

# Shoe Carnival, Inc. Financial Analysis

Tyler Richards

Faculty Mentor: Cindi Bearden, BS, Mac, CPA  
Business and Nonprofit Studies, Accountancy

## Abstract

This financial analysis report on Shoe Carnival will cover the changes that the company has experienced from the years 2014 to 2019. Because Shoe Carnival has yet to release its official annual report for 2019, the results have limited detail given for the exact changes in financial measures. The statements that were analyzed include the Income Statement, Balance Sheet, and Statement of Cash Flows. Since 2014, Shoe Carnival has had a 10% increase in sales and a 30% increase in operating profit. For that same period, Cost of Sales has increased 9% and Selling and Administrative Expense has increased 11%. The company pays little interest because it does not leave Long-Term Debt outstanding and borrows only from its revolving credit facility. Although Shoe Carnival has closed over 77 stores since 2014, Total Assets have increased 35%, and Total Liabilities have increased 247% for the same period. This is due to the lease standard change, Accounting Standards Codification Topic 842, for the year 2019, which requires Shoe Carnival to begin recording store leases on the Balance Sheet. Cash inflows are driven through daily operations, and cash outflows are determined by the amount of share repurchases. Due to small shoe retailers being pushed out and online sales becoming more prominent, Shoe Carnival's future sales and earnings will be strongly affected by online marketing efforts.

Shoe Carnival is one of the country's largest family footwear retailers; it offers in-store or online purchasing options for its customers (SC, Annual Report, 2018). I will present common-size financial statements, financial ratio graphs, trend analysis graphs, and horizontal analysis explanations to interpret and compare changes from fiscal years 2014 to 2019 for Shoe Carnival. Trend analysis illustrates the overall change since 2014, and horizontal analysis presents year-to-year changes. Fiscal years consist of a 52- to 53-week period which ends on the last Saturday of January or first Saturday of February. Caleres, Shoe Carnival's competitor, and the industry will be used for comparison.

## Introduction

The company was created in 1978 by David Russell with the name "Shoe Biz." In 1993, the company went public on the NASDAQ Stock Market as the trading symbol "SCVL." In 2012, Shoe Carnival began its foreign expansion by opening 4 stores in Puerto Rico. Shoe Carnival has around 5,200 employees and is headquartered in Evansville, Indiana. (SC, About Us, 2020).

## Strategy

Historically, Shoe Carnival's strategy was to open more brick-and-mortar stores. In recent years, Shoe Carnival's goal has been to increase shareholder wealth through

maximizing operating income. Because all of its stores are leased, it has the flexibility to terminate or relocate underperforming stores. Due to the rise in online purchases and the demand for a variety of footwear, Shoe Carnival has been developing a multi-channel strategy. This multi-channel strategy includes Customer Relationship Management, Ship-from-Store, Shoes 2U, Buy Online and Pick Up, E-Commerce, and Mobile. These strategies allow Shoe Carnival to collect customer data for marketing efforts and to create an enjoyable shopping experience for customers (SC, Annual Report, 2018).

## Industry Outlook

As the footwear industry continues to evolve, small shoe retailers have been closing their stores. These small shoe retailers do not generate enough capital to fill the mandatory purchase requirements that manufactures such as Nike and Adidas are now requiring (Carpenter, 2019). Companies such as Shoe Carnival and Caleres are closing some of their locations as well. In 2018, 30% of footwear sales were made online, so shoe retail companies are having to develop new strategies for the online market. Also, large shoe manufacturers have been selling directly to customers rather than distributing their shoes to third-party retailers. According to Murray Carpenter, direct-to-consumer sales grew 12%, while general footwear sales grew only 4% in 2018 (2019). In order to retain their customer base, shoe retailers like Shoe Carnival are going to have to implement new strategies that revolve around online

sales. The retailers need to prove that their value and customer loyalty are unmatched compared to general shoe manufacturers.

### SWOT Analysis

Shoe Carnival uses its competitive strengths to drive online and in-store sales. Since Shoe Carnival was created in 1978, the company has developed a high-energy environment for its customers. The store layout attracts families and encourages spending through games, colors, music, and graphics. The company offers a very broad, cost-friendly merchandise selection for both children and adults. These options include athletic, casual, dress, and seasonal footwear. Shoe Carnival has continued to expand its customer loyalty by developing the program, Shoe Perks, which offers discounts and rewards for customers. In 2018, 68% of net sales were generated through Shoe Perks members (SC, Annual Report, 2018). The company's leadership team is very experienced in the footwear industry. The Chairman, Chief Executive Officer, and Chief Financial Officer have all been working for Shoe Carnival for the last 20 years. As the shoe retail industry continues to change, Shoe Carnival stays ahead of its competitors through its multi-channel strategy and through its online marketing efforts (SC, Annual Report, 2018).

Shoe Carnival also has weaknesses that could potentially hinder financial growth. Even though comparable store sales have increased, the store traffic has decreased each year since 2014. Shoe Carnival has been unable to expand physical locations since 2016. At the end of 2016, Shoe Carnival had 415 stores operating, and at the end of 2019, the company had 392 stores (SC, 2019 Financial Results, 2019). Even though the executive officers are experienced, they lack diversity, with all being males over the age of 45. With the recent changes in the shoe retail industry, new ideas and new influences could be extremely beneficial.

As Shoe Carnival implements its multi-channel strategy, the company has potential opportunities to benefit its financial position. Close to 2.4 million new members joined Shoe Perks in 2018, and those members generated almost 70% of sales (SC, Annual Report, 2018). Further development of Shoe Perks could increase sales and create quality brand awareness. Additionally, Shoe Carnival has the opportunity to expand into other foreign markets in the future. The company operates only in the United States and Puerto Rico, but by expanding into other international countries, Shoe Carnival could gain worldwide popularity and generate more foreign sales. Shoe Carnival has relaunched its e-commerce and mobile platforms. With more customers going online to purchase footwear, Shoe Carnival's online business segment has the opportunity to capitalize on making customers' shopping experiences easier.

Shoe Carnival has many threats that can negatively

impact its business. Customer demand is much higher during Easter, back-to-school, and Christmas periods. If customer demand during these seasons were to decrease, then the company would have a lot of excess inventory left over and would require a markdown in prices. The shoe retail industry contains many competitors. These competitors include family footwear retailers that offer in-store and online purchasing. Shoe Carnival is also impacted by the state of the economy. The company relies heavily on consumer spending, and when unfavorable economic conditions occur, people are less likely to spend money on shoes. Weather and temperatures surprisingly impact the company as well (SC, Annual Report, 2018).

Shoe Carnival specializes in a wide variety of inventory, including sandals for the summer and boots for the winter. If weather and temperatures fluctuate during summer or winter months, then this can lead to a decrease in sales and profit margins. Lastly, Shoe Carnival is threatened by the increase in online purchases and direct-to-consumer spending (Carpenter, 2019). If Shoe Carnival is not able to produce sales from its new multi-channel strategy, and if manufacturers no longer need retailers, then the company's financial position will be negatively impacted.

**Table 1:** Common Size Income Statement

	2016	2017	2018	2019
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	71.1%	70.9%	70.0%	69.9%
Gross profit	28.9%	29.1%	30.0%	30.1%
SG+A Expense	25.1%	25.4%	25.2%	24.9%
Operating income	3.8%	3.7%	4.8%	5.2%
Other	0%	0%	0.1%	0.0%
Income before income taxes	3.8%	3.7%	4.9%	5.3%
Income tax expense	1.4%	1.8%	1.2%	1.1%
Net income	2.3%	1.9%	3.7%	4.1%

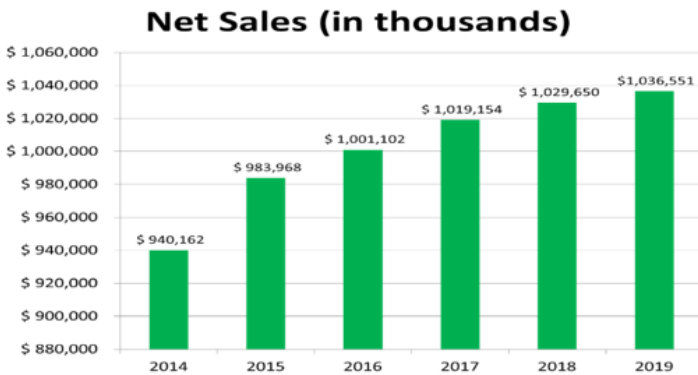
### Income Statement

Table 1 is a Common-Size Income Statement from fiscal years 2016 to 2019. This illustrates the individual accounts as a percentage of Net Sales. I will be focusing on the two largest expense accounts, Cost of Sales and Selling, General, and Administrative Expense. I will analyze the changes in these expense accounts and how they affect Operating Income and Net Income.

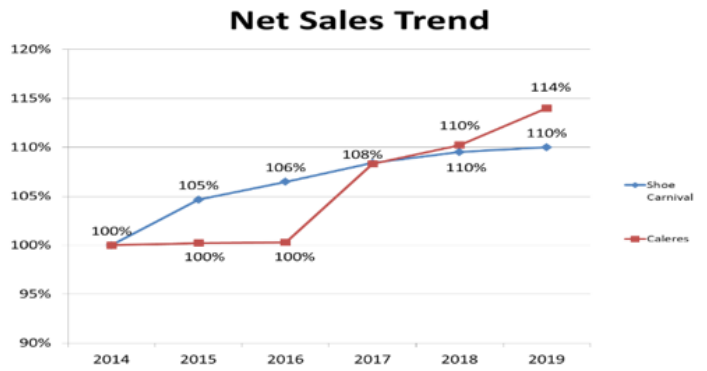
### Net Sales

Figure 1 shows the growth in Net Sales from 2014 to 2019. The dollar amounts are in thousands, and the graph

**Figure 1: Net Sales Amount**



**Figure 2: Net Sales Trend**



illustrates that sales have increased each year. Since 2016, Shoe Carnival has recorded more than \$1 billion in Net Sales.

