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Caleres, Inc. (CAL)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the Caleres Second Quarter Earnings Conference Call. My name is Tawanda and I will be your conference coordinator. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the call over to your speaker for today, Logan Bonacorsi, Vice President of Investor Relations. You may begin.

Logan Bonacorsi

Vice President-Investor Relations, Caleres, Inc.

Good afternoon. I would like to thank you for joining our second quarter 2021 earnings call and webcast. A press release with detailed financial tables, as well as our quarterly slide presentation are available at caleres.com.

Please be aware, today's discussion contains forward-looking statements, which are subject to a number of risks and uncertainties. Actual results may differ materially due to various risk factors, including but not limited to, the factors disclosed in the company's Form 10-K and other filings with the US Securities and Exchange Commission.

Please refer to today's press release and our SEC filings for more information on risk factors and other factors, which could impact forward-looking statements. Copies of these reports are available online. The company undertakes no obligation to update any information discussed on this call at any time.

During today's discussion, and unless otherwise noted, our comparisons will be primarily in relation to the second quarter of 2019. We believe this to be a more comparable time period for most of our key metrics due to the pandemic-related impacts that prevail during the second quarter of 2020. Joining me on the call today is Diane

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Sullivan, Chairman and CEO; Ken Hannah, Senior Vice President and CFO; and Jay Schmidt, President. We'll begin the call with brief prepared remarks and, thereafter, we'll be happy to take your questions.

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

Diane M. Sullivan

Chairman & Chief Executive Officer, Caleres, Inc.

Yes. Thanks, Logan. And good afternoon everyone. I'm very excited to report that during the second quarter, market trends that emerged in March continued to gain momentum with consumer spending and shopping with intent. In fact, the consumers' increasing comfort with in-person interaction improved visibly around the return to work and school, and notably their desire for new and fresh products and styles across categories powered robust demand dynamics.

Our company capitalized on this terrific consumer demand and leveraged our strategic foundation which is, of course, strengthening the power and the reach of our brands, accelerating our digital capabilities, leaning into our capabilities and operations, and then our strong team really delivered exceptional results in the quarter just ended. This builds further on the progress made earlier in the year, and puts us on track to deliver record annual adjusted earnings per share of between $3.25 and $3.50.

Just a few of the highlights in the second quarter. We achieved all-time record quarterly operating earnings of $62.8 million and adjusted earnings per share of $1.19. We also exceeded first quarter 2021 sales levels by $37 million. We generated significantly stronger gross margins reaching 47.7% and we also made noteworthy progress towards our balance sheet goals, and of course continue to focus and engage with our consumers, driving deeper and stronger connections with all of our brands.

Overall, our consolidated revenue for the second quarter was $676 million, representing a nearly 6% improvement from the first quarter of 2021. Our adjusted earnings per share for the period reached $1.19, up $0.59 sequentially and surpassing second quarter 2019 levels by $0.57, and most notably making the highest quarter of adjusted earnings per share in the company's history.

Our gross margins also improved significantly, rising 705 basis points from the second quarter of 2019, as we drove more full-price selling as a result of tighter inventory levels due to disruptions and delays across the supply chain. In addition, outstanding trends in our Famous Footwear business resulted in another quarter of strong cash generation for the enterprise. We once again utilized our free cash to strengthen our balance sheet, reducing our overall debt levels by another $100 million, bringing our total borrowings under our credit facility to $100 million.

It's worth noting that we have proactively reduced our total leverage by $340 million in just five quarters. Furthermore, we have recently taken steps to fortify our financial position still further, calling a portion of our long-term debt and renegotiating the terms of our credit facility. Ken is going to provide more details around these strategic financial actions in just a couple of minutes.

Notably, the results we delivered in the second quarter were accomplished despite the disruptions in the supply chain that resulted in approximately 28% less inventory across the company, when compared to the second quarter of 2019.

But before we jump into the segment break-out, I want to highlight the progress we've made and the plans we have to grow our Caleres-wide digital and direct-to-consumer business.

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During the second quarter, we continued to leverage our previous capital investments, digital capabilities and our upgraded e-commerce platforms to drive an approximately 58% increase from our own dot-com sites over the second quarter of 2019, and that was even as we saw brick-and-mortar trends accelerate during the period.

