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Caleres, Inc. (CAL)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the Caleres Second Quarter 2020 Earnings Conference Call. My name is Erica and I will 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 will turn the call over to Logan Bonacorsi, Vice President of Investor Relations. Please go ahead, Miss.

Logan Bonacorsi

Investor Relations, Caleres, Inc.

Good afternoon. I would like to thank you for joining our second 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 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.

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.

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

Diane M. Sullivan

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

Hey, thanks Logan, and good afternoon, everybody. Thank you for joining our second quarter earnings call and for your ongoing support of our company. We hope that you and your families are staying healthy and safe. As I did last quarter, I'd like to extend my thanks and my gratitude to the Caleres team for their resilience and ongoing dedication as we continue to navigate this rapidly evolving environment.

We once again demonstrated our ability to collaborate effectively work efficiently and respond quickly to ever-changing market conditions. As we have stressed in the past, the health and the well-being of our associates, our consumers and our communities have been a guiding principle in our decision making over the last several months. And this will continue to take priority through the duration of this global health crisis.

Before I jump into our results, I'd like to take a step back and remind you why Caleres as a whole is positioned to be successful now and over the long term. First of all, our brands relate well to the consumer's ever evolving mindset, changing preferences and dynamic behaviors. Casual, athletic, and sport inspired styles currently in demand by consumers make up a large and growing part of our portfolio. For the trailing 12 months, approximately 85% of our total product mix resided in these categories.

Also our previous investments in our capabilities and ecommerce business has positioned us exceptionally well to capitalize on the accelerating shift to online purchasing. Illustrating this progress, for the trailing 12 months our ecommerce penetration grew to 27%, up from 18% during the previous 12 month period. We will continue to look for ways to invest wisely in our digital platform as we progress through this new marketplace. And finally, our foundation is built on putting the consumer first in everything we do. With that in mind, the vast majority of our business has been and is direct-to-consumer.

Now turning to the second quarter, while we still experienced a significant impact on our business due to COVID-19 and the resulting economic disruption and retail shutdown, the company made significant progress during the period reflecting the success of the approach we implemented at the onset of the pandemic. For instance, Caleres recorded sequential improvement in a number of key financial metrics versus the first quarter of 2020 including a 26% increase in net sales driven by robust ecommerce sales and an acceleration in the opening of our stores, resulting in a 16% improvement in adjusted gross profit and a 56% improvement in our adjusted loss per share.

In addition, we advanced a number of our strategic objectives that are helping to drive our recovery. First, the organization executed a phased and efficient reopening of our retail store fleet. By mid-June, a vast majority of our retail stores were open for in-store service with enhanced safety measures and protocols. At the same time, we are – we are offering contactless curbside pick-up at roughly 60% of our locations and are continuing to utilize the network of stores as distribution points to support our growing ecommerce business.

Second, the shift from consumers to online purchasing accelerated during the period with Famous Footwear and Brand Portfolio continuing to capitalize on this ongoing shift. In fact, direct ecommerce sales, which includes sales from our own ecommerce sites and drop ship business expanded 80% year-over-year and grew roughly 37% sequentially. Notably ecommerce sales made up 34% compared – percent of our total sales mix in the second quarter, compared to about 17% in the same quarter of last year. I will detail specific ecommerce growth in just a few moments.

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Finally, we continue to rigorously manage our expenses and working capital during the period. Reflecting the strength of these initiatives, we generated approximately $67 million of cash from operations during the quarter and used that cash to restart our debt repayment efforts.

In total, we reduced the borrowings under the credit facility by $88.5 million effectively cutting in half the COVID related borrowing increase that we incurred during the first quarter of 2020. We exited the second quarter with roughly $150 million of cash and $350 million borrowed against our $600 million revolving credit facility.

Now moving now to our second quarter segment performance and the recovery of our businesses, the global pandemic has dramatically impacted the retail environment and the consumer landscape and accelerating a lot of change and forcing organizations to adjust to new conditions and consumer behaviors. And while both sides of our business have been affected, the pace of the recovery within each segment has been a bit different. Beginning with Famous Footwear, while the disruption associated with COVID-19 continued to pressure results throughout the period, there were a number of bright spots including several that underscore what we believe are in our competitive advantages.

