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BWS - Q4 2011 Brown Shoe Company, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Christy and I will be your conference operator today. At this time I would like to welcome everyone to the fourth-quarter 2011 earnings call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operator Instructions)

I will now turn today's conference over to Ms. Peggy Reilly Tharp.

Peggy Reilly Tharp - *Brown Shoe Company, Inc. - VP, IR*

Good morning and thank you for participating in the Brown Shoe Company's fourth-quarter 2011 earnings call which is being made available to the public via webcast. I am Peggy Reilly Tharp, Vice President of Investor Relations for Brown Shoe Company.

Earlier today we distributed a press release with detailed financial tables, which is available on our website of BrownShoe.com. In addition, slides are available on our website for you to reference during today's call.

Please be aware that today's discussion contains forward-looking statements which are not historical facts and 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 that could impact forward-looking statements. Copies of these reports are available online. The Company undertakes no obligation to update any information discussed on this call.

Joining us on the call today are Diane Sullivan, President and Chief Executive Officer; Mark Hood, Chief Financial Officer; and Rick Ausick, President of Famous Footwear. Today we will begin with a brief corporate strategy review from Diane followed by a financial summary from Mark before turning the call back over to the moderator for Q&A.



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

Diane Sullivan - *Brown Shoe Company, Inc. - President, COO & CEO*

Thanks, Peggy, and good morning, everyone. As always, thank you for joining us. I would like to start by taking a couple of minutes to review our fourth-quarter and full-year sales and earnings results before I turn to 2012 and to the future.

For the fourth quarter, sales of \$628.9 million were up compared to \$604.5 million last year, with the majority of the increase related to the ASG acquisition in February of last year. However, we also saw growth in our legacy wholesale business due to the strength in our contemporary fashion brands.

For the quarter we reported a loss of \$8.2 million, or \$0.21 per share, and this included \$0.27 of portfolio realignment costs and \$0.04 of ASG integration-related costs. Excluding these items, adjusted earnings were \$4.1 million, or \$0.10 per diluted share, down slightly when compared to fourth-quarter 2010 earnings of \$5 million or \$0.11 per diluted share.

For the full year we reported sales of \$2.6 billion, an increase over 2010 revenue of \$2.5 billion. As in the fourth quarter, this improvement was largely due to the addition of ASG and to the strength from our contemporary fashion portfolio, which was led by Sam Edelman, Franco Sarto, Via Spiga, and our Vera Wang brands.

Earnings for 2011 were \$24.6 million, or \$0.56 a share, and this amount included a \$0.04 gain from the portfolio realignment efforts including a \$0.32 gain from the sale of AND 1, which was partially offset by \$0.28 of costs associated with exiting various wholesale brands. We also had \$0.16 of ASG integration-related costs and a \$0.02 loss on early extinguishment of debt. Excluding these amounts, adjusted earnings were \$30.3 million, or \$0.70 per share, a decline when compared to 2010 earnings of \$42.5 million, or \$0.97 per share.

So, in a challenging 2011, there is just no doubt about the fact that we spent a significant amount of time focused on stabilizing SAP and managing through our toning headwinds. In addition, we spent time integrating the ASG brands and these internally-focused efforts I am really now happy to say are mostly behind us.

But the area that we made the most progress in, that we are the most pleased with is with our portfolio realignment efforts. We really spent our time focused on the alignment at the infrastructure, store, and brand level. We accomplished a great deal in these areas and I can't stress enough how much this work has helped us in building a stronger foundation for 2012.

Just to quickly recap, on the infrastructure side we are closing two distribution centers in the US, eliminating approximately 750,000 square feet of space, and we closed one of three ASG factories in China. For our retail footprint, we opened 49 Famous Footwear stores and relocated or closed 70 stores this year. We expect to open at least 55 stores in 2012 with approximately 90 stores being relocated or closed.

