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Caleres, Inc. (CAL)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Caleres Fourth Quarter Earnings Conference Call. My name is Jessie and I'll be your conference coordinator. At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded.

At this time, I'll turn the call over to Logan Bonacorsi, Vice President of Investor Relations. Please go ahead, miss.

Logan Bonacorsi

Vice President - Investor Relations, Caleres, Inc.

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

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

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

Diane M. Sullivan

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

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Thanks, Logan, and good afternoon, everyone. Thank you for joining our fourth quarter call and for your continued support of Caleres. Clearly, there is a tremendous amount going on in the marketplace and all is happening by the minute. So before we launch into the 2019 results, I would like to briefly address the coronavirus and the cross-functional steps we are taking to protect our people and protect our business. It goes without saying that our first priority is the health and safety of our global workforce.

To keep our team members safe, we have implemented a comprehensive protocol that includes travel bans and return-to-work restrictions, ensuring the ability of our employees to work remotely, additional deep cleaning and disinfecting were required, and most importantly, in times like this, ongoing and timely communication.

As it relates to the coronavirus financial impact on our business, we believe we have reasonably good visibility into the supply chain and the effect on Caleres to date, and what is expected through the first quarter of 2020. As of today, all of our factory partners in China are up and running, worker return rates are in excess of 70%, capacity utilization is increasing, and product delay times are subsiding.

On the other hand, consumer sentiment is harder to predict. Our direct to consumer businesses thus far have been performing well, making it difficult to anticipate the broader impact a prolonged health crisis could have on the retail sector and consumer demand overall.

As expected, in this times of uncertainty, we are leaning in and taking actions to ensure we are protecting the business overall. We are actively monitoring the leading indicators across the markets we serve. We're assessing these every day and reacting in real time by managing our expenses accordingly, reducing our open to buy where necessary, evaluating our promotional cadence, and being very disciplined in our management of inventory. In short, we will protect our people, we will protect our business, and ensure we are prepared to be positioned for when the rebound comes.

Now let's transition to our 2019 performance. Caleres delivered consolidated sales of $2,921.6 million and adjusted earnings per share of $2.10, falling short of our expectations. During the fourth quarter, the weakness in the fashion footwear market pressured our results during the period, specifically, we experienced a short fall in sales to the value channel as those customers pulled back in reaction to a poor retail footwear business and shifted towards lower-priced offerings. This resulted in a decline in demand for both [ph] closeout (00:04:45) product and new orders.

Furthermore, our boot business was a standout, up double digits through mid-fourth quarter as on-trend product resonated with consumers across the brands. However, unfavorable weather in the second half of the quarter stalled cold weather products, resulting in some sales to fall short of our strong expectations for the business.

Specifically, our Sam Edelman brand experienced a softening of cold weather product sales, lower demand for tall shaft boots, and a decline in replenishment and reorders for core products. Additionally, the brand experienced a difficult selling environment within the mid-tier channel business. And as you would expect, Sam pivoted in-season to inject newness into the product line, namely, adding multiple new sneakers and new silhouettes and sandals and dress, with all of these new products showing signs of early success at retail. As you know, Sam has such a strong track record of knowing his consumer well and providing her with the styles and trends she loves.

Offsetting some of this fourth quarter sales pressures was a solid performance from Famous Footwear, where we recorded a 5.1% improvement in same store sales year-over-year. While 2019 started slowly for Famous, we

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delivered sequential quarterly improvements as we progressed throughout the year. This progression was driven by strong broad-based improvement across all of our channels, categories, genders, geographies, and formats.

Specifically, fourth quarter sales results were lifted by the strong performance from top brands, including Nike, a 9.5% year-over-year improvement in kids, a 60% year-over-year increase in premium brands, improved consumer engagement and retention with our rewards program, and higher e-commerce and brick-and-mortar sales. Overall, we are pleased with the performance of Famous, and the team has just done an exceptional job of analyzing the consumer, identifying opportunities, and then, executing upon clear and very well-defined strategies.

