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Caleres, Inc. (CAL)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

At this time, I would like to turn the call over to Logan Bonacorsi, Vice President of Investor Relations. Please go ahead, ma'am.

Logan Bonacorsi

Investor Relations, Caleres, Inc.

Good afternoon. I would like to thank you for joining our first quarter 2020 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 that today's discussion contains forward-looking statements which are subject to a number of risks and uncertainties. Actual results may differ materially due to various risk factors, including, but not limited to the factors disclosed in the company's Form 10-K and other filings with the 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 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.

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Joining me on the call today is Diane Sullivan, CEO, President, and Chairman; and Ken Hannah, Senior Vice President and CFO. We'll begin the call with brief prepared remarks and thereafter we'll be happy to take your questions.

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

Diane M. Sullivan

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

Thanks, Logan, and good afternoon everyone. Before we begin, I think it's important to acknowledge the profound changes that have occurred in the world and in the marketplace in the three short months since our last earnings call on March 12.

The acceleration of the COVID-19 pandemic launched the world into unfamiliar territory, causing extreme economic disruption and [ph] unplanned (00:02:13) uncertainty. These changes have had varying degrees of effects on people, regions and businesses from the way we interact with one another to the way we work. More recently, we have seen a period of social unrest in the United States, as horrible acts of brutality have highlighted the racial injustice that persists, which has led to protests across the country. As we stand against the injustice so many are speaking out against, it is also my sincerest hope that you, your families and your loved ones remain healthy and safe during this time period.

I would also like to take a moment to recognize and acknowledge all of our Caleres associates around the world for their drive, focus and dedication during this very challenging period in our history. From the outset, our people adapted seamlessly, shifting to new ways of performing their daily jobs, while at the same time, supporting the broader effort of manufacturing much needed supplies for the healthcare community, and of course, taking the required, yet sometimes difficult step to ensure the company is well positioned for the future.

As you well know, the first quarter for us began in a much different manner than it ended. We started fiscal year 2020 with a strong foundation grounded by our strategic priorities, supported by our financial flexibility and well positioned for growth. As we discussed in early March, we were seeing good momentum in our Famous Footwear business, which continued to benefit from strong performances from its premium and iconic brands, growth in the kids category and improved consumer engagement and retention in our rewards program. And while we were managing through supply-chain challenges in the Brand Portfolio, we were encouraged by the trends and outlook for 2020.

As the health crisis accelerated in early March, we immediately shifted, enacting a two-pronged approach of safeguarding our people, our customers and our communities, while at the same time, taking action to protect the long-term viability of our business. By March 19th, we had temporarily closed our entire fleet of retail stores and shifted our focus to the e-commerce portion of our business that would remain operational during this time period.

In addition, we established a virtual workplace and empowered the vast majority of our associates to work from home during this period. At the same time, we took aggressive action to ensure that the organization was equipped to weather the severe economic shutdown and emerge ready-to-compete as the economy recovered. We moved very quickly to limit our cash outflows, proactively working with our partners, with significantly reduced inventory receipts, to extend payment terms, to scale back all non-essential operating expenses and reduce our planned capital expenditures.

In addition, as our stores were closing, we proactively drew down approximately $168 million from our revolving credit facility. We subsequently boosted our liquidity position by exercising a portion of the accordion feature, thus

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increasing the borrowing capacity under that facility. We also made difficult decisions regarding our workforce. We permanently eliminated certain positions, furloughed others and implemented companywide salary reductions for the remaining associates in order to preserve essential liquidity during the most severe stages of the economic shutdown.

Now looking at the first quarter, as expected, our results were materially impacted by COVID-19. Our business was on track as we entered the crisis with comparable store sales at Famous Footwear up nearly 13% year-over-year, and positive signs and improvement in our wholesale business. However, in mid-March, stores were closed and wholesale customers halted deliveries and delayed or canceled orders as they grappled with their own store closures and deterioration in consumer demand. And while we had made significant progress in recent periods, expanding our e-commerce business, it was only able to replace a small portion of the sales lost from our entire store fleet and our partner stores being closed for the back-half of the quarter.

So, despite these significant headwinds, we responded with speed and agility, leveraging our omni-channel capabilities and leaning into our enhanced digital business to connect and serve our consumers.