First, after challenging May, we experienced a strong rebound in June with a widespread reopening of our stores, pent-up consumer demand and ongoing strength in ecommerce driving the improvement. In fact, Famous achieved record sales in the month, exceeding last year's June sales by approximately $6 million.

Second, our in-demand national brands and significant concentration in sport performance and leisure-oriented styles are well-aligned with consumer preferences and the prevailing stay-at-home, work-from-home environment. In fact, these styles make up 95% of the Famous Footwear total sales mix. And it's our strong belief that in this uncertain environment, quality brands are more important than ever and that they provide consumers a sense of clarity, comfort and confidence. And a reflection of that is that our top 10 brands represented more than 70% of our sales during the period.

Third, we continue to lean into our digital capabilities to accelerate our ecommerce momentum. For the second quarter, Famous Footwear ecommerce sales grew approximately 150% year-over-year and improved more than 50% from the high watermark achieved in the first quarter of 2020. In addition, ecommerce penetration reached 25% of net sales, up from just 10% in the second quarter of last year.

Lastly, at a time of heightened consumer health sensitivity and the ongoing desire that everyone has for convenience, we really believe that Famous has benefited from its strategic well sited locations, which are highly concentrated in off-mall, strip centers and outlets. We believe this advantaged geographic footprint coupled with our contactless curbside shopping option which is available in nearly 600 stores today and comfortable shopping environment of providing particularly relevant and providing value support for the ongoing recovery of this business.

Now during this unusual time, one of the biggest questions that everyone's asking is what's going on with back-to-school? The back-to-school season for sure looks dramatically different this year. The uncertainty around school starts and the shift to distance learning across much of the country has certainly had an impact on the traditional back-to-school purchases, resulting in a sales peak that's much lower than the same period last year.

As we've progressed throughout the third quarter or through the third quarter, we're finding that the regions where school arrangements have been determined, they've seen nice improvements post-peak, while conversely markets where plans have not been finalized have experienced declines.

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So looking ahead and as we see it right now, we expect the concentrated back-to-school buying activity that's typically taken place over a few weeks in late July and early August to be more evenly spread over an extended period of time. More specifically, while we're anticipating a sales decline in the traditional back-to-school timeframe, we do expect Famous sales in the third quarter to improve sequentially leading to a 15% to 20% decline compared to the third quarter of 2019.

We're confident that Famous is prepared to succeed in any macro environment, and as we approach the balance of 2020 and beyond, we make sure we continue to build on our strengths, address our weaknesses and leverage the opportunities that we have to drive profitable growth.

So let's turn now to the Brand Portfolio segment. During the quarter, and very much in line with our internal expectations, net sales declined 49% compared to the second quarter of last year. The decline in Brand Portfolio was due in large part to store closures, reduced orders from wholesale customers as they continued to work down seasonal inventory post their retail shutdown and a shift in timing of new orders as retailers worked to align inventory to expected consumer demand.

During the period, the team was laser focused on addressing customer order cancellations, aggressively reducing spring inventory across all channels, driving digital demand and developing a virtual market capability to help bring our spring 2021 lines to market. In order to strengthen our position heading into fall, we worked closely during the period with our partners to aggressively reduce inventory levels, moving pairs online through our owned, Branded and Famous Footwear sites and through our value channel partners as they worked to restock their stores post opening.

In total, we cut our inventory levels by 33% year-over-year. And while these necessary actions certainly impacted our results during the quarter, there were a number of highlights. Counterbalancing the decline in sales to our wholesale partners to some degree was a significant improvement in our ecommerce channels. Our digital direct-to-consumer capabilities supported the business during the store closures and those sales levels have remained elevated post the resumption of in-store operations.

Given this ongoing shift to increased digital purchasing, we are continuing to maximize our focus on that digital marketplace and making sure that we're leveraging our resources to ensure optimal web design, effective marketing and appropriate inventory levels in order to drive improvement across the business.