Now, I'd like to provide a quick recap on the significant progress we made on a number of value creating strategic objectives across our business. During 2019, we continued to strengthen the connections with our consumers, as evidenced by our growing direct-to-consumer e-commerce related businesses, which grew 23% year-over-year. We believe the ability to fulfill this growing business and respond quickly to consumer demand continues to be a differentiator for Caleres.

Beyond the e-commerce improvement, we continue to be pleased with the successful re-launch and execution of the Famous Footwear Rewards program. Over the last 12 months, we have seen improvements year-over-year in our retention rate, the first time actually in five years, as well as increased shopping and spending by existing Rewards members.

Next, we continued to be highly focused on proactively managing our portfolio. It remains imperative that we continue to develop our family of brands to drive strong brand strength and relevance. In 2019, we entered into an exclusive partnership with Veronica Beard, furthering our reach into the attainable luxury space. In addition, we demonstrated our ability to create and transform brands with the re-launch of the heritage Zodiac brand. At the same time, we made the decision to shift away from partnerships with DvF and Carlos Santana, and recently elected to reposition our Via Spiga brand.

And finally, all year, we continued to focus on managing these variables within our control. This includes a year-over-year reduction of capital expenditures and fixed costs, driving declines in our inventory levels, as well as shortening product lifecycles. We also executed cost containment initiatives that will carry into 2020, including the voluntary early retirement plan that we will save between $8 million to $10 million on an annualized basis going forward.

Importantly, also during 2019, Caleres generated approximately $170 million of cash flow from operations and put that cash to good use, returning approximately $45 million to our shareholders through our share repurchase program and our longstanding dividend, where we recently announced our 388th uninterrupted quarterly dividend payout, and further reducing the borrowings under our credit facility by $60 million during the year.

Now, as we look ahead to 2020, the strategic priorities that we laid out at our Investor Day remain intact. We are focused on leveraging the investments we have made for our future, with these priorities guiding and informing our decision-making.

At Famous Footwear for 2020, our key focuses are, first, in merchandising. We're going to continue to leverage our strength in athletic and athletic-inspired shoes, while growing our iconic and premium brands. Our kids business is strong, and our accessories business is returning to growth. We have significantly reduced our SKU count and our overall inventory, allowing us to [ph] dive (00:10:46) deeper into the styles that are driving our business.

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Second is marketing, where we will continue to evolve the Famous brand and strengthen our brand voice to deepen our connection with consumers. Our media mix and marketing spend will shift to more customer-facing initiatives, and we will drive further customer loyalty through our Rewards program.

And last is our consumer experience, where we will drive sales with the growth of Famous.com and launch a new e-comm platform to offer new capabilities, enhance customer experiences, and the ability to quickly adapt to the changing consumer dynamic.

And as we turn to brand portfolio for 2020, we're going to continue to focus on product design and development and relevance in order to make sure we continue to deliver the product the consumer wants. There are going to be multiple levers that we believe can contribute to our growth in 2020.

First of all, product innovation will intensify, with a focus on fashion sport. Here, we'll capitalize on our design and production capabilities to provide a competitive edge in this category, exploiting fashion sport across the portfolio at tiered price points.

E-commerce will continue to grow, with the critical investments we've made resulting in best-in-class capabilities. And the evolution of Naturalizer and Allen Edmonds will continue with the recent rebranding of these two icons, and we believe that will help drive market share growth. Brand partnerships with Vince and Veronica Beard will be critical, with the first product launch of Veronica Beard in spring 2020.

And finally, at Vionic, the founders are clearly at the helm, and we expect fiscal year 2020 results to be better than 2019. As we detailed on the third quarter call, we have moved from a two to a four-season calendar to ensure that we're delivering trend-right product and newness more frequently. Further, we're leveraging the data and the predictive analytics that have been successful for the rest of our Brand Portfolio to ensure we're leaning out our inventories and delivering fresh products.