Figure 2 shows that Shoe Carnival's Net Sales increased 10% since 2014, while Caleres's increased 14%. The largest increase in Net Sales was 5% from 2014 to 2015 for Shoe Carnival. This was primarily due to opening 51 stores, while closing 22 stores from 2014 to 2015. Also, Shoe Carnival experienced a 3% increase in comparable store sales due to a large focus on inventory selection for men and women customers (SC, Annual Report, 2015). Comparable store sales refer to the sales of particular stores that have been open for a year or more.

Net Sales increased 2% from 2016 to 2017. This was driven by the additional 53<sup>rd</sup> week in 2017 and by a 0.3% increase in comparable store sales. The store-to-store increase in sales came from a focus on inventory selection for women and children's athletic footwear, men's boots, and adult dress shoes (SC Annual Report, 2017). From 2018 to 2019, Net Sales increased 1%, with the company's comparable store sales increasing 1.9% (SC, 2019 Financial Results, 2019).

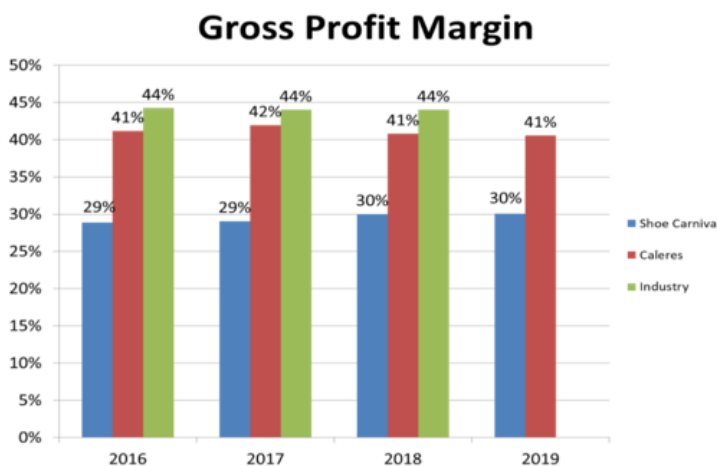
**Gross Profit**

Figure 3 includes the Gross Profit Margin ratio for Shoe Carnival, Caleres, and the industry. Shoe Carnival's Gross Profit Margin is below that of both Caleres and the industry, but it remains constant around 30%. The industry ratio for 2019 is not present because the financial results have yet to be released.

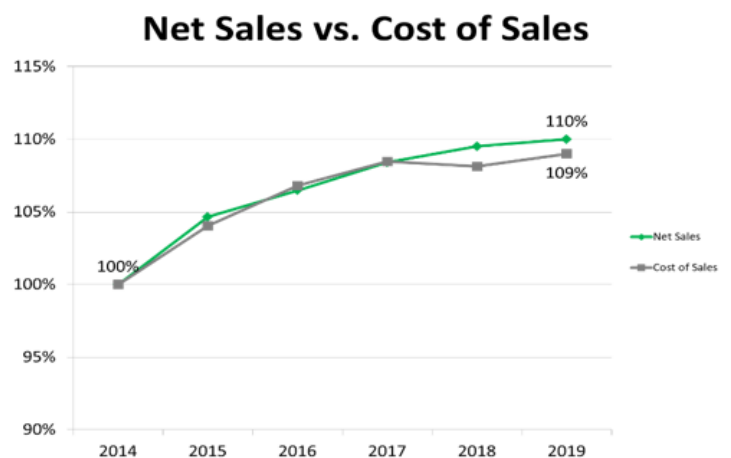
The 1% increase in Gross Profit Margin from 2017 to 2018 was a result of a higher increase in Net Sales compared to Cost of Sales. Net Sales increased 1% from 2017 to 2018, while Cost of Sales experienced a 0% change. Figure 4 shows that Net Sales increased 10% and Cost of Sales increased 9% since 2014.

Gross Profit increased 6% from 2014 to 2015, with a 0.1% increase in merchandise margin and a 0.3% decrease in buying, distribution, and occupancy costs as a percentage of Net Sales (SC, Annual Report, 2015). Another 4% increase in Gross Profit came from 2017 to 2018. This resulted from a 0.3% increase in merchandise margin for women's non-athletic footwear and because of leveraging expenses and lowering

**Figure 3: Gross Profit Margin Ratio**



**Figure 4: Net Sales vs. Cost of Sales Trend**



occupancy expenses (SC, Annual Report, 2018). Leveraging expenses means slowing the growth of increases in expenses compared to the growth increase in sales.

**Operating Profit**

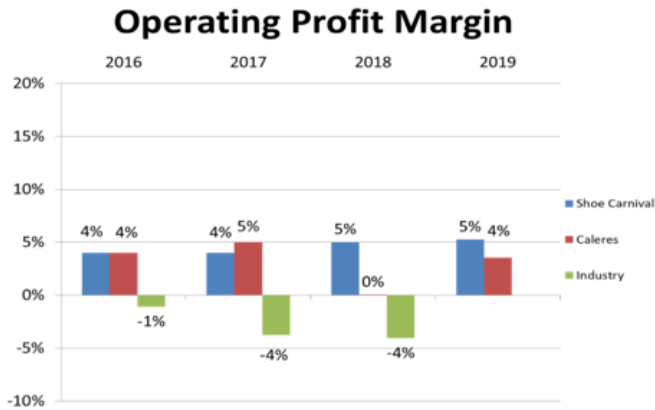
The Operating Profit Margin ratio can be seen in Figure 5. Shoe Carnival and Caleres have similar percentages, while the industry has a negative Operating Profit Margin due to operating losses since 2016. In 2018, Caleres also had a very small Operating Profit compared to its Net Sales. Overall, Shoe Carnival’s Operating Profit Margin has remained consistent and makes up about 4% or 5% of its Net Sales.

Since 2014, Net Sales has increased steadily compared to the fluctuation in Operating Profit. Operating Profit decreased 19% from 2015 to 2016 and decreased 1% from 2016 to 2017, primarily due to increases in Selling and Administrative Expense. Because of limiting Selling and

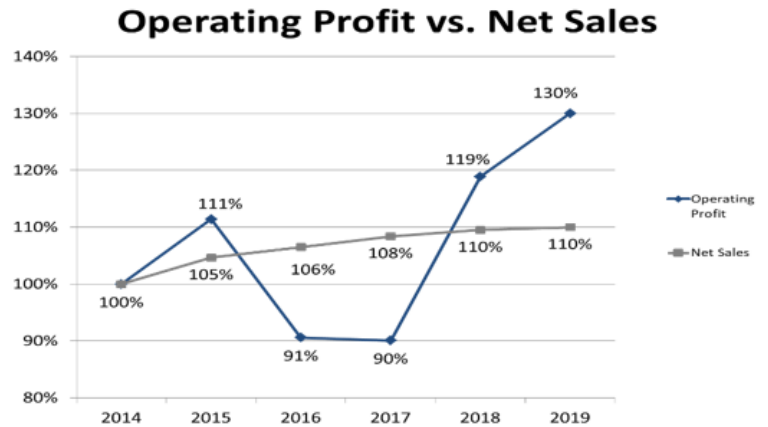
Administrative expenses in 2018 and 2019, Operating Profit increased for these years. Overall, Operating Profit has increased 30% since 2014.

Selling and Administrative Expense is the second largest expense for Shoe Carnival. As a percentage of Net Sales, Selling and Administrative expense was 24.9% in 2019. From 2015 to 2016, Selling and Administrative Expense increased by 3% because of \$4.5 million in non-cash impairments. Of this \$4.5 million, \$3.6 million resulted from stores located in Puerto Rico. Also, another \$2.3 million was for operational costs of 15 additional stores (SC, Annual Report, 2016). From 2016 to 2017, Selling and Administrative Expense increased similarly at 3%. This increase was for \$1.4 million in consultation fees for the company’s Customer Relationship Management initiative and for \$1.2 million in stock-compensation expense (SC, Annual Report, 2017). From 2017 to 2018, Selling and Administrative Expense experienced

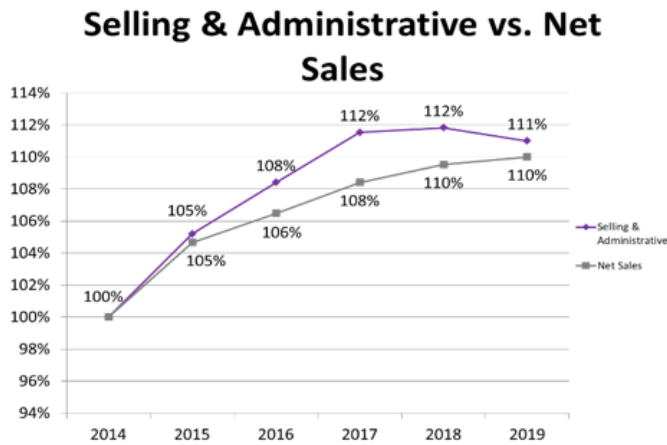
**Figure 5: Operating Profit Margin**



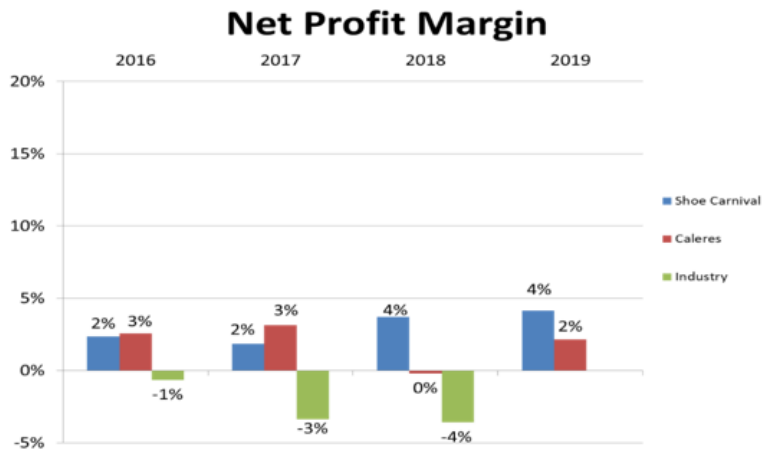
**Figure 6: Operating Profit vs. Net Sales Trend**