Specifically, the company's branded, owned, ecommerce sites increased 35% when compared to the second quarter of 2019 led by exceptional performance from Vionic and other sport and comfort-oriented brands including Ryka and Dr. Scholl's. Furthermore, ecommerce penetration for the Brand Portfolio grew to more than 46% of total net sales in the period. This strong ecommerce performance underscores the strength of the company's portfolio of lifestyle brands. And in short, while consumer demand for dress styles continues to remain under pressure, the balance of our mix across our casual, athletic, and sport styles are really helping out.

In summary, given the significant reduction in seasonal inventory, encouraging feedback for fall and proven ecommerce performance, we expect a sustained recovery for the Brand Portfolio segment in the year's second half. You know we're pleased with our ability to react quickly to the changes that we've seen in the environment which we view as an important validation of the capabilities of our people and our model.

Looking ahead, we remain confident that we have the right strategies in place to drive long-term profitable growth. Importantly, we possess a strong business model that has several advantages, including a powerful portfolio of lifestyle brands rooted in casual, athletic, and sports inspired styles and a robust direct-to-consumer Brand and

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Famous Footwear that's really perfectly aligned with consumer trends and leading among the destinations for family footwear.

This structure enables Caleres to not only benefit from the insights of trending customer purchase behavior, but also benefit from the diversity and our customer base and channels of distribution, providing the benefit of not having to rely on any one brand at one trend or channel for our success. This structure combined with our strong liquidity and disciplined management of expenses has helped us exceptionally well to position and navigate in the near-term and capitalize on the opportunities that lie ahead for market share growth.

We're excited about our future and our ability to capitalize on the rapidly changing consumer behaviors and what certainly is going to continue to be a dynamic marketplace and ensure that we drive value for all of our stakeholders.

And with that, let me turn the call over to Ken who will give you more details around our financial review. Ken?

Kenneth H. Hannah

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

Thank you, Diane, and good afternoon, everyone. Despite facing ongoing pressure from the lingering health crisis, I'm pleased with how we have further strengthened our competitive position during the period. We remain focused on appropriately managing expenses and working capital. We remain committed to controlling the controllables, improving inventory turns, reducing SG&A and lowering capital expenditures and we remain confident with more than adequate liquidity and our ability to weather the downturn.

I'd like to start to discuss in this afternoon by providing an update on our liquidity position and capital structure, and discuss our second quarter results and finally provide some additional color on the outlook for our business for the remainder of the year. As we communicated on our last call, we believe deleveraging to be the most value creating use of cash given the volatile marketplace.

To that end, during the second quarter, we made debt reduction a priority in our capital allocation process. We paid down $88.5 million in revolver debt, reducing the outstanding balance to $350 million at the end of the quarter. Our cash balance of $148.5 million and our $600 million revolving line of credit provide adequate liquidity for us to navigate these uncertain times. Notably, we have no significant debt maturities until 2023. Looking ahead, we expect that debt reduction will continue to be a priority for our capital allocation process for the balance of 2020.

Now, moving on to review of our second quarter financials, we reported a loss per share of $0.83, including $0.13 of adjustments for COVID-19 related expenses and $0.13 related to the fair value adjustment associated with the mandatory purchase obligation for Blowfish Malibu.

Our adjusted loss per share in the quarter excluding these items was $0.57 per share. Our consolidated sales for the second quarter were $501.4 million, down 33.4% from the prior period. At Famous Footwear, total sales were $333.9 million, down 20.5% from the second quarter of fiscal 2019. Excluding stores that we permanently closed during the second quarter, Famous Footwear sales would have been down 17.5%. Our traditional comparable store sales were up 14.7% during the quarter. Sales at Famous Footwear improved 75% sequentially, reflecting the reopening of its brick-and-mortar stores and marking the beginning of our recovery.

Our Branded Portfolio total sales were $183.6 million, a decrease of 48.9% year-over-year. As previously mentioned, this decline was driven by store closures, reduced orders from wholesale customers as they

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continued to work down seasonal inventory and a shift in timing of new orders as retailers worked to align inventory to expected consumer demand.