So, we're entering 2020 with momentum in our Famous Footwear brand and with confidence in the strength of our overall Brand Portfolio. While the macro environment is uncertain, we are confident in the Caleres portfolio and believe it provides a compelling value proposition in this market environment. Our brands are strong and relevant, our financial foundation is solid and flexible, and we will leverage the investments we've made in our platform and capabilities that have really positioned us to serve the consumer exactly in the marketplace, exactly where they're going.

We are looking at the year with a laser focus on what we can control, and we have our eyes wide open. The coronavirus impact on our Brand Portfolio supply chain in the first quarter of 2020 is expected to be $0.15 to $0.20 per share, and as a result, we are expecting to deliver earnings per share of between $1.95 and $2.15 this year.

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

Kenneth H. Hannah

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

Thank you, Diane, and good afternoon, everyone. As Diane mentioned earlier, we delivered a little over $2.9 billion in sales and $2.10 of adjusted earnings per share in 2019. And while disappointing when compared to our expectations, we accomplished a number of our strategic priorities pertaining to consumer connections, portfolio management, and our capabilities.

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For the fourth quarter, we reported earnings per share of $0.01. This included $0.27 for expense containment initiatives, consisting primarily of our voluntary early retirement program, $0.03 of Brand Portfolio expense related to the repositioning of our Via Spiga brand, and $0.03 related to the fair value adjustment associated with the mandatory purchase obligation for Blowfish Malibu. Adjusted earnings per share in the quarter, excluding these items, was $0.34, and included approximately $0.07 of dilution related to Vionic interest and amortization expense.

Our consolidated sales for the fourth quarter of $698.9 million were down 3% from the prior year. Building on this momentum in the third quarter, Famous Footwear delivered a strong fourth quarter, reflecting increased brick-and-mortar and e-commerce sales and continued progress with our Rewards program. Our total Famous Footwear sales were up 1.2% in the quarter, with same store sales up 5.1%. For full-year 2019, total sales of Famous Footwear were approximately $1,588 million, down approximately 1%, as we operated 43 fewer doors versus the prior year, with same store sales up 2% for the full year. We ended the year with 949 doors of Famous Footwear.

Our Brand Portfolio total sales during the fourth quarter were down 9.4% year-over-year. As previously communicated, this coincides with the decline in women's fashion footwear and a slowing of the growth in sport-inspired product. This decline was also driven by challenging selling conditions in the value channel, reductions in reordering and replenishment, and softness in our cold weather product sales. We also continue to see a shift in order patterns from upfront to at once via drop ship, resulting in a delay in the timing of our recognition of revenue from period-to-period. For the full year, Brand Portfolio sales were $1,406.5 million, up 7.1% year-over-year, driven primarily by 2018 acquisitions and market share gains.

Let's turn to consolidated gross profit and margin. For the fourth quarter, consolidated gross profit of $278.8 million and 39.9% of sales was up 133 basis points year-over-year. For Famous Footwear, fourth quarter gross margin of 42.5% was down 20 basis points year-over-year, reflecting the growth in their e-commerce business.

Brand Portfolio reported gross margin of 35% in the fourth quarter, up 275 basis points from the prior year, including the impact associated with purchase accounting year-over-year. The adjusted gross margin was 35.5% in the fourth quarter, up 60 basis points over last year, and includes the impact of higher tariffs on product coming out of China.

Our consolidated SG&A expense for the fourth quarter was $260.8 million and represented 37.3% of sales, and $1,065.8 million for the full year 2019, representing 36.5% of sales, leveraging 27 basis points from 2018. Our depreciation and amortization for the fourth quarter was $16.6 million, down 4.6% versus the prior year.

Our fourth quarter reported operating earnings were $5.7 million, and adjusted operating earnings were $19.6 million. At Famous Footwear, fourth quarter adjusted operating earnings of $10.3 million were up almost 68% from a year ago. For the Brand Portfolio, fourth quarter adjusted operating earnings were $18.6 million.