Other store actions included the closure of 20 Brown Shoe Closets and F.X. LaSalle stores, which are going to be completed in the first half of 2012 with the benefit beginning in the second half and into 2013. As it relates to brand alignment, we exited our children's wholesale businesses; we exited some women's specialty and private brands. And it really gives us the ability now to focus our energy on our strongest, most successful, and most strategically aligned brands for the future.

We have also been able to eliminate the costs associated with these actions and we have reduced the indirect costs on a corporate-wide basis. Again, all of this was designed to position us to be a somewhat smaller, but stronger and more profitable, company going forward.

So as we turn to the future and to the opportunities ahead of us, quite honestly, execution is going to be key. We have got to close the loop on a lot of these initiatives that we have started and we have got to shift from last year's internal focus on stabilizing SAP and wholesale and overcoming our toning headwinds at retail to be a much more of an external customer and brand focus.



So to give you a little more detail about what we are going to be doing, on the wholesale side we have four key focus areas. First, we are going to build on our two-year legacy wholesale growth of 16.4%, which tends to get overshadowed in a lot of the conversation that we have, but the key for us is to make sure that we are focused on improving the profitability and gaining back some of the ground we lost during the implementation and stabilization of SAP.

By exiting some of these wholesale businesses, we are going to go make headway in this area in 2012 with the results more apparent in the back half of the year. And we fully expect to have adjusted earnings increasing year over year in the first half of 2012.

Secondly, we are also focused on wholesale inventory and supply chain management to help drive improvement in both sales and profitability. We are working to earn back our retail partners' confidence. We are regaining open-to-buy dollars. We are expanding our door distribution, which altogether will help us improve wholesale gross margin to pre-SAP rates over time.

Third, we have already proven that we have the brands and the shoes that consumers love with the kind of sales growth that we have had, but again we need to focus on that profitability and continue to drive the product engine. So this next year we are going to be focusing on -- clearly, on all of our brands, but particularly around Via and ryka and making sure with our new acquisition that we are developing a great pipeline of products to help us position ourselves for a strong 2013. We are going to continue to invest in talent, new design talent like we have with Edmundo Castillo at Via Spiga or at other brands within our portfolio.

And, finally, we are going to make sure that we continue to invest in and develop wholesale brand opportunities, so new licenses like our new Vince license, which just launched this last month with our retail partners and will begin shipping in August of this year. Also with new retail and product opportunities; with the Sam Edelman brand. Sam has just a terrific job and it's one of the hottest brands out there right now. We think there is an opportunity to expand his reach with a new retail location in SoHo and a variety of new licensing agreements.

We also plan on continuing to really drive the great work that the Franco Sarto team has done and take advantage of that trend. So that is just a few of the highlights around our healthy living at our contemporary fashion businesses.

Now turning to Famous Footwear, in addition to executing on our strategic real estate efforts that we have been doing for 12 to 18 months now, the team really did work hard in getting in 2011 making sure that we got inventory in line, that we managed through that toning hangover. Just as a reminder, excluding toning, same-store sales did improve about 1.9%.

But the really important thing is that we ended the year down 5.7% in inventory on an average store basis. This really allowed us to bring in a better depth of product to improve our in-store assortments, to add more trend-right in core shoes and wide widths going forward into 2012. We are focusing on the big items, big brands and we have already seen very good early results with our new running and athletic product performing very well as we have certainly seen across the marketplace.

For February, we saw a related improvement in comps, conversions, and average unit retail. We think this early success is due to a better use of our marketing spend and expanding our multichannel engine capabilities as well, and that is going to be a key focus for 2012. You are going to see more digital and less print from us because there is no doubt that consumers have embraced the online experience more.

We are going to be testing other ways to meet customers' needs. We are going to be offering ship-to-store options, increased dropship capabilities, and improving the online experience at FF.com where we plan to redesign the site, modernize its layout, and really help improve the navigation and a lot of our features there.

Lastly, back-to-school is so key for us, as everyone knows. We have also been partnering with the new agency Y&R to develop a terrific new back-to-school campaign that is really going to capture consumers' imaginations, and we are also going to be looking at targeting this growing Hispanic consumer population.