Our consolidated gross margin of 36.4% compared to gross margin of 40.7% in the second quarter of fiscal 2019. The 424 basis point decline was driven primarily due to the addition of our BOGO promotion, utilized to help drive down inventory levels at Famous Footwear, a larger mix of ecommerce sales and the resulting shipping cost that hit gross margin as well as the aggressive liquidation of our spring inventory.

At Famous Footwear, we had a gross margin of 35.7%, which compared to a gross margin of 43.4% in the same period last year. Again the margin decline was driven by the addition of our BOGO promotion period, which helped fuel the reduction of seasonal inventory and some high shipping costs associated with a larger mix of ecommerce-related business in the quarter.

Brand Portfolio had gross margin of 34.9% and was relatively consistent with gross margin of 34.7% in the second quarter last year. Our consolidated SG&A expense was $201.3 million, representing a decline of approximately $66 million compared to the second quarter of last year and roughly $24 million lower than the first quarter of this year. This decline reflected lower corporate and store payroll expense, as well as the ongoing benefits of our expense reduction programs.

Notably our quarterly cadence for SG&A will be varied this year as some cost savings were more beneficial in the second quarter due to the timing of certain events including work force reductions, furloughs and compensation adjustments and the closure of retail stores. While we remain committed to managing our costs, we project SG&A expense in the second half of the year will be slightly higher than the first half as conditions improve and requirements of the business increase.

Lower sales and gross margin more than offset the improvements in SG&A and led to an adjusted operating loss of $18.7 million. This compares to an adjusted operating income of $38.4 million in the second quarter of last year. At Famous Footwear, we were pleased to post an adjusted operating profit of $1.6 million. The Brand Portfolio adjusted operating loss was $9.6 million and the company's adjusted net loss was $21.1 million or a loss of $0.57 per diluted share. This compares to adjusted net income of $25.8 million or $0.62 per diluted share last year.

As I mentioned earlier, our inventory at quarter end was down 27% and included a 23% decline at Famous Footwear and a 33% decline at the Brand Portfolio, reflecting great work by the team to liquidate spring inventory. The net cash provided by operating activities was $66.8 million, consistent with last year's levels with capital expenditures totaling $4.1 million. Our net interest expense for the second quarter was $13.4 million and includes $6.6 million of fair value adjustment associated with the Blowfish Malibu purchase obligation.

The effective tax rate for the second quarter was 9.4%. The rate was impacted by certain discrete tax items of $2.7 million. If these discrete tax items had not been recognized, the effective tax rate would have been 17.3% for the period. Our tax provision includes a tax benefit associated with the CARES Act, which permits the company to carry back 2020 losses to years with a higher federal tax rate.

In addition to our progress on debt reduction, we also returned approximately $13.1 million to shareholders through our share buybacks and our longstanding dividend. And given the ongoing uncertainty and limited visibility, we will not be providing formal fiscal year 2020 guidance, but we will revisit this traditional practice as conditions stabilize.

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However, I would like to give you some perspective and color regarding how we see the outlook for the third quarter. We expect net sales to improve when compared to the second quarter of 2020, resulting in a decline between 20% to 25% year-over-year. That includes Famous Footwear sales being down as Diane mentioned earlier 15% to 20% year-over-year, and Brand Portfolio sales expected to be down approximately 30% year-over-year.

Our gross margin rate should improve versus the second quarter as we shift out of the promotional cadence required to reduce spring inventory. Our SG&A as a percent of sales should be slightly better than the second quarter and $30 million to $35 million favorable to the third quarter of last year. And most importantly we expect to return to a positive adjusted earnings per share.

In closing, our consumer driven Brand Portfolio, advanced capabilities, and actions taken during this disruptive period to shore up our financial position will enable Caleres to move through the balance of the year focused on the near-term challenges while executing on our long-term strategic objectives; driving profitable growth and creating shareholder value.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from Laura Champine with Loop Capital.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Thanks for taking my question. I appreciated in the deck that you gave a mix of your business that's sport inspired or casual of 86%. What would that have been a year ago?