Our net interest expense for the fourth quarter of $7.8 million includes $1.5 million of fair value adjustment associated with the Blowfish purchase obligation. Interest expense, excluding the fair value adjustment, was down $500,000 from a year ago, as we have paid down the balance on our revolving credit facility used to finance the October 2018 acquisition of Vionic. Full-year 2019 interest expense was $33.1 million, including $5.4 million of fair value adjustment associated with the Blowfish purchase obligation. Our full-year tax rate was 21%.

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Adjusted earnings before interest taxes, depreciation, and amortization for the full year 2019 was $204.3 million, with adjusted EBITDA margin of 7%. For Famous Footwear, full-year adjusted EBITDA was $107.1 million with an adjusted EBITDA margin of 6.7%. Brand Portfolio adjusted EBITDA totaled $105.6 million in 2019 with an adjusted EBITDA margin of 7.5%. Our capital expenditures were $50.2 million for 2019, reflecting a $16.7 million decline year-over-year.

Now, turning to our balance sheet, we ended the year with $45.2 million of cash and equivalents. Our outstanding borrowings under our revolving credit facility were $275 million at year end, down $60 million for the full year 2019 and down $85 million from the $360 million following our October 2018 acquisition.

Our consolidated inventory position at the end of the fourth quarter was $618.4 million, down almost $65 million or 9.5% year-over-year. At Famous Footwear, we ended the year with inventory down 5.8% year-over-year, due primarily to fewer stores and a focus on SKU reduction to improve our inventory turn and flow of goods. For our Brand Portfolio, our inventories were down year-over-year, as the teams effectively balanced inventory in-house and at our partners. We're particularly pleased with these results in light of our retail partners increasingly ordering closer to need.

Our 2019 operating cash flow was $170.8 million, up approximately 32% over 2018. And during the year, we returned $45 million to shareholders, comprised of $33.4 million of buybacks and $11.4 million of dividends. In 2020, we are committed to continuing our capital return program, which will include investing wisely in our business, with capital expenditures of $40 million in 2020, executing further on our buyback program, paying the dividend, and reducing our revolver borrowings still further. We currently have approximately 5.2 million shares of remaining authorization under our share repurchase authorization program.

Moving now to our outlook, we are expecting full-year 2020 consolidated net sales to be flat at $2.95 billion, with Brand Portfolio sales expected to be flat to up low-single digits, and Famous Footwear same store sales up low-single digits. We will close approximately 50 stores at Famous Footwear and open approximately 20 new stores.

As Diane mentioned, we're expecting headwinds in the first quarter of 2020 relating to supply chain disruptions due to the coronavirus. We're currently anticipating a $0.15 to $0.20 per share coronavirus impact on the Brand Portfolio supply chain in the first quarter of 2020.

For the remainder of the year, we will continue to actively assess this very fluid situation and the impacts. To that end, we expect to deliver earnings per share of between $1.95 to $2.15 per share this year. We've not included any potential erosion in consumer sentiment that may arise due to the coronavirus.

We are entering 2020 highly focused on the strategic pillars we have laid out, and with an emphasis on managing what we control. We believe we have created a unique portfolio that is built for agility and execution, and is expertly prepared and positioned to benefit when the market ultimately turns.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Rick Patel with Needham & Company. Your line is open.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thank you. Good afternoon, everyone.

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

A

Good afternoon, Rick.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Ken, you mentioned – hi, Diane. Ken, you mentioned that your guidance does not reflect a deterioration in consumer sentiment related to the virus. I just wanted to follow-up on that. So, maybe can you talk about what the trends for Famous has been like as we think about late February through the past couple of weeks? I'm just curious as consumer concerns about their health and the fear factor related to this virus, if that increase is – whether or not it's had a negative impact on traffic, and to what extent that is embedded in guidance right now.

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

A

Yeah. I think, as we've mentioned, we saw good momentum coming out of Q4. That momentum continued all the way through February, and it really wasn't until we got into the first week of March, where we started to see some impacts across the portfolio. It's changing on a daily basis. At this point, we haven't seen anything material. But just in – throughout the course of today, obviously, we've seen different things being cancelled, events being pulled back. And so, we have no way to assess exactly what all of that means, but you can bet that we will actively manage it as we move forward.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

And is it safe to assume that your performance at Famous has been relatively intact this past couple of weeks?

