unverified Participant

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Dan, can you talk a little bit about how the signals from the consumer feedback into your organization, how does it inform your decision-making?

Daniel R. Friedman

Division President-Global Supply Chain, Caleres, Inc.

Yeah. It's an important facet of what we do. So, one of the key ways that we are able to get at some of that information is we use a company called Channel Signal. They're a third-party service provider that aggregates customer reviews across brands, products that we're also able to benchmark against our peers. And so we've set up kind of a regular review both here in the US and our sourcing and product teams, as well as in our sourcing offices that we, every month, look at that data. We're able to look at it kind of on a total level, how the brand's scoring. So that's kind of the highest level that we think about, but we're also able to go in and look at outliers. So we typically focus on the worst score or the best score, right, so want to do more of what's working and less of what's not working. Pretty common sense stuff.

And again, we have driven this mentality as part of a broader, we call it, 5-star quality program, which I'll talk a little bit in a minute. But we review it monthly. We look at the data. We're able to scrape verbatim comments from consumers, too, which we find really helpful. And it's been a really powerful tool and really kind of connect the teams as well in terms of purpose.

Unverified Participant

How do we benchmark against the competition?

Daniel R. Friedman

Division President-Global Supply Chain, Caleres, Inc.

I mean, in general, for what [indiscernible] (02:19:16), we've talked about [ph] that deal (02:19:18), we score higher than our peer group. And again, when you have a portfolio of brands, some are doing better than others. But we have a considerable lead on some of our peers. And again, we're looking at it all the time and try to improve.

Unverified Participant

Then as we talk about speed to market, how do you maintain quality and cost integrity? What are the things that you put in place to ensure that that Caleres' focus on fit and feel...

Daniel R. Friedman

Division President-Global Supply Chain, Caleres, Inc.

Yeah.

Unverified Participant

...is maintained?

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Daniel R. Friedman

Division President-Global Supply Chain, Caleres, Inc.

So, again, when we think about kind of the three key pillars and how they intersect, so speed, quality, costs – Mark talks a little bit about it – we're always trying to balance that, right? So that's one of the kind of foundational things that we talk about.

There have been three, I'll say, differentiators that we feel like are industry-leading. One is around how we manage our suppliers, we call it our SRM strategy. And it allows us to aggregate about 45 million pairs of shoes across 20 key factory partners that's rationalized down from four, five years ago, where it was double that amount. So again, we're trying to leverage. And it's not just about kind of bringing the leverage, it's about partnerships that we bring in that model, so everything from how we deploy SOPs for quality and doing it right the first time, in-line inspection rather than just final inspection, and really partnering with the factory. So that's one.

The second one is around our digital supply chain. So again, I mentioned before, digital supply chain has so many different ways that we can connect. So it's part of our SAP PLM and then there's vendor portal system that connects it all. And Willis and his team have basically wired it so that everything connects. So for example, one of the benefits, our raw material spend – boxes, insoles, outsoles, leather, synthetics – so over the last four years or so, we have been able to build these bid programs, if you will, across these major components. And what we're able to do is we're able to aggregate all that raw material spend across key categories, leverage that with these key suppliers, let them come in and bid against those key raw materials, and our digital supply chain is able to track that at the factory level, at the supplier level, we're able to see all those purchase orders. We're able to roll those up in an aggregate form. We're able to see that spend. That is incredibly unique in the fashion footwear business and I don't think there's anyone else doing it. I know in the athletic world they are, but in the fashion footwear world, it's very unique.

So that's been a powerful way for us to manage costs. The digital supply chain also, or digital activities that we have, have allowed us to streamline our costs, just our people costs, and take what we would consider non-value activities and reinvest those into value-added activities. So we certainly value product creation and really good commercialization and technical development, and so that talent we've invested in. But we've been able to hold our costs pretty steady for about five years now as we've added more brands and we've added more complexity, and the consumer wants more, and there is more agility that's warranted.

And the last part is what – kind of the other really key significant investment has been what we call our 5-star quality management program. And again, our 5-star quality management program is really built on the premise of delivering the best fit and feel for our consumers, so it has a lot of different ways in. But again, I think here again, the digital investment that we've made, all our in-line and final inspection, our commercialization work, all of that has kind of a checklist that's digital.

So we're able to see as a product, an order is moving through commercialization and goes into the box, we're able to track performance, of course defect rates, and be able to measure our performance, and measure it not only against the suppliers themselves but also our QA, quality management organization, it's a really powerful tool for us to be able to see how they're performing and what we need to educate or re-educate or improve. So kind of those three kind of elements, I think, are really unique differentiators for Caleres to continue to deliver what we know is an imperative, right? As the growth of eCommerce is going – as consumer opens up that box, you've got to delight that consumer. And that's our purpose.

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Unverified Participant

Willis, can you talk a little bit about how you partner with the different elements of the organization to ensure that the right investments are being made, and how do you work to prioritize projects?

Willis Hill

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

Well, we align together on investments. Everyone has a seat at the table. It's kind of cliché but it's true how we meet, and we work diligently to work the plan, but I would say that we also revisit a lot, right? [indiscernible] (02:25:12) things can change and new opportunities arise. The other thing I would say is that we get out, right? We spend time in stores, in DCs, spend time in our offices throughout the world, so that we understand our opportunities and experience that together.

Unverified Participant

Mark, at the end of the day, all of these investments, all of these processes has to lead to outcomes. Can you talk about how the wholesale customer and how the retail consumer experiences the Caleres brand? What is the sort of outcome that you're driving towards?

Mark A. Schmitt

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

Yeah. I mean, I think we've touched upon it a little bit already, right? I think the outcomes that we are driving towards is really at the end of the day to be more cost-effective and efficient in how we process. The shoes process, again, kind of more of these loose pairs, I think at the same time, we want to be efficient in inventory, as we talk about, right, we want to be business model-agnostic. We want Sam Edelman inventory across retail and wholesale to look the same, same with Naturalizer, same with Allen Edmonds.

Again, we've already do wholesale and retail out of our [ph] 11 (02:26:26) distribution centers. So I think it's the combination of doing it in an efficient way, managing that inventory, and then delivering on what we call those service level commitments, which again gets back to how are we going to deliver quickly and efficiently to our retail partners, as well as to our own end consumers.

Unverified Participant

What's the end reputation with the wholesale customer today? What would those customers think about Caleres? How do they view the company and its capabilities today?

Mark A. Schmitt

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

[ph] Boy (02:26:53), I think that's a great question, and I think my partner, Jay, could probably answer that a little bit better than me. But my experience has been outstanding, because again, what we do is we try to match on all levels. Jay, in the brands, are definitely matching on their side. With Jay, and I have talked about many times, is

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we also have to go manage – we have to do [indiscernible] (02:27:14) on the logistics side because it's becoming such a critical component of what we're going to do going forward.

So we have [indiscernible] (02:27:21) on the logistics side with these chief logistics officers, senior vice presidents of many of our retail partners. And I think what has already started to show, they're willing to do a lot of things for us, things that are meaningful right in the delivery, right? Spot trailers in advance, come pick up our goods first. All those kinds of things, right, I mean, once you build the relationships and you can actually deliver on the outcomes, which we're also doing based on eCommerce and replenishment, I think they see we're headed in the right trajectory, and we want to be that preferred retail partner, which I think today we are. And I think these capabilities that we have built is only going to further enhance that going forward.

Unverified Participant

Dan, can you talk about the balance between fast lead versus long leads?

Daniel R. Friedman

Division President-Global Supply Chain, Caleres, Inc.

Fast lead versus long lead, well, I mean, I don't think we have anything that we would like to consider long lead. I mean...

Unverified Participant

That's a good answer.

Daniel R. Friedman

Division President-Global Supply Chain, Caleres, Inc.

Yeah, I don't think that that really exists. What I can tell you, we have our traditional 90-day model, which is what we look at. Our speed-to-market lanes can go anywhere from 45 days to 80 days depending on if it's a reorder or if it's a new product. What I was hoping to have for you today was I thought I was going to be able [indiscernible] (02:28:52) and be able to show you some pictures. But we recently took our [ph] SDM (02:28:55) program, which again kind of brings order to a very frenetic process, right?

So if you think about what we try to do with our Brand Portfolio is make sure that there's a [ph] length (02:29:08), right, and that there's – as orders come in, how do we push them forward. So recently, we've been working within our own sample manufacturing facility in Dongguan, which is quite large, mechanized, where we've invested and still been able to hold costs, we see that as a value. We put in a [ph] small cell for (02:29:27) speed to market, test orders.

And so some of the work that we recently did, this is a new group – [ph] I can pass this along (02:29:36). And this is a new Sam Edelman product that we received the sketches and tech packs the end of August. We will ship about 400 pair the first – this coming week in October, so about 35 to 40 days from sketch to in the box and all new tooling. So everything's new – new [ph] lace (02:29:57), new heel, new bottom.