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

A

Oh, it would be somewhere in the probably 82%, 80% somewhere along there, Laura. You know the big...

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Got it. Understood.

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

A

...Famous – Famous has always been very much in that area, up in the 90% to 90% plus always and they're sitting at 96% now. Brand Portfolio would be the one that has sort of lagged and we're going to have to continue to pivot as we move forward to make sure that we're – have all the product categories aligned with where consumers are going. And if that's appropriate for the brand too, we have to take – have that in mind as well. So it was roughly about 80%, 81%, 82% last year.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

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Got it. And as we think about sort of moving into the back half, I appreciate the range of expectation by segment for Q3 would indicate that Brand Portfolio recovers slower. Should that slower trend persist until we get people on more of a normal away from the home schedule? Meaning will Famous Footwear likely stay stronger than Brand Portfolio as long as there is such a big trend towards casual and away from fashion footwear?

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

Well I think it's a combination of a couple of factors. The short answer is yes. I think Famous Footwear is definitely going to be the leading segment out of this pandemic for the company, primarily because it all is a direct-to-consumer business right. And we have complete control over what products we present in front of those consumers, and they were already in the sweet spot of where consumers are today.

The Brand Portfolio has to work through a number of things. As more of our partners continue to open up their stores as they look at their business and how they develop their assortments and their plans, we're seeing many of our brand partners planning down in that 30% range which is kind of where we're making sure we're planning as well. So I think it's clear at least for the next quarter or two, those are the kind of dynamics that you should expect I think from both segments of our business.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

Understood. Thank you.

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

Thanks.

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

Thanks, Laura.

Operator: Your question is from Rick Patel with Needham & Company.

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

Good afternoon, and hope everyone is well.

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. Same to you.

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Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thank you. Can you talk about comps for stores in markets that have been opened the longest? I'm just curious how things look on a year-over-year basis for that cohort of doors. And are you assuming that markets that reopen at a later time follow a similar path?

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

A

It's not so much the timing of the openings anymore because we kind of saw most of that happen through the month of June. It really is now what ended up happening, Rick, in late July, last couple of weeks of July we saw some of the markets being hit with the second impact of COVID whether it was in the south or the west and we saw that actually become the biggest issue with respect to how the consumer was responding, particularly as it related to our brick-and-mortar.

The good news is that we have not seen a decline in our ecommerce business. So, the business that we were capturing during the first and through the second quarter really appears to be holding. So, now the question is, as we get more information around when kids are going back to school, what ends up happening potentially with the stimulus checks and all that kind of thing, well we think it's going to help extend that back-to-school time period and we will not have though – we won't have and haven't had that peak, but we think it'll extend through the third quarter.

Which is why there's so many variables you can't judge right now market by market, it changes some are up 50%, some are 50%, some are up 3% and some are down 10% and it's – there's all different correlating factors. So it's really hard to find one which is why we really tried to project through this and look at the full quarter and give you some kind of sense around down 15% to 20% is where we think this will all shake out.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

And it seems that the strength that you've seen in digital has been sticky even in the face of new store openings. So I'm curious as that happens, how are you thinking longer term about your store footprint and how many doors you should have over the long run?

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

A

Yeah. We are constantly looking at that. It's a great question. And we have been really opening many fewer; in fact we've had net closures really for the last couple of years. So we've been really focused on that. I know Molly and Ken and the team are looking at going market by market right now and looking at what kind of penetration of stores do we need with the growth that we're seeing in ecommerce and how do we optimize each of those markets based on consumer acquisition and the thought process behind that.

So we're sort of working our way through all of those markets ensuring that we're thinking about what that right footprint is and that right combination is. So ongoing work on that and I can see that happening really for quite some time.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

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And last question is around the Brand Portfolio. So to what extent has this pandemic changed your thinking about the Brand Portfolio strategy going forward? In other words, given ecommerce...

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

Yeah.

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

...accelerate and you're finding you have genuine strength in the brands themselves, should we expect your focus to shift away from your traditional wholesale channels and more into a DTC model as we come out of this?