During the period of store closures, we experienced triple-digit increase in our Famous Footwear e-commerce business, as their top brands in sport and casual product offerings resonated with consumers who required more casual styles to fit their new stay-at-home reality. And to support the growth in our digital business, we effectively utilized our expansive network of temporarily closed stores as sourcing points for delivery, and adapted our buy online, pick-up-in-store capability, to include a contactless curbside pickup option at certain locations. Currently, we are offering this service at approximately 375 locations across the Famous Footwear fleet with the expectation that we will expand to more than 600 stores in the next couple of weeks.

Now I'd like to spend a few minutes talking about our experience with our store reopenings to-date. As previously announced in early May, we began welcoming back our furloughed store associates with nearly 95% of our store managers returning to lead this effort, and initiated our first stage of in-store service. To-date, we have successfully resumed in-store operations at 553 Famous Footwear locations, representing approximately 60% of the store fleet, and 33 Allen Edmonds and 36 Naturalizer locations. We expect to have nearly 85% of our stores open by late June, with the remaining stores primarily located in the regions heavily impacted by COVID-19, reopening when it is safe to do so.

Looking at the current period, the phased restart has gone smoothly. We are taking advantage of our expanded capabilities and complementary mix of services and are seeing sales at the newly reopened Famous Footwear stores coming in well above last year's levels. While it is too soon to call a trend, we are encouraged and believe this positive response is due to the fact that our Famous Footwear stores have great brands, offer a great value, and are known for always having styles that are currently experiencing heightened demand. In addition, the majority of our stores are off-mall and ideally situated for physical distancing, which provides our consumers with the level of comfort, safety and experience she prefers.

Our branded portfolio of stores that have reopened are experiencing sales trends above our internal expectations and our wholesale partners have begun to reopen their locations and placed some new orders for delivery. We are working closely with our key retail partners to ensure we are liquidating spring inventory very aggressively and that we are set up well for fall.

In addition, looking at the first few weeks of the second quarter, our e-commerce businesses have continued to outpace our expectations, even as stores have reopened, with strong increases at both Famous Footwear and our branded e-commerce sites. During the first several weeks of May, our Famous Footwear e-commerce sales

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had increased more than 200% with our internal branded sites up nearly 40% compared to last year. Notably, quarter-to-date, we've seen improved traffic and conversion rates at key branded sites in our portfolio.

But before I hand the call over to Ken for a deeper dive on our results, I want to share why I am confident in our future and our ability to move through this crisis and emerge even stronger. First, we have the capabilities to capitalize on consumers' increasing preference to transact digitally, having made critical investments in our digital and fulfillment capabilities platforms.

Second, we are known for iconic brands that consumers trust, whether owned or sold through Famous Footwear. Consumers now, more than ever before, are searching for brands that they know and trust to give them a style, fit and value they desire and we are capitalizing on this across our portfolio of brands.

Third, we possess a diversified offering of lifestyle brands deeply rooted in comfort, casual and athletic. This is very much aligned with the categories desired most by our customers, and provides strategic and comprehensive access to a large and growing component of the footwear market. And finally, we have a strong capital structure that gives us the ability to invest in innovation and drive our long-term strategy, while returning value to shareholders through dividends and share repurchases.

You know, as I reflect on this extraordinary period in our history, I believe we've managed through the early stages of this crisis effectively, aggressively, cutting costs and preserving cash. While we are encouraged by the early signs of improvement, consumer demand is hard to predict and there is still a great deal of uncertainty in the broader economy. However, we are resilient, resourceful and we possess the sought-after brands and businesses known for comfort, fit and style. As we progress through the year, we will continue to be laser-focused on protecting our people, maintaining a strong balance sheet, tightly managing supply and demand, while also strengthening the business through the advancement of our long-term strategic objectives. So we are well-prepared to capitalize on the rebound, when it comes.

When we entered the pandemic, my message to the company was that we would operate with a sense of urgency, with compassion, and with our eyes wide open to the reality of the changing environment. We will continue to operate this way, as we move from protect and prepare, to begin to restart and rebound, accelerating our decision-making product development, innovation and communication.

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

Kenneth H. Hannah

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

Thank you, Diane, and good afternoon, everyone. I'd like to echo Diane's sentiment and thank our team for their commitment to our business during this tumultuous period. I'm very proud of our organization's ability to adapt swiftly, work efficiently and focus on strengthening the business for the rebound.

