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Caleres, Inc. (CAL)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Caleres Third 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] Please be advised that today's conference is being recorded. [Operator Instructions]

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

Logan Bonacorsi
Investor Contact, Caleres, Inc.

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

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

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

Thanks, Logan, and good afternoon, everyone. We appreciate you joining us on today's call. I want to first begin by thanking the Caleres team for their outstanding performance in recent months, under, which, are quite obviously extremely difficult circumstances.

As you can see from our results, our people have risen to the challenge in an impressive way, responding quickly and effectively to the rapidly changing footwear market, driving our performance forward, while at the same time, negotiating the increasingly complex personal lives that, I think everybody, finds themselves grappling with. We are truly fortunate to have such a resilient, dedicated and talented team. Because of their efforts, there is lots of good news to discuss on the operation and financial fronts.

During the third quarter, we maintained our progress and continued our recovery, delivering solid and improving sequential results across most key financial metrics. Most notably, we reported sharply higher net income with adjusted earnings of $0.48 per share. We also achieved a 30% sequential increase in revenues as the top line benefited from the return to full operation of our store network, the full reopening of our partner stores, solid digital demand as well as an extended back-to-school purchasing season.

At the same time, we maintained our intense focus on driving down costs, achieving a $38 million reduction in overall expenses during the quarter. Through these efforts, we again generated a significant amount of free cash flow, achieving the highest level of third quarter cash generation in 10 years and put that cash to use, further strengthening the balance sheet and reducing overall indebtedness. In total, we paid down $50 million of debt during the quarter, bringing overall debt reduction to nearly $140 million since the beginning of the second quarter.

Now let's turn to our business segments, where we will start with a review of our Famous Footwear results. Famous continued to benefit from our inherent competitive advantages, which included a strong offering of in-demand brands, an advantageous assortment of sport performance and casual-oriented styles and a convenient and safe store locations that are cited largely off-mall.

In fact, the segment turned in $391.7 million in revenues for the third quarter, representing a roughly 12% year-over-year decline, but coming in well ahead of our expectations for the period and increasing 17% from the second quarter of this year. This was even with the loss of an equivalent of 1,700 business days in the period due to store closures related to illness, weather, fires, civil unrest, which restricted our sales by approximately $6 million. Perhaps most notably is that Famous' third quarter operating earnings were nearly $200,000 better than last year, despite the sales decline due to our ongoing conservative approach to expenses as well as very prudent inventory management.

During the quarter, we continued to lean into our digital capabilities. And while our ecommerce sales moderated from the high levels achieved, while the store network was closed, we've realized a 48% year-over-year improvement at Famous. In addition, ecommerce penetration reached 17% of net sales, up from just 10% in the third quarter of last year.

Looking at the quarter in more detail, as with most things this year, the back-to-school season was absolutely far from normal. And as we alluded to in our second quarter call, back-to-school purchasing got off to an extremely slow start in August and uncertainty around the format of the school year cast a pretty wide shadow over the marketplace. And in fact this uncertainty led to store-for-store sales for that month to come in well below our historical August sales levels. However, as we progressed through September, higher sales started to materialize,

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much ahead of our expectations as children headed back to classrooms and as consumers felt more comfortable venturing out into the world.

Notably, September sales exceeded last year's levels by approximately $15 million with store-for-store sales up 16.9%, providing a partial offset to the declines that we saw in August. After five straight weeks of sales better or equal to last year, sales momentum in the last month of the quarter started to slow as traffic in stores declined and rising virus cases in certain parts of the country started to dampen consumer demand. All that said, the cadence of the quarter was sales in August were down double-digits, sales in September were up double-digits and sales in October declined single-digits.

In the quarter, as it relates to brand trends, as we know during times of uncertainty, we continue to see consumers seek out quality brands that they know and love and Famous is perfectly positioned to fulfill those ongoing needs. In fact, our top 10 brands represented 70% of our total sales. And just as in the second quarter, consumers were still gravitating towards athletics, sport and casual styles and, boy, did they sure know what they want and they are shopping with intent. In fact, year-over-year conversion rates were up both in-store and online. A notable bright spot also during the period was the increase in our kids' penetration, rising to nearly 19% and further heightening the extended nature of our back-to-school season.