So, lastly, I would say maybe the highlight on Famous would be the benefits of this real estate strategy that we have been embarking on in making sure we are focused on the most profitable stores really allows us to also focus our CapEx around those stores. So in 2012 we are really going to be



investing in those right stores to continue to improve the customer experience and make sure we update the look and the feel of these stores in those locations. And we are really excited about that because we think that is a critical component for us for the future.

So I can't stress enough the values of our work in 2011. It really has helped build the foundation for 2012. Again, it's all designed for us to become a leaner and stronger and more profitable company going forward and really believe we are now better positioned for success in 2013 and in the years ahead.

So over the past nine months I have really tried to consistently update you on our portfolio realignment efforts, to provide new details and next steps each quarter. We plan to continue to deliver against these realignment efforts and we expect good progress towards a much stronger back half in 2012. So as I think about the sort of final thoughts on 2012 I think we have developed realistic plans, great product, and we really got a team that is passionate around how we are going to continue to enhance the earnings power of our company.

With that said, I thought it was also time for us to really set a date to have an investor day and so we will be scheduling that in June in the next couple of months. Peggy will be working to get that out as soon as possible so that we can share with you in more detail and a little bit longer range about what our view on the future for our company is. Really, frankly, can't wait until we have the opportunity to do that.

So that gives you a little snapshot of the fourth quarter, the year, and a little bit into 2012. Now I am going to ask Mark to give you more of a financial review.

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Thanks, Diane, and good morning, everyone. As Diane already reviewed our consolidated sales, I would like to turn directly to our individual businesses beginning with Famous Footwear, which is part of our targeted family platform.

For the fourth quarter, sales of \$352.4 million were down 0.9%. For November we were up against a particularly tough comp year over year of 11%; however, each month of the quarter our results showed sequential improvement as comps became easier. We finished the quarter with January same-store comps up 2.2%.

Same-store sales at Famous Footwear for the quarter were down 0.8% versus a 4.9% gain in 2010. Traffic and conversions were down in the quarter; however, we continue to see improvement in pairs per transaction and average unit retail, up 1.7% and 1.3%, respectively.

For the fourth quarter, boots were down 5.7% while casual boots remained strong, cold weather and shearling styles were down significantly in the quarter. In other categories we saw new product gaining good reception with running up 39.1% in the fourth quarter driven in part by fresh athletic product delivered in January.

Boat shoes continued to do well across men's, women's, and kids, and in the women's fashion footwear we are seeing a growing interest in wedges with cork and rope detailing. Sandals continued to show strength in the fourth quarter as we successfully optimized our inventory based on climate zone.

We view the good acceptance of this assortment as an early positive indicator for spring. Additionally, we expect the momentum in athletic footwear to continue in 2012.

Turning to our wholesale operations, which include our healthy living and contemporary fashion brands, we saw net sales growth of 17.9% in the fourth quarter, with the improvement due primarily to the February ASG acquisition. For our legacy wholesale business we reported an improvement in sales of 1.7% compared to a 15.1% increase in the fourth quarter of last year.

For our healthy living brands, all-in Naturalizer sales, which include wholesale and retail results, sales were \$78.7 million, down 4% year over year as the mild winter across North America resulted in lower boot sales in both the US and Canada. Dr. Scholl's shoes sales were \$37.6 million, down

6.1% year over year as the decline in toning sales continued to pressure the brand in the quarter. However, this shows a significant improvement over the third quarter when sales were down approximately 40%.

Our ongoing investment in our contemporary fashion brands continues to deliver results. With fourth-quarter sales up 22.2% year over year, Franco Sarto was the standout brand for the quarter, up 29.9% year over year. Other strong contemporary fashion brands in the fourth quarter include Vera Wang, up 34.2%, and Sam Edelman, up 29.5%.

In our specialty retail business, which primarily includes our Naturalizer stores, Naturalizer.com, and Shoes.com, fourth-quarter sales were down 5% year over year as we operated 33 fewer retail stores. At our domestic Naturalizer retail stores, net sales were up 6.9% on a same-store basis. This is on top of a 3.6% growth in the fourth quarter of last year.