**Figure 7: Selling & Administrative Expense vs. Net Sales Trend**



**Figure 8: Net Profit Margin Ratio**



a 0% change by reducing operating costs from closing 40 stores in 2017 and 2018. Also, deferred compensation plan costs were reduced from \$1.8 million in 2017 to \$154,000 in 2018 (SC, Annual Report, 2018). The 11% increase for Selling and Administrative Expense since 2014 can be seen below.

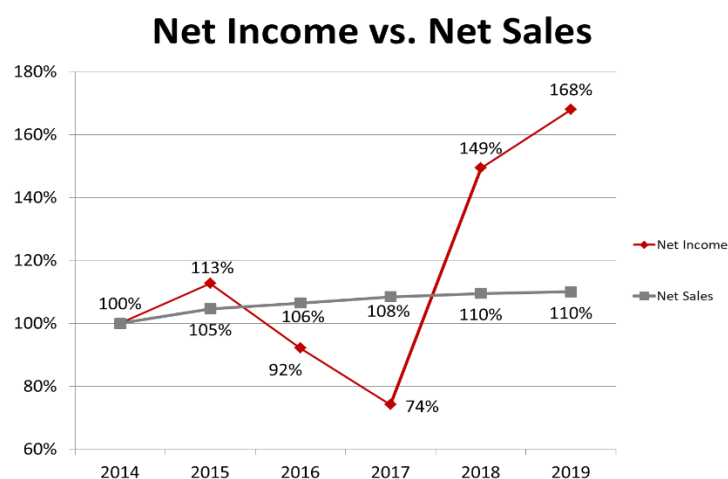
### Net Income

Net Income is directly linked to Shoe Carnival’s ability to manage operating costs. Figure 8 shows how Shoe Carnival’s Net Profit Margin is fairly steady compared to that of Caleres and the industry. Caleres had a small net loss for 2018, and the industry has had net losses since 2016. The 2019 results for the industry have yet to be released.

For Shoe Carnival, Net Income decreased 18% from 2015 to 2016 because merchandise margin decreased 0.6% for expenses pertaining to multi-channel sales initiatives and because of the \$4.5 million in store impairments (SC, Annual Report, 2016). The Tax Cuts and Jobs Act was enacted in 2017, which forced Shoe Carnival to remeasure its deferred taxes, which in turn required an additional \$4.4 million in income tax expense be recorded. The new tax provision also led to \$1.9 million in stock-based compensation expense (SC, Annual Report, 2017). These tax changes are the main reasons why Net Income decreased 19% from 2016 to 2017.

Net Income increased 101% from 2017 to 2018 because of comparable sale increases in all major product and seasonal product categories (SC, Annual Report, 2018). Shoe Carnival was able to limit Cost of Sales and Selling and Administrative Expenses to a 0% change. Also, the new tax provision led to a decrease in the corporate tax rate from 35% to 21% in 2018. Since 2014, Net Income has increased by 68%, which can be seen in Figure 9.

**Figure 9:** Net Income vs. Net Sales Trend



### Income Statement Summary

Since 2014, Net Sales has increased 10% with increasing comparable store sales and focusing on inventory that customers find appealing. Operating Profit and Net Income have seen large increases in 2018 and 2019. Operating Profit has increased due to expense leverage by managing Cost of Sales and Selling and Administrative Expense growth. Similarly, Net Income has increased 68% since 2014 because of the corporate tax rate reduction in 2018 and limiting operating expenses in 2018 and 2019. These increases in Net Income have also led to an increase in Earnings per Share.

### Balance Sheet

The major changes for the Balance Sheet will be presented in order from Assets, Liabilities, and Stockholders’ Equity. Shoe Carnival was required to make major changes to its Balance Sheet for 2019, with the Accounting Standards Codification (ASC) Topic 842 becoming effective for the company on February 3, 2019. This new accounting standard heavily impacted Total Assets and Total Liabilities. Because Shoe Carnival leases all of its 392 store locations, it was required to present these facilities under Noncurrent Assets and the lease contract obligations under Long-Term Liabilities.

### Assets

Table 2 presents the Total Assets portion of the Common-Size Balance Sheet. Current Assets make up a majority of the Total Assets. Cash and Merchandise Inventory are the largest Current Assets accounts. The table presents how Property and Equipment has decreased each year as a percentage of Total Assets. Due to the new lease guidelines issued from ASC Topic 842 that increased Total Assets, each major asset account decreased as a percentage of Total Assets.

**Table 2:** Common Sized Assets

	2016	2017	2018	2019
Cash and cash equivalents	13.7%	11.6%	16.0%	9.9%
Accounts receivable	1.0%	1.5%	0.3%	0.4%
Merchandise inventories	61.0%	62.7%	61.6%	41.3%
Total Current Assets	76.7%	77.1%	80.7%	52.5%
Property and equipment – net	21.0%	20.8%	16.9%	10.8%
Deferred income taxes	2.1%	2.0%	2.3%	1.2%
Operating lease right-of-use assets	0%	0%	0%	34.2%
Other	1.2%	1.4%	2.9%	2.3%
Total Assets	100.0%	100.0%	100.0%	100%