Early in the quarter, we quickly shifted our priorities to ensure we had the financial flexibility to navigate through a prolonged crisis. We took a series of deliberate steps to reduce cost and preserve cash, while at the same time, putting a comprehensive action plan in place to evolve our strategy to position our company to maximize sales and profitability as the business resumed. We immediately preserved cash, aligning our workforce and related expenses to meet the needs of a significantly lower demand environment. We reduced the inventory levels aggressively by reducing or delaying product receipts and extending payment terms.

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We began negotiations to modify leases, including the deferral and abatement of certain lease payments, and eliminated or deferred all non-essential capital projects, leading to a 40% reduction in our planned 2020 capital expenditure budget. We strengthened our financial flexibility by exercising a portion of the accordion feature on our asset-based revolving credit facility, increasing the borrowing capacity to $600 million. Combined, our efforts enabled us to end the quarter with $187.7 million in cash, slightly above the levels when stores closed in mid-March.

Now moving on to a review of our first-quarter financials. Our GAAP results included $7.65 per share in charges and were primarily a result of the unfavorable business climate, our lower stock price and market cap during the period. The majority of the charges are non-cash and were triggered by the impact of COVID-19 on our business, which caused us to reassess the carrying value of the assets on our balance sheet. These costs include $5.66 per share in non-cash goodwill and intangible asset impairment charges; $1.90 per share related to COVID-19 expenses including factory order cancellations, lease impairment charges, inventory markdowns, customer credit losses, employee severance, among others; a $0.06 per share related to fair value adjustment of our Blowfish purchase obligation, and $0.03 per share in brand exit costs, associated with our decision to not renew the Fergie license.

You can find our GAAP results and a reconciliation table of our GAAP results to adjusted in our press release.

In total, for the first quarter, our net sales were $397.2 million compared to $677.8 million in the first quarter of fiscal 2019. Famous Footwear total sales were $191.3 million, down 45.7% from the first quarter of fiscal 2019. Same store sales rose at Famous Footwear 12.8% through mid-March and were up 12.6% for the entire quarter, driven by strength in e-commerce. As a reminder, our comparable store sales calculation removes closed stores from both periods. Our Branded Portfolio [sic] (Brand Portfolio) [00:17:47] sales were $217.2 million, a decrease of 36.3% for the quarter, impacted by wholesale cancelations and branded store closures during the final seven weeks of the first quarter.

Our adjusted gross margin was 39.5% compared to an adjusted gross margin of 42.3% in the first quarter of fiscal 2019. The 280-basis-point decline was driven by a larger mix of e-commerce sales of Famous Footwear and the resulting shipping costs associated with that business. This activity, along with the delay and cancelation of inventory receipts enabled us to end the quarter with inventory down 9.7% versus Q1 last year.

Famous Footwear had an adjusted gross profit margin of 39.2% which compares to an adjusted gross margin of 43.4% in the 2019 first quarter. Again, the margin decline was driven by higher shipping costs associated with a larger mix of e-commerce-related business in the quarter. Our branded portfolio had an adjusted gross margin of 38% compared to an adjusted gross margin of 39.3% in the fiscal 2019 first quarter, driven by the promotional nature of retail selling post store closures.

Our consolidated SG&A expense was $225.2 million, representing a decline of approximately $37 million compared to the first quarter of last year. This reflected lower corporate and store payroll expense, as well as the initial benefits of expense reductions. While we work with landlords to defer certain payments, we expensed the full amount of rent in accordance with GAAP, irrespective of the payment schedules. Our lower sales and gross margin were more than offset improvements in SG&A and led to an adjusted operating loss of $68.3 million. This compares to adjusted operating income of $24.9 million in the fiscal 2019 first quarter.

At Famous Footwear, the adjusted operating loss was $45.6 million and at Brand Portfolio, the operating loss was $10.1 million. The company's adjusted net loss was $50.4 million, or a loss of $1.30 per diluted share. This compares to adjusted net income of $50 million or $0.36 per diluted share last year.

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Now turning to the balance sheet, we ended the first quarter with $187.7 million in cash and approximately $438.5 million of borrowings under our revolving credit facility. As a reminder, we exercised a portion of our accordion, which increased our capacity from $500 million to $600 million. We have no significant debt maturities until 2023. As I mentioned earlier, our inventory at quarter-end was down 9.7% and included a 3.8% decline at Famous Footwear, and an 18% decline to Brand Portfolio.