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

A

Yes. Yes.

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

A

Absolutely.

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

A

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That was what we were speaking about, Rick. Certainly, the momentum at Famous continued into February. And we had not seen any kind of slowing down on that really until the – maybe the last couple of days. But I think again, if you think about the performance that they've had in that fourth quarter going into February, again, it's on – across so many geographies and categories and products and consumers and trends. And so, while we – again, we have our eyes wide open about what the potential to – can be.

So far, the momentum have been good there, and we're tracking. One of the things that we felt was really important, and we started this two weeks ago, actually, with respect to sort of a market tracker, we've been actively managing, obviously, this crisis with the crisis management team since really mid-January, and again, with that focus on protecting our people and managing the supply chain and everything in China.

But even more recently, on the business side for 2020, we really wanted to make sure that we looked at postponing any kind of discretionary investments we had. We need to make – looking at capital, making sure we were managing our capital well, looking at the inventories. Just all of those things really even coming out of January and – that we felt was important.

And now, we have the – are really looking through Famous, through our Brand Portfolio, through our retail partners, exactly what's going on in each of our markets. So, we're looking at that in real time and feel like we're going to be able to make sure that we've got the real-time information and have all the information that we're – that's possible to address any of those opportunities and concerns or challenges.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

That's very helpful. And can you also provide some color on your expense savings initiatives, perhaps, some more detail on where the inefficiencies were as we think about Famous versus the Brand Portfolio, and on the flip side, I guess, where the investments would be needed to drive growth? Diane, you just mentioned that you're pulling back on what you view as discretionary investments. But just curious what you would consider to be critical to drive growth going forward that may offset some of those expense savings?

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

A

Yeah. Okay, Rick. Sure. I'll do it a little bit, and I'm sure Ken will add to this. I mean, I think it certainly started last year as we looked at our expenses overall. As you can see, on our SG&A and everything as a percent of sales, we managed really well. So all through last year, as we were challenged, we were making sure that we were addressing most of that in real time. It was really a lot through in October into November, the voluntary early retirement plan and that restructuring. That really has given us the, I would say a little bit of a tailwind going into 2020, and that is that $8 million to $10 million. And it was probably somewhere in the neighborhood of 100 or so folks that were affected in our system. So, that was a significant thing.

And then – and there were many cases, just to give you a little bit of an example, where it was more efficient. We really looked at our regional structure at Famous Footwear, how many regional managers, district managers, what was the span of control. So, we looked really through everything. And then, it was about what brands we're adding value into – or not adding value, where was the economic contribution there. So again, as we looked at things like DvF or Carlos Santana, and then, thinking about Via Spiga, we were really able to reapply some of those resources to the brands that we felt were – [ph] hadn't (00:29:29) more growth opportunity and make sure that we were leveraging those capabilities as well. So, it was a combination throughout the year of lots of different things.

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And Ken, I don't know if you wish to add to that, too.

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

Yeah. The only thing I would add is, as we had mentioned, we've made the investment into capabilities, in particular, to be able to meet the e-commerce and digital growth requirements. And so, we were moving forward in an attempt to try to leverage those investments. So, we're reducing our CapEx levels down to what we believe are back to maintenance-type levels. And there's really no large projects that we have taken on. We're completing the work on our re-platform in e-commerce, but all the distribution center automation is complete and those facilities are performing well. So, it's really about leveraging those investments that we've already made.

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

Thanks very much, and all the best this year.

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

Thanks, Rick.

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

Thanks, Rick.

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

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Good afternoon, and thanks for taking my question.

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

Good afternoon, Chris.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

So I guess first, on the supply chain, can you just walk through the $0.15 to $0.20? What does that comprise? Is that just, I don't know, mix sales, cancellations, product delays, just more specifically what that embodies? And I assume after Q1 – it's basically just Q1 event and nothing goes into Q2. Just give us some thoughts around that.