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

Yeah, it's a good question. And I think there's a couple of things that I think it's reinforced. I mean I think it's reinforced, number one, that we feel really glad that we made the investment and the capabilities that we did over the last couple of years specifically around our consumer fulfillment capabilities, because frankly Rick if we had not done that, we would not be in a position to be driving our digital business today.

So I think it confirms that – I think it confirms that our brands do have a lot of consumer loyalty out there and there is an opportunity for us to continue to figure out how to grow those. We know that the speed piece and how we really think about inventory and how we buy inventory and slow it in order to really drive turns, better generate more cash and all of that, I think that's had a profound impact on the way our teams are thinking about our businesses here.

And I guess maybe the two last things about Brand Portfolio specifically, we really believe that and you can see in a lot of the data that came out in the second quarter that brands that have comfort properties and we have a lot of them in our business and we can even see the strength of Vionic, I mean that business was up 120% on their ecommerce business. That those brands that sort of speak to that are doing really well. So we think we really have to do even a better job of innovation and storytelling around what we're doing in our comfort brands.

And then lastly I think you're going to see us think about other new digital concepts, sort of digital-first concepts that take our Brand Portfolio and begin to present those to the consumer in new ways. So it's been a difficult time for everybody, but it's also been a time that really does challenge you and challenges some of the thinking that you have about what were the lanes of opportunity, and I would tell you I think we sort of – we feel really reenergized around what the potential might be here. And it's not always just growth for top line sake. We think we are like at this point where we can really think about the quality of what we're doing and the earnings as we go forward here. So I think it's been – I think it's been a good – a good thing for us. So just to give you – that's a little flavor for some of the things we're thinking about.

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

I appreciate it. All the best in the back half.

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

Thank you, Rick. Appreciate it.

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

Thanks, Rick.

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

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

Good evening, Diane, Ken, and Logan. Diane in your initial remarks, you mentioned that back-to-school seemed to be better in markets where the programs were finalized.

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

Yeah.

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

And the information there was even if it was digital, just sort of settling in the consumer's head what's what is helpful. Am I reading into that properly?

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

Yeah. No, that's true. That – it's definitely post-peak you know because we really peak as you know and the last two weeks of July, the first three weeks of August is really are our key time period. And what we're seeing is as it's more clearly defined in those markets about when they're going back to school; our business actually improves relative to where it have been. It's still not up to those peak levels Steve but we see an improvement in that performance.

So we see – like even I think today they announced that New York schools are going back mid-September or something like that. In the Northeast right now for us has not been terrific really at all. So we think that as more of that clarity comes to the consumer's mind that we expect to see our business continue to improve. We have no delusions that it's going back to that peak level or anything like that which is why Ken and I had both talked about that 15% to 20% but we know that actually this could be healthy. It's a tough way to have to go through it, but could be healthy or staying long-term that you know there's more continuous buy now, wear now and all of that as we go forward. So that's – that's a little more color on that point.

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

Considering that digital commerce was so strong in the recent period, can you comment at all about your new customer file? How much that has grown over the last year during this period?

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

Yeah.

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

Q

How much additional data you are gathering on the customer?

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

A

Well, I can tell you that we normally get a pretty good slug of new consumers coming in. I'm speaking now for Famous through our stores and digitally, but we actually found that a little over 90% of – we had 90% new customers shopping online and a pretty good percentage of them, I'm doing this from memory now, the pretty good percentage of them continuing to stick and stay and shop from an omni-channel perspective. So new to online, they were almost 94% increase over the customers we had last year.

So now our job is obviously, and Molly and Marci and the team are you know obviously always thinking about this, what do we have to do to attract, retain and grow? And this gives us a totally new base of consumers to begin to communicate with. So while we – the stores weren't open, so there weren't a lot of new to brick-and-mortar obviously there were quite a lot to new to online.

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

Q

And last question pertains to spring of 2021, I know that this is really looking very far out, but considering the Branded Portfolio has a major wholesale component to it, can you talk a little bit about what you are seeing there from an open to buy dollar standpoint? And I know again its preliminary and I'm sure that retailers are holding you close to the vest and wanting deliveries later. But can you give us a little indication of how that process is flowing out right now?