Figure 10: Current Ratio

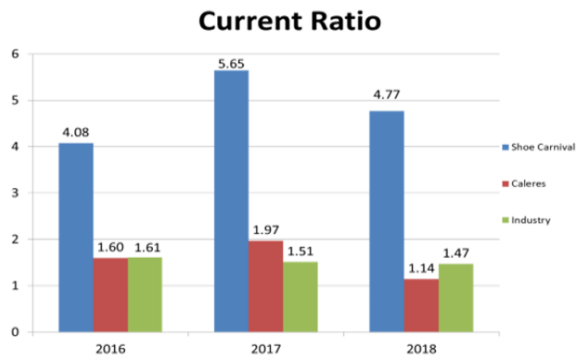


Figure 11: Current Assets vs. Current Liabilities Trend

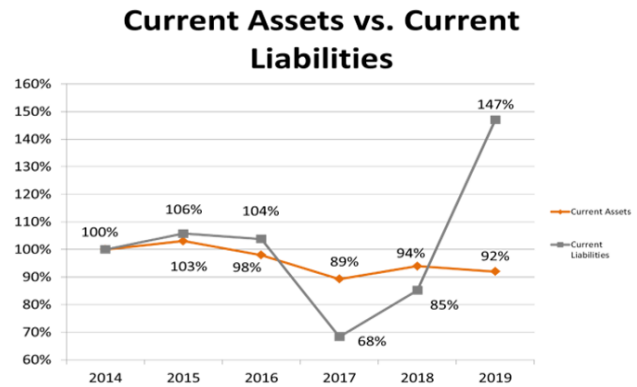


Figure 12: Cash vs. Current Assets Trend

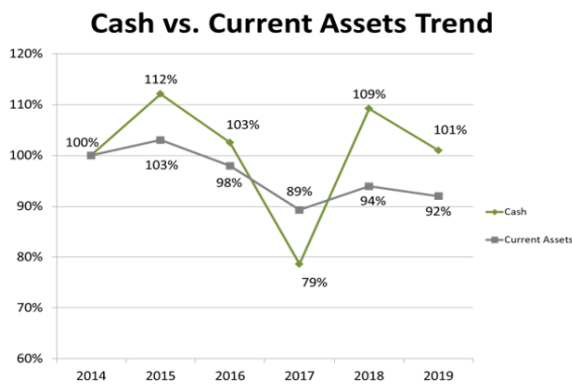


Figure 13: Cash Amount vs. Current Assets Amount

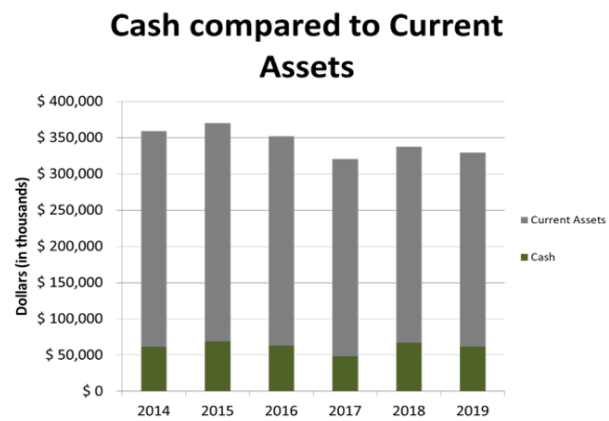


Figure 14: Quick Ratio

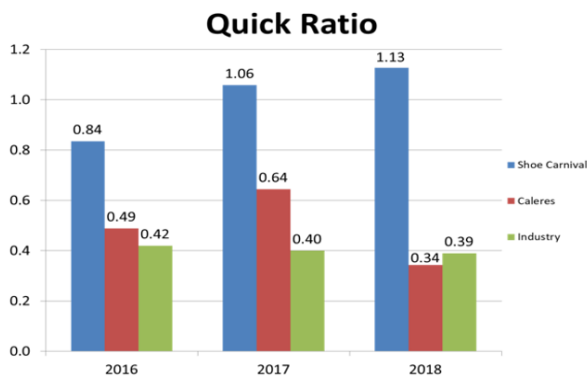
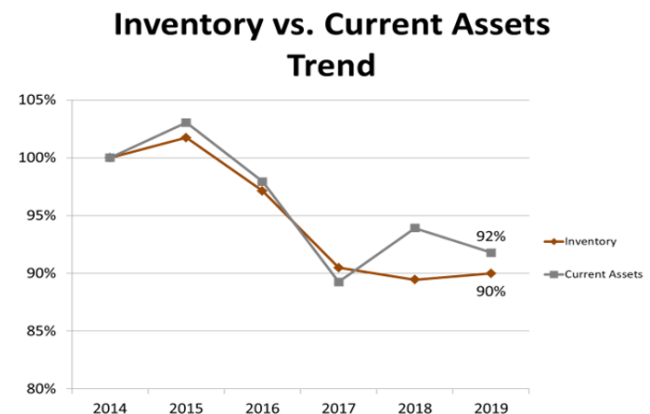


Figure 15: Inventory vs. Current Assets Trend



**Current Assets**

Figure 10 presents the Current Ratio from 2016 to 2018. Shoe Carnival's Current Ratio is much greater than that of Caleres and the industry for these years. The Current Ratio demonstrates the ability of a company to pay off its current obligations with its Current Assets.

Besides 2019, the trend line for Current Assets

increases or decreases along with the trend line for Current Liabilities. Figure 11 shows that Current Assets have decreased by 8% since 2014.

The changes in the Current Assets trend line are reflected on the increases or decreases for the Cash trend line. Figure 12 shows the trend comparison since 2014.

A change in Cash affects Current Assets because it

makes up around 15% to 20% of Current Assets. Figure 13 below illustrates that each year that Cash decreases or increases, so does Current Assets.

From 2015 to 2016, Current Assets decreased 5% because Cash decreased 9%. Shoe Carnival spent \$42.6 million on repurchases of common stock in 2016 (SC, Annual Report, 2016). The company paid \$29.5 million to vendors and suppliers and spent \$29.8 million on repurchases of common stock in 2017 (SC, Annual Report, 2017). This led to a 23% decrease in Cash and contributed to a 9% decrease in Current Assets from 2016 to 2017.

Merchandise Inventory is the largest asset account at around 41% of Total Assets in 2019. The Quick Ratio is shown in Figure 14. This ratio demonstrates the ability of a company to pay off its current obligations with inventory being excluded from Current Assets. Shoe Carnival's ratio is much higher than that of Caleres and the industry because of its ability to obtain Cash from its operations.

Since 2014, Inventory has decreased 10%, which is the main reason why Current Assets have decreased 8%. Since 2016, Shoe Carnival has been opening fewer and closing more store locations in hopes of increasing operating income and maximizing shareholder value (SC, Annual Report, 2018). This has resulted in fewer products that Shoe Carnival needs to have on hand. Figure 15 has the overall change in Inventory compared to Current Assets since 2014.

Inventory Turnover is a ratio that determines how many times inventory is sold throughout the year. Shoe Carnival's Inventory Turnover was less than that of Caleres and the industry in 2016. However, Shoe Carnival's ratio has increased since 2016 and was higher than that of Caleres and the industry in 2018. Figure 16 presents the Inventory Turnover ratios.

Days Inventory Held is a ratio used to determine the

average number of days that inventory is held in stores before being sold. Shoe Carnival's was higher than Caleres's and the industry's in 2016. In 2018, Shoe Carnival's Days Inventory Held was less than both Caleres's and the industry's. The Days Inventory Held ratio can be seen in Figure 17 below.

Changes in the two inventory ratios are a result of Cost of Sales increasing 9% and Merchandise Inventory decreasing 10% since 2014. Shoe Carnival has focused on implementing its multi-channel strategy, which has led to an increase in Cost of Sales. Part of the strategy includes collecting customer data and using it to implement better inventory selection (SC, Annual Report, 2018). Because Shoe Carnival has closed 55 stores since 2016, the company does not need as much inventory on hand. Figure 18 shows the percentage changes for Cost of Sales and Merchandise Inventory since 2014.

### Noncurrent Assets

Since 2016, Shoe Carnival's Fixed Asset Turnover ratio has increased each year. This ratio indicates how well sales are generated from investments in fixed assets. In 2016, it was lower than that of both Caleres and the industry. In 2018, the ratio was higher than that of both Caleres and the industry. Figure 19 presents the Fixed Asset Turnover ratio.

Since 2014, Shoe Carnival has opened fewer stores and spent less on capital expenditures. In 2014, the company opened 31 new stores, and 73% of total cash outflows were spent on capital expenditures (SC, Annual Report, 2014). In 2019, Shoe Carnival opened 1 store and spent 20% of cash outflows on capital expenditures (SC, 10-K, 2019). Figure 20 is a visual of how Property and Equipment has decreased 33% since 2014. The majority of this change is a result of Shoe Carnival closing underperforming store locations. However,