Looking ahead, we will maintain stringent control of the flow of inventory to ensure alignment with our demand. Net cash provided by operating activities was $728,000 with capital expenditures totaling $4.5 million. During the quarter, we returned approximately $16 million to shareholders through share buybacks and dividends, investing $12.9 million in cash to fund the repurchase of 1.5 million shares of our common stock, and $2.8 million to fund our quarterly dividend.

While we considered it prudent to shore up liquidity and protect our cash position to ensure that we were positioned to withstand even a protracted market disruption, we expect to turn our focus to debt reduction. We expect deleveraging to be the most value-creating use of cash in future periods, given the volatility in the marketplace. At the same time, we anticipate complementing our debt reduction efforts with a continuation of our longstanding quarterly dividend, and opportunistically repurchasing shares. Given the rapidly evolving nature of the COVID-19 pandemic and the recent nationwide protests, we continue to plan for multiple scenarios, while remaining intensely focused on the disciplined management of inventory and expense.

However, due to the ongoing business disruption and substantial uncertainty, we're not providing guidance for fiscal 2020.

In order to ensure Caleres is positioned to compete in this market landscape going forward, we must be agile, streamlined and ready to pivot in this dynamic environment. We believe the lessons learned, the progress that has been made and the plans we have in place will transform the way we operate going forward. During the period of closures, we closely analyzed the expected performance of every store across the fleet, and are accelerating the closure of approximately 160 brick-and-mortar locations across our specialty retail and Famous Footwear stores in 2020 and 2021. Going forward, we are monitoring traffic and profitability levels across our markets, as our stores reopen and we'll take actions to ensure that our fleet is right-sized for how this pandemic has accelerated the shift to digital.

Additionally, we are constantly reviewing our portfolio of brands to align with changing consumer preferences and lifestyles, and we'll eliminate those that aren't performing in this environment. To that end, we've made the decision to exit Fergie, as well as several private brands, and certain lower-margin businesses in the portfolio. Given this, we have taken steps to align the size of the organization and our resources with the new level of consumer demand. These decisions, while difficult, allow us to focus our resources on the areas of the business that we expect will yield the highest return. We also expect to benefit from quicker decision-making, as we operate a leaner and more efficient organization.

Caleres has faced numerous challenges over its long and storied history and while each instance has required a different approach, we have evolved, we have overcome and we have found new ways to create value for our shareholders. With that foundation and drive, we believe that we will come through this period a stronger, more successful company.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from Rick Patel with Needham & Company.

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

Thank you. Good afternoon and hope everyone is well.

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

Hi, Rick.

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

Hi, Rick. Thank you very much. You as well.

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

Thanks, Diane. I have two questions related to the stores that have reopened so far. So, first, I appreciate it's all very fluid right now, but can you give us context on how much comps are up in those stores that have reopened, and second can you talk about e-commerce in those markets, where stores have reopened? Have you seen the strength in that channel continue or have you seen it decelerate with consumers increasingly...?

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

Yeah. Okay. Rick, here is what I would say that we've actually seen our both brick-and-mortar and our e-commerce business accelerate at Famous Footwear, that not only are we comping positively in brick-and-mortar in May, we also have a very, very strong performance in our e-commerce business as well. We have not seen that shift or decline yet. Now, I say that again you said it well, very fluid, early days and we only have roughly 60% of our fleets open. So, we are cautious, but we like the early signs of what we're seeing.

Now as it gets later into June and once we open those last 10% of our stores in some of these markets that are harder hit, we'll have to see how it all – it reveals itself. But so far, I think we feel pretty good about the work that the teams have done to this point in time. But as I said, we are staying very focused and knowing that this is a marathon and we've got to make sure we are really on this every day.

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

I appreciate that. And can you tie that into how you are thinking about inventory? So, I guess as we think about this across Famous Footwear and the brands, first on Famous Footwear, how are you approaching inventories for the fall? Any pockets that you are looking to invest in versus deemphasize? And then similarly for the Brand Portfolio, any color on the fall order book and how that would shape your inventory decisions for the fall?

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

Yeah, sure. On Famous Footwear, first it would be exactly what you would expect it to be. I think the strength in our – in the performance categories, in sport lifestyle and casual, and easy-wearing footwear is where the market really is and actually a little bit more recently, we are seeing our ability to really sell some flat sandals. But going into fall, we're going to continue to support those iconic brands that have been doing so well for us up to this point in time and make sure we continue to invest there and basically not invest in more of the traditional casual and dress side of the equation. So, the teams are looking at that every single week to make sure we're calibrating it correctly and frankly I want to use this opportunity as a way to try to increase the turn as well at Famous Footwear. So, that would be the Famous Footwear story.