As you know, our foundation has been built on putting the consumer first and we are known for curating a diversified suite of powerful brands that connect and reach a growing number of consumer segments. And as a result, our total direct-to-consumer business and sales represented nearly 80% of our total sales. With that in mind, we've sharpened our focus and are driving forward even more with our digital-first strategies to attract new, maintain current and reactivate previous consumers across our entire portfolio of brands. We view our enterprise-wide customer database and file as a strategic differentiator, as well as an asset to drive growth. We are at the early stages of harnessing and exploiting this key strength, but are excited about the potential for value creation.

Let's now move to our second-quarter segment results starting with the standout performance at Famous Footwear, where we achieved a number of financial and strategic milestones, including record results across all of our major financial – key financial metrics. We continued to execute at a very high level during the quarter, capitalizing on our competitive advantages, building further on the momentum that began to accelerate in the first quarter of the year, and ultimately closing the period with another record-setting performance. Among the highlights for this segment, Famous generated quarterly sales of approximately $454 million, an 8% improvement over the second quarter of 2019, and the highest level of second quarter sales in the history of the brand. As consumer demand improved and sales increased, we drove record margins which reached more than 50%.

In fact, margins improved by 671 basis points when compared to the second quarter of 2019, as we drove more full-price selling and reduced promotional activity. Additionally, our return on sales reached nearly 19%, which is 11 full percentage points higher than the comparable period in 2019 and a record for Famous.

Finally, we delivered operating earnings of $85.5 million, which was $54 million greater than the second quarter of 2019 and quite remarkably, exceeded operating earnings delivered for the entire year in 2019.

You know, I should mention that our second quarter success at Famous was broad based, as we saw sales growth and/or gross margin rate improvement across women's and men's and kids and accessories, and across style categories including athletics, casual, sandals and boots. In addition, we saw improvement in conversion in AURs when compared to the second quarter of 2019, both in-store and online. In fact ,our brick-and-mortar business, during the second quarter, increased more than 10% over the second quarter of 2019 and our online sales were up more than 50% when compared to the second quarter of 2019, the most comparable period with e-com penetration right now at about 11% of total sales.

Notably, conversion on famousfootwear.com was up 61 basis points and the gross margin rate on e-commerce sales was up more than 1,200 basis points when compared to the second quarter of 2019.

It's worth noting that momentum has continued as we have moved into the third quarter of 2021 with brick-and-mortar traffic up and store-for-store sales up high double digits versus the comparable period of 2020. In addition, our third quarter 2021 basis point improvement for gross margin is tracking to be consistent with the year-over-year basis point improvement that occurred in the second quarter of 2021. From a product perspective, of course, trends in our iconic brands are continuing to work in the third quarter and more specifically, seasonal products look good with boots up double digits and kids' off to a particularly good start.

Let's turn now to our marketing efforts for a minute. We're constantly trying to strive to optimize our marketing mix, expand personalization across the communication channels and obviously always try to build that strong

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emotional connection. To that end, we have continued to support all of the touch points in which our consumer encounters Famous, including national TV, paid search, our online platform, social media and beyond. In addition, we're highly focused on our consumer database and leveraging our leading assortment of brands are locations that are so convenient, our enhanced online platform and of course, all of our increasingly popular shopping options to grow our Famously YOU Rewards members.

In fact, when we look at our rewards members, we did experience a 16% increase in new rewards members, when compared to the second quarter of 2019, bringing the total contactable consumers in our consumer file to nearly 42 million customers. Looking at each channel, we were highly successful through our dot-com site at reactivating previous rewards members which were up 28% over 2019, and retaining rewards members online as well. Meanwhile, the personal interaction of our store – Famous Footwear store associates also led to an increase of new members that signed up for the program.

So, in short, Famous Footwear is strong, agile and exceptionally well-positioned to take advantage of this dynamic market environment. While disruptions in the supply chain are creating challenges related to our inventory position in the near-term, we are working with our partners to ensure that we have the right product in the right place for our consumers.

And I really have to make another special call out to the Famous Footwear team for just an outstanding second quarter, and in particular, there's so many, but I'm going to mention the planning and allocation team of Nicole and Julie and all of those guys that have done a great job of taking this inventory and getting it to the right stores at the right time.

So, thanks everybody. Thanks, Famous Footwear, for all your great work.

Now let's turn to the Brand Portfolio. The second quarter marked another solid period of progress in the Brand Portfolio, which achieved a step-up in gross margin, while sales levels were still recovering. In fact, the Brand Portfolio reported earnings from operations in excess of the comparable period of 2019, marking a significant milestone and recovering ahead of our expectations. Specifically, operating earnings improved 306 basis points over the second quarter of 2019, to reach approximately $16.6 million.