Figure 16: Inventory Turnover Ratio



Figure 17: Days Inventory Held Ratio

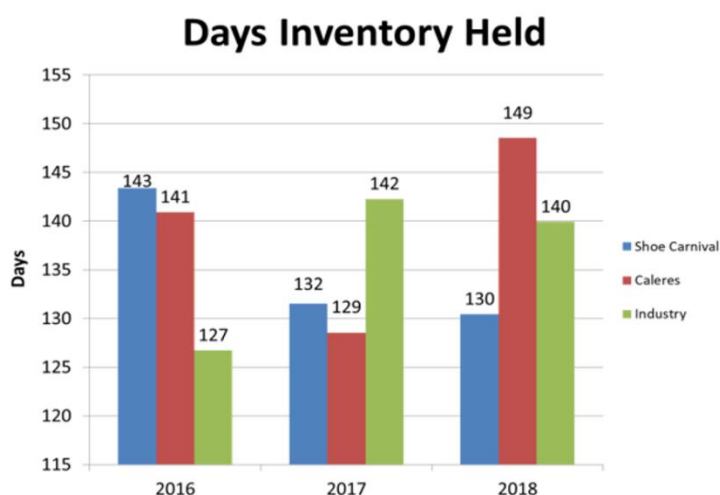


Figure 18: Inventory vs. Cost of Sales Trend

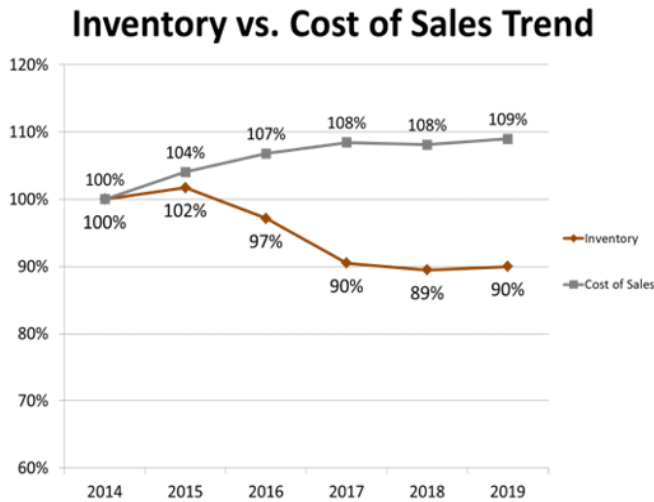


Figure 19: Fixed Asset Turnover Ratio

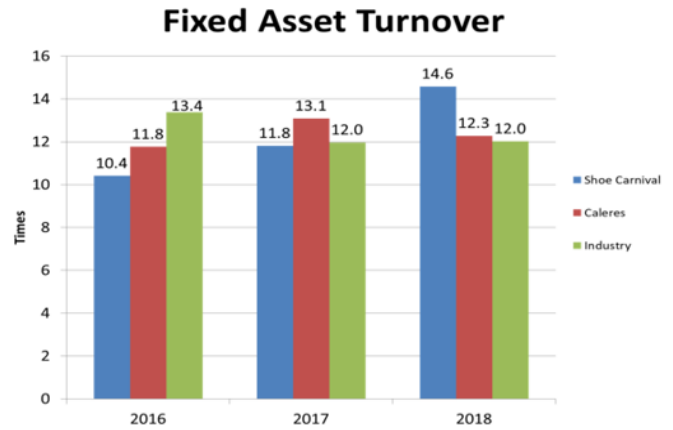


Figure 20: Net Property and Equipment vs. Net Sales Trend

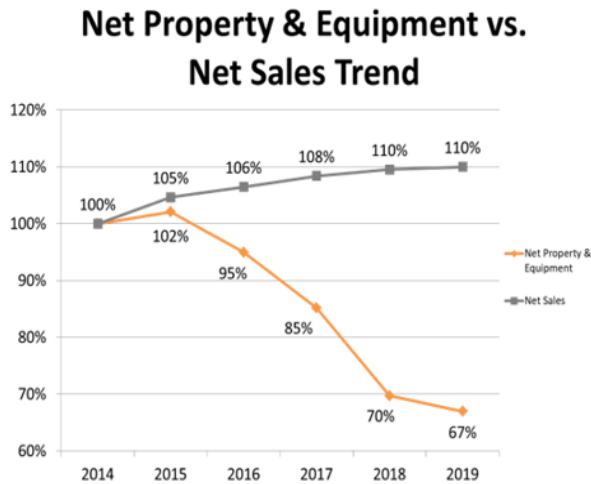


Figure 21: Total Asset Turnover Ratio

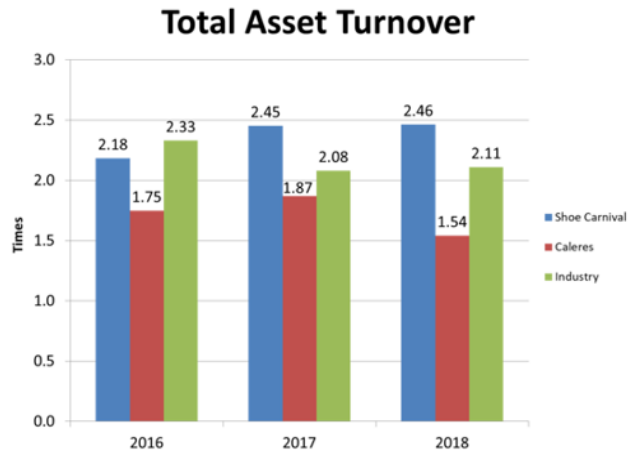


Figure 22: Total Assets vs. Net Sales Trend

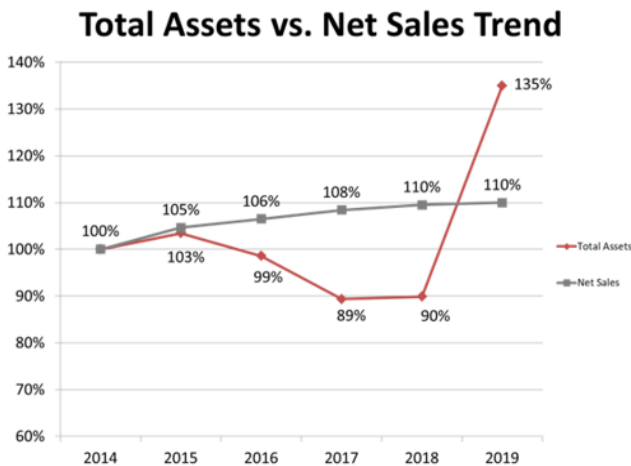
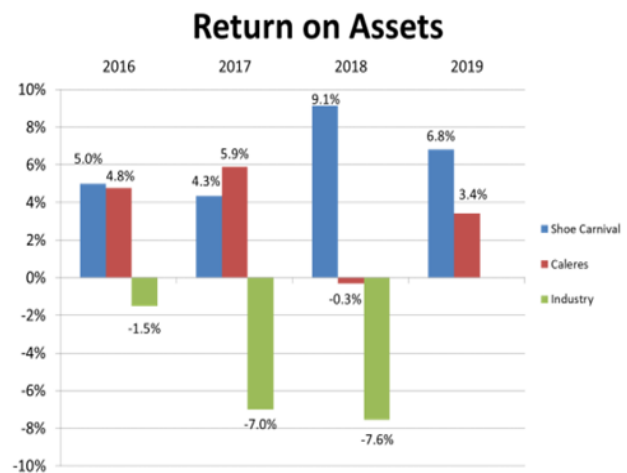


Figure 23: Return on Assets Ratio





this has not negatively affected sales. Sales continue to this continue to increase due to the multi-channel marketing strategy and because of the company's focus on generating online sales.

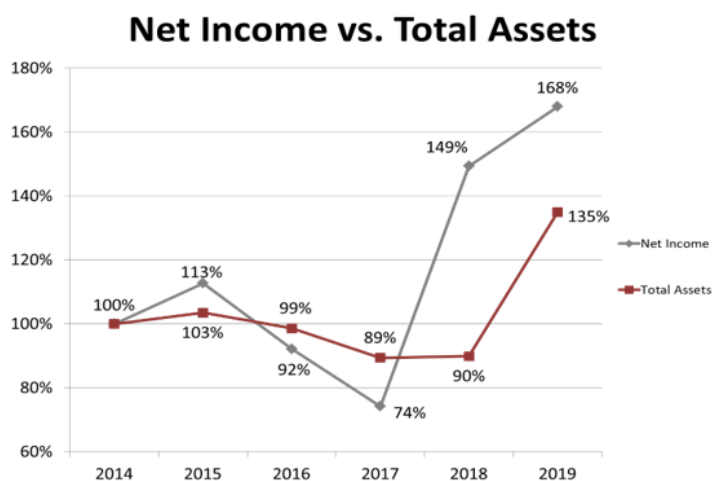
Total Asset Turnover ratio measures a company's ability to generate sales from Total Assets. Shoe Carnival's ratio is higher than Caleres's and increased from 2016 to 2018. Figure 21 contains the Total Asset Turnover ratio.

Figure 22 shows the overall change in Total Assets compared to Net Sales since 2014. Total Assets decreased each year from 2014 to 2017 for Shoe Carnival. The company has been identifying underperforming stores and either closing or relocating these stores. Total Assets increased 50% from 2018 to 2019. Due the Financial Accounting Standard Board issuing ASC Topic 842, all of Shoe Carnival's store locations were required to be recorded on the balance sheet as Operating Leased Assets. This resulted in an additional \$215 million being added to Total Assets, while Net Sales increased by only \$10 million.

Figure 23 shows the ratio for Return on Assets. This ratio measures the ability of Total Assets to generate income. Shoe Carnival experienced a large increase from 2017 to 2018 and a decrease from 2018 to 2019. The industry has seen large decreases and a negative ratio since 2016 due to net losses.

Net Income increased at a much faster rate than did Total Assets from 2017 to 2018 for Shoe Carnival. The corporate tax rate reduction, along with the ability to manage operating expenses, was the reason for the large increase in Net Income. Cash increased 39% from 2017 to 2018, which caused Total Assets to increase 1%. Although Net Income increased 13% from 2018 to 2019, Total Assets increased at 35%. This increase came from the operating lease assets being recorded. Figure 24 shows how Total Assets have increased 35% since 2014.

Figure 24: Net Income vs. Total Assets Trend



## Liabilities

Table 3 presents the liabilities section of the Common Size Balance Sheet. Accounts Payable has historically been the largest liability account up until 2019. The ASC Topic 842 caused Shoe Carnival to record their store lease contracts under liabilities. This change created two additional accounts: The Current Portion of the Operating Lease Liability and the Long-Term Portion. The company had very little debt before 2019, but the new standards change caused Shoe Carnival's liabilities to increase dramatically.

Table 3: Common Size Liabilities

	2016	2017	2018	2019
Accounts payable	14.8%	10.0%	11.7%	9.7%
Accrued and other liabilities	4.0%	3.6%	5.3%	3.0%
Current portion of operating lease liabilities	0.0%	0.0%	0.0%	6.9%
Total Current Liabilities	18.8%	13.7%	16.9%	19.5%
Long-term portion of operating lease liabilities	0.0%	0.0%	0.0%	30.9%
Deferred lease incentives	6.7%	7.0%	5.3%	0.0%
Other	4.9%	5.4%	4.9%	2.3%
Total Long-term Liabilities	11.6%	12.4%	10.2%	33.2%
Total Liabilities	30.4%	26.1%	27.2%	52.7%

## Current Liabilities

Until 2019, Current Liabilities made up a majority of Total Liabilities. Calculating the averages from 2014 to 2018 reveals that Current Liabilities made up 60% of Total Liabilities, while Long-Term Liabilities made up 40%. These percentages are given in Figure 25. However, Long-Term Liabilities increased to around 63% of Total Liabilities in 2019 due to the addition of long-term lease contracts.

Payables Turnover is a ratio that demonstrates how many times Accounts Payable is paid each year. Shoe Carnival's ratio is much greater than Caleres's and the industry's. For 2018, Shoe Carnival's payables remained outstanding for 25 days, while Caleres's payables remained outstanding for 69 days. Figure 26 shows Payables Turnover below.

Accounts Payable makes up the largest portion of Current Liabilities. Since 2014, Accounts Payable has decreased 11%. From 2016 to 2017, Accounts Payable decreased 38% because Shoe Carnival paid \$26.1 million to suppliers and because merchandise inventory decreased 7%. From 2017 to 2018, Accounts Payable increased 17% solely because the company paid less cash to suppliers. Figure 27 shows the overall changes since 2014.