And then on the Brand Portfolio side that's we have a little less visibility right now on consumer demand because there is very few stores open. I would say the system is just starting to move. So we're taking a very conservative approach there because we've generally heard that most of the marketplaces thinking about planning the back-half of their business, down 30% to 40%, so we're making sure that we keep our inventories in line with that and that we're also pivoting where we need to on certain brands to make sure we're focused on the categories of business that we believe where we believe the consumer is going to be.

I think your last question, part of that was about the order book; our order book, given that kind of initial look at the back-half of being down potentially 30% to 40%, we'll see, our order book is in good position to support that level of sales. So, but again, very fluid, looking at it every day and reading and reacting.

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

Yeah, Rick, I'll just add a little bit of color to Diane's comments. I mean I know when we talk about comp stores and we only have 60% of our store base open, it's kind of hard to model that into what the second quarter might look like and as we're looking at that, your question on the order book, I think we're currently looking at when might those fall orders ship and one of the things that we're working through right now is it looks like everyone will try to extend the spring season as long as they can, which means that it'll probably delay when we would ship for fall.

So, normally on the Brand Portfolio, we're shipping at the end of July for the first part of fall. It looks like that is going to be shifted every bit of 30 days out. So, as we look at the second quarter, we're not expecting the overall sales to be all that different than what we experienced in Q1. Obviously, with stores closed for the first couple of weeks of May and then now opening while we get to 85% of our store fleet open, there is still a big number of those that are in places like New York and California that likely won't open until even further into the quarter.

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

I appreciate it. Thanks very much.

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

Yes.

Operator: Your next question is from Steve Marotta with CLK Associates.

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

Q

Good afternoon, Diane and Logan. I want to talk a little bit about back to school and how you're planning for it, specifically for Famous Footwear, from a buy standpoint, from an inventory standpoint, from a merchandising standpoint. I know you mentioned everyone is seemingly elongating spring. Do you think that will work for you for back to school? As an aside, I think I am hearing that it seems that kids are go back to school this fall that was – that's been up in the air a little bit, if you've heard anything different too, that would be helpful. If you could just talk about the season that'd be great.

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

A

All right, Steve. No problem. I think everybody is really hoping that kids are going back to school for sure, that is what I've been hearing from everybody, beyond just the [indiscernible] (00:31:57) from a business perspective. But we think the best indication of how we're going to do it back to school is really our trend right now because the segments of the business and the brands and everything that's driving our business currently, along with the strength in our kids business, we think is going to carry in nicely through the second quarter and into the third quarter. So, I would say that first.

The second thing in terms of county by county and school districts, we really haven't heard too much yet about what their status is, but our Famous Footwear store teams are monitoring that and marketing teams will be managing that and adjusting that as we go forward. We've heard all sides of that, that some people are going back early, and then skipping fall break, and out at Thanksgiving. There's others that may go just on time or late. So, it's very – well it's nothing definitive, it's all more anecdotal. And so, we're just going to continue to watch that and monitor and track that.

We've – We are encouraged, we believe we've got the right inventory levels to do the business that we'd like to do and we think it's in the right brands and the right style. So – and the other thing, maybe the last point on Famous Footwear and back to school is, I think the teams also did a really nice job of making sure, given this uncertainty of what it – was it going to be elongated, what were the weeks going to look like, that we really moved a lot of our media to digital, because it was really hard to think about TV buying without really knowing what that timeframe was. So, we feel like we've got a terrific plan and we've got the right assortment. So, I'm looking forward to it actually. So, can't wait.

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

Q

Sure. Looking forward to anything in the future. As far as you mentioned the curbside pickup option...

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

A

Yeah

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

Q

...and that was in about 300 stores. It's going to 200 more by the end of June, can you talk a little bit about – and I know this is impossible because you don't have full AURs at the moment, but what is that additive or at least what has that replaced? If you can quantify that in some manner, that would be really helpful.