In our direct-to-consumer business we saw sales growth of 5.2% in the fourth quarter with record revenue for Black Friday and Cyber Monday along with holiday smartphone sales of \$1 million. In 2011 we hosted 80 million unique visitors at our direct-to-consumer sites for a total of \$130 million in sales, making us the 137th largest Internet retailer. To put that in perspective, it puts us ahead of such brands as Coach, Brooks Brothers, North Face, Timberland, Vans, and others. At FamousFootwear.com, fourth-quarter sales were up 41.9% with vendor dropship now accounting for more than 20% of FamousFootwear.com sales.

I would like to further review our financial metrics in more detail now. Overall gross margin in the fourth quarter was 37.9%. This was down approximately 100 basis points.

The reduction in gross margin when compared to the fourth quarter of 2010 was primarily a result of lower sales at Famous Footwear. However, the acquisition of ASG together with strong performance from the Sam Edelman Brand contributed positively to gross margin in the fourth quarter in 2011.

Fourth-quarter SG&A spend of \$230 million was up 1.3% year over year. However, as a percentage of revenue, SG&A was 36.6%, down 90 basis points year over year. Net interest expense of \$5.8 million was up approximately \$500,000 over the fourth quarter of last year.

The company's tax rate in the fourth quarter was 50.7% from continuing operations. In our financials, income from discontinued operations is presented net of tax. This resulted in a 3.6% annual tax rate for continuing operations.

Including discontinued operations, our annual tax rate was 25.4%, which reflects the mix of domestic and foreign earnings and the taxes associated with our portfolio realignment efforts. For the full year our non-GAAP earnings presentation tax rate was 29.8%.

For the fourth quarter, depreciation and amortization was \$14.6 million while capital expenditures were \$7.6 million, bringing full-year CapEx to \$38.6 million. We ended the quarter with \$201 million of borrowings on our revolving credit agreement, which has approximately \$297 million of additional availability. Cash and cash equivalents at the end of the fourth quarter were \$47.7 million.

Inventory at quarter end was \$561.8 million, up 7.2% year over year. While inventory was up, the majority of this increase was related to the ASG acquisition. In total, we believe our inventory levels are in line with our ongoing needs.

Before wrapping up the call, I would like to review our fiscal 2012 guidance in some more detail. While there has been some indication of easing economic malaise, issues continue to erupt on both a national and global basis. In addition, a contentious election year is unlikely to encourage consumers to abandon their cautious spending habits.

For full year 2012, we expect to see some benefit from a gradual year-over-year reduction of SAP costs and toning impact due to an economic uncertainty and the potential for diminished consumer confidence. We are planning our 2012 results cautiously and expect to see adjusted EPS in the range of \$0.78 to \$0.92.



To break that in more detail, in total for 2012, which is a 53-week year, we expect consolidated net sales of \$2.55 billion to \$2.58 billion. Same-store sales at Famous Footwear flat to up low single digits. Net sales at wholesale operations down low single digits, reflecting business exits. Gross margin rate up 70 to 100 basis points; SG&A in the dollar range of \$925 million to \$930 million.

Nonrecurring costs of our portfolio realignment efforts are expected to be \$12 million to \$15 million in 2012. Net interest expense of \$23 million to \$25 million. We expect an effective tax rate of 37% to 38%. Earnings per diluted share of \$0.50 to \$0.75 on a GAAP basis. On an adjusted basis earnings per share of \$0.78 to \$0.92.

Depreciation and amortization is expected in the range of \$59 million to \$61 million and our capital expenditures are expected in the range of \$56 million to \$58 million.

Specifically for the first quarter, wholesale sales will be down due to the brand exits and product redevelopment at Via and ryka. We also believe consolidated gross margin will be down year over year due to additional promotions and increased markdowns expected at Famous Footwear. In addition, our retail partners plan their spring buys based on reduced shipments following SAP-related shipping weaknesses in 2011. As a result, earnings could be down slightly in the first quarter.