Now looking ahead, we understand fully that uncertainty remains and renewed local restrictions in areas where the viruses has surges, they're starting to be reinstated. And it has been our position from the start, the health and well-being of our associates, customers and communities is our top priority and we are continuing to take appropriate precautions as it relates to safety.

We are closely watching the numbers in the regions where our stores are located and we'll follow local government guidelines when it comes to the operations of our stores. We currently have 11 stores that have reclosed due to local mandates.

While store closures may increase as we approach the holidays, we are confident that with our recent experience, disciplined cost approach and customer service options, we'll weather whatever may happen in the coming weeks or months.

Now before moving to our results in the Brand Portfolio, I'd like to just take a quick moment to say how excited we are that Mike Edwards is going to be leading Famous going forward. He certainly is the popular choice here at Caleres internally and I think so also with our partners, and his tremendous experience and knowledge about our business from so many different angles is going to be essential to building Famous' future growth and success.

Now turning to the Brand Portfolio's performance. For the quarter, we delivered better-than-expected results with net sales declining approximately 26% compared to the third quarter of last year but improving 45% sequentially. We turned in positive operating earnings of $7.3 million, further highlighting the progress in our wholesale business and our ongoing focus on cost control initiatives.

The stronger-than-anticipated results were driven by positive consumer reaction to our athletic, sport and casual products, as well as improving performances from Vionic, Sam Edelman, Rykä, Blowfish and Vince, among others, and increased shipments to strategic retail partners that we're working to increase and align their inventory levels with consumer demand.

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Moreover, we continued to manage our Portfolio inventory levels in a very strategic manner, ending the quarter down 36% from last year's levels. We feel confident we can continue to weather the ongoing imbalance in the supply chain throughout the rest of the year.

In addition, I'd also like to highlight that during the quarter, our wellness and comfort brands continued to perform well as the consumer demands these products. In fact, our wellness and comfort brands represented about 55% of our Portfolio versus 47% last year. And more specifically, it was really terrific to see Vionic recording more than a 50% improvement in its ecommerce sales.

Next, consumers are reacting to what's new right now and our new product offerings are certainly resonating with them. For example, Allen Edmonds recently launched its Park Avenue sneaker, which is currently sold out and on back order. In addition, our Rykä Athletic brand has been outstanding and has furthered its progress with the launch of a trail sneaker that's also doing very well. And as you would expect, the Vince brand's cozy fuzzy styles that everybody is looking for right now and lots of different brands, particularly our shearling slipper are experiencing strong sell-through since coming to market.

And finally, a little bit about our boot business, which now represents 37% of the total Brand Portfolio sales, down from about 47% last year. And that was delayed at the start of the quarter by some late deliveries. However, since that time, we've seen some strong selling trends so far this fall. Not surprisingly, lug sole boots has been driving the strength with casual booties and – as well as cold weather styles really leading the way.

I think it's worth mentioning that Sam Edelman experienced marked sequential improvement, highlighting the heightened demand for its fall products particularly boot styles. In fact Sam's new combat boots, the Garrett was the number one new item released in October according to NPD. And Garrett was in good company with three other Caleres boots from Franco and Naturalizer also taking top spots in the top 10 new items during the month.

So now let's transition to the realignment of our Naturalizer brand. We remain committed to taking a disciplined and strategic approach to managing our portfolio. And as we continue to respond to the changing patterns of consumer demand, it was the moment to address Naturalizer's store footprint. As a result we recently made the decision to wind down most of our legacy Naturalizer retail brand stores in the US and Canada. But make no mistake, we continue to view the Naturalizer brand as a strong and value driving component of our portfolio. And we'll be focusing on growing the brand's e-commerce through naturalizer.com and through our retail partner sites. In fact Naturalizer continues to inspire great brand loyalty. It has a great track record of anticipating and adjusting to consumer preferences and needs. And we expect the store closures to be complete by the end of fiscal year 2020 and anticipate savings of $10 million to $12 million per year.