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

Yeah, it's sort of hard to know whether it's additive. We believe obviously that given the fact that no stores were open, we had our store managers in those that offered curbside, so it really enhanced the ability as opposed to shipping, they could go to the store and pick it up, so it's up to some degrees – degree it replaced what was our [indiscernible] (00:34:39) program. We'll have to see as stores stay open, and what that mix looks like, how many will come and do curbside versus go into the store, versus have it shipped directly to their home. It's really, I would say, very difficult at this particular moment to really get a sense of whether or not what that's going to look like, but we, for sure, know that it's an important part of the mix of how consumers want to shop in the future and are going to make sure that we not only have it there in the stores we – in the 600 stores or so that we'll have, but we'll look to see in other places in our portfolio where else we would want to do that as well.

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

Very helpful. Thank you.

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

All righty. Thanks, Steve.

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

Thanks, Steve.

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

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Hi.

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

Hi, Chris.

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

Hi, Chris. How are you?

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

[indiscernible] (00:35:45) I'm well. How are you all? Hope you are doing good. So, a couple of things. One, Ken just go back, in answering a previous question you said sales not much different versus the first quarter. I just want to be clear, are you talking about total company sales...

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

Total company.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay, you're talking about percentage, correct?

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

Yeah.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Second, just on the – when you talk about, Diane, the Famous Footwear comp being positive, you're just talking about those stores that are open obviously, correct?

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

Yes, of course, yeah.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay.

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

So that would be the 60% that are open now, right.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Right. Fair to say, I know you're not give a percentage, but that it's notably in excess of how you are trending prior to Famous Footwear closing, so 13%-plus. Is that fair?

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

It's trending more than Q1 was.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. What percentage of Famous Footwear is now – or what percentage of Famous Footwear is e-com? What was it last year and to sort of [indiscernible] (00:36:56) the base?

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

Right. Last year it was – I think the full year, we were at about 10% or so. And then first quarter this year and of course it's kind of funky in the sense that we don't have stores open the full time and all of that, so it's going to look a little bit higher, but it's about 28% of our business in this first quarter, so it's pretty substantial.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. And you said in second quarter it accelerated up north of 200% in May, correct? On e-com Famous Footwear?

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

Yes. Yes we did.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. And on the Branded Portfolio side, what – similar question, just remind us again, what percentage is e-commerce, your company-owned website e-commerce, and how much is retail...

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

Yeah.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

...e-com [indiscernible] (00:37:54).

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

Yeah. So I would say, our e-commerce related businesses are about 36% in the quarter of – for our Brand Portfolio and in the – since the end of the quarter, we have seen our business and all of those accelerate as well, whether it's our branded-dot-com sites, our wholesale drop ship portion of our business, the other e-com businesses like, for example, what we sell through Amazon, some of those, because they were focused on essential services, it's taken a little bit of time to ramp up, but we're seeing all good things in our branded sites as well. Our measure of kind of a success there is not only just that pure volume, but also what's happening with the consumer and we've seen significant increase in new consumers.

We've certainly seen our revenue – our traffic is up, but our revenue really has been driven quite a bit by really conversion, improvement in conversion, and fairly small decreases in order value because very early on in the Brand Portfolio, they were sensitive to too much discounting, when really the customer wasn't going to be there to respond. So, and again, every other – every brand store has a different story. But those would be the general themes for the total Brand Portfolio.

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Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. And on the – on the margin, just on the branded portfolio, how are those conversations going with margin support? I know obviously there's been shift in timing of deliveries, et cetera as they kind of managed the inventory, obviously you don't want fall product any time soon. I'm just curious, how those conversations are going. Is there potentially more intense margin pressure on branded portfolio Q2 as you clean that out relative to Q1, or just how we should think of that?

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

A

Got it. Yeah. I think given obviously the – you can imagine the huge moves of inventory, of cancellations and push-outs and you name it, that really all of those conversations have been had as it relates to the first half and we believe we've accurately reflected what we need to in our – in our work on Q1 and the reserves that we've taken. You know, it's going to be an ongoing thing, Chris, as you can imagine, to make sure we continue to liquidate the inventory that we need to over the next month or two months. But again, everybody is trying to do the best they can to work together, to get to the other side of this. So, I think we've got it fairly accurately reflected in our Q1 results.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Just two final ones for me. Just on – Ken, not just on the $262 million impairment, what was that for? Is that for Allen Edmonds and Vionic? And then lastly, just on SG&A expenses, just broadly, how we should think about those, if you're making some assumptions about branded portfolio, you know, order book to be down 30%-plus in the back-half, just how you're managing that SG&A bucket as we move forward?