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Pretty good. I know that there are other companies out there that do this. It's not something that we're doing a lot of but we'd like to accelerate and it works really well for certain brands within the portfolio. So, this is an example of one of the ideas that we have in our [ph] speed lanes (02:30:17).

Kenneth H. Hannah

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

So Mark and Willis, the portfolio of brands creates some challenges. It creates some unique requirements and unique needs across the individual brands. How do you make sure that you have the capabilities to deliver across the different needs today?

Mark A. Schmitt

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

I'll start. Yeah. I think right, it gets back to I mean I think the three of us, right? We like to think of ourselves as really what we would call a connective tissue of the organization, meaning, right, we're all interchangeable. And I'm going to take that to a kind of a personal level for a second, right? Even when I started with the company, I started out as the Chief Information Officer, right? And one of the first people that interviewed me was Dan Friedman.

One of the reasons why Dan interviewed me because at that time, he was developing the platform for our ERP implementation. So, he was doing a lot around business process design, PLM, as he's mentioned, right? You listen to him, he's talking PLM, he's talking SAP, right? He already had a mindset around systems, right? And then I also got logistics. And so, we have all have shared the roles not only outside of this company but within this company. So when we get together, we're constantly talking about how we can leverage infrastructure and then really what we're calling capabilities across all brands across and that includes Famous and others, right? Everything we do, we try to leverage across everything.

So, as soon as we start to come together on anything, ERP, retail platform, automation, whatever the case may be, the three of us constantly come together because we've lived each other's world to many degrees. And so, we know how important that is going forward. So, we're here to leverage as much of the infrastructure and capabilities that we already have across all.

Willis Hill

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

Yeah. So, yeah, so I'll add a little nuance to that for the complexity because we do have shared service – our shared systems and shared platforms. So, we have shared sourcing and planning and POS, logistics and e-commerce. From that, we do realize some synergy and some savings but I would say we don't take a one size fits all cookie-cutter approach that requires our brands to adopt the functionality in the same way.

So a good example is our direct-to-consumer order fulfillment sourcing engine. It's a common platform shared by all brands but it's rules-driven, right? So, Mark talked a little bit about it earlier but we can quickly change our source path to preference delivery fee or proximity or profitability or whatever and those rules can be applied by brand based on their consumer and also their business model.

Another place we talked about is e-commerce platform but another place where we've really I'd say enabled the organization collectively has been in our emerging and evolving digital capabilities. So, we implemented a modern content management system and it's component-based but it allows our business users really to create content

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experiences for our web sites quickly and easily, right? The components are shared and used by all brands but they can be deployed very differently so that we can share a very unique experience by brand, right?

So, we're sending that same mindset to our re-platform discussion. And soon, our business usually will have the same flexibility and agility on the transactional side of our eCommerce business. So, we're trying to future-proof our capabilities so that we enable the organization rather than delivering brand or channel-specific functionality.

Unverified Participant

Perfect. All right. With that, thank you so much for the time. We truly appreciate it. We are going to break for lunch now. And we have showroom tours set up, so there is an area out back to grab a bite to eat. And then we have [indiscernible] (02:34:07) for each of the brands in the individual showrooms on this floor and down one floor. Please feel free to wander around, explore the product to get a little more insight into the individual product and the individual brands within the portfolio. Thank you all very much. Enjoy lunch.

Okay. Well, thank you all for joining us again. Hopefully, you had a nice lunch break. Got to see some of the amazing products that's out there. This is going to be another conversation. I'm incredibly excited to have three brand founders and Diane on the team here and on the stage. We've got the two Veronicas from Veronica Beard. We have Sam Edelman and we have Chris Gallagher who's one of the founders of Vionic, and we have Diane to talk about really one question which is why Caleres. And I'm going to start by asking Diane a question which is really what do you look for when you're looking for a new partner? As you're looking to expand the portfolio, what's at the core of what you need to see?

Diane M. Sullivan

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

Yeah. I think, first of all, it has to absolutely be about the people and their values and how they think about the consumer and the landscape and have a real passion about it. So, when I think about like the three people that are having a good fortune now [indiscernible] (02:35:46) known forever. And with Chris more recently, I think they all bring something very different to the portfolio that we have. But the one thing that we really share is we're kind of united in that brand objective, that relentless focus on the consumer, and this idea that we want to build something great that consumers love.

Unverified Participant

Sam, you have built a number of our brands over the last several decades. You could have done anything. You could have partnered with anyone. What made you choose Caleres back when you decided to get back into the game and build a new brand?

Samuel Edelman

President-Edelman Division, Caleres, Inc.

I rehearsed the answer because you gave me the question. While I was sitting here and I thought the truth is when we started the company, we started from our living room the way we always we've done two or three times in our lives. And we had the opportunity to be invited to the Caleres, that time it was called Brown Shoe Company to see the facility in China. And here, we've started – we've had some big businesses, but we were starting again what was really a start-up. And we walked into this building in China and we got a royal tour.

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And during the tour, we walked into a room and there was a leg, a robotic leg and it was walking. And it was measuring how many pounds per square inch or whatever it is and how to [indiscernible] (02:37:16) adhere to the surface that it was touching, how [indiscernible] (02:37:20) and we went, wow. If we had this kind of technology and this kind of backup to what we're doing with our ideas and our vision, we could really be successful. We had known the company for a long, long time. We've been a vendor and we've had a very special relationship ever since I was in my early 20s.

So when you have that very special relationship which was based on a company that's really based on integrity, Diane coined the expression people first. And so it was a combination of the integrity that we knew and then the ability to support our vision, make it happen through the back office, through technology, through all the things to give us the opportunity to do what we did best.

Unverified Participant

And, Sam, how has the brand evolved over time, and how has Caleres allowed you to evolve the brand over time?

Samuel Edelman

President-Edelman Division, Caleres, Inc.

I think in those days, we were doing $7 million and...

Unverified Participant

Don't give that number, what it is today.

Samuel Edelman

President-Edelman Division, Caleres, Inc.

Those days, we were doing $7 million. Today, we're one of the number one women's contemporary footwear brands in the world and in some cases we are the number one women's contemporary footwear business. It's really been interesting. Having this kind of power behind us, we've never looked back. We just look forward.

And we've been able to do things that we never could have done on our own, for instance, building size programs, replenishment programs, core basic programs, and all the kinds of things that this power gives us. The other thing is that we've been able to just simply focus on what we do best, and that's the second time I've said that. But, I mean, that's really been the most important catalyst in the success we've had.

Unverified Participant

And what is it that you do best? What is the core for you?

Samuel Edelman

President-Edelman Division, Caleres, Inc.

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I think that [ph] Libby (02:39:33) and I consistently, over the last many, many years, have been able to identify really big items and manifestos items, make those items happen. And I don't – I imagine there's only one other entity or other person have more million pair of shoes than we've had. So, I think developing a million pair of items lifestyle shoes is really what we do best, what we've done best for most of our career.

Unverified Participant

Chris, you really helped create a category here. You brought something new into the marketplace and you were able to drive that. What attracted you to Caleres when those discussions first started about coming into the full?

Chris T. Gallagher

Co-Founder, President & Chief Executive Officer, Vionic Group LLC

Right. Yeah. So, I mean, I met most of you 12 months ago and I think it's not how it was like 12 months later – Chris, it's great to see you here. So, I think that happens because of the people to be honest with you and the infrastructure that Caleres offers. And when we went through the process of trying to find the right path, we met with a lot of people, whether it'd be private equity or strategic. And to be quite honest, actually Diane flew down to Palm Beach and we had lunch together and she sort of started that process actually before we started the process. And so, we started to build a relationship.

And I think when you look at – when you start to go through a process like that, there's a lot of companies that have infrastructure to be honest with you. There's a lot of companies that have money and all those sorts of things. But what it really comes back to for me was, number one, was the culture. The culture of this company is phenomenal. And you started to see it up here before when Will and Mark and Dan were talking and like, that to me is what really drives the company. It's not – [indiscernible] (02:41:28) numbers of the end result. So when you sort of dig below the layers of Caleres, it's real. And so what you started to see here today getting away from all the analog stuff was the real culture within the company. That's why I'm here and that's why I want to be here for a long time. And we look forward to doing that.

So and my co-founder [indiscernible] (02:41:50) the same. I mean every day we sort of scratch our heads and kind of think about how fortunate we were to pick the right time. And when you're kind of – Vionic grew from zero to $200 million [indiscernible] (02:42:04). And we grew from – we're now the number 17th or 18th brand on NPD data. And that happened in about five or six years. And that's not easy to do. And then when you start to look at the brands that are in that sort of top 20, 21 results on the NPD data, we're probably – I don't know if we're the youngest brand. I think we are the youngest brand on that list. This has happened in five or six years. So we needed someone who could help us get there. I mean entrepreneurial spirit will get you so far. At some point, you need the backend systems to help you move to the next level, and we're really lucky that we've got the right partner to do that. So thank you.