With that I would now like to turn the call back over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Krasik, BB&T Capital Markets.

Scott Krasik - BB&T Capital Markets - Analyst

Good morning, everyone. Just, Mark, to clarify that comment about Q1 EPS, when you say down year over year are you saying it's going to be slightly negative EPS or it will be below the \$0.16 adjusted number or the \$0.08 GAAP number?

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

The comment was directed to below the \$0.16 adjusted number, but would be positive.

Scott Krasik - BB&T Capital Markets - Analyst

Okay. And do you expect to make money in all four quarters this year?

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

Yes.

Scott Krasik - BB&T Capital Markets - Analyst

Okay. Diane, can you just talk about -- Dr. Scholl's seems to be better than the third quarter but I am not sure that is the hurdle you want to set. How many years other than when you had toning did this really meet or beat plan, and how does it fit in as a more focused company going forward?



Diane Sullivan - *Brown Shoe Company, Inc. - President, COO & CEO*

Yes. Well, Scott, as you and I even chatted, I think, in January, clearly the Dr. Scholl's business has been in -- we have been repositioning that really over the last 12 to 18 months. It has been that we have really been trying to build distribution and a line of products outside of just being in Walmart.

So we have had -- we have been focused on two areas; one how to improve the productivity at Walmart. Again, we have had nice progress there and that looks good, but the pace and growth of growing outside of just that channel of distribution into the mid tier and others. It has taken us a little bit longer than we planned, but I can tell you even looking at net of that we are showing some nice gains for 2012 going into the back half of next year and believe that it is -- Dr. Scholl's, if you think about it, it's one of those iconic brands that they -- with Merck owning it, Schering-Plough, they do a tremendous amount of consumer advertising.

So actually we do believe that it fits with our long-term strategic plan going forward and think it's a critical component of what we are doing. So we like it and we think it's the right thing to do, but it is taking us a little bit of time to sort of complete the cycle of it.

Scott Krasik - *BB&T Capital Markets - Analyst*

And I would assume because of the weighting to Walmart it probably is your lowest margin wholesale business.

Diane Sullivan - *Brown Shoe Company, Inc. - President, COO & CEO*

No. You know, no, it's not.

Scott Krasik - *BB&T Capital Markets - Analyst*

Okay. Mark, what is the implied operating margin in your guidance for Famous Footwear this year?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Again, I think we don't give to that level of guidance, but it would be planning for an expansion over 2011.

Scott Krasik - *BB&T Capital Markets - Analyst*

So can you break out or identify the benefit from closing these low productive stores and just reaffirm that you are going to continue to do that in 2013 at what order of magnitude?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Again, I think there is a slide that was attached to the materials that had the expected EBIT benefit from all of the portfolio activities in 2012. Certainly the stores is a nice chunk of that with respect to Famous Footwear.

With respect to closings, we did amp up the 2012 closings from our third-quarter call as we went back and took a harder look at those stores that had poor performance. We didn't have an action date plan available to us in 2012 and for the added 15 stores we would take action there because as we did the economic analysis; it was the right thing to do. We would expect to have ongoing closings in 2013 and 2014 from a portfolio perspective, but probably to a more normalized level, let's say, in the 40 to 50 range of closings in those two years.



Scott Krasik - *BB&T Capital Markets - Analyst*

So because of the addition in 2012 are you still going to get to that 140, 145 closings that you laid out?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Yes, we will exceed that.

Scott Krasik - *BB&T Capital Markets - Analyst*

Okay, thanks very much.

Operator

Steve Marotta, C.L. King & Associates.

Steve Marotta - *C.L. King & Associates - Analyst*

Good morning, everybody. Mark, as it relates to page four and the \$12 million in annual EBIT benefit you expect from all of the portfolio realignment initiatives, it comes to about \$0.19 annually.

And I realize that the bulk of the benefit -- excuse me, that you won't realize 100% of the benefit in 2012. But even if you assume half the benefit you get to close to \$0.10, which is about two-thirds of the differential between the midpoint of guidance this year versus what you earned last year.

