

STAGE STORES INC
Form 10-K
April 05, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 2, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-14035

Stage Stores, Inc.

(Exact Name of Registrant as Specified in Its Charter)

NEVADA

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

91-1826900

2425 WEST LOOP SOUTH, HOUSTON, TEXAS

(Address of Principal Executive Offices)

77027

(Zip Code)

Registrant's telephone number, including area code: (800) 579-2302

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Stock (\$0.01 par value) New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of August 3, 2018 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant was \$53,752,827 (based upon the closing price of the registrant's common stock as reported by the New York Stock Exchange on August 3, 2018).

As of March 22, 2019, there were 28,296,743 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the registrant's Annual Meeting of Shareholders to be held on June 6, 2019, which will be filed within 120 days of the end of the registrant's fiscal year ended February 2, 2019 ("Proxy Statement"), are incorporated by reference into Part III of this Form 10-K to the extent described therein.

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References to a particular year are to Stage Stores, Inc.'s fiscal year, which is the 52- or 53-week period ending on the Saturday closest to January 31st of the following calendar year. For example, a reference to "2017" is a reference to the fiscal year ended February 3, 2018 and "2018" is a reference to the fiscal year ended February 2, 2019. 2017 consisted of 53 weeks, while 2018 consisted of 52 weeks. Similarly, references to a particular quarter are to Stage Stores, Inc.'s fiscal quarters.

PART I

ITEM 1. BUSINESS

Our Business

Stage Stores, Inc. and its subsidiary ("we," "us" or "our") is a retailer, which operates specialty department stores and off-price stores. We offer our customers, referred to as "guests," trend-right, moderately priced, name-brand apparel, accessories, cosmetics, footwear and home goods. As of February 2, 2019, we operated in 42 states through 727 department stores under the BEALLS, GOODY'S, PALAIS ROYAL, PEBBLES and STAGE nameplates and 68 GORDMANS off-price stores. We also operate an e-commerce website for our department store business. Our department stores are predominantly located in small towns and rural communities. Our off-price stores are predominantly located in mid-sized, non-rural Midwest markets.

Our History

Stage Stores, Inc. was formed in 1988 when the management of Palais Royal, together with several venture capital firms, acquired the family-owned Bealls and Palais Royal chains, both of which were originally founded in the 1920s. At the time of the acquisition, Palais Royal operated primarily larger stores, located in and around the Houston metropolitan area, while Bealls operated primarily smaller stores, principally located in rural Texas towns.

In 2003, we acquired Peebles Inc. ("Peebles"), a privately held, similarly small-market focused department store chain headquartered in South Hill, Virginia. Our Peebles stores are located in the Mid Atlantic, Northeastern, Midwestern and Southeastern states.

In July 2009, we acquired the "Goody's" name from Goody's Family Clothing, Inc. through a bankruptcy auction. Our Goody's stores are primarily located in the Southeastern and Midwestern states.

On April 7, 2017, we acquired select assets of Gordmans Stores, Inc. and its subsidiaries through a bankruptcy auction ("Gordmans Acquisition"). The results of the Gordmans stores that we operated since the Gordmans Acquisition are included in our consolidated statements of operations (see Note 15 to the consolidated financial statements). Our Gordmans stores are primarily located in the Midwestern states.

Competition

The department store and off-price retail markets are highly competitive and fragmented. We compete with local, regional, national and online retailers, including department, specialty, discount and off-price stores, direct-to-consumer businesses and other forms of retail commerce. Our specific competitors vary from market to market. We believe the principal differentiating factors that allow us to compete for guests' patronage include great values on name brand merchandise, assortments that appeal to our target guests, convenient locations, credit availability and our loyalty program.

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Stores

Store Openings and Closures. Since the Gordmans Acquisition in 2017, we have focused on growing our off-price business. During 2018, we converted nine department stores to off-price stores and opened one new off-price store. Based on the strong results of these stores and growth potential in the off-price sector, we plan to convert approximately 85 department stores to off-price in 2019, and another 150 in the first half of 2020. The conversions will bring our off-price store count to approximately 300, representing approximately 50% of our total sales volume in 2020.

As part of a strategic evaluation of our department store portfolio in 2015, we announced a multi-year plan to close stores that we believe do not have the potential to meet our sales productivity and profitability standards. We have since permanently closed 122 department stores, including 41 stores during 2018, and we expect to close approximately 40 to 60 department stores in 2019. We continually review the profitability of each store and will consider closing a store if the expected store performance does not meet our financial standards. The closure of these stores is expected to improve our ability to effectively allocate capital, deliver higher sales productivity and be accretive to earnings.