Unverified Participant

How do you maintain that entrepreneurial spirit? A number of times we've seen founder-led businesses come into the fold of larger companies in the footwear industry and really struggle. What are you doing to maintain that sort of sense of adventurousness, that sense of exploration, that sense of trying new things within the organization?

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Chris T. Gallagher

Co-Founder, President & Chief Executive Officer, Vionic Group LLC

Yeah. No. To be honest with you, when we were going through the process, the sort of question on my mind was this path of finding the right partner was exactly that question. And then, one of the things in the back of my head was how do you do that within a public company, so going from private to public where you're sort of now really driven by quarters.

And what's kind of like been very refreshing actually is that the culture again within the way that Diane set the company up [indiscernible] (02:43:44) is they still give you that ability to think outside of the box. And how we do it is we get our people out of the business. You know what I mean? So next week, I'm spending three days in L.A., in Santa Monica with my leadership team. And we're going to Century City, and we're exploring not just footwear brands, but we're exploring other brands that are telling great stories and bringing them to the consumer, whether it be [indiscernible] (02:44:16) or whether it be Italy. If anyone is being essentially [indiscernible] (02:44:22) it's amazing.

So traveling the world, getting outside of the office to be honest with you, because I don't know whether in the office we really get stimulated too much. And, yeah, again, just I think if you've got it in you, right? Sam, I know you're a bit like this as well. It's like if it's – if that entrepreneurial spirit and that sort of disrupt the mentality inside you then it's kind of – you tend to push the boundaries a little bit further and stir the pot a little bit, so we'll see how it goes.

Unverified Participant

Okay. Veronica and Veronica, your brand is just – it's growing like wildfire. You could have chosen absolutely anyone to work with. What was it that drew you to Caleres? Why did you make that decision?

Unverified Participant

We also [indiscernible] (02:45:14) and met a lot of people. And it was a cultural fit. I mean, truly it was a shared vision. We met in our first meeting and I left the meeting thinking, oh my gosh, this is [indiscernible] (02:45:28). So I think it's so incredible to us.

But I think it feels very American and very Midwestern, and we love those values. And the partnership has been incredible. It's been the easiest. Our design meetings have been amazing. Really, we're so excited. It's taking all of the really scary part of building this business off of our shoulders, right?

Unverified Participant

Yeah.

Unverified Participant

And it's just – it's been incredible.

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Unverified Participant

Yeah. Now, you had been doing some footwear on your own. What led you to say, okay, we need to do this differently, and what have you seen now that you've got your first collection in the marketplace?

Unverified Participant

So I'll just say two things. One is that Vogue just printed about us in our view that we have an emotional relationship with our customer.

Unverified Participant

Spiritual.

Unverified Participant

Spiritual.

Unverified Participant

Right.

Unverified Participant

Emotional, spiritual. We always say we want to evoke emotion, right? So, we have a spiritual relationship with our customer. And that's been one of the secrets to our success in the ready-to-wear side. And we always try to get that in the footwear. And we couldn't be fast enough because girls change their minds, trends change and you're in hopper suit. There's emotional connection with that leopard shoe. I have to have it now. And by the time we would want it as shoppers, we would go to try and make it in shoes and it was always...

Unverified Participant

[indiscernible] (02:46:59)

Unverified Participant

What's that? Yeah. We were always behind the season. It was always – you can't make – we don't meet the minimum. We don't have this fabric or whatever it was. So, Caleres is so easy. You guys have all the speed and production and it's a product that we fell in love with as soon as we saw it. I came here for my first meeting. You couldn't come to that one. But when I saw the product, product is what sells ultimately, and it had the quality that

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we embody at Veronica Beard, and the colors and everything could be made just much faster than we could ever do it. So that was huge.

Unverified Participant

Sam, you have a reputation for developing talent in the industry and for being a real sort of mentor to people in the industry. Can you talk a little bit about how you've evolved sort of the vision of what Sam is in that context? And how much of that is sort of filtering through to the rest of the Caleres business?

Samuel Edelman

President-Edelman Division, Caleres, Inc.

I think that being an entrepreneur within a company like this is uncommon, and we've been given so much freedom to manifest our vision if that comes down to how we develop people. And so we have one of the most robust, as an example, robust internship programs, I would think, in the industry. And it's something that we started many, many years ago. We started by maybe doing favors for friends that give their kids a summer job or kids that are lost, and we wound up having so many CEOs throughout the industry, their kids in our business for the summer, neighbors' kids.

One of our top people in our division is the niece of the ex-CFO of Caleres who came in in an entry-level position. And this past year, we gave her – she wanted a title that would be similar to Employee of the Year of the entire corporation of Caleres, and she started with us as a detailing – putting details in the computer.

So having this freedom to do things, whether it's the most robust internship program or very, very close affiliation with different schools where we have young people that come for tours and then one or two of them would stay behind and want to be – have a chance for an opportunity. And we start – we have a theory that we have about 90 people in our division and there's a cycle. And that's part of life today.

So, we know that there's a cycle. We know that there's going to be change. That people are going to have change, want change in their life. So, we try to hire four or five 22-year-old people every year. And we start – we work very closely with them. They have access to me and [ph] Libby (02:49:55), a lot of access.

I just came back from a trip to Europe and it's a great story. We took a BnB, an Airbnb in Paris. It came out to about $100 a night per person, maybe less, maybe $90. And we had nine young people, nine people with us, maybe two leaders who had been with us seven, eight, nine years and then the young people and $400 tickets to Europe which is amazing. And we just walked the streets.

And they got to see and touch and understand why we love Paris, what we get from Paris. We split up. Half of us got our train and went to London. Two people went to Madrid. And that's the kind of freedom that you don't – you don't get that a lot of other places, you'd have to do three PowerPoints and...

Unverified Participant

I could help with that.

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Samuel Edelman

President-Edelman Division, Caleres, Inc.

But we've had that freedom to develop those young people and that's our system. And we have – when you walk through our office, there's so many people that have been with us 7, 8, 9, to 10 years and you ask them how old they are, 28, 29 and but they've been there a long time.

Unverified Participant

Yeah. Chris, what can you do now that you couldn't do as you were independent? What has Caleres really enabled for you as you look to the future and look for where you're taking the Vionic brand?

Chris T. Gallagher

Co-Founder, President & Chief Executive Officer, Vionic Group LLC

Right. I think the first thing is I can now call Sam. And I could say, Sam, can I come into your office which I just did downstairs. No. [indiscernible] (02:51:34) gives me access to a lot of new people as well. But it really just comes back to again. So one of the things that we're really using at the moment that we've tapped into Caleres is the access that we're getting to data on the consumer, NPD data insight which is another tool that's great and we're starting to use that. So we're starting to really get access to this data that's kind of as a private company is really expensive but as a corporation that's kind of all bundled in, so that works well.

And then immediately, we have started to work with Diane and the sourcing team up in China, so that's been our priority in the last 12 months. And so interestingly there which has been kind of fortunate to us is that many of the factories that we were using actually Caleres factories as well, I mean you've got to be really careful when you're moving factories and to be able to sort of tap into without having to move a factory we're actually getting better costing and so forth just for the Caleres power. And then in some cases, we are sort of moving. And now, we're starting to think about warehousing and how we leverage that and then eventually further into the back end as well.

So part of our sort of focus going forward is always around people first and product and storytelling. The back end is really important but to us we kind of feel like we don't have to think too much about that because we've got a partner that's really good at it so they can help us implement that. We don't actually go out and hire a bunch of consultants, no offense to you guys. But we kind of have that access now kind of for free if you like.

Unverified Participant

Right. Speed-to-market is becoming increasingly important. Consumers want newness, they want freshness. They don't want to be on a three-season cycle. How do you think about what you're looking to achieve with Veronica Beard in the footwear that you're creating to that end?

Unverified Participant

Well, I think it's just getting faster and faster and reacting to trend in vital which has been a huge part of our partnership. But something that I think is – was really interesting for us and exciting was the opportunity to create

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a brand that a shoe brand that speaks to our customers the same way that ready-to-wear does. We outfit a woman for all-purpose for wardrobe. And we really want to do that more footwear.

And there aren't a lot of brands actually that go after – the shoe – the sneaker market, the heel market, [indiscernible] (02:54:25) specialized. And we feel that we can actually speak to all aspects of that footwear wardrobe for her and our price point and there was a very big void in the market at our price point in footwear. And so that is somewhere that we're really focused on building a big business that fills that void in our space.

Unverified Participant

Diane, how do you think about the evolution of capabilities of the organization? What are you doing to sort of ensure that the brands that you're working with and the founders that you're working with are able to sort of, as Sam really nicely puts it, manifest their vision?

Diane M. Sullivan

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

Yeah. I was just sitting here. It's kind of fun to sit back for me and listen to this and one of the things I took away just from this little bit of this conversation this afternoon was how much we actually really learn from each other. And that we wouldn't be – I've said this to Sam, we wouldn't have been the same company if Sam Edelman hadn't joined our company and helped us build different skills and capabilities. We wouldn't – we won't be the same.