As we move into 2021, we expect to reallocate capital and resources to amplify our digital presence, capturing the consumers where they want to shop, intensifying our e-commerce focus, and then making sure we're leveraging those capabilities across the brand portfolio.

So all in, we're pleased with our progress. I'm pleased that we were able to deliver solid performance in the third quarter. And we begin the fourth quarter appropriately cautious but confident in our ability to win with the consumer for the balance of the year and heading into next year. And just as a reminder, the fourth quarter is 10% smaller on average, and we expect sales will be lower sequentially, declining approximately 20%. There is still plenty of work to do for sure as we close out 2020, but we're excited about the potential for strong ongoing gains as we head into 2021.

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As you would expect – and of course we will continue to maintain the discipline with regard to the management of expenses while appropriately investing in the areas that we expect to give us a strong return on our investments, particularly to grow our digital business. While the risk of uncertainty persists, and in fact in the near term, there's a lot of conversation going on about where – what's happening with COVID again, we do believe that with our strong cash generation and leaner inventory that we are very well prepared to manage through this period and take advantage of market conditions as they begin to normalize.

So, in short, we're taking a cautious approach to the near-term, but very optimistic about the intermediate term. We have the right portfolio of brands, great operating platform, the talent, and we believe the work we've done over the last several months has positioned us well to capitalize on our opportunities and drive our growth and make sure we create value for all of our stakeholders.

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

Kenneth H. Hannah

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

Thank you, Diane, and good afternoon, everyone. Despite facing ongoing pressure from the lingering health crisis, I'm very pleased with the progress we've made to improve our competitive position during this period. We remain laser focused on appropriately managing expenses and working capital, and through and these ongoing efforts we are confident in our ability to weather the uncertainty that still persists today in the marketplace.

I'd like to start by providing an update on our liquidity position and capital structure and discuss our third quarter results. And finally, we'll provide a little additional color on the outlook for the remainder of the year.

As we communicated last quarter, we believe deleveraging to be the most value-creating use of cash given the volatility in the marketplace. To that end, during the quarter, we made debt reduction the main priority in our capital allocation process. We paid down $50 million in revolver debt, reducing the outstanding balance to $300 million at the end of the third quarter.

Our cash balance of $124.3 million and our $600 million revolving line of credit provide more than adequate liquidity for us to continue to navigate these uncertain times. Looking ahead, we expect to further our debt reduction during the fourth quarter and expect to end fiscal year 2020 with borrowings under our revolving credit facility back to pre-COVID levels.

Now moving on to a review of our third quarter financials. We reported earnings per share of $0.38 including $0.10 related to the fair value adjustment associated with the mandatory purchase obligation for Blowfish Malibu. Our adjusted earnings per share in the quarter excluding this item was $0.48 per share. Our consolidated sales for the third quarter were $647.5 million, down 18.3% from the same period a year ago. Famous Footwear total sales were $391.7 million, down 12.3% from the third quarter of fiscal 2019 as we operated 35 fewer doors. Our comparable store sales were down 9.1% during the quarter, while Famous Footwear e-commerce sales were up more than 48%.

Sales of Famous Footwear improved 17% sequentially, reflecting an extended back-to-school season, solid digital demand and a full quarter of operating our brick-and-mortar store fleet post closures. Our brand portfolio total sales were $267.6 million, a decrease of 25.6% year-over-year. Sales from the brand portfolio improved 45.7% sequentially as our partner stores opened and started to flow orders. Our consolidated gross margin was 39.7% compared to gross margin of 40.4% in the third quarter of fiscal 2019. The 67 basis point decline was due primarily to an increased penetration of e-commerce sales as continued liquidation of spring inventory.