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

A

Yeah, I would say it really is too early to tell. We had our first meetings in early August and I think everybody is trying to figure out right now how to work through third and fourth quarter and what's that going to take and in some cases inventories are pretty light. So, what do we have to do to help support our partners with inventory and goods that is really working. So we're seeing a bit of that.

I would say, Steve, that they're today still trying to figure out what they think the rest of the year is going to look like. I think they're going to plan very, very conservatively. They're not going to take any chances. We're going to make sure we work to chase everything that we possibly can. We're going to continue to be very disciplined and very tight around the inventory that we buy.

So, I think the whole system is getting used to trying to figure out how to do what we need to do with much less inventory everywhere. So, it's a little unclear how that will all shake out right now for next year, but I would think somewhere in late September will be when I have a pretty good view of what that's going to look like because we'll have a better feel of how we feel – how we think Fall 2020 is going and then that's going to be a very important indicator for spring 2021 too.

But we feel – again we feel like we're – we've got great relationships, we're working with the right folks. I think our capabilities and as a company that we built, they know that we can support them, we're well-capitalized. So, there's a lot of reasons why we're one of the go-to places going forward to work with our partners, so. But more on that as we learn a little more.

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

Q

Sure. I understand. Thank you very much.

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

A

Thanks, Steve.

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

A

Thanks, Steve.

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

Q

Good evening. This is Will on for Sam. I just wanted to ask what impact do you believe that Nike's decision, I'm not sure if you've seen, to prune some of their wholesale partners. What do you think that decision is going to have on the Famous business? And are you seeing improved availability in product and improved allocations...

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

A

Yeah.

Q

...now that they're pruning some of these partners?

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

A

Right. We have – thanks Will for the question. We have obviously heard about it and seen it and I know Nike has been working and thinking about this for quite some time about how do they prune their partners to some of the best. We do think it is definitely going to be an opportunity for Famous in the marketplace. I mean I think we did a quick calculation, it was somewhere in the $300 million to $400 million of retail sales that were potentially shifting around, arguably somewhere in that range anyway. And where we think that we're a very important strategic partner to them and so we do expect it to be advantageous for us over a period of time and right now their business as you know very well is very good and our business with them is very good. So, hopefully a lot more to follow on that.

Q

That's great color. Thank you. And then you mentioned you've expanded BOPIS to 600 stores, can you give us a sense of how much BOPIS is a part of e-com and what's the penetration of BOPIS in the ecommerce business?

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

A

Yeah. Traditionally I think when we originally launched it, we expected it to be upwards towards between 15% and 20% of our business. And so when we go through the buy online pick up in store, we also segregate out kind of that curbside. So what Diane was referring to was really our curbside opportunities. Obviously, we can do buy online pick up in a mall, but it's a little bit harder to do the curbside than the mall.

Q

Got you. And then I guess for – I think you said the ecommerce business for Brand Portfolio was up 35%. Is that just the owned websites or is that....

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

A

Yeah.

Q

...does that include drop-ship to wholesale? Okay.

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

A

Yes, it's our owned ecommerce sites.

Q

Got you. And then just one final for me, so you mentioned on the 1Q call about accelerating store closures, 160 stores across the Famous fleet. How many doors are you going to close in FY 2020 and are you still planning on opening any doors? I think you said 14 in 1Q.

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

A

Yes.

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

A

Yeah. I think we ended up opening like five in the second quarter and then obviously at Famous we were down 37 stores. So we were at 973 stores a year ago. We did include in my prepared remarks to share with you that year-over-year kind of what our sales were excluding those stores, the 37 stores that were permanently closed. But we're on track and continuing to close. I think we accelerated maybe 11 stores in the second quarter as a result of some of the COVID closures, but we continue to march down the path that we had laid out in last quarter's call.

Q

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So can you just give us kind of a range of what you expect to a net closure this year if any?

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

A

Ken's taking a look Will.

Q

Okay. Thank you.

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

A

Yeah.