Store count and selling square footage by nameplate are as follows:

	Number of Stores		Selling Square Footage (in thousands)		
	2018 February 2, 2018 Net Changes	February 2, 2019	2018 February 2, 2018 Net Changes	2018 February 2, 2019	2019
Bealls	181 (7)	174	3,616 (68)	3,548	
Goody's	217 (19)	198	3,363 (339)	3,024	
Palais Royal	46 (6)	40	990 (139)	851	
Peebles	185 (13)	172	3,390 (225)	3,165	
Stage	148 (5)	143	2,778 (83)	2,695	
Gordmans	58	10 68	2,825	265	3,090
Total	835 (40)	795	16,962 (589)	16,373	

Our department stores are predominantly located in small towns and rural communities. Utilizing a ten-mile radius from each store, approximately 61% of our department stores are located in communities with populations below 50,000 people, while an additional 24% of our department stores are located in communities with populations between 50,000 and 150,000 people. The remaining 15% of our department stores are located in higher-density markets with populations greater than 150,000 people, such as Houston, San Antonio and Lubbock, Texas.

Our Gordmans off-price stores are predominantly located in mid-sized, non-rural Midwestern markets. The majority of our planned conversion stores are located in smaller Midwestern markets.

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Merchandising

We offer moderately priced, branded merchandise within distinct merchandise categories of women's, men's and children's apparel, accessories, cosmetics, footwear and home goods that reflect current styles and trends through our department stores, off-price stores and e-commerce website. Our department stores offer a deeper, more curated assortment and our off-price stores offer a scarcity driven, treasure-hunt experience. Merchandise mix may vary from store to store to accommodate differing demographic, regional and climate characteristics.

The following charts depict the distribution of net sales among our various merchandise categories:

Approximately 83% of sales in our department stores consist of national brands such as Adidas, Calvin Klein, Carters, Chaps, Clinique, Dockers, Estee Lauder, G by Guess, Izod, Jessica Simpson, Levi's, Nike, Nine West and Skechers, while the remaining 17% of sales are private label merchandise. Our off-price stores offer national brands purchased opportunistically, bringing greater value to our guests.

We source our merchandise from numerous domestic and foreign vendors. We have no significant long-term purchase commitments or arrangements with any of our vendors, and believe that we are not dependent on any one vendor. We believe we have good working relationships with our vendors.

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Merchandise Distribution

We distribute merchandise to our department stores through our distribution centers located in Jacksonville, Texas and Jeffersonville, Ohio and to our Gordmans off-price stores through our distribution center in Omaha, Nebraska. E-commerce orders are predominantly filled from our distribution center in Jacksonville, Texas and to a lesser extent, from select stores and directly from our vendors. We contract with third-party carriers to deliver merchandise to our stores and to our guests in the fulfillment of online orders. Guests also have the option to pick up an online order in a local store through our Buy Online, Ship-to-Store program.

See Item 2, “Properties,” for additional information about our distribution centers.

Marketing

We use a multi-media advertising approach, including digital and mobile, broadcast, direct mail, and to a lesser degree, newspaper inserts. In 2018, our efforts to shift our marketing focus to digital media resulted in a 16% increase in digital and mobile spend, with offsetting reductions in direct mail and newspaper inserts.

Our department stores and off-price stores are similar in many respects. However, our department stores offer deeper, more curated assortments with sales driven by high-low pricing promotions, value coupons and advice from knowledgeable associates. Conversely, our off-price stores offer a varied assortment of every day value pricing in a treasure-hunt environment with sales driven by calendar events such as holidays, back-to-school, graduations, birthdays, anniversaries and more.

Our private label credit card and loyalty program, Style Circle Rewards®, are integral to the value proposition for our guests. These programs allow us to better understand and respond to our guests’ shopping habits and are powerful tools to drive higher transaction value and frequency of visits. On average, private label credit cardholders and loyalty members spend more annually and are less likely to attrite than non-loyalty guests. In our department stores, private label credit card purchases represented 48% of our sales in 2018. In our off-price stores, we acquired a historically underpenetrated private label credit card program in 2017 and implemented best practices developed in our department stores, which we expect to continue to drive future growth. Private label credit card purchases represented 14% of our off-price store sales in 2018. We ended 2018 with nearly 10 million members under our loyalty programs.

Trademarks

Our principal trademarks, including the BEALLS, GOODY’S, PALAIS ROYAL, PEBBLES, STAGE and GORDMANS nameplates, have been registered with the U.S. Patent and Trademark Office. We have also registered trademarks used in connection with our loyalty program. We regard our trademarks and their protection as important to our success. We also hold the domain names Stage.com and Gordmans.com.