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Famous Footwear had a gross profit margin of 40.9%, which compares to a gross margin of 41% in the same period last year. This decrease is driven by the increased penetration of e-commerce related business in the quarter as product margins were higher in-store and online. Our brand portfolio had gross margin of 35.2% compared to gross margin of 37.2% in the third quarter last year, reflecting aggressive liquidation of our spring inventory.

Our consolidated SG&A expense was $236.9 million, representing a decline of approximately $38 million compared to the third quarter of last year. This year-over-year decline was driven by store-selling productivity and lower facilities, marketing and corporate expenses.

Our third quarter operating earnings were $20.1 million or 3.1% of sales. This compares to adjusted operating income of $44.4 million in the third quarter of 2019.

At Famous Footwear we posted operating earnings of $27.8 million and a 7.1% operating margin, a 91 basis point improvement year-over-year, essentially as Diane mentioned, $200,000 more operating earnings on $55 million less sales than the third quarter of last year.

The Brand Portfolio, we are pleased to report operating earnings of $7.3 million for the quarter. The operating margin in Brand Portfolio was 2.7%. The company's adjusted net income was $18.2 million or earnings per share, diluted, of $0.48. This compares to adjusted net income of $31.6 million or $0.78 per diluted share last year. As I mentioned earlier, our inventory at quarter end was down 21% and included 11% decline at Famous Footwear and a 36% decline for our Brand Portfolio, reflecting the ongoing liquidation of seasonal goods and our best efforts to prudently manage our inventory.

Net cash provided by operating activities during the quarter was $34.2 million, the largest third quarter level of cash generation in over 10 years. Our capital expenditures in the quarter totaled $6.9 million. Net interest expense for the third quarter was $10.9 million and included $5.1 million of fair value adjustments associated with the Blowfish Malibu purchase obligation. Our consolidated tax rate is 19.8% year-to-date. Our lower tax rate in a quarter primarily reflects the impact of a higher anticipated full year tax benefit driven by the impact of the CARES Act, which allows us to carry back 2020 losses to years with a higher federal income tax rate. In addition to our progress on debt reduction, we also returned approximately $2.7 million to shareholders through our longstanding quarterly dividend.

Now given the ongoing uncertainty and risk of new store closures, we will not be providing guidance for the remainder of the year. I'd like to give you some high level perspective regarding our expectations for the fourth quarter and I'll start with a reminder that our sales for the fourth quarter are seasonally lower than our third quarter sales and we expect that to be the case again this year.

Our net sales are expected to decline approximately 20% year-over-year, very similar to what we experienced in the third quarter with Famous Footwear sales expected to be down between 10% and 15% and our Brand Portfolio sales expected to be down between 25% and 30%. We do expect our credit facility outstanding borrowings to return to pre-COVID levels. And I'll remind you we ended the year last year at $275 million borrowed against the facility.

Furthermore, as we discussed, we've made the decision to exit our legacy Naturalizer stores in the US and Canada by the end of fiscal 2020. This exit will cost between $20 million and $25 million in pre-tax charges while delivering $10 to $12 million in annual pre-tax benefits. Excluding the impact of the Naturalizer closings and

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barring any further shutdowns associated with COVID, we would expect positive adjusted earnings per share in the quarter.

In closing, we are continuing to rapidly adjust to the current and evolving market environment while furthering our long-term strategic objectives and driving to deliver greater cash generation and value creation in the future.

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, Diane, could you talk a little bit more about the changing management at Famous Footwear? I think that was sort of snuck in there as a surprise to me anyway at the end.

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

Yeah, no surprise. We – Molly Adams who has been here for a couple of years did a terrific job and has decided to leave the company and has another opportunity. Fortunately Laura, we have a great team and a good bench strength there and Mike Edwards has been with the company for about 12 years in a number of different capacities across Famous including planning and allocation and he's our key – Chief Customer Officer for a while, he's been running our stores. He's basically – has a great sense of that brand its customer and actually his head and his heart is really in the game to win at Famous. So he, along with a terrific other group of people there will continue to drive that business very well into the future.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

Got it. Thank you.

