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Footlocker, Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first call comes from Robert Drbul – Barclays Capital.

Robert Drbul – Barclays Capital

On the European trends, can you elaborate in terms of what you think is driving the solid performance there and sort of how sustainable those trends are for you?

Matthew Serra

We have seen a resurgence in the athletic fashion footwear trend, particularly running which is basically the lion's share of the business over there. Also in concert with that, our apparel business where we've intensified our key suppliers both Nike and Adidas have been performing extremely well and we continue to do well with it, and we believe that a trend is emerging in the athletic, pure athletic functional piece of the business.

Robert Drbul – Barclays Capital

When you look at the inventory situation and the overall business, you talked about opportunities still for working capital improvement, what areas do you feel like you have the most work to do in the inventory position as it stands today?

Matthew Serra

We reduced our inventories significantly and we think that there's more opportunity to continue to reduce inventories, certainly not as dramatically as last year. One of the dynamics you have to take in to the equation of inventory per store is the amount of price increases that we've experienced over the last several years.

I would say in general, over a three year period the cost in retail services are essentially up 30% plus, so we're trying to get more merchandise on replenishment. A vendor like CCS which is growing with us rapidly basically has everything on replenishment, and it's growing with us worldwide, not just in the U.S. So those are the opportunities. But I don't see like a 10% opportunity in reducing inventory in there.

We've also taken steps in our private label where we have the ability in certain items to replenish it now instead of bringing in huge quantities offshore. We're doing a lot of it in Central America now

so it really, here and just a replenishment kind of a lock and stock system where we don't own the inventory until we take it.

Robert Drbul – Barclays Capital

Can you comment on either European trends or the trends in the U.S. since your fiscal year ended, so February and thus far in March?

Matthew Serra

February we got off to a very good start. As a corporation we were up low single digits. The U.S. business was up close to mid single digits and Europe was down low single digits. So we're really focusing on inventory control and margin management and when we don't have all the excess inventory laying around, it's a much easier task to delivery profits.

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