Chris is here and we learn from each other. And now, the Veronicas are here to bring different slices of life and vision and ideas about how they're trying to reach the consumer. So just to comment on that because I was really thinking about that because that is our – that is really important to us is about this idea of collaboration and shared learning because – back to the world it's moving so fast, no one person can have all those right ideas. You really have to work with a team in order to make that happen.

But in terms of the capabilities themselves, I think we spend a lot of time talking about them today. You heard the three amigos as I call them, sitting on here a little bit earlier today talking about the capabilities that was built out in fulfillment and sourcing and speed and agility and all of those things. And I mean I think our commitment is that we're going to continue to do all the things that's necessary in order to make sure we make our customers happy and build these brands to be great.

And that – and then obviously, the consumer insight is essential especially when you have – we really want to be experts about that footwear landscape, and those consumers that are shopping for footwear like nobody else's. And we think those consumer insights and the work we've been doing will ultimately even evolve and build our capabilities even better support for all of the brands in our portfolio, but also for our partners like these guys too.

Unverified Participant

Sam, you have a brand that has transcended footwear now and you've worked with some outside partners. How does that licensing relationship that you have with some outside partners work in the context of Caleres, and how do you think about the evolution of the Sam Edelman brand over time in that context?

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Samuel Edelman
President-Edelman Division, Caleres, Inc.

Well, one part of it is that because the – we don't have to worry about the back office and so many other things. We have the time and the – we can put the time and energy into building great partnerships and to meeting great people and to moving slowly and not being forced into a decision because we need immediate cash flow or immediate profit from it. So I think that there's been a level of patience, implied patience. There's been a really big benefit.

But behind the scenes, there's a lot of stuff that goes on too. For instance, the attorney – in-house attorney that handles our licensing for us has been doing licensing for 25 years. She's licensing for one of the biggest apparel companies in America which was located in St. Louis and then came to Caleres. So she knows how to do the licensing and work with us.

And we have an additional balance of the legal team, the chief counsel and all these people that can help us with the work that we're doing. The accounting, all the accounting for the licensing. Obviously, we do a little bit of it in New York, but the – it's handled for us in St. Louis. And then the partnership that I have with Diane, we were able to discuss it and make decisions based on what we really think is going to be best for all of us.

The licensing is really starting to work now for the first time. It takes time. And specifically, a couple of them, we just had the number two item in the fall, and first resell it at Nordstrom's, which was a couple of [indiscernible] (02:59:05). Number two, The North Face, that's incredible, and maybe we can even catch them next year.

Unverified Participant

I like that ambition.

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

Yeah.

Samuel Edelman
President-Edelman Division, Caleres, Inc.

I'm working – you'll never know. You'll never know. And I'm working – we have wonderful – we designed in conjunction with our sunglass license, to do amazing collection of sunglasses. And we just had a customer tell us they're too good and they're not expensive enough. And you're going to hurt other brands that we have. Well, that's kind of an invitation of a big business. And I think we will have a big business. So...

Unverified Participant

That's great. Yeah. Veronica and Veronica, you have existing wholesale relationships, the brand that's [indiscernible] (02:59:49) that's growing and building its reputation. How does that work now that you have Caleres sort of working its own magic with its retail customers and with its partners?

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Unverified Participant

Well, I'll just say two things. One is what Caleres is doing so well with us and with everyone here is the diversity, too. Yes, whether it's trends we're chasing or all different price points, they really embody for us what our brand is to the wholesaler, to the customer, to our own retail. So the point is, is that we can all exist up here and be strong in our category but they're completely different categories. And so, when you walk around the showroom every day when you're here, you – like I've studied all of your showrooms, because I want to know what are they making versus us, just like you would shop around and you see what's in the market, I want to know what's in Caleres, too, like where is my stake in the ground.

And to that point, to your point with the wholesalers, we're number one in Nordstrom – no, in where you were – and we're number one at Neiman. And we love that positioning and we love that we did [indiscernible] (03:00:58). No, I'm just kidding. We did but we won't say that out loud out of this room. But we want to do that, too, in shoes, and I think it works like that. When Caleres shows up and they're used to coming or they've been coming here forever, they only started carrying us a couple of years ago, Nordstrom and Neiman for shoes. So, when they come and they're like, wow, with Caleres, it gives us some weight. It's like, wow, they can leverage this company. They're going to be the same way they are in ready-to-wear that they can be in shoes. That's the whole goal for us partnering with you as well.

Unverified Participant

Right. But I think also, it gave tremendous structure to the way that we design the collection. But the lines and the merchandising, understanding trend, again, there was cutting a lot of fat and really going after a specific [indiscernible] (03:01:44) type or a hole in the market. And so, the whole design to development to production process has gotten so much more seamless because of that. And I think our success will really be because we're delivering the product at each of these partners really want and need.

Unverified Participant

And the data is invaluable...

Unverified Participant

Yeah.

Unverified Participant

...to your point. [indiscernible] (03:02:10) for new at the end. And we know ready-to-wear, where we just – shoes, we need it really, that push, that help. Tremendous.

Unverified Participant

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All right. Well, with that, thank you all very much for being here.

Unverified Participant

Thank you.

Unverified Participant

It's been a real honor to get to ask you questions. Thank you so much.

Diane M. Sullivan

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

Thanks, guys. Thank you, guys. Really appreciate it, taking the time to come here this afternoon. Couldn't thank you enough. And just a shout out to Jay Schmidt and Kim Lala and the team working with the Veronicas. Thanks for all the work that you've done on this, too. I know how much they have supported you and everything.

So, I think next up is Mr. Hannah.

Unverified Participant

Mr. Ken Hannah. Yeah. We're just going to take a moment to reset the room.

Diane M. Sullivan

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

We have to do a little shuffle here. Sorry. We'll move the chairs and put the podium back.

Kenneth H. Hannah

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

Okay. I get to follow that. So that was kind of fun, right? You guys get lots of opportunities to hear from Diane and I. I don't know that our words can really put into the way that these partners that have – they've made their own choices, right? We certainly couldn't be prouder of the fact that they picked us. But I couldn't have been any prouder than to hear the reasons why they picked us, because I think that really articulates who we are and who we're trying to be. And I thought that was a great way to kind of bring together a lot of what we talked about today.

And so, part of what I'm going to do is really just try to close this out. We're going to talk about numbers. We'll give you a chance to ask all of your questions. We'll talk about our Famous reporting segment, our Brand Portfolio reporting segment. We'll try to get those addressed. But I want to make sure that you understand, we put a lot of time and effort into this presentation today and really tried to share with you, the people that actually make it happen. And Diane and I quarterly get to stand up and report our results, and most of the time, that's good. Sometimes, it's not. Sometimes, our direct interaction with each of you is a lot more fun than it probably needs to be. And today is really about sharing with you the people and the processes and the tools that we use to really deliver on our promises. So hopefully, we're going to wrap this up in a way that'll help you start to build out your models and how you think about the future. We've tried to keep it pretty simple here, and we'll get into a little bit

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more of your specifics as we go into Q&A. So, I'm going invite Diane up when I finish and we'll spend some time going through some specifics.

But I just wanted to come back to Caleres and our last two Investor Days. So we did this in 2015, shortly after I had joined the company, and that was really an update from the last time that it had happened in 2011. And in 2015, what we talked about is that we were trying to put a portfolio together that was going to deliver a consistent profitable, sustainable level of growth. And I think if you go back and you look, whether it's the $0.70 per share that we delivered in 2011, to the $2 that we delivered in 2015, to our current guidance range, which is $2.35 to $2.45, and a revenue number that we think is going to approximate $3 billion, we have delivered on that consistency. It's not a straight line. It's – every year, it isn't – we don't just order it up and it happens. A lot of what you've heard today are the people that have to go through, and day to day, deal with all those things that happen within all of these little segments. And so, we all talk about tariffs and consumers and things that happen within this 90-day period. And today is really a chance for us to kind of step back from all of that and kind of look at where have we been, and then, more importantly, kind of where we're really going.

So, Diane showed the strategic progress of these two different time periods. We've added in the third. What I really want to share with you is how we're leveraging the insights and the investments. And we'll talk about a little bit of the dollars that we've actually invested here to be able to put together the diversification in this portfolio that we currently have.

Just going back and looking at the 2015 to 2019 period, when we talk about investing for growth, right, we've spent close to $300 million in incremental capital expenditures to develop a lot of these capabilities. We've added three new brands. We've spent over $600 million in cash to bring those brands onto the platform. We've also probably spent close to $100 million in expense, as we've started new brands, incubated and made investments in R&D and distribution. And so, all of that is really what's been happening in that 2015 to 2019 period. And what we're excited about is the next phase, this next strategic plan is an opportunity for us to start to see a lot of the returns on those investments.