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

Yeah.

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

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

Good evening, Diane, Ken and Logan. Congratulations on a stellar quarter; really very, very nicely done in the teeth of what was a difficult time undoubtedly. You've given very nice...

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

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Thanks.

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

Q

Sure thing. You've given some great color around the fourth quarter. Just wondering if the November-to-date timeframe has varied significantly from what you expect from the balance of the quarter?

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

A

No, I wouldn't – I would say kind of as we're running quarter-to-date, we're kind of right in line with what we had kind of laid out. And again, we hesitated to as to what kind of color that we would provide, but we didn't want to leave everybody out there trying to figure it out themselves. So obviously, as we mentioned, we've got some stores in some areas that have been closed. And so, we've tried to take that into consideration. But if we move towards a much larger shutdown, obviously, the numbers that we've kind of laid out will be off the table.

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

Q

And that also assumes what travel patterns will be for the holiday season – which I assume is going to be reduced – just the general trajectory of what's happening right now, correct?

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

A

Exactly.

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

Q

Okay. Two other more long-term questions, the first is, to the extent that you can talk about the first half buying patterns across your wholesale customer universe including what they expect from a digital component as well, can you talk a little bit about what you're seeing there, where open-to-buy dollars are – usually, obviously this is done well in advance of November, but I think that this is a relatively unique year. Any thoughts that you can give us on how the wholesale business is currently planning and trending would be really helpful.

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

A

Okay. Hey Steve, it's Diane. You know, here's what I would say. You know, it's again a little early to talk to too much about 2021, but clearly consumer behavior has shifted dramatically to consumers being very comfortable to purchase online. We do not see that changing. We see that penetration of our business continuing to grow at a pretty rapid rate. That's true both at our Famous business as well as with our own e-commerce business and as well as our partners businesses. And I think as you talk to people that were – sort of forecast where – what 2021 is going to look like, they'll tell you that it's most likely that e-commerce related businesses are going to be somewhere between 40% to 50% of someone's business. So I think that's the biggest thing that we see in terms of going forward. And then obviously the sport and athletic and casual side of life, doesn't look like that's changing anytime soon, but let's hope as we hear more about a vaccine and more – I think even Dr. Fauci was talking about sometime in June or July and August. That time period might be when a good part of the population would have access to it.

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Then, I think there's going to certainly be an opportunity for other types of footwear to come back into play again too. So that's what I'd I tell you right now.

We're keeping our eye on both the short term in managing our business as well as the medium term to make sure we take advantage of every opportunity that we can. So – and staying innovative on all of our products because we think that's really where – what the consumer is going to be interested in.

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

Q

And Diane, you really just touched right on to my very last question, which is, how are you thinking and planning for a post-vaccine world? And there is more than a likely chance that the consumer is going to experience a jailbreak. And given social distancing reductions that they're going to be going to clubs and movies and restaurants, and – when that comfort level resumes, people being social animals, I think that could happen. How do you plan for that? You certainly don't want to be left short, or obviously, you can't get an inventory farm on. If you could just share your thoughts, that would be helpful.

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

A

Sure. I mean I think in the short term, Steve, we like having our wholesale inventory down 36%. We like having our Famous inventory about where it is. We'd like it to be a little bit more in some of our – we're a little light on some of our top 10 brands. But in general, we're going to continue to play it close to the vest on inventory and make sure that we can really begin to see some driving of full price business again because obviously this year has been one where we've had to clear an awful lot of goods everywhere.