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

Yeah, Chris. And so, I think you mentioned kind of what all of that is comprised of. When we look at our Q1, we've got roughly $20 million of sales that we're counting on that has not been receded. And those products are in various stages in the supply chain, some of which will need to be aired to get here in time for customers, some of which is going to need to be applied to discount because of the timing, and some of which will slide out of the

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quarter and run the potential of being canceled. So, I think those are the different elements of what we try to take into consideration.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. And [indiscernible] (00:32:10). You don't anticipate in this turning into Q2 or what was the thought around that?

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

Yeah. I think we expect that as we get into Q2 that the factories are up and running. They do have some capacity available, and that we are seeing the delay subside. And so, as a result of that, we think that we're going to be able to minimize the impact on Q2. Obviously, what happens in terms of consumer sentiment is something that we're watching very closely. But from a supply chain standpoint, we feel like we've got pretty good visibility there and kind of know where things are and the timing on which we will receive those goods.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. And just on – you mentioned earlier that you're seeing some cancellations or pullback. Does that have to do with the Branded (sic) [Brand] Portfolio and is that factored into your thought process?

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

We haven't seen...

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

No. I haven't...

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

We haven't seen like any cancellation or pullbacks.

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

We haven't seen any cancellation or pullbacks.

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

Didn't say that.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Okay. I thought you did in response to the other previous questions.

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

No, no. We – no. No. We were talking about the Famous Footwear momentum that actually accelerated going into February. But in the last – since we turned to March, it slowed down a little bit.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Got it. So just on that point, are you expecting Famous to continue that moderating trend throughout the balance of the first quarter or just how are you thinking about that?

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

Yeah. I mean, I think what we tried to illustrate, we exited Q4 at above a 5% comp and that we saw that momentum continue through February. We guided for the year flat to up low-single digits. So, we've tried to put in a normalization of what we would expect at Famous. What we don't know is as there continues to be cancellations of events NFL and NBA and NHL, which may have been where we were earlier referencing cancellation, we were not talking about orders, that we have to believe that that will have some impact on the future demand, and we tried to do the best we could to take it into consideration in the way we guided. But we've not been able to assess any significant changes to what we're seeing today.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Got it. And now, on the Branded (sic) [Brand] Portfolio side, when you step back, I guess how do you think about your visibility into that business? Just kind of given where it stands, less pre-booked, more at once, drop ship, just to talk about sort of flat to up low single for the year, and sort of your visibility in order to attain that? How do we think about that cadence as the year progresses? I assume Q1 was down some level, just sort of given the supply chain issues. But just your thoughts around that.

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

Well, it's interesting, Chris. When you look at the Brand Portfolio in the fourth quarter and you think about its performance, there were – while many of the brands were a little light to some of our expectations, we did see a lot of the different categories and brands in our portfolio grow in different places.

For example, like our sport business grew in the quarter. It was up 11%, as we've delivered new styles in a lot of our brands, like Vince and Naturalizer, Scholl's, Ryka, Bzees, and even Blowfish was really good. We did see nice indications, too, on some of our retails. We're up on average $1. Our IMUs improved quite a bit, and actually, in the measured part of the marketplace, we grew. But I think the real opportunity for us is in all the capabilities that we have been building over the last year or two. And our e-commerce business was up 22% in the quarter. It represented 33% of our sales in the quarter versus 25% last year.

So as I begin to think about where our opportunities lie and how we think about that going forward, we really think that as – and I think the situation that we're all finding ourselves in today, with potential schools closing and all the things that are happening, that move to the comfort and the confidence of the consumer shopping even more online, I think, plays very well into the investment in facilities that we've made. So, I think it'll have to all be written yet for sure. It's a little bit of an uncertain time, but I like our chances and I like the bets we've made, and I think that's going to prove out over the long term.