So if we look at what does that mean as we go into the next three years, we're really talking about our top line growing at a low-single digit CAGR. And so, that's in a market that I'm going to share with you, is expected to grow here in the US, at something less than 2%. And we're expecting our earnings per share to grow at a double-digit rate.

When we think about the strategies that we've shared with you today, right, there's really three winning strategies that we want to make sure that everyone understands that's really guiding our company. One is the attempt to broaden reach and power of our brands and our products. We talk about how we're cultivating this consumer-focused brand. Molly and Jay went into great detail in terms of what they're doing in their areas to make sure that we're able to strengthen and broaden the reach.

The connection with customers, we purposely had Stephen share with you what he's doing across the company to help us understand our consumers and understand how to use the data that we are collecting and how we use that to actually make decisions. So, strengthening that connection is what is going to allow us to continue to grow at or above the market rate.

The panel on capabilities that we had with Dan and with Willis and with Mark, really, an opportunity to share with you some of the areas that we've made the investments and how we're going to actually accelerate those capabilities in those operations. And that's all really about speed and agility and the efficiency of our portfolio as we really try to leverage the scale.

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So, we believe those three winning strategies actually equate to a winning business model. And that winning business model is really about the diversified portfolio. Our ability to deliver consistency in various environments is based on the way that we've constructed the portfolio. The Veronicas, we're just talking about diversification, right, they can set up here on a panel with what could be perceived as competitors, if you're just looking in at footwear as one category. But we talked to them a lot about how we look at different price points, how we look at distribution, how we look at channels, how we look at categories, how we look at our spring business and our fall business. And all of that diversification is what really allows us to, with confidence, deliver a consistent top line and bottom line improvement.

We clearly have invested a lot of money into this business and we believe that the efficiencies that you're going to see is what's going to really drive a lot of the productivity. So as we generate the double-digit increases in earnings, a lot of that is going to come through a continued improvement in the overall profitability. What we're committing to today is a 100-basis point improvement in our EBITDA margins over the three-year period. And we expect that to come evenly from both Famous and our Brand Portfolio.

We maintain a disciplined, returns-driven capital allocation approach. I'll share with you the priorities in a moment so that you understand exactly how we take that cash that we generate and make our decisions around what goes back into the business and what is used to pay down debt to strengthen the balance sheet and then what's actually returned back to our shareholders through dividends and share repurchase. And then, again, we want to make sure we maintain the financial flexibility to actually deliver on these plans.

So again, just summarizing our 2022 financial targets that we have incorporated into this strategic plan, our net sales at low-single digit growth rate, our adjusted earnings per share at a double-digit growth rate, and a return on invested capital that we would maintain above 15%. So, think of that 15% almost as a hurdle as we make our internal investment decisions.

So, what I thought I would do is just kind of walk you through the sales, the earnings, the return on invested capital, and then, talk about a couple of the drivers in each of the areas. So when you think about delivering a low-single digit top line growth, we're assuming that Famous is going to be flat to up low-single digits, that's total sales, that equates back to a flat to low-single digit same-store sales comp number. And as Molly had mentioned earlier, we're evaluating our store base and where we can more efficiently serve our customer in a market with one or two fewer stores, as those stores come up for a lease expiration, we're simply not signing up for the next term and we're supporting those customers with the existing store base that we have in the market.

So, we've worked our way through in the last several years, those stores that are [ph] four-wall (03:14:41), negative or aren't profitable. So, our store base is very, very, very healthy and we're looking at how do we utilize that as a way to serve a market more efficiently. So net-net, we're probably going to see 25 to 30 store per year reduction when we net out the closings and the openings. But frankly, that's going to be dependent on where the consumer goes. The more the consumer goes online in the areas and markets that Molly and her team serve, the more we will be able to reduce those investments in those stores, and then, actually utilize our eCommerce and digital capabilities to serve the customer. So, we'll continue to kind of provide additional information there, but the general Famous Footwear contribution to this growth is tied specifically to a flat to up low-single digit sales number. Brand Portfolio, Jay had alluded to, we expect that the Brand Portfolio will be up low to mid-single digits, and that's pretty consistent with what we've seen in the past.

So when we look at the drivers, we really separate it into two different pieces. One, obviously, is the industry expectation. And so, we're expecting the footwear industry here in the US over the next three years to be up

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somewhere less than 2%. If you look back over the 2015 to 2019 period, it was up approximately 1.5%. I think the data for 2019 is actually projecting that the US footwear market is going to be down somewhere around 1%.

So as I said earlier, unfortunately, these aren't straight lines. And so, what we do know with confidence is that as the market grows, that we believe we've constructed a portfolio with great brands, it's going to grow at market-plus. And so, when we look at an expectation of a market growing at just under 2% in the US, obviously, that's how we come up with the low-single digit guidance that we're providing over this three-year period.

We talked a little bit about our joint venture. We've been able to partner with someone that has a proven track record in Asia. And as you get to the latter years of this three-year plan, you start to see some of the impacts of some of the brands showing up in Asia. So, Jay had mentioned Sam and Naturalizer are the two brands that we're starting with, and then, over time, we will continue to add additional brands. We've got nine stores that have opened in the JV this year, and obviously, that's going to grow, but it's not expected to be a meaningful contributor to the bottom line in the period. As we are continuing to grow that store base, we will basically be reinvesting any of the earnings generated there back into the business to continue to grow that. So, more to come there.

And then, we've talked about our direct-to-consumer business and the capabilities there. That has been growing at 30% for Caleres and we expect that it will continue to grow at 30%. And that's why a lot of the work that we shared with you around consumer insights, we want to make sure that you understand the tools that we're using to help understand that consumer. And while we have great partners that we work through, the better we understand the end consumer, the better partner we can actually be in those situations where we have really strong wholesale relationships.

The brand strength is going to be a specific enabler around our opportunity to take additional brands and grow them internationally. And then, I think the speed-to-market program that we talked about is a way that we really use our consumer desire to really be able to chase goods in season when we see opportunities where our partners have not bought enough of what the consumer is actually wanting to buy, and our teams really work hard to be able to quickly get them back into stock.

So if we think about our earnings per share and our commitment to drive our earnings at a double-digit rate, that has an earnings before interest, taxes, depreciation and amortization margin improvement of 100 basis points. Now, I just wanted to take a moment here and kind of talk about EBITDA as a measure for us. We've talked a lot in the past about operating margins and return on sales. When we were here in 2015, that operating margin number had – was about 5.2%. And since that time, there's been some changes in accounting and there's been some acquisitions that have changed kind of what the makeup of that is.

And so, one of the ways in which we can kind of make that an apples-to-apples is to go back and just report on an EBITDA basis and an EBITDA margin. So I went back and looked at 2015, we had with the change in the accounting for pensions, where the returns that people were generating on their assets was up above the line in operating earnings. That was pulled down. If you go back and look at the returns, and we restated all of these numbers when the accounting changed, but sometimes, when we go back and we look at our presentation and we say, gosh, 5.2%, well, if you pull $19 million of return on those pension assets out of that, that 5.2% is like 4.5%. So many of you have this 8% number that's in your head, and I just want to remind you that that 8% number is not the same 8% number today as it was in the past because there's been some change in the geography on our income statement.

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The other item is with the acquisition of Vionic, the trademark and the value that we placed on that trademark is amortized through our P&L on an annual basis. That, if you take Blowfish and Vionic, is $8 million or $9 million a year that's coming through in amortization that, again, non-cash but something that is required for accounting.

So to get to an apples-to-apples, if you get down to an EBITDA, you pull the amortization out and you've included that historical pension return, and it kind of gets to an apples-to-apples comparison. So, we're going to – obviously, you'll still see the P&L and you can still calculate the operating margin and the rate. But when we look at the comparison, we will commit to delivering an incremental 100 basis points of margin at the EBITDA line. Makes sense?

All right. So when we think about the productivity and efficiencies, we've talked a little bit about this today with some of the panels, and what I wanted to point out is we have a continuous culture of productivity and efficiency. And what we're really trying to do is make sure that all of the investments that we've made, whether it's in our supply chain, sourcing and distribution, whether it's leveraging our platform and our portfolio for purchasing, or whether it's really driving the product margins that we need to offset some of that eCommerce pressure that Molly talked about at the product margin line where we happen to actually cover the cost of shipping, our company continues to work on a number of productivity initiatives. We have both our internal teams. We brought in external partners to help us here, and all in, believe that we have a pretty good program in place to ensure that we can drive efficiencies that'll allow us to fuel any incremental investments that are required in the future through our normal operations.

On the purchasing side, we are leveraging the scale of our portfolio. We recently brought in an individual. We centralized our purchasing across the organization and leveraging things across, whether it's shoe boxes. You saw there was a chart earlier. We talked about 100 million pairs of shoes. We used to – everybody bought their own boxes. And so, really being able to leverage all of that across the portfolio and the efficiencies that that drives and the scale and purchasing power is something that will continue to generate productivity for us.