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

A

I'll start with the impairment. So, one of the things that we had to do – you know, we did all of our impairment testing in the fourth quarter and obviously everything passed, we had no impairments. As we were operating in Q1, with the stock price, where it was trading, and obviously the book value of the company was sitting quite a bit higher than the market cap, based on where the stock was trading, and so we had to go through and do another impairment test in Q1, and so we wrote down the company's goodwill, that it was carrying on the balance sheet for what was left of Vionic and Allen Edmonds. We also had to go through and look at the indefinite lived intangibles, so the trade names associated with both Allen Edmonds and we looked at Via Spiga, Franco Sarto, all of them and so those that were indefinite lived, based on the shutdown and the reduction in sales and earnings there, we had to write those down. So that was just part of a test that was required, as we closed out the first quarter.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay.

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

A

Your second question...

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Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Yeah.

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

...was on SG&A.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Yeah.

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

So, the first quarter we were down $37 million year-over-year. As we get a full quarter of the actions that we have taken, we expect that to be closer to $50 million in the second quarter, year-over-year. And then I would tell you that, as we look at the back-half, obviously how that unfolds will determine what those expenses look like. So, if we see demand that's going to be a little bit stronger than what we're assuming, then we'll be able to continue to book those savings. If we see it drop, we'll have to actually take another look at it. So, we're really focused right now on the second quarter.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Got it. Okay. I'll drop out. Thank you very much and all the best.

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

Thank you, Chris. Appreciate it.

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

Thanks, Chris.

Operator: Your next question is from Sam Poser with Susquehanna.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Good afternoon. Hope everybody is great and safe and healthy and everything, and thank you for taking my questions. I've got a few follow-ups and the first one is going to be about comp store sales. Ken, can you tell us what the comp store sales were sort of on a – because if we model off of a negative 12% but we don't know exactly how many – or plus 12%, we don't know how many stores are closed, next year we can't do it. So, can you tell us sort of what the all-store, stores that were opened last year, including the store closure comp was?

And then, also tell us how you're doing sort of with 50%, 60% of your stores closed, are you comping down 40% instead of down – I'm sorry. Are you comping down 30% instead of down 40% and that's sort of where that 12%

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is? If you could give us some color on sort of the all-in comp, so we can actually appropriately model next year and have a feel for what's happening, versus the stores that were open last year that'll be great. Thank you.

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

All right. So let me try to answer your question just based on our total sales. So, when we look at our total sales at Famous Footwear, when we – whether the store is open or not, right, we had the first two weeks with very few stores open, and so there was zero sales coming out of those stores.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

In Q1. Let's start in Q1, where we were. You did $191 million in Q1 and your total sales in Q1 were down, in Famous Footwear were down whatever they were down, 45.7%. Can we assume that you comped down in that range, I mean is it a 50% comp down for the quarter, or is it a 30% – like a 38% comp down? I mean what's the real comp using that $191,252,000?

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

So e-commerce was, we said was up 70% in total for the quarter, right? So in terms of when we look at the total, trying to decouple that in – I'm not even sure...

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

You don't have to decouple it. Shoe Carnival, for instance, last quarter comped down whatever they comped down, included all their stores, including the stores that were closed. Quarter-to-date they're up low single digits and they had 80% of their stores open, but they were comping up low single digits, including the stores that were still closed. So, as an all-in thing, how do you just take – and including e-commerce. How do you take where you are right now and where you were in Q1 on a comp basis saying, okay last year we had 900 or however many stores you had, this year we have this many stores, that many stores were in the comp base, this is what we did regardless of the stores were closed or not. What would that comp be?

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

Well I could take it...

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Including e-commerce.

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

...offline Sam. I don't even know how to answer your question. We don't look at the business that way, and so, I honestly don't even know how to answer your question.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

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All right. How many stores did you close during the quarter and how many stores do you plan to close in Q2?

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

All of them...

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

No, how many are going to be closed permanently, like you're closing permanently, aren't going to reopen. They're not going to be there anymore.

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

In the quarter?

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

In Q1. In 1Q how many stores that you decided to close aren't going to reopen?

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

Yeah, we have it. If you go to the total number of stores that we operated, forget whether they're open or not, if you go to the schedule number five that was attached to the results, we operated 934 stores this year, and 985 stores last year. I think that's what the...