Figure 25: Percentage of Total Liabilities

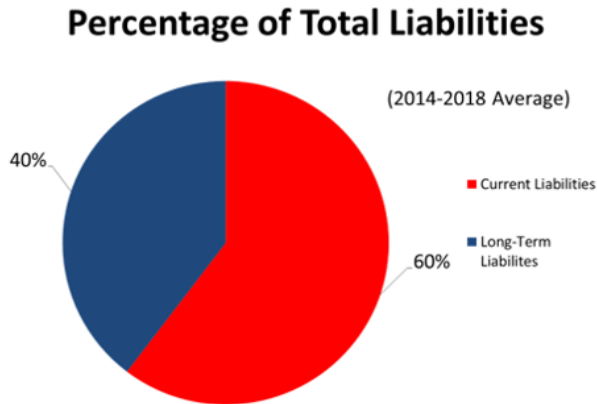


Figure 26: Payables Turnover

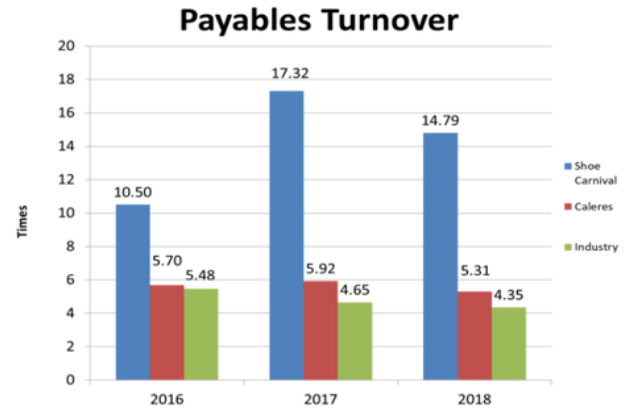


Figure 27: Accounts Payable vs. Cost of Sales

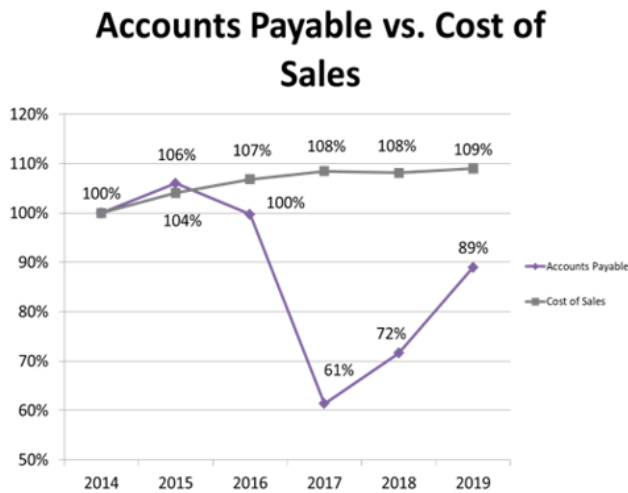


Figure 28: Debt Ratio

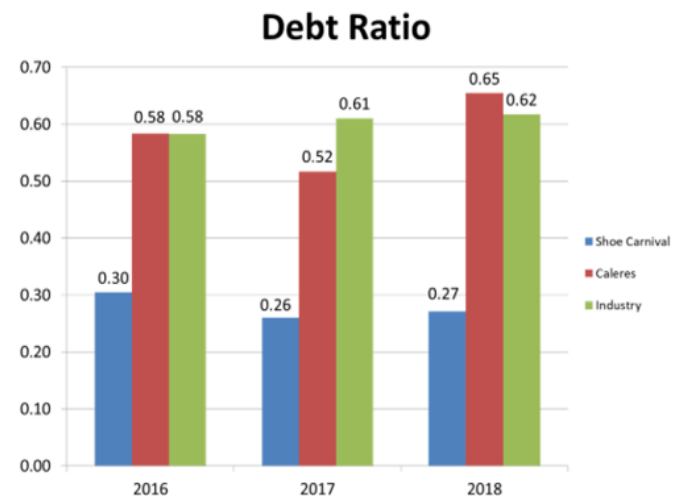


Figure 29: Total Liabilities vs. Total Assets Trend

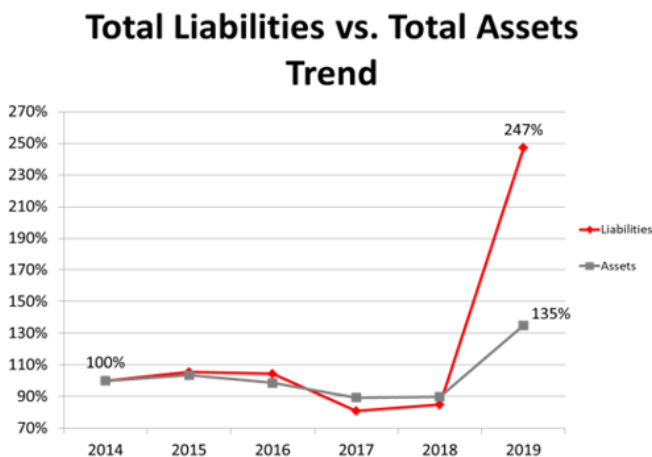
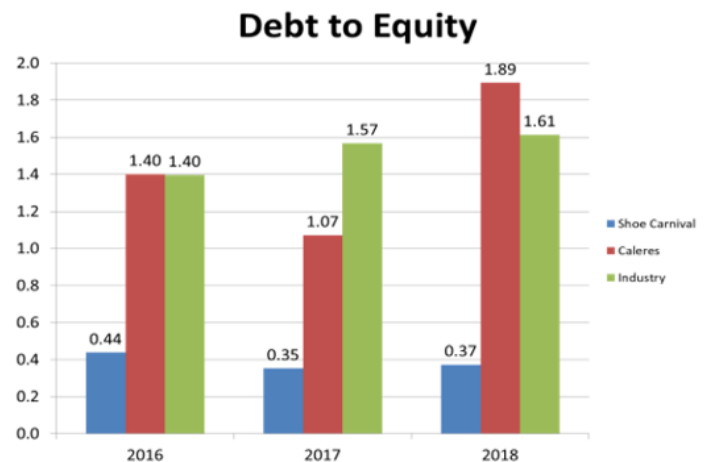


Figure 30: Debt to Equity Ratio



### Long-Term Liabilities

Until 2019, Shoe Carnival’s Long-Term Liabilities made up around 37% of its debt. Figure 28 shows the Debt Ratio from 2016 to 2018. This ratio identifies what percentage of assets is funded through debt. Shoe Carnival’s ratio was well below Caleres’s and the industry’s from 2016 to 2018.

Since 2014, Total Liabilities has increased 147%. This is because of the new lease recording guidelines for lessees in the ASC Topic 842. Because all of Shoe Carnival’s stores are long-term leases, the company’s Long-Term Liabilities increased 387% from 2018 to 2019. The company recorded \$194.1 million of Long-Term Portion of Operating Lease Liabilities for 2019. This major change can be identified in Figure 29, which shows the overall change in Total Liabilities since 2014.

**Table 4:** Common Size Stockholders’ Equity

	2016	2017	2018	2019
Common stock	0.0%	0.0%	0.0%	-
Additional paid-in capital	14.2%	15.8%	18.1%	-
Retained earnings	68.2%	78.6%	86.2%	-
Treasury stock	-12.9%	-20.5%	-31.5%	-
Total Shareholders’ Equity	69.6%	73.9%	72.8%	47.3%
Total Liabilities and Shareholders’ Equity	100.0%	100.0%	100.0%	100%

### Stockholders’ Equity

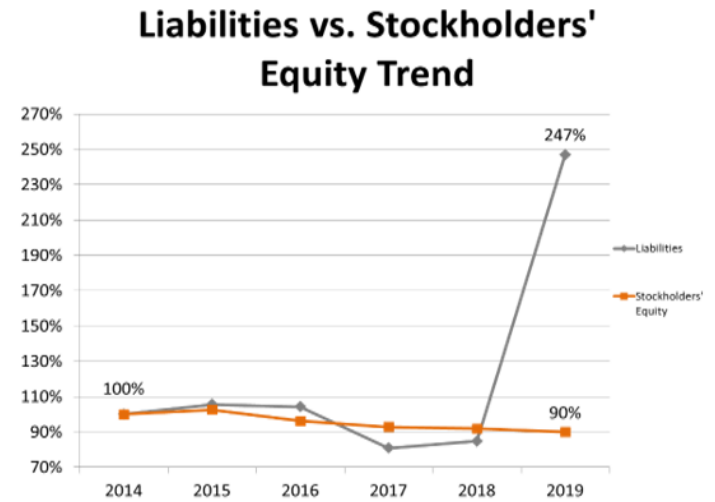
Table 4 is the Stockholders’ Equity portion of the Common Size Balance Sheet. The two largest accounts are Retained Earnings and Treasury Stock. As a percentage of Total Liabilities and Stockholders’ Equity, Total Stockholders’ Equity has decreased since 2017. Shoe Carnival has yet to release its full 2019 results for individual Stockholders’ Equity accounts.

Figure 30 shows the Debt to Equity ratio. This illustrates how a company finances its operations through either debt or equity. Until 2019, Shoe Carnival had a much lower Debt to Equity ratio because of its ability minimize Liabilities by financing with operating leases. The company’s ratio was much lower than Caleres’s and the industry’s from 2016 to 2018.

Shoe Carnival’s Total Stockholders’ Equity has decreased 10% since 2014. The company has been repurchasing common stock in hopes of increasing shareholder value. Figure 31 compares the overall changes of Stockholders’ Equity and Total Liabilities since 2014.

Stockholders’ Equity has decreased since 2014 because of the company’s stock repurchasing plan. Since 2014,

**Figure 31:** Stockholders’ Equity vs. Total Liabilities Trend



Treasury Stock has increased 1761%. The largest increases in Treasury Stock were in 2016 and 2018. Shoe Carnival spent \$42.6 million in 2016 and \$46 million in 2018 on repurchasing stock. Even though Retained Earnings, the largest equity account, has increased 33% since 2014, the Stockholders’ Equity account continues to decrease each year because of treasury stock. Figure 32 shows the large increase in Treasury Stock compared to Retained Earnings since 2014.