And then, I think on the product margin, a lot of it is how we manage inventory, how we manage pricing and promotion to be able to reduce the amount of delusion. And then also, really, Molly has talked about her initiatives around SKU rationalization and really localizing assortment to make sure we're maximizing those product margins.

So, all of that really leads to a return on investment. And as I mentioned earlier, the productivity, it's essential to ensure that we actually deliver on the return on investment measurements. Our expectation is that we will maintain an ROIC greater than 15% and that the capital requirements are going to come back to normal levels. And I'll show you a chart in a moment. We have been spending roughly an incremental $25 million a year in capital. Mark talked about the automation of the retail facilities, the Tejon and Lebanon facilities. We made those investments back in 2015 and 2016. We've now made the investments in the insourced distribution center in California. We've made the investment in the databases, the tools to be able to capture a lot of the consumer information. And so, a lot of that is behind us. And so, you should expect to see the overall level of capital investment come down to roughly $40 million. And so, I'll walk you through that in a little bit more detail.

So just in terms of the investments and the tools, so we've talked a lot about consumer insights, right? These are the areas where we've made the most investments, and there's roughly six of these. Consumer insight tools, Stephen obviously talked about how he's using those tools or using it insourcing. Dan talked about how he's using the tools to get market information.

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Obviously, brands, we've not only invested in our own internal brands. We've also acquired some brands. So as I mentioned earlier, we've spent over $600 million to acquire Allen Edmonds, Vionic and Blowfish. And so, clearly, we need to get the returns on those investments.

Molly and Jay talked about what they're doing around direct-to-consumer, and everything there around our eComm capabilities, a lot of which shows up in our ability to actually fulfill and understand those consumers.

Some of the other areas, supply chain, a lot of what Dan was referring to, efforts that we've made to really drive speed to market to make sure that we can get back in stock, that we can get through our cycles as quickly as possible so we can get product back in front of our consumers. But a lot of work around diversifying the factory base. So, there's been lots of recent discussion around trade and tariffs, and we feel pretty good about where we're positioned right now, with having 40% of that sourcing outside of China. And while we're being conscious of what the tariff impact is, we're also watching closely to what the quality levels are of the shoes that we're delivering. And so, at the end of the day, we want to make sure that we put the best product on our consumers' feet that we possibly can. So, that's part of the challenge that Dan and his team have around managing the cost, the quality, the cycle, and that's – we've made lots of investments and time and effort around giving him access to the information so that he can make all of those tradeoffs and really work back through all of our brand leaders to make sure that we're getting the right balance there.

Distribution center, we've talked a lot about it. We had a very painful exit a year ago of our third-party facility. I can honestly stand up here today and tell you that I don't know what we would be doing today, had we not made that decision and really move forward. The capabilities that we have there allow us to actually fulfill and meet the needs of our consumers. And in a lot of cases, we're doing a lot of the work that our customers used to do in their own facilities and a lot of those customers that haven't made those investments. And so, they're relying on us to actually do a lot of that fulfillment.

When we talk about 30% of our sales being eCommerce-related, a lot of that that we're doing only because we have the ability to actually fulfill those needs. And so, it was clearly had a financial impact on our numbers last year as we made that exit. I think if you read the fine details in our 10-K, there was almost $7 million of cost, duplicative cost that we spent in distribution last year. I'm happy to say that's behind us. The facilities are up and operating. Mark and his team couldn't be prouder of the service levels that they're providing. And I couldn't be prouder to know that that decision and that investment is behind us. And now, it's really about how do we leverage that so we get the productivity.

The change in the mix, so it is to ship a loose pair is significantly more expensive than to ship a case. And so, when the mix starts to shift, right, so a lot of people ask me, well, when will I see the reduction? Well, it isn't a direct reduction when it's going from 20% to 40% to something in excess of 50% because you're taking something that we used to spend upwards to $2 a pair, and Mark and his team through automation, I think, on a variable cost is going to be something less than $0.50. But that's on a per pair that used to get shipped and case at a per pair that was like $0.10 to $0.12 on a variable cost. So, what we've done is avoided having 50%-plus of our pairs coming out of our distribution center at something close to $2, right?

So there's no doubt that the automation is a much more efficient way. But the consumer is shifting and evolving, and so that mix is really what the teams have been working to try to offset. So that net-net, you don't see that as an incremental cost, and that's why we wanted to make sure we committed to an incremental 100 basis points of improvement in the level of profitability. And so, big, big expectations around what we're going to be able to achieve there, not only in enabling top line growth but then helping with the efficiency.

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And then we've talked a lot about the technology, and really a lot of the platforms they go across Caleres. So a lot – whether it's POS or whether it's the way SAP, a lot of the big investments that we've made in the platforms really run across our brand portfolio in our Famous Footwear reporting segment. So, we're really happy to be able to leverage those and have people like Stephen and Willis really helping make sure we get the most out of those investments.

So, when we look – and I had mentioned earlier our capital expenditure requirements coming down. On the left-hand side of this chart, you can see if you look at the 2011 to 2014 period where we had towards the end of it, we had a little bit of investment into those early retail distribution centers. And then in 2015 and 2019 where we really had the bulk of that, we were spending almost $65 million a year over that period in capital expenditures. As we look out into 2020 and beyond, that level of capital comes down to what we believe is going to be somewhere in the $40 million range, so that in itself is going to be significant reduction.

I think our depreciation this year is somewhere in the $55 million, $56 million range. So, just – as we've made those investments, you've seen that come through in incremental depreciation. And as we come back down to levels closer to $40 million, obviously, over time, you'll see that depreciation expense come down as well.

So when it comes to our priorities around capital allocation, we just wanted to lay that out here for everyone, I mean our number one priority is to meet the organic growth needs of the business. Once we feel as though we've satisfied that, as I mentioned, the ongoing capital is going to be down around $40 million. We'll continue to strengthen our balance sheet, pay down the debt that we have on our revolver that we use to acquire Vionic. We'll continue with the dividend that we pay to shareholders and the cash that we return.

Our earnings growth assumes our share repurchases simply offset dilution from our stock plan. So there is no big share repurchase assumption here, so we're not just going to buy back shares, we're going to deliver the earnings and that's one of the reasons why we wanted to share the EBITDA 100 basis point improvement with you. And then, we'll take any excess cash and look to fund any other strategic opportunities that may come available to the company.

So, with that, I'll just come back to this chart that we had shared earlier that I think does a good job of just kind of bringing together a lot of what we talked about today. I mean, Diane went through in really nice detail on each of these three strategies. We certainly believe that broadening the reach and power of our brands and products is important to our continued success. We know we have to continue to strengthen the connections that we have with consumers, and we feel like we've made the investments and the tools and have the ability to utilize those and take advantage of that. And then with the investments that we've made, we understand the need to accelerate the innovation of our capabilities and operations, and that's really about leveraging a lot of those capabilities into better financial returns, and we'll do that through our diversification to deliver the consistency.

Obviously, those efficiencies return productivity. The returns and discipline around our capital allocation is something that's very important in our business model. And then we want to make sure we maintain the financial flexibility to execute the plans that we've laid out for you.

So, with that, what I'd like to do is have Diane come up and join me, and then we'll open it up for a broader Q&A.

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QUESTION AND ANSWER SECTION

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

A

Great, Ken. Good job. Thanks for that.

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

A

We'll start right here, Steve.

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

Q

Two quick questions, Ken. Can you talk a little bit about – Steve Marotta, C.L. King. Can you talk a little bit about what your optimal leverage ratio is? Can you also talk about given you're saying about $40 million of annual CapEx, can you talk about what that consists of, what you see that mostly comprise of?

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

A

Yeah. So, if we go through and look at our leverage, I mean, clearly, we're somewhere south of 3 today when you adjust out, depends on whether you want to put operating leases and everything in. But we have $200 million of notes that we carry. And then, at the last earnings report, we were at $300 million of a revolver for that, and we continue to pay that down. So, we're well below our leverage levels and continuing to pay down that revolver that I think the interesting thing, when we go in and we look at our overall weighted average cost of capital, we've got a number that's somewhere in the 10% to 11%.

We were able to purchase Vionic with a revolver that we were borrowing at LIBOR plus 150 basis points. So, relatively cheap cost of capital to buy what you heard – we believe is going to be a great brand and generate a nice return. So we're generating enough cash and certainly the requirements of the business are nowhere near the cash levels we're generating. So, we'll continue to pay that revolver debt down.

On the $40 million, when you look at kind of where that is, it really goes across – there's a little bit – at Famous where we've – traditionally, we had been opening close to 50 stores a year. That's come down to 35 to 25. So, big piece of that reduction is coming out of our need to reinvest in all new stores for Famous. And then, we've been doing a number of remodels.