From an organic standpoint can you talk a little bit about other opportunities within the business to --? It seems that the bulk of the differential is, again, based from the savings from the portfolio initiatives. It seems like there should be a little bit more than that.

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Yes, again, I think certainly the timing of when we receive those benefits will be variable over time. I think we have said that we plan the top line cautiously and obviously have focused intently upon driving our expense structure down. I think one of the things that you may have overlooked in terms of the EPS impacts would be the impact that the higher tax rate has in 2012 versus 2011. With the tax rate expectation of 37% to 38% that eats up some of that EPS improvement from the rest of the [set].

Steve Marotta - *C.L. King & Associates - Analyst*

Okay. Then last year what was, if you can just remind us, the direct costs from SAP that was realized within the \$0.70 that was earned?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

We have talked in the quarters about that. I think \$0.21 through the third quarter. It was actually an incremental \$0.01 to \$0.02 in the fourth quarter, so about \$0.23 of costs from SAP in 2011.



Steve Marotta - *C.L. King & Associates - Analyst*

And that is expected to disappear for 2012, correct?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

It's expected to lessen.

Steve Marotta - *C.L. King & Associates - Analyst*

Can you -- okay, we will go over that off-line. Is there any benefit to the 53rd week from an EPS standpoint?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

It's about neutral. It adds about 1% to top-line sales where you pick up an extra week of costs and it more or less neutralizes that incremental sales benefit.

Steve Marotta - *C.L. King & Associates - Analyst*

Okay. Lastly, can you talk about what toning was as a percent of sales at Famous in 2011 and what that is expected to be in 2012?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Sure, it was about -- a little less than 10% in 2010. I am sorry, in 2011 it was a little less than 5% and we are probably looking at it to be at about 1.5% to 2% in 2012.

Steve Marotta - *C.L. King & Associates - Analyst*

Okay, that is helpful. Actually I have one other quick question. As it relates to the peak number of doors at Famous, which was roughly almost 1,200 about three years ago, a little less than that, how many have you affected to date? In other words, closed or relocated that you would consider problematic? How far are you in this process?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

I think when we get through 2012 with what we have identified in the 90 closings we will be through the bulk of the problematic stores. I think between 2013 and 2014 there is probably another 10 to 20 stores that are problematic that will be addressed in those years as we get lease action dates. We will continue to look at that and see if there is a need to accelerate that.

Steve Marotta - *C.L. King & Associates - Analyst*

Terrific. Thank you very much.

Operator

Jill Caruthers, Johnson Rice.

Jill Caruthers - *Johnson Rice - Analyst*

Good morning, could you discuss your comments you made on first-quarter expectations of higher markdowns and promotions at Famous? Just given you got some pretty clean, lean inventory it sounded like heading into the quarter, as well as I think the warm weather has kind of helped out maybe early spring sales.

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Yes, again, I think probably should let Rick answer the question, but I think to a certain extent the key is making certain that we finish cleaning out the fall inventory carryover. And so I think it will be making certain we take appropriate -- continue to take the appropriate action that we actually began early in the fourth quarter addressing as we had the weather issues.

Rick Ausick - *Brown Shoe Company, Inc. - Division President, Retail & President, Famous Footwear*

It's mostly just making sure the value of the inventory is correct at the end of the quarter. There are -- it's a little more -- we have a few more promotions but it's really not as much around promotion or initial margins. It's more around valuing the inventory appropriately at the end of the quarter.

Jill Caruthers - *Johnson Rice - Analyst*

Okay. Then just on wholesale, could you maybe talk about what the backlog was at the end of the year and kind of the stance you are seeing from retailers headed into the 2012 spring and fall?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

At the end of the quarter we had about a 10% increase in backlog.

Jill Caruthers - *Johnson Rice - Analyst*

And is that -- could you strip that out as in what the legacy is without ASG or --?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Legacy would have been down high single digits. Again, you have to remember we had brand exits going on there.