### Balance Sheet Summary

Since 2014, Current Assets have decreased 8% because of the 10% decrease in Merchandise Inventory. Shoe Carnival has been closing underperforming stores, which means the company does not need as much inventory on hand. Property and Equipment has decreased 33% since 2014 due to Shoe Carnival closing 55 stores since 2016. Although a majority of individual asset accounts have been decreasing,

**Figure 32:** Treasury Stock vs. Retained Earnings Trend



Total Assets increased by 50% from 2018 to 2019 as a result of the new lease guidelines from ASC Topic 842. This lease guideline change also created a 191% increase in Total Liabilities from 2018 to 2019. Shoe Carnival's Stockholders' Equity account has decreased 10% since 2014 because of the company's emphasis on repurchasing common stock.

### Statement of Cash Flows

Table 5 presents a summary of the Statement of Cash Flows with all three activities and with the overall change in cash for the years 2015 to 2019. Shoe Carnival generates cash through its daily operations to issue dividends, repurchase common stock, and finance capital expenditures. The company had decreases in cash for 2016, 2017, and 2019.

**Table 5:** Statement of Cash Flows Summary

	2015	2016	2017	2018	2019
Net cash provided by operating activities	58,555	63,789	40,348	74,141	66,946
Net cash used in investing activities	(27,651)	(21,832)	(19,653)	(4,415)	(17,751)
Net cash used in financing activities	(23,466)	(47,827)	(35,385)	(50,959)	(54,317)
Net change in cash	7,438	(5,870)	(14,690)	18,767	(5,122)

### Cash Inflows

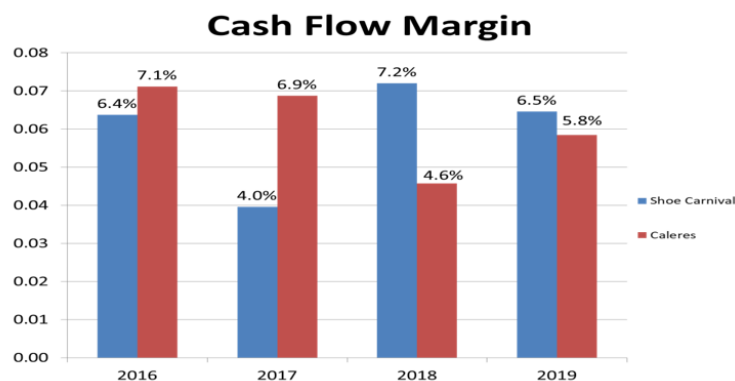
Table 6 summarizes the activities that generate cash for Shoe Carnival by percentages of total inflows. The two main inflows are from operating activities and from borrowings received under Shoe Carnival's credit facility.

Cash Flow Margin (figure 33) is a ratio that demonstrates how well cash is generated from sales. Shoe Carnival's ratio decreased in 2017 and 2019 because of a

**Table 6:** Percentage of Cash Inflows

	2016	2017	2018	2019
Net cash provided by operating activities	99.6%	31.2%	95.9%	76.2%
Borrowings under line of credit	0.0%	68.6%	0.0%	22.8%
Other	0.4%	0.2%	4.1%	1.0%
<b>Total Inflows</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100%</b>

**Figure 33:** Cash Flow Margin Ratio



decrease in cash from operating activities compared to the previous years.

Cash Flows from Operations decreased 37% from 2016 to 2017. This was a result of Net Income decreasing 19% and Shoe Carnival paying \$29.5 million in cash to its suppliers and vendors. The decrease to Net Income was primarily due to \$4.4 million being recorded under Income Tax Expense for remeasuring deferred taxes and also the costs of closing 26 stores in 2017 (SC, Annual Report, 2017). Cash Flows from Operations increased 84% from 2017 to 2018. This came from the reduced corporate tax rate and paying less cash to suppliers and vendors. Since 2014, Cash Flow from Operations has increased 16%, which can be seen in Figure 34.

### Cash Outflows

Table 7 summarizes Shoe Carnival's outflow activities as percentages of total outflows. The company's largest outflows consist of repurchasing common stock, purchasing property and equipment, and paying dividends. Shoe Carnival also made payments on the credit facility in 2017 and 2019.

Since 2014, Shoe Carnival has been repurchasing more common stock. In 2016 and 2018, the company used more than \$40 million in cash for this activity. Figure 35 shows this.

Figure 36 shows how the company is now less focused

**Table 7:** Percentage of Cash Outflows

	2016	2017	2018	2019
Purchase of common stock for treasury	61.0%	20.7%	78.6%	40.6%
Purchases of property and equipment	31.2%	13.7%	12.7%	19.9%
Dividends paid	7.2%	3.3%	8.1%	6.1%
Payments on line of credit	0.0%	61.6%	0.0%	21.5%
Shares surrendered by employees to pay taxes on restricted stock	0.6%	0.7%	0.6%	11.9%
<b>Total Outflows</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100%</b>

Figure 34: Cash Flow from Operations vs. Net Sales Trend

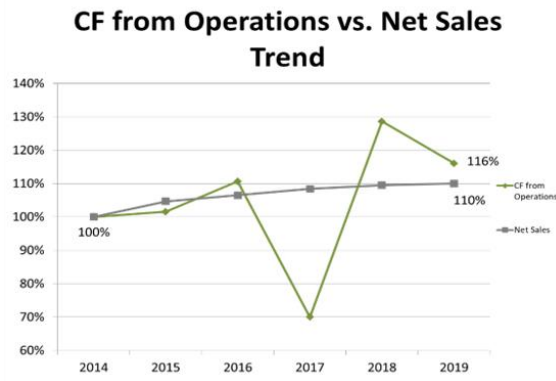


Figure 35: Repurchases of Common Stock

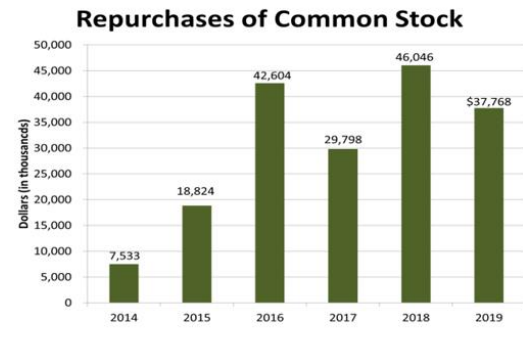


Figure 36: Purchases of Property and Equipment

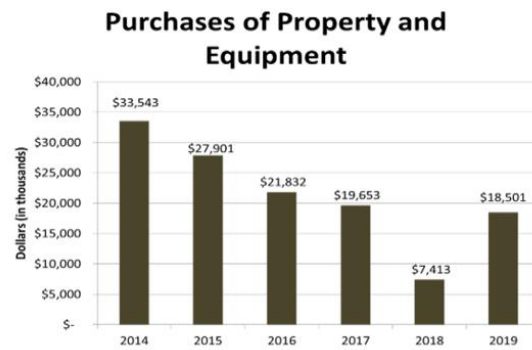


Figure 37: Cash Dividends



Figure 38: Cash Flow Adequacy Ratio

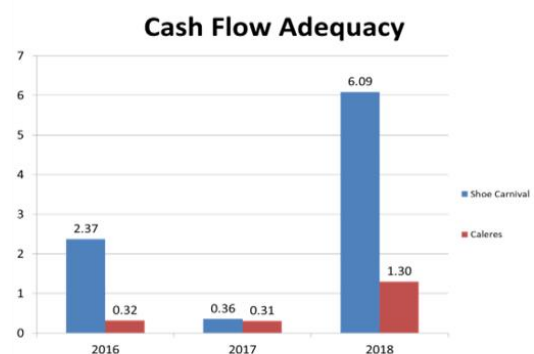


Figure 39: Stock Prices



on physical expansion. From 2014 to 2018, the amount of cash spent on opening, remodeling, and relocating stores has decreased. The amount of cash used in 2019 was expected to be for activities related to the corporate headquarters and remodeling stores (SC, Annual Report, 2018).

Since 2014, Shoe Carnival has paid around \$5 million each year in dividends. One of the requirements for Shoe Carnival to qualify for its current credit facility agreement is that the company cannot distribute more than \$10 million in dividends annually (SC, Annual Report, 2018). Figure 37 measures the total dividends paid each year since 2014.

Figure 38 shows the Cash Flow Adequacy ratio. This ratio measures the ability to pay for capital expenditures, debt, and dividends with cash generated from operations. In 2017, the ratio decreased because Shoe Carnival repaid \$88.6 million of borrowings from its credit facility. These borrowings were used to fund operations and working capital requirements and to purchase merchandise (SC, Annual Report, 2017).

### Summary of Cash Flows

Cash Flow from Operations generates most of the cash for the company. Cash Flow from Operations is used for inventory purchases, capital expenditures, repurchases of common stock, and dividend payments. Capital expenditures used to be the largest cash outflow, but since Shoe Carnival has been closing stores, the company's largest outflow has been repurchasing common stock. When cash generated from operating activities is not enough to pay for outflows, the company borrows from its credit facility.

### Market Activity

Figure 39 shows the stock price growth for Shoe Carnival and Caleres over the last 5 years. As of March 30, 2020, Shoe Carnival's stock price was \$24.25 and Caleres's stock price was \$5.43 (Yahoo, 2019). Due to the recent Coronavirus Pandemic, the two companies have seen a large reduction in stock prices. Shoe Carnival has closed all of its store locations as a result of the pandemic; however, this has not stopped online sales. The company has reported that e-commerce business has grown triple digits since the closures were announced (SC, News Releases, 2020).

From 2017 to 2018, Shoe Carnival's Earnings Per Share increased 181%. From 2018 to 2019, the company's Earnings Per Share increased 18%. These increases were a result of the large increases in Net Income for 2018 and 2019. Caleres had a loss per share in 2018 due to its overall net loss. Shoe Carnival's earnings per share in 2019 was \$2.97. Figure 40 shows Shoe Carnival's and Caleres's earnings per share from 2014 to 2019.