As Molly mentioned, we're going to be doing a lot of refresh in her targeted markets so that we can make sure that the brand that she is sharing with our consumers is the same brand that when they walk in to one of our stores that that same look and feel is there. We have some markets where we do a great job and we see great results, and we see markets where we haven't done so good a job. And we believe that if we do those refreshes that we'll see even better results.

So that number, Famous has traditionally been $30 million or so of CapEx. That number is roughly half of that. And we're able to then go through and repurpose dollars that were going to new stores into full remodels, into refresh with some of the visual enhancements that she's making.

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On the Brand Portfolio side, a lot of the investments there were going into distribution. And so that clearly is no longer required. And a lot of that is maintenance CapEx and some of the retail stores we have whether it's with Sam, with Naturalizer. We do have some capital requirements associated with the joint venture where we're sharing those requirements, but that's really the rest of it. And then just basically...

Willis Hill
Senior Vice President & Chief Information Officer, Caleres, Inc.
A

And then we're on tech too. We're on tech too.

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

Yeah. The technology platform seems like there's always something that Willis is knocking on my door, wanting to...

Willis Hill
Senior Vice President & Chief Information Officer, Caleres, Inc.
A

We got to keep pace of that.

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

...to [indiscernible] (03:39:33) on. So, yeah, so a lot of that is coming back and really driving through technology advancements.

Laura?

Laura Champine
Analyst, Loop Capital Markets LLC
Q

Thanks. Laura from Loop. I'm surprised by the expectation that you can grow margins 100 basis points in Famous Footwear given that they'll be pressured likely from continued penetration of e-commerce and sales are expected to be kind of flattish up a little bit. What's driving that?

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

Yeah. Most of it is really coming through leveraging a lot of the margin enhancements. We talked about product margins, lots of work that Molly and the team are doing on SKU rationalization, their assortment planning is driving a lot of it. And then, we're doing a lot of analysis and testing around pricing and promotion. So, looking at examples where we used to stack different promotions and testing whether what's the consumer response if those things aren't attached to one another? And so – the other thing is the efficiency around serving the consumer and the key markets. So if we can go in and take a market today that we're serving through our stores and our e-commerce capabilities, and that market today has 15 stores, and she can serve that market in the future, same market, right, but do that with 12, 13 stores, that's where the efficiencies will come in and actually below the line in SG&A.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

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I think you covered most of that, Ken. I think maybe the only other thing that would be added to that is the purchasing power across Cal too, that there is going to be some additional benefits across the company...

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

Right.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

..that the Famous side of the equation [ph] would be there (03:41:25).

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

Yeah. No. Good point. We've mentioned earlier about leveraging some of the centralization of our purchasing and we used to buy the Famous boxes and the tape and all those things separately. Mark alluded to making those distribution centers agnostic. All of a sudden means that then you're consolidating all the buy for the supplies and everything there. So being able to better utilize those materials is also a player in that.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

Yeah.

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

Yeah. Thank you.

Rick?

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

Hi, Rick Patel, Needham & Company. I just want to be crystal clear on your EBITDA margin target. It sounds like there could be some noise around accounting and trademark amortization. What's the EBITDA percentage number you're looking to hit in2022?

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

So, I'll go back to EBITDA margin. If you take our guidance today of $235 million to $245 million, that equates to 7.4% to 7.5% in terms of – that range, in terms of an EBITDA, so 100 basis point improvement would be an EBITDA in 2022 that would be somewhere in the 8.4% to 8.5% range.

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

All right. Great. And you did a nice job today just walking through some of your assumptions. I'm curious if you can talk about what your outlook embeds for the environment. So I see three layers. I think there's the consumer, there's your wholesale customers and there's competition. So, what does your long-range plan assume each of those factors do?

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

Yeah. Quite simply, it assumes the overall US footwear market grows at just under 2%. So, clearly, when – we stood up last quarter and we talked about – we had a lot of questions [indiscernible] (03:43:10), what's the organic growth of your Brand Portfolio, and we said, well, if you exclude the Allen Edmonds planned reduction and you pull out the acquisitions, I think, Jay, we're at 0.4%, right? And you go, oh, 0.4% in a market that's down 1%, right?

So what – we're standing up here. I can't predict exactly how all those factors are going to play out. But if the market is up 1%, we'll be up 1%-plus. If the market is up 2%, we'll be up 2%-plus. I mean, I think that's really what we're trying to portray here based on the things that we can read and the things that we can see. Unfortunately, if the market's down 3%, right, it won't be down 3% over that entire period, right? We believe we'll be down something less than 3% in the period that it's down.

So that's what I tried to lay out just in terms of kind of how we think about it. And at the end of the day, I think that's really how it will translate through and that's what we're also looking over a little bit longer period of time.

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

That's the latest that NPD has right now is just under 2%, so.

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

Yeah. Another reason why the decision to go ahead and partner with our new joint venture partner in Asia to be able to...

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

Yeah.

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

...that overall market is growing a little bit faster than 2%. And so, the stronger our brands are here, the more easily those brands will translate to other geographies. And so, we believe that as we get to the latter part of the timeframe we've laid out here, that you'll start to see a little bit more of an impact coming from the international business.

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

Hi, Laurent Vasilescu from Macquarie. Thank you, Ken, for all the color and especially guideline about 100 bps of EBITDA margin expansion. Slide 99 talks about investments for growth from 2015 to 2019, and then leveraging those investments beyond. How do we think about the gross margin and the SG&A margin in that context of the EBITDA?

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

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Yeah. So, there's lots of mixed implications there. When I think about, we have businesses where we're paying for shipping. And in those cases, that comes through the gross margin, and the faster those grow the more pressure it puts on that gross margin but the less infrastructure required in SG&A. And so, what we've tried to do is get away from giving the specifics, I mean, when you look across the portfolio and – I was having a conversation earlier with someone that was asking, okay, why don't you just give the brand sales and earnings number? And the answer is I'm not sure that you would know exactly what to do with the information unless you knew how Diane and I allocated resources and how Dan decided which brands are produced in China and which brands are produced in Vietnam and which brands are produced in Ethiopia. Because at the end of the day, if I tell you that the margin on a brand is 34% and the margin on another brand is 50%, and the reason is because we decided that it was best to produce that brand in China and it's paying a 15% tariff, right? And those other brand we made in Vietnam like that – so that's our hesitation around your model just continues to get infinitely larger and larger.

So, we want to provide enough information for you to understand how to think about the sales and earnings power of the company, but not so much that we're then getting into all the specific details around how we make every internal decision. And so, I think it's important that we want to be transparent clearly but we also want to make sure that we're not giving information. At the end of the day, if you don't know the mix of categories or customers within a brand, then those numbers end up being just something that you can plug into a model. So the NPD data clearly goes out and Jay laid out kind of where those brands are, so you can go figure out exactly what the top line is, but all the elements within cost of goods sold and the SG&A is all a factor of the decisions that we make in total.

So what we want to make sure is when we add all that up, that total number is 100 basis points better than what it is today. And if it is, then we will have met our commitments really to you as an investor.

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

Q

And as a follow-up for slide 106, it talks about capital allocation priorities. Funding strategic opportunities is the last one. Do you think we're at the point here with the reshaping of portfolio is largely done or do you think there's a new opportunities in terms of white space?

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

A

Yeah. Thanks for the question, Laurent. I don't think it's ever done. But I think we are at the point today where we really want to focus on the investments that we've made at this point in time. But by the nature of a portfolio, it means you have to consistently be looking at it and making sure that we're addressing where the consumers going and making sure that all the brands in the portfolio stay relevant.

But we've made quite a bit of investment as we just talked about. We've got to make sure we leverage those investments that we've made, get that return, but not ever going to stop thinking about how I continuously figure out how to make this a stronger and better company going forward. So, always be thinking about it. But right now, we're going to focus on harnessing what we've already purchased and leveraging all that.

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

A

Chris?

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Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Thanks. Chris Svezia, Wedbush. So, I've got a couple of questions. First on comp, so comp for Famous is flat to up low-single. I guess given loyalty initiatives, given store refresh, given changes in merchandising, given the historical track record of at least positive low single-digit comps are pretty consistent, why couldn't that be stronger? First question.

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

A

I guess it can always be stronger and I can assure you that Diane and I's conversations with Molly will be about why isn't it stronger. But we really felt like as we're looking over that time horizon that that was a reasonable expectation to set. And so, clearly, Molly laid out a lot of things that she's trying to do, and we'd love nothing more than to be able to come back and tell you that she's exceeding those. But we just – we wanted to be prudent and give you something that one was consistent with what we have delivered in the past and a commitment to continue that going forward.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Second question, just on – what or can you give us what the EBITDA is for Famous and is for the branded portfolio? You gave us total company. Can you break it out just so we know?

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

A

They're both going to increase, you can go back. All that information is in our reported numbers.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Do you have D&A by segment?

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

A

Yeah.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

So, how do we think about that?

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

A

When we do our next earnings call, I'll share with you what that means by segment...

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay.