Jill Caruthers - *Johnson Rice - Analyst*

Okay. And any comments on kind of the retailer stance right now?

Diane Sullivan - *Brown Shoe Company, Inc. - President, COO & CEO*

I think generally, Jill, everybody is feeling, again, very positive about the brands. The contemporary fashion portion of our portfolio has been just going like gangbusters at retail, so we are delighted with that. On our healthy living side, whether it's Naturalizer or Dr. Scholl's, again all good there, solid performance. We are really focused on improving the profitability of those brands, that is a really key thing for us.

Jill Caruthers - *Johnson Rice - Analyst*

Thank you.

Operator

Jeff Stein, Northcoast Research.

Jeff Stein - *Northcoast Research - Analyst*

Mark, I want to go back to some of the comments you made with regard to one-time costs and so forth. I don't know if it's appropriate to look at calendar 2010 as kind of a base to model off of because a lot of things -- you had a lot of nonrecurring items in the latest fiscal year.

But if you look it \$0.97 that you earned two years ago and you consider the fact that you now have ASG, which I think when you started the year you assumed that that would be about \$0.10 accretive excluding the one-time integration costs, the fact that you have got all of these divestitures, which should add nearly \$0.20 to earnings, the fact that SAP start up costs are going to be down significantly.

I am trying to kind of reconcile what kind of base we really should be modeling off of and why you are not kind of earning at -- looking at earning at a higher level this year than you did back in 2010 given the fact that you should be a lot cleaner this year.

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

That is a lot of questions there.

Jeff Stein - *Northcoast Research - Analyst*

I know a lot of question, but I guess what am I missing? Why are you being so conservative, I guess, and what am I missing in your guidance that would not get you back to at least \$1? I guess that is my question.

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Again, let's go back and look at the 2010 P&L. Again, 2010 our gross margin rate was at 40.1%. It was 38.6% in 2011. That reflects a number of challenges we faced in the year. Our guidance was we would get back some, but not all, of that margin erosion so that would be a piece in that reconciliation.

We have taken expenses down nicely, but again I think just to restate the puts coming into expense in 2012 that weren't there in 2011 would be to add back in incentive compensation costs that is a number of and some merit increases for our associates, which is a number of about \$20 million. Then you would add a week of expenses for the 53rd week.

So again, all-in expenses I think roughly in line with that 2010 number at the low end of our guidance range, but includes, I will call it, some things that weren't in 2011. Then as I said earlier, the income tax rate that we are forecasting again because of the change in the mix of our earnings as between domestic and foreign as a result of some of our business exits increases our effective income tax rate from the low 30% to the 37% to 38% range as we have forecasted.



Jeff Stein - Northcoast Research - Analyst

Okay. Can you -- so incentive compensation -- the combination of incentive compensation and merit raises is expected to boost your SG&A by about \$20 million? I just want to make sure I understand that.

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

Yes, it's actually a number just a little north of \$20 million. But I think that was, again, on one of the slides; that was slide nine that was out there for the materials that [rolled] our SG&A number.

Jeff Stein - Northcoast Research - Analyst

Okay. What is your wholesale growth assumption for this year if you were to look at things on an apples-to-apples basis, stripping out the divested businesses?

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

It would be up low to mid singles.

Jeff Stein - Northcoast Research - Analyst

And that would also exclude ASG?

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

No, that would include ASG.

Jeff Stein - Northcoast Research - Analyst

So if we were to look at the contemporary fashion brands, maybe you can break out the pieces for us. That would really be helpful.

If we were to look at the contemporary fashion brand business, how much is that expected to be up? If we were to look at Dr. Scholl's, how much is that expected to be up? And Naturalizer? Those three pieces.

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

Again, we don't generally break it down for that part in terms of making projections, but again you would expect that we planned our business, call it, with some caution. Again, but you would expect a higher growth rate out of the mix of that within our contemporary fashion and a more normalized growth rate from our healthy living category. In fact, I think we are planning our ASG brands down year over year as a result of some of the changes going on in product development there.