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

So you closed 15 stores in the quarter because you had 949 stores at the end of Q4.

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

That's right.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Okay.

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

So there was 15 stores that were closed as part of – outside of the shutdown associated with COVID.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

And do you plan to open any stores at Famous Footwear this year?

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

We've got somewhere around 14 that are on the schedule for the back-half. Nothing really in the first half.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Okay. And at Famous Footwear within the e-commerce platform, how many new customers never shopped at Famous Footwear online before, new to you? I mean, can you give us some idea of what – like how many you got, what percentage of your customers were new to Famous Footwear, never shopped there before?

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

Yeah, we can...

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

And did you sign them up and...?

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

Yeah. It actually was pretty interesting, Sam. It was close to half of the people that were shopped – that came in were new and about half were repeat, which was rather interesting. Quite a bit high.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

And did you – did you sign all those folks up for the loyalty program or – or how many of those do you think are going to stick?

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

Yeah. I'm sure we did. I'm sure we did.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

And then also lastly, to what degree are you narrowing the assortment at Famous Footwear, and are you going to need to use Famous Footwear to help move products you wouldn't have otherwise thought you would need to use Famous Footwear for, from the Brand Portfolio?

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

Yeah, I would say we're going to narrow the assortment a little bit, some of the extraneous brands that really are in the casual and dress side of the equation, where we don't really need to carry those. So I think, men's dress is like a – really a ripe area for us to do a little bit more of an edit there. So, I think we're looking at that. We're making sure that we've got the right inventory position against some of the, you know obviously is a big driver, so we're doing that.

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And actually, as a matter of fact, we did have a special section on the Famous Footwear site where we have been clearing some of our Brand Portfolio goods as well. And it's been – actually it's been doing -we wanted to try. There's been a lot of different things across the company, and I know that's true with many others as well, people taking this moment to look at new ways of accessing customers and liquidating goods, and even curbside, that was a great thing that the team did very, very quickly, and got that up and running.

So, you know, trying a lot of new and different things in this current environment and we're going to continue to try to figure out if they work or they don't, and if they do we'll continue them, if we don't we won't. So, yes, we did. Not very [ph] material (00:51:46).

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you.

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

A

Yeah.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Just trying to – just so. Okay, thank you so much and good luck and stay safe.

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

A

Thanks, Sam.

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

A

Thanks, Sam. I appreciate it.

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

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Hi, thanks for taking my question. It's really just some clarifications. So, Ken, certainly heard your comments that you expect branded portfolio down 30% to 40% in the back-half or that's what you're planning for. I take it that's not what you would have planned for Famous Footwear, and then clarification for the current quarter, you commented that sales could end up about in the same ballpark as the year-on-year decline in Q1; was that comment directed at Brand Portfolio, or was that consolidated?

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

A

No, all-in.

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Laura Champine
Analyst, Loop Capital Markets LLC

Q

And the down 30% to 40% for the back-half, is that branded portfolio or is that all?

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

A

That was branded portfolio, that Diane was referring to.

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

A

Yeah, I had talked about that Laura, as the way we were seeing most of our retail partners planning fall, that's kind of what they've been thinking about in the last couple of weeks. As we see more of these stores reopening and get a better sense of how the business is going to respond, that might be something that gets adjusted. But it is one of those things that we are managing day-to-day, week-to-week, but that's – we're taking a fairly conservative approach on that.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Got it. And then when we look at the store closures that you mentioned are accelerating, are they accelerating to the extent that they are stores that just will not reopen? Or maybe you can frame up for us what it means for them to be accelerating?

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

A

Yeah. So when we looked out over the next two years, through the end of 2021, we had identified about 160 stores that we would accelerate. Some of those are stores that were closed as part of COVID-19, that – where we won't reopen after things would return to normal. So, we would go ahead and leave those stores closed. A number of them were on month-to-month basis. And then there's a big number of those that are on the Brand Portfolio tied to Naturalizer that we went through and made final decisions on when we would actually close those over the next two years.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Got it. Thank you.

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

A

Thanks, Laura.

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

A

Thanks, Laura.

Operator: There are no further questions in queue and at this time I'll turn the call back over to you Ms. Sullivan for any closing remarks.

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Diane M. Sullivan

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

Yes, I'd like to thank everyone for their interest in Caleres, and we look forward to seeing everybody on our next conference call. Thank you, and be safe.

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

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