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Our Employees

At February 2, 2019, we employed approximately 13,600 full-time and part-time employees, referred to as “associates.” Employment levels vary during the year as we traditionally hire additional sales associates and increase the hours of part-time sales associates during peak seasonal selling periods. We offer a broad range of company-paid benefits to our associates. Eligibility for and the level of benefits vary depending on associates' full-time or part-time status, compensation level, date of hire and/or length of service. Company-paid benefits include a 401(k) plan, deferred compensation plans, medical and dental plans, disability insurance, paid vacation, life insurance and merchandise discounts. We consider our relationship with our associates to be good, and there are no collective bargaining agreements in effect with respect to any of our associates.

Seasonality

Our business, like many other retailers, is subject to seasonal influences with a significant portion of sales and income typically realized during the last quarter of our fiscal year. Working capital requirements fluctuate during the year and generally reach their highest levels during the third and fourth quarters. Because of the seasonality of our business, results from any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Available Information

We make available, free of charge, through the “Investor Relations” section of our website (corporate.stage.com) under the “Financial Reports” caption, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (“Exchange Act”) as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”). In this Form 10-K, we incorporate by reference certain information from parts of our Proxy Statement for our 2019 Annual Meeting of Shareholders (“Proxy Statement”).

Also in the “Investor Relations” section of our website (corporate.stage.com) under the “Corporate Governance” and “Financial Reports” captions, the following information relating to our corporate governance may be found: Corporate Governance Guidelines; charters of our Board of Directors’ Audit, Compensation, and Corporate Governance and Nominating Committees; Code of Ethics and Business Conduct; Code of Ethics for Senior Officers; Chief Executive Officer and Chief Financial Officer certifications related to our SEC filings; and transactions in our securities by our directors and executive officers. The Code of Ethics and Business Conduct applies to all of our directors and employees. The Code of Ethics for Senior Officers applies to our Chief Executive Officer, Chief Financial Officer, Controller and other individuals performing similar functions, and contains provisions specifically applicable to the individuals serving in those positions. We intend to post amendments to and waivers from, if any, our Code of Ethics and Business Conduct (to the extent applicable to our directors and executive officers) and our Code of Ethics for Senior Officers in the “Investor Relations” section of our website (corporate.stage.com) under the “Corporate Governance” caption. We will provide any of the foregoing information without charge upon written request to our Secretary. The contents of our websites are not part of this report.

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ITEM 1A. RISK FACTORS

Cautionary Statement Concerning Forward-Looking Statements for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

The Private Securities Litigation Reform Act of 1995 (“Act”) provides a safe harbor for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that may cause actual results to differ materially from those discussed in the statements. We wish to take advantage of the “safe harbor” provisions of the Act.

Certain statements in this report are forward-looking statements within the meaning of the Act, and such statements are intended to qualify for the protection of the safe harbor provided by the Act. The words “anticipate,” “estimate,” “expect,” “objective,” “goal,” “project,” “intend,” “plan,” “believe,” “will,” “should,” “may,” “target,” “forecast,” “guidance,” expressions generally identify forward-looking statements. Similarly, descriptions of our objectives, strategies, plans, goals or targets are also forward-looking statements. Forward-looking statements relate to the expectations of management as to future occurrences and trends, including statements expressing optimism or pessimism about future operating results or events and projected sales, earnings, capital expenditures and business strategy.

Forward-looking statements are based upon a number of assumptions and factors concerning future conditions that may ultimately prove to be inaccurate and could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements that are made herein and in other reports and releases are not guarantees of future performance and actual results may differ materially from those discussed in such forward-looking statements as a result of various factors. These factors include, but are not limited to, the ability for us to maintain normal trade terms with vendors, the ability for us to comply with the various covenant requirements contained in the Credit Facility agreement (as defined in “Liquidity and Capital Resources”), the demand for apparel, and other factors. The demand for apparel and sales volume can be affected by significant changes in economic conditions, including an economic downturn, employment levels in our markets, consumer confidence, energy and gasoline prices, the value of the Mexican peso, and other factors influencing discretionary consumer spending. Other factors affecting the demand for apparel and sales volume include unusual weather patterns, an increase in the level of competition, competitors’ marketing strategies, changes in fashion trends, changes in the average cost of merchandise purchased for resale, availability of product on normal payment terms and the failure to achieve the expected results of our merchandising and marketing plans as well as our store opening or relocation plans. Additional assumptions, factors and risks concerning future conditions are discussed in the Risk Factors section of this Form 10-K, and may be discussed from time to time in our other filings with the SEC, including Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Most of these factors are difficult to predict accurately and are generally beyond our control.

Forward-looking statements are and will be based upon management’s then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. Although management believes the expectations expressed in forward-looking statements are based on reasonable assumptions within the bounds of our knowledge, forward-looking statements, by their nature, involve risks, uncertainties and other factors, any one or a combination of which could materially affect our business, financial condition, results of operations or liquidity.