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Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Last one for me, just on the balance sheet and just sort of how you think about cash flow, using your cash, I know had repurchases, dividend and debt. I'm just curious how do we think about – I mean, obviously, [ph] Boxton (00:37:33) cut more than half you see what's going on. But I also know that you want to pay down the revolver. So, I'm just curious how do you weigh the two of those as you look at today in terms of capital allocation?

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

A

Yeah, I think we mentioned we've got 5.2 million shares remaining on our current authorization. We generated $170 million of operating cash in 2019. And as we look forward, we will continue to modestly pay down the debt. I think it's important to understand that as the Fed has continue to cut rates, the cost of that borrowing is like 2.5%. So, we've committed to continue to bring those levels down, but with plan to take any excess once we've accounted for the $40 million of CapEx that we have in our plans and look to return that back to shareholders.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Got it. Thank you. All the best.

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

A

Thanks, Chris.

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

A

Thank you, Chris.

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

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good afternoon. Thank you for taking my questions. I just have a couple of questions on just some homework on the guidance here. What is your expected tax rate for next year? And how do you foresee the interest expense and other income and all those deliverables, those little things?

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

A

Yeah. So from a tax standpoint, I mean, we're expecting a rate that's right around 25%. In terms of interest expense, if you take the reductions where we had paid down, we ended the year with $275 million outstanding on the revolver. That level below where we were in 2019 would account for a $4 million reduction in our interest expense in 2020. And then, any incremental pay-down will be a tradeoff with share buyback. So, we're expecting a minimum of a $4 million reduction in interest expense.

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Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

That would put around $29 million, if I'm not mistaken?

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

A

That's right.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then, on the other income?

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

A

The other income, surely not a lot that's changing there.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

So around $8 million, again, give or take?

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

A

Yeah. Most of what's coming in there, Sam, is the return on our pension investments. So obviously, that's tied to those assets and the actual return that we generate. The service cost is still up in the operating expenses.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And then, can you give us – I mean, you're telling us what the impact is to EPS in Q1. But what – I mean, can we talk about what's the sales impact? Can you just say like you expect sales in the first quarter to...

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

A

Yeah. We think it – we think that it is about a $20 million sales impact in Q1. So, that...

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Against that trend, so just for the sake of argument, Ken, you've said you guided the brand portfolio to flat to up low single. Correct?

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

A

Correct.

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Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

So if we took flat and we took $20 million – I mean, you would say knocked $20 million off of like a plus [ph] $1.5 billion (00:41:13) or something, is that a fair number to use like the [indiscernible] (00:41:16)?

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

A

That's right. If you go to the – if you go – I think we did around $340 million last year in Brand Portfolio. And so, in a flat environment, you could assume that there's a $20 million reduction that's associated with kind of what we're seeing in Q1 supply chain.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Off of flat. So then – so, you're basically thinking the low end just given how Q4 was for Q1 of your guidance and then [indiscernible] (00:41:48)...

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

A

Yeah. As we look at – as we look over the year, right, obviously, in a flat to up one, we just – we're down 9.5% in Q4. So, you can assume that we're planning to be relatively flat through the first half of the year but for a $20 million impact from the supply chain in Q1.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

So, you're expecting a lot of acceleration in the back half of the year in your Brand Portfolio, even with the introduction of Veronica Beard in the [indiscernible] (00:42:26).

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

A

Yes. We're introducing Veronica Beard. We're not assuming a ton of growth in the back half, and that's why we guided flat to up low single.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And then Zodiac also being introduced [indiscernible] (00:42:45).

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

A

Yeah. Zodiac and Veronica Beard will be introduced this year.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And – all right. I think I got what I needed. Well, look forward to catching up later. Thank you.

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

A

All right. Thanks, Sam.

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

A

Thank you.

Operator: [Operator Instructions] There are no further questions at this time.

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

Thank you very much, operator, and thank you, everybody, for joining our end of the year 2019 call. We wish everybody much health, and hope everybody is fine. We will continue to keep you updated as to our progress and look forward to chatting with you over the next couple of weeks. Thanks very much.

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

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