The Dividend Payout ratio, shown in Figure 41, measures the percentage of earnings that are actually received

by investors through dividends. Shoe Carnival's Dividend Payout decreased in 2018 because of the large rise in Earnings Per Share compared to dividends paid per share. In 2017, Shoe Carnival's dividend per share was \$0.23, and Earnings Per Share was \$1.15. In 2018, the company's dividend per share

Figure 40: Earnings per Share



Figure 41: Dividend Payout Ratio

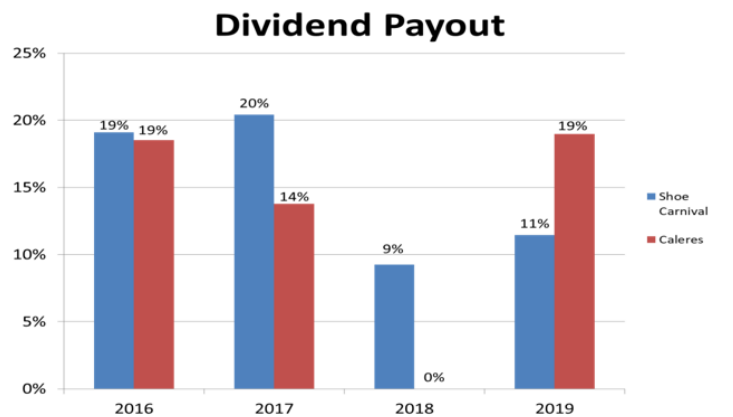
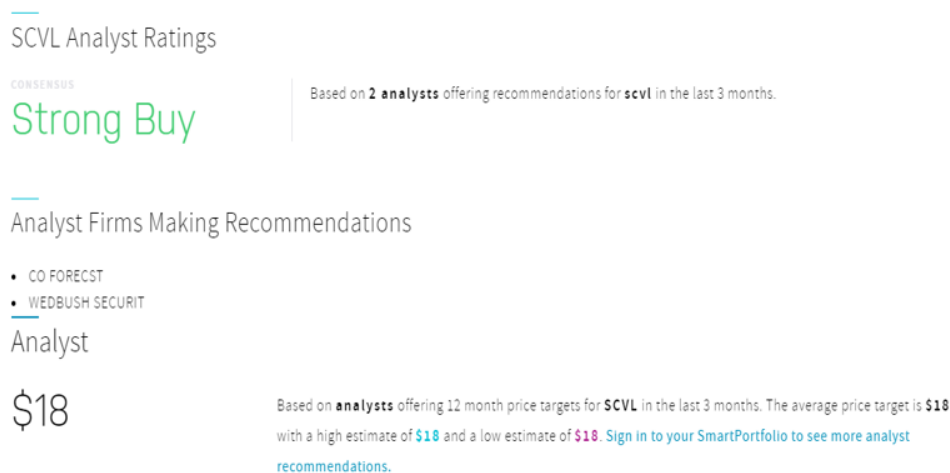


Figure 42: Price-to-Earnings Ratio



**Figure 43:** Analysts Opinions



grew to \$0.32, even though Earnings Per Share increased to \$2.51. Caleres did not have a ratio in 2018 because it experienced a net loss.

Figure 42 is the Price-to-Earnings ratio. Since 2016, the ratio has decreased for Shoe Carnival because the company's Earnings Per Share has been increasing faster than the January or February year-end market price per share.

According to two analysts, Company Forecast and Wedbush Securities, Shoe Carnival is a strong buy (NASDAQ, 2020). These analysts recommend purchasing Shoe Carnival shares because of the company's ability to adapt to customer preferences and its ability to return value to investors (Butler-Young, 2019). Figure 43 presents their opinions.

### Conclusion

Since 2014, Shoe Carnival's Net Income has increased 68%. The main reasons for this are a 10% increase in Net Sales and slowing growth of operating expenses. Also, the corporate tax rate was reduced from 35% to 21%, which became effective in fiscal 2018. Although Shoe Carnival has been closing stores, Total Assets rose 50% and Total Liabilities grew 191% from 2018 to 2019. The Accounting Standards Codification Topic 842 states that companies must present all long-term lease contracts on the balance sheet. Because Shoe Carnival leases all 392 store locations, this standard change led to large increases in Noncurrent Assets and Long-Term Liabilities in 2019.

Since 2014, Stockholders' Equity has decreased 10%, despite Net Income increasing, because of the 1761% increase in Treasury Stock. Cash Flow from Operations generates almost all cash inflows. When general operations will not supply the company with enough cash for outflow activities, the company borrows money from its credit facility. Shoe retail companies, especially smaller retailers, have been struggling

with a lack of customer traffic and with direct consumer interaction from large shoe manufacturers. Shoe Carnival has been implementing its multi-channel strategy to adapt to its customers' demands by collecting online data and generating online sales. Even though Shoe Carnival has been successful in producing financial results with its new strategies, it will continue to face many more challenges in the future.

### References

- Bizminer. (2019). Industry Financial Report. NAICS 448210. Retrieved from file:///C:/Users/User/Downloads/bizminer%20(21).pdf
- Butler-Young, S. (2019). 3 Shoe Stocks Analysts Say You Should Buy Right Now. Retrieved from <https://footwearnews.com/2019/business/financial-news/best-stocks-to-buy-now-invest-april-2019-1202769791/>
- Caleres. (2014). Annual Report. Retrieved from [https://s24.q4cdn.com/205770246/files/doc\\_financials/annuals/Brown\\_Shoe\\_Company\\_Annual\\_Report\\_-\\_2014.pdf](https://s24.q4cdn.com/205770246/files/doc_financials/annuals/Brown_Shoe_Company_Annual_Report_-_2014.pdf)
- Caleres. (2015). Annual Report. Retrieved from [https://s24.q4cdn.com/205770246/files/doc\\_financials/annuals/2015\\_CALERES\\_Annual\\_Report.pdf](https://s24.q4cdn.com/205770246/files/doc_financials/annuals/2015_CALERES_Annual_Report.pdf)
- Caleres. (2016). Annual Report. Retrieved from [https://s24.q4cdn.com/205770246/files/doc\\_financials/annuals/CAL\\_2016\\_Annual\\_Report\\_-\\_FINAL.pdf](https://s24.q4cdn.com/205770246/files/doc_financials/annuals/CAL_2016_Annual_Report_-_FINAL.pdf)
- Caleres. (2017). Annual Report. Retrieved from [https://s24.q4cdn.com/205770246/files/doc\\_financials/annuals/2017\\_CALERES\\_Annual\\_Report\\_high.pdf](https://s24.q4cdn.com/205770246/files/doc_financials/annuals/2017_CALERES_Annual_Report_high.pdf)
- Caleres. (2018). Annual Report. Retrieved from [https://s24.q4cdn.com/205770246/files/doc\\_financials/annuals/Caleres\\_2018\\_Annual\\_Report.pdf](https://s24.q4cdn.com/205770246/files/doc_financials/annuals/Caleres_2018_Annual_Report.pdf)
- Caleres. (2019). Fourth Quarter and Full Year 2019 Results.

- Retrieved from <https://investor.caleres.com/news-releases/news-details/2020/Caleres-Reports-Fourth-Quarter-and-Full-Year-2019-Results/default.aspx>
- Carpenter, M. (2019). Shut Out by Shoe Giants, ‘Mom and Pop’ Stores Feel Pinched. The New York Times. Retrieved from <https://www.nytimes.com/2019/06/18/business/shut-out-by-shoe-giants-mom-and-pop-stores-feel-pinched.html>
- NASDAQ. (2020). Shoe Carnival, Inc. Common Stock (SCVL) Analyst Research. Retrieved from <https://www.nasdaq.com/market-activity/stocks/scvl/analyst-research>
- Shoe Carnival, Inc. (2014). Annual Report. Retrieved from <https://shoecarnival.gcs-web.com/static-files/8b30153e-a875-4c19-ab5a-5bb20eda07f4>
- Shoe Carnival, Inc. (2015). Annual Report. Retrieved from <https://shoecarnival.gcs-web.com/static-files/114f7cec-655f-4065-8126-cd4c64e0bcda>
- Shoe Carnival, Inc. (2016). Annual Report. Retrieved from <https://shoecarnival.gcs-web.com/static-files/d72d37a5-d010-45b4-8851-baf5320316c0>
- Shoe Carnival, Inc. (2017). Annual Report. Retrieved from <https://shoecarnival.gcs-web.com/static-files/14e13f9a-1aa3-460a-9370-8012c6e7a207>
- Shoe Carnival, Inc. (2018). Annual Report. Retrieved from <https://shoecarnival.gcs-web.com/static-files/c19e89a3-ebf5-4345-adf8-7ba4c4da77bd>
- Shoe Carnival, Inc. (2019). Fiscal 2019 Financial Results. Retrieved from <https://shoecarnival.gcs-web.com/news-releases/news-release-details/shoecarnival-reports-fourth-quarter-and-fiscal-year-2019>
- Shoe Carnival, Inc. (2020). About Us. Retrieved from <https://careers.shoecarnival.com/en-US/page/about-us>
- Shoe Carnival, Inc. (2020). News Releases. Store Closure Extension due to Coronavirus. Retrieved from <https://shoecarnival.gcs-web.com/news-releases/news-release-details/shoe-carnival-extends-store-closures>
- Yahoo Finance. (2019). 5-Year Stock Chart Comparison. Retrieved from <https://finance.yahoo.com/chart/SCVL>