So, I think we're going to keep inventory tight and watch it very carefully. We're going to make sure that we're doing all the right work around our speed to consumer programs. So, making sure that – with materials – plans on goods – for products that we think are going to be important going forward. So, making sure that we have the agility there to respond during the market and during the season. And I think lastly, as we get closer, I think that's one of the benefits that Caleres does have. We have, again visibility across so many different parts of the marketplace and landscape. We can see what's happening and we'll be able to pivot quickly to where we think the consumer is moving. So, I think we're in good position. As I said, there's still a lot of work to do. We don't – we like what we accomplished this quarter, but we're not satisfied and we're going to keep pushing it. We think we can come out a winner in the end of – after everything is behind us.

So, I hope you're right. I hope people definitely will want to go out and socialize and go places. So, keep your fingers crossed, right.

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

Q

And they are. Thank you for the color. That's very helpful.

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

A

All right. Thanks.

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

A

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Thanks, Steve.

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

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Good afternoon everyone. Nice job in a tough environment.

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

A

Thank you.

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

A

Thanks, Chris.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

A couple things. One, just want to go to Naturalizer. I guess more specifically when you think about the 20% reduction in revenues for the quarter, what impact is the Naturalizer liquidation's I guess having on that, if at all?

Number two, just on Naturalizer, what's the [indiscernible] (00:33:01) for Naturalizer retail just in terms of sales? How big is that?

And then lastly, is – are Naturalizer retail stores profitable and what do you intend to do with those savings? You just intend to reinvest that $10 million to $12 million or is that potentially flow through?

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

A

Yeah, I think so – your first question, when you were talking about liquidation, obviously we laid out a timeline to go ahead and close those stores by the end of the fourth quarter. So, we began doing some of that liquidation through our own retail sites and our website in the third quarter, but don't believe given the inventory levels that we'll have a problem liquidating the rest of the inventory in those stores between now and the end of the fiscal year.

When it comes to the natural retail – Naturalizer retail stores, I mean obviously they've been significantly impacted by what's happened this year. So, we went from stores that were generating decent amount of revenue, and obviously with that reduction is – it's put a lot of pressure on the bottom line. So we went ahead and made the decision to go ahead and exit those stores.

If you recall – and Diane can jump in here and provide color, but we did a total revamp of that brand. And one of the things we did is we kind of moved forward and repositioned that consumer and that brand. And a lot of the stores were tied back to the legacy positioning of the brand and that prior consumer. And so we've shifted, and now is just a good time to go ahead and exit. We are going to keep a couple stores that we have that are in markets where those consumers are that have had investment put into them. And obviously we're still looking to

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grow that brand globally as it has a nice meaning across the world. So I don't know, Diane if you want to share anything...

[indiscernible] (00:35:15).

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

Yeah, I think Chris I'd maybe just add this. You know when I said it was the moment, it really was when we looked at the size of that business and the impact that COVID has had on it. And as we looked at the other opportunities about where we could move that customer to in the future, we felt it was much more aligned with where the consumer was going.

So, we think that we'll continue to drive our business to our own website, we think that will continue to be an important part and we're going to allocate some resources and we have plans in place for how we're going to capture those consumers. We're also going to be looking at our retail partners, our strategic partners. There's a lot of opportunity. We already have a very strong powerful, about – I think it's probably close to a little bit – over half of our business with our strategic partners is already digitally driven. So we think there's even more opportunity to do that.

And there is also opportunities in Canada and other places for us to look at new ways to capture that customer. So, we have a full-on plan for how we – how we're going to do that. And so I think that $10 million to $12 million, some of it will certainly be allocated to ensuring that we capture the maximum that we can in terms of customer acquisition of that brand and working with our teams to do so. So, it's a combination of lots of different things, but really the right moment because they were legacy retail kind of stores where we hadn't invested a lot in the last number of years. So, the time was right.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

So, it is – so just from a from a numbers' perspective, am I thinking about this $50 million maybe run rate given where the revenue trajectory was – and these were losing money. Obviously it's at a fair ballpark range. I'm just trying to think about how we could start to think about it for next year?