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

A

So we – this year I think the net number is going to be close to 35 stores and that assumes that we open around 11. So we opened five stores at Famous Footwear in the second quarter. And obviously we're – we're looking at the remaining ones on the grid but that's got us – that got us closing this year about 46 stores. And as I mentioned earlier, we've closed 37 stores in the second quarter over last year.

Q

Got you Thank you. That's it for now. I'll pass it on.

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

A

Thanks, Will.

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

A

Thanks, Will.

Operator: Your final question is from William Reuter with Bank of America.

William Michael Reuter
Analyst, BofA Securities, Inc.

Q

Good afternoon.

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

A

Good afternoon.

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William Michael Reuter
Analyst, BofA Securities, Inc.

Q

Thanks. I have a two-part question. So with regard to your lead times for seasonal kind of cold weather footwear, I guess what are your lead times on the Brand Portfolio side and then on the Famous Footwear side?

And I guess I'm just curious based upon that, this summer it was fairly easy to go out and socially distance outside so seasonal footwear obviously did well. It might be more challenging this winter how you think about that in the context of when you're going to have to make decisions on the volume of inventory?

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

A

Yeah. Well you know we expect actually that whole category of waterproof boots, outdoor hiking and all of that to be actually a pretty good category, early reads on boots it's very early. Not necessarily in the performance side of it has been okay. Our lead times from a Brand Portfolio perspective would be somewhere around 90 days on goods and on an item that we have already placed before and can turn around – could turn it around in that period of time for us to introduce something new, build something new today would take us you know closer to 120 days to really be able to do that.

So on the Famous side you know same kind of thing. They would have been placing goods you know in the spring for their holiday time period. They can typically augment it you know if they really see something going well. I think everybody right now is trying to figure out how do they keep their inventories as lean as possible and try to respond as quickly.

So we'll see. It's a good question. We'll see in that category how fast people can you know turn and respond to changes as we go forward. But based on kind of how we're seeing the length of seasonal selling for sandals, we would expect that boots could really go into let's assume the consumer keeps doing the same thing into March of this year. So, let's keep your fingers crossed for that because it gives you more time to really respond and liquidate.

William Michael Reuter
Analyst, BofA Securities, Inc.

Q

And then just my last question, across different consumer products whether it's apparel or footwear, I'm hearing of companies that are attempting to take less fashion risk in an effort to not be stuck with things and actually tightening their product assortment, which could have some benefits in terms of you know some efficiencies of manufacturing.

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

A

Yeah.

William Michael Reuter
Analyst, BofA Securities, Inc.

Q

Is that something which you expect you're going to be doing and will that...

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

A

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Yeah.

William Michael Reuter
Analyst, BofA Securities, Inc.

Q

...more or less be a tailwind to gross margins?

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

A

Yes. You know I think so. I think the whole supply chain, sort of the development and the supply chain and the way people are buying is definitely all tightening up for sure. I think there is less development that's happening there. You have to be more focused. I think how you place your assortments are much clearer and cleaner and fewer. I think the flow of the inventory too is going to change quite a bit.

So as opposed to selling and selling it down, I think you're going to see more frequent flows of not only existing goods, but fresh inventory along the way. So all of that we think is going to be healthy. It'll take a little while for the whole supply side to work through all that. But yes, we do think that's going to be a healthier for the overall margin profile of our business. It doesn't mean that the consumer doesn't want newness because that is – they really do. Actually what we see is what is performing pretty well are some of the things that are new. So, you got to keep injecting newness. But you've got to do it at a pace that allows the whole system to be able to digest – you know digest that inventory. So great question. I definitely think that will have a positive impact on our margins going forward.

William Michael Reuter
Analyst, BofA Securities, Inc.

Q

Great. Thanks for taking the questions, and good luck.

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

A

Thank you very much.

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

A

Thanks, Bill.

Operator: There are no further questions at this time. Diane, I'll turn the call back over to you for closing remarks.

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

Thank you very much everybody for your continued support of our company. We're excited about the progress that we've made. We think we're in a good position to continue to keep our focus on continuing to really add shareholder value here at Caleres. So thanks again. Talk to you soon. Bye now.

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

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