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

A

...to give you an idea of what the breakout is.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Two final things. Just on the branded side, any structural impediment to making that mid-teens EBITDA or double-digit operating margins when you look at, broadly speaking, all the brands or brands that you've purchased like in Vionic when you bought it had double-digit EBIT margins, mid-teens EBITDA margins? Just – if you think about your total Brand Portfolio, what structurally keeps you in sort of where you want – why can't you be double digits?

And then final question, just on the buyback, it's like 15% of the shares outstanding right now, what you have out there, stocks cheap, why wouldn't it be more? I mean, what are you really thinking in terms of the buyback as it pertains to double-digit earnings growth?

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

A

Well, so in the double-digit earnings growth, we're not assuming any additional buyback other than what would be necessary to offset the dilution from our stock compensation plans.

A

[indiscernible] (03:52:00) Can you hear us?

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

A

It doesn't mean that we won't be opportunistic. But that's part of the reason why we laid out the priorities in the way we did. Yeah, it is important that we continue to pay off the revolver debt that we used.

Q

Is that more important than [indiscernible] (03:52:22)?

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

A

No. I just – I think that when we bought the Allen Edmonds business, right, that $255 million within a year, we're able to move some cash back that we had trapped offshore. And then, we clearly generated an incremental $100 million and paid debt down fairly quickly. We want to be able to do the same so that we have the flexibility. You never know when someone like Chris is going to have a business available or someone like the Veronicas are going to come forward and give an opportunity.

And so, we want to maintain that flexibility so that – Diane and I today are focused on taking what we have and getting the most out of it. But when the phone rings and someone has an opportunity, we want to make sure that really without taking on a bunch of incremental debt back to Steve's question around leverage. I mean, we are a fashion business. We do have lots of exposure to retail and retailers. And so, I'm not a big fan of carrying a lot of

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debt to run this business. So, we think it's important to maintain the flexibility so that when an opportunity does present itself, we at least can sit down and evaluate as opposed to saying...

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

[ph] Option (03:53:47).

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

...gosh, if I was to do that then here's what this capital structure would look like, and that's not something that we're comfortable with. So we don't want to miss that opportunity either. So we're trying to balance all those things. And you've seen the last couple of quarters we have clearly bought back incremental shares based on where the stock has been trading and the valuations. And so, you should assume that we're going to continue to be opportunistic. What I wanted to make sure here is I'm not – we just announced an incremental program. I'm not just going to go buy back shares and deliver. We're actually going to deliver the productivity to deliver that earnings. And then anything that we would get out of buyback would be something that would deliver incremental.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay.

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

[indiscernible] (03:54:33)

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

Yeah. And on the EBIT margin side, I think I would say that what you saw today and what you heard today has a lot to do with how we think those EBIT margins for the Brand Portfolio is going to continue to improve. We think it is again broadening that reach and scale of all the brands that we have. It's the productivity work that we have across the enterprise that we're looking at. So, we think that all of those things combined that all of that is what's going to [ph] allow it (03:55:00). There's nothing structurally that was not going to allow us to eventually achieve that. But again, we want to do this in a smart and thoughtful and appropriate way. And we think the plan we put in front of everybody today for the next three years with that low single-digit growth and double-digit earnings per share growth is a smart, prudent way to really think about what our opportunities are in the marketplace in the next three years.

So, our ambitions are always much more than what we always talk to you guys about. We always have big ambitions. But I think it's our responsibility to be really smart and prudent about what we – how we guide.

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

Yes?

Will Gaertner
Analyst, Susquehanna Financial Group LLLP
Q

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Hi, Will Gaertner from Susquehanna. Thanks for all the information today. So, what brands are going to be the primary drivers of Brand Portfolio's growth? And then what – you have these two new brands, Veronica Beard and Zodiac. What's going to be up, what's going to be down? Can you just give us a little bit more color into [indiscernible] (03:56:05)?

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

A

Yes. That – we're actually not going to talk about the individual performance of the brands. We're coming back and saying that we have – totally our commitment to you is to grow that top line the way that we've talked about, grow the earnings that we've talked about. But there's too many bits and pieces of it if we were going to give you all those details, how it all is going to add up. So, we're not going to do that.

I think Ken and Jay said that while you go back and you take a look at NPD data, you can infer a lot about what's the scale and size of the brands are going to be. But we run a portfolio. We're going to be moving and reallocating those resources to where we see the growth opportunities over the next couple of years. So it's going to ebb and flow and change.

Will Gaertner
Analyst, Susquehanna Financial Group LLLP

Q

Fair enough. Thank you.

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

A

Any other questions? Rick?

Q

Hi. I know today is about the long-term and you don't want to focus on near-term stuff, but I feel the need to ask.

A

Thanks for cooperating.

Q

So, on your last call, I think guidance for this year incorporated tariffs of 10%. But I think reality is now tariffs of 15%, but yet you kept guidance intact. So, does that mean that sales are ramping up higher than you expected or did you leave yourself some wiggle room? And then I have a follow-up as well.

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

A

Yeah. So, at the time that we were reporting, the Tuesday aftermarket...

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

A

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Yes.

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

A

...and over the weekend, there was lots of tweeting and dialogue going back and forth. And so what we did say was that we had taken into consideration the 10% in our numbers. Our guidance range, right, we had a $0.10 range and we felt like certainly we had some flexibility within that range for some of the uncertainty that was happening. And all I would say today standing up in front of you is like – so there's an incremental five. We're very confident that over the long term that the teams work together to go figure out a way for that to have a minimal impact. But on September 1, we had a 15% increase in the cost from that tariff. That 15% we did – we're not that good to where literally on September 2 it was gone.

So this is about the power of the portfolio to maneuver over time to go find ways. Our partners have been very, very accommodating with us to work together to try to make sure that we all sell more shoes because that's really what we're trying to do, and that we all share different pieces of that burden because that's what it is in the moment. And so that's what I would share with you is that in total, does it really change our outlook? It does change a little bit the timing, right?

So, what I would tell you is that the work that we had to do was going to generate a little bit more benefit in the fourth quarter to offset the fact that a little pressure on the third quarter that none of us had taken into consideration at that particular time. So, when all of you went off and you said well, Ken to get 10% in, you came up with your expectation for third quarter, that clearly assumed a 10%. That number is 15% today.

So long-term, I think our teams have worked together with all of our partners to find ways to mitigate that so that it doesn't – these numbers assumed that whatever happens in that regard with trade that we'll find some way to work that through. And that's the power of the portfolio. But it doesn't immediately get wiped away on September 1.

Q

And then a question on the outlook for the Brand Portfolio. So, sales up, low to mid-single digits, does that incorporate additional acquisitions and if it does...

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

A

It is not. It's based on our organic business and full year of sales from the businesses that we bought.

Q

And so, what are your thoughts on acquisitions from here? Do you see any void in the portfolio or is the focus going to be on scaling the new acquisitions?

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

A

Yeah. Focus is on scaling and leveraging those investments and fully integrating those businesses in and making sure that we get all of the benefits that they all talked about, as they were up here talking about why Caleres. And

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that doesn't mean that opportunities won't present themselves. I mean, we certainly are evaluating those opportunities. But we feel pretty good about the portfolio and kind of the markets that we're serving and we're fortunate with the Veronicas. I mean, they were at a price point that there was some opportunity and there's a great example of something where we didn't have to go put a lot of dollars out or close by their company. We did that more traditionally as a partnership. So almost – and as opposed to thinking of it as licensing, it's more of a joint arrangement, and we're pretty excited about it.

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

A

Yeah. So, we've sort of covered this, I'm going to say it this way though one more time around portfolio and our view about sort of acquisitions [indiscernible] (04:01:36) our view. We have two lenses, right? We're always looking at kind of the length of the year, 18 months. We've got a longer term lens. Our focus right now is on that nearer term. We really want to make sure we leverage the investments we've made. We also know that we have to keep a lens on the slightly longer term, too, because if we're going to maintain the relevance of this portfolio, over time, we're going to have to continue to do that. So, short-term, near-term focus on that, always thinking about how we make sure that we're staying relevant. But right now, leveraging the investments we've made.

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

We're good. There are no more questions. Well, thank you everyone for coming.

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

Yeah. Thank you. Look, I'll just say it's been a long day. I want to say, first of all, thank you so much for your time, your attention and your support of the company and your interest. That's number one. Number two, I want you to leave here knowing, I'm sure you got all the [ph] sound right (04:02:38) broadening our reach and accelerating our capabilities and all of that and connecting with consumers. Take that away and remember and think about what you saw here today. But finally know that we are totally confident as a company and as a team in what we have built, what we have put in place and that we really do believe that our time is now with the investments that we've made in this organization.

So, really appreciate your time and attention. Can't wait to keep talking about this new chapter, and really excited about kind of where our opportunity lies in the future. And really appreciate your help and support.

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

Yeah. So, thanks everyone.

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

And thanks, team, for the good work today, too.

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