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

No. I mean, the revenue impact was a little bit less than that just with declines. We had seen close to 50% declines this year with the shutdown. So it was well above that. And now it is below that. So, the production in top line obviously was putting pressure and putting a number of those stores into a loss position. So we felt like it was about a two year payback to go ahead and exit. And certainly in the $10 million to $12 million, we try to take into consideration what we had identified as opportunities to reinvest. And so we felt like it was the time to make that decision.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

How do you think about stores for Allen Edmonds even maybe Sam Edelman potentially at this point in the same sort of context, is there opportunities there or now you're comfortable with what you have?

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

A

Well, I think there is – I'll take this one Ken and you can you can add to it. I think there's a couple things on that. Chris, I think, first of all, we always and we'll continuously look at our entire fleet, whether it's Famous or Allen Edmonds or Sam Edelman and make sure that we're looking at the real estate and making sure it's profitable. The Naturalizer – a lot of the Naturalizer outlets – business was in outlet stores as well. So it was very little sort of a mall full price and much more outlet, which wasn't really a consistent part of our strategy.

And as we look at Allen Edmonds, that is a very critical part of their overall direct-to-consumer effort. We'll have to continue to monitor that, because it is in more urban kind of location. So we'll have to make sure that we monitor that and continue to see whether or not that makes sense. And on Sam Edelman, again, the same thing, more mall-based places are more challenging. And we expect that we're going to continue to look at it and we have, if we need to make a decision on that, we will.

So, Ken, I don't know if you wanted to make another comment on that

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

A

Yeah, I guess, the thing I would add is, when you look at the Naturalizer stores and to split them obviously, as Diane mentioned, there were a ton of them that were outlets. I think the most important thing is, they just – they didn't represent what the brand stands for. That's not the case in our Allen Edmonds and at Sam Edelman, so totally different conversations. Obviously we're – all three of those brands from a retail perspective are down. And so, we're having conversations with all those landlords about restructuring leases and trying to do things. And so, where we can get some movement, obviously it will significantly change the financial profile. But the brands are aligned with how we represent in store. And so, two totally different scenarios between kind of where we had found ourselves at Naturalizer versus Allen Edmonds and Sam Edelman.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Got it. Okay. Just a couple of last things for me. Just on the October trend for Famous Footwear, comping down single-digits. How much of that do you attribute to either weather factors, maybe some softness in the boot business versus specifically COVID-related, shoppers not shopping with the same level of frequency, et cetera. I'm just trying to peel that back a bit?

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

A

Yeah. I think it's hard to say exactly, Chris. But I would say generally speaking, it's tied much more with consumer sentiment overall and the rise in the cases of the virus across the country. So I think generally speaking it was overall consumer sentiment would be the reason as we would see that. And we were very careful around our promotional activity as well. And because our – we were selling through goods at Famous at really good margin. So we didn't want to promote too much either. So we stayed pretty careful threading that needle about making sure we were delivering good margins too. So...

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

A

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Yeah. I think that's fair. I think when we look more consumer sentiment and really you could see it in the traffic and as we go back and look at market share data I mean from an October standpoint we were able to maintain and in some cases grow our market share. So I don't think it's anything other than just consumer sentiment.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Last thing for me, just on the SG&A. As I think about Q4, and I know you're not providing a lot of color here, but to kind of get to profitability ex some of the one-time charges, it makes some assumptions that SG&A is still down pretty materially, maybe similar levels to Q3. Am I thinking about that right? And how do we think about what's structural in the business versus what's going to come back pretty materially into next year?

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

Yeah. I think, we had indicated we're down $38 million in Q3. In our second quarter call, we had kind of talked about exiting the year being down at least $25 million. So, if we just hold to the $235 million or so that we had an expense in Q2 – in Q3 and Q4, then that'll be at that level. So, obviously if we're closer to the higher end of some of those sales reductions, we have the ability to flex that SG&A down a little bit more, but it won't be any higher in gross dollars than it was in Q3 just to help you out on your modeling.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. All right. That's all I got for now. Thank you and all the best around the holiday.

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

Thank you, Chris.

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

Thanks. You too, Chris.