Jeff Stein - Northcoast Research - Analyst

Okay. All right, thank you.



Operator

Carla Casella, JPMorgan.

Carla Casella - JPMorgan - Analyst

One question on the store closings. It sounds like you are doing all of your closings as your lease action dates come up. While you have any stores that you are closing before or have any dark store rent?

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

I think, as I tried to answer to one of the other questions, the 15 stores that we have added here in the fourth -- to the 2012 closing we are taking action before the lease action date. And for those stores we will have -- incur some dark period rent.

Carla Casella - JPMorgan - Analyst

Okay. Then I think I missed the total doors -- well, in 2012 you talked about adding some wholesale doors. How many doors do expect to add and what would be your total doors compared this year versus last and then going forward?

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

It's a tough question to answer across -- trying to aggregate that across all the retailers and all of the brands in our wholesale portfolio. But particularly our contemporary fashion brands continue to gain broader acceptance and deeper penetration of places like Nordstrom's, Saks, and Neiman's.

Diane Sullivan - Brown Shoe Company, Inc. - President, COO & CEO

Then with the launch of our Vince brand, too, so there will be additional doors with that new brand growth as well.

Carla Casella - JPMorgan - Analyst

Okay, great. Then I think I just missed on the -- you mentioned you are going to relocate or close 90 doors in 2012. I think I missed the total number of openings and if you gave a timing of whether they would be spread evenly through the year.

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

Said at least 55 openings in 2012. In terms of timing within the year, it's tends to follow the opening dates, which tend to get clustered in the second and third and fourth quarters.

Carla Casella - JPMorgan - Analyst

And the brands that you are opening?

Mark Hood - Brown Shoe Company, Inc. - SVP & CFO

Those are all Famous Footwear.

Carla Casella - *JPMorgan - Analyst*

All Famous, okay. So you are not opening any for any of the contemporary brands?

Mark Hood - *Brown Shoe Company, Inc. - SVP & CFO*

Wouldn't be included in that 90 store count or 55 store count number.

Carla Casella - *JPMorgan - Analyst*

Okay, great. Thank you.

Operator

Sam Poser, Sterne Agee.

Sam Poser - *Sterne, Agee & Leach - Analyst*

Morning, thank you for taking my question. Diane, you are doing a lot. What are you doing to really -- you are doing a lot of cuts and adjustments. How many more changes need to happen internally, and then when do you switch totally on to full-gear driving sales?

Because it sounds like you are sort of doing -- you doing a lot of internal stuff that sounds really necessary, but at the same time are you losing mojo on the front end of that just on focus on the back end? If that makes sense.

Diane Sullivan - *Brown Shoe Company, Inc. - President, COO & CEO*

Good question, Sam, and I would say absolutely not. We have been -- we announced this realignment in October of this year so, frankly, it has been truly, basically a quarter where we have accomplished an enormous amount of change. We are going to finish all of this by the -- through the first half of 2012. So when you think about it, it hasn't been all that long and we have been working with speed against us.

At the same time, it was always about growth, profitable growth. Our focus is really making sure that we continue to grow but it has got to be more profitable than what we have been doing and really making sure that we address the alignment of our company around that infrastructure brand and cost, those costs that we talked about.

So we are not stopping to think about growth. In fact, I think you can see even with the Famous store openings, the launch of the new brand, an opening of a store with Sam's, there is continuous effort at the same time that we are doing this to think about the future. And I think more of that, you will hear more of that in the upcoming quarters but the last couple, two have really been about these closing the loop on the things that we started.

Sam Poser - *Sterne, Agee & Leach - Analyst*

Thank you very much. I wish you the best.

Operator

There are no further questions at this time. Speakers, are there any closing remarks?

Diane Sullivan - *Brown Shoe Company, Inc. - President, COO & CEO*

Just want to say thank you again for joining us this morning. We look forward to a first-quarter call and, most importantly, to our June investor day that we will be scheduling. Thanks again.

Operator

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

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