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

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Good afternoon. Thanks for taking my questions. I'm going to – I'll start with Famous. Can you be more – you said mid-teens, up, down mid-teens for the first – for August and September. Could you give us some more color on where exactly October was? Was it mid-singles, high-singles, low-singles?

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

It was down mid-singles.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

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And then, can you – you've had a lot of help in – the back-to-school shift clearly helped – hurt August and helped September. Do you have like a combined, I don't know, if it's a comp number or a combined sales number for August-September to sort of offset because there's nothing incremental that's probably going to happen in the fourth quarter the way that shift happened in Q3.

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

Yeah, it was really starting, I would say, second week September was when we started to see our performance really lift relative to our last year's business. So, there was about five weeks there, where we were higher than or close to last year's levels. And so, that's kind of where it all came, Sam, was really in those weeks. And I don't think we have, I don't know Ken if we have an August-September number, but we can certainly follow up with you and get you that, if that would be helpful.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

That would be. And then, how should we think with Famous on store openings and closings in the fourth quarter? And then sort of just how are you thinking about next year as far as Famous stores?

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

Yeah, I mean, we've got a few opening and then obviously we're closing some additional stores. I mean, we had talked about for the year being it down 45 to 50, and so, year-to-date we were down 29 through the third quarter. So we've got, I think there is one store for sure opening and one that we may push to next year. So as we look into next year, obviously we've continued to close around 45 to 50 stores each year. And we've been continuing to reduce the number of new stores that we're opening. So we're planning on opening a few, I think, somewhere in the 10 range would be my best guess if we were sitting here today, but obviously lots of discussions going on with landlords. And as they get a little bit more realistic about rents, then obviously that gives us an opportunity to open more stores.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Thanks. And then on the – can you give more color on to what the SG&A cuts were at Famous to bring – to really have your EBIT in line with last year's EBIT there?

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

Yeah. I mean, a lot of it was productivity in the stores with just getting better productivity out of the labor. We did reduce some marketing. We had obviously originally planned to spend a lot of TV and radio at back-to-school. And then obviously when it started shifting, we did not end up spending that money, some of that was transitioned over to digital spend, but a lot of that was not. And then the rest was really in facilities expense with we did have stores close, I think year-over-year, we're down 35 stores. So that was contributing to that as well.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

And when you say productivity, you're really saying your head count went down in the stores.

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

We're saying our labor productivity as a percent of sales, so the hours that we were expending to generate the sales that we did. So in a lot of cases there was hours that were adjusted during the quarter to be more productive.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Okay. Thanks. And then when you think about the Brand Portfolio business here and again looking forward and especially since Q4 is supposed to be slightly worse than Q3, how much of Q3 – you sort of hinted that that there was some pull forwards from Q4 on some wholesale orders from Brand Portfolio is that – did I hear that correctly?

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

Yeah. We basically said there was a little more demand in Q3 than we had anticipated, because we were trying to make sales up because some retailers find themselves really needing inventory on some of the key items. So there was a little bit of demand higher than what we anticipated. I think we had talked about being down 30% in the third quarter, and we came in down 26%. So there was a little shift there, little better than we anticipated. And really I think we're thinking about the fourth quarter in that same kind of range. Ken, I think you said right, 25% to 30%...

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

Yeah.

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

...down for Brand Portfolio in the fourth quarter. So pretty much in line with right where we were at this year. And again, I mentioned our inventory levels as well being down in that 36% range going into the fourth quarter too.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

And then lastly you said that back to the Famous again, that the Famous sales are going to be from a year-over-year perspective a little weaker than they were in Q3 and that's primarily due to not having that – you're just not going to have that spike of...

[indiscernible] (00:49:50)

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

Yeah, we were 12% in the third quarter and we're forecasting...

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

10% to 15%.

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

...10% to 15%. So we'll see how it all shakes out, but roughly in line also.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Okay, great. Thank you very much and happy holidays.

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, Sam.

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

Thanks, Sam.

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

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