This period represented another good example of why a diverse portfolio of brands that reaches a number of different consumer segments and wearing occasions is an advantage, leading the way in the solid quarterly performance with Sam Edelman, Vionic, Allen Edmonds and from Blowfish Malibu, one of our emerging brands. While responding quickly to consumer preferences is the hallmark of our entire portfolio, these brands are really setting the pace at the moment and continue to exhibit good momentum. Specifically, both Vionic and Sam Edelman turned in strong sales levels during the period, acquiring new customers in their process. This revenue improvement was driven primarily by their own dot-com sites, which were up 163% and 75% respectively, when compared to the same period in 2019.

Furthermore, both brands experienced significant gross margin improvement with Sam Edelman's margins increasing more than 1,300 basis points over the second quarter of 2019 and at the same time, Vionic's gross margins increased more than 1,400 basis points.

I would be remiss if I didn't flag in particular the performance of Allen Edmonds here. AE was among our hardest hit brands during the worst of the pandemic, but continues to execute a highly effective shift towards a more balanced assortment, reflecting the way that the consumer is changing. And as we've previously mentioned, we started to seeing signs of this improvement in April, a trend that accelerated as we progressed through the period.

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Notably, the brand's e-commerce sales were in line with the second quarter of 2019 levels. AURs increased as we raised prices and pulled back on promotions and increased traffic in major metropolitan markets have led to an improved brick-and-mortar sales. In addition, even as our newer sport and casual styles, which made up nearly 40% of our sales in the quarter continue to resonate with our consumers' strong demand for our core heritage styles actually accelerated. On an exciting note, Allen Edmonds is the official dress shoe of the US Ryder Cup team for this year's event, which is being held in Sheboygan, Wisconsin, 45 minutes from our Port Washington factory where our shoes are made.

The iconic Park Avenue style will be worn by the team during the event's opening ceremonies and the shoes will be customized with the official Ryder Cup logo embossed on the insole. If our customers want a piece of history, they can buy this limited-edition style as well.

And finally, Blowfish acted as another strong contributor during the period. In fact, the brand's sales and earnings were up from 2019 levels, because of its easy and fresh styling and those things continue to resonate with consumers and particularly with our Famous Footwear customer.

So, a significant part of this performance for the Brand Portfolio has been in the e-commerce growth. As a whole, the Brand Portfolio's own dot-com sites were up 64% when compared to the second quarter of 2019, with a number of sites experiencing increases in traffic conversion in AURs. In particular, and not surprisingly, brand sites that had access to fresh and new inventory experienced the biggest increases. This improvement highlights and underscores the work that we've been doing to enhance the digital experience, spurred direct and personal engagement with our consumers and fostered deeper connection with our brands.

With our digital acceleration strategy in place and an energized team pointed in the right direction, we're confident that we can continue to build brand power, inspire our consumers and drive growth and profitability across the portfolio. We truly do believe that this is an initiative – this initiative is a – and see it as a central value-driving component of our long-term strategy going forward.

So, overall, while we're pleased with the margin performance in the Brand Portfolio, there is still work to do. The Brand Portfolio sales revenues were down 33% from the second quarter of 2019, due in large part to ongoing challenges in the supply chain and limited the ability to quickly chase product and fill reorders. As we look out, we do anticipate supply chain and logistics challenges, specifically ongoing long lead times and significant increases in ocean freight, and that will likely put downward pressure on our third quarter sales to the tune of approximately $30 million.

That said, we are actively working with our partners to minimize these disruptions and believe we are well equipped to partially offset some of these cost headwinds. Although the macro environment remains volatile, we see a strong consumer who knows what they want and is ready to engage further with our diversified set of brands. So, clearly, we began the second half of the year, very aware of these ongoing dynamics playing out in the marketplace, but are really strengthened by our recent performance.

From this point and position, I'm really highly confident in our ability to control the variables within our control, build upon our recent strong results at Famous Footwear, continue to improve our sales performance in the Brand Portfolio, and of course enhance long-term value for our shareholders.

Overall, I am very enthusiastic about our strategy for ongoing value creation and for the opportunities that lie ahead of us for Caleres. And with that, I'll turn the call over to Ken for a financial review. Ken?

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Kenneth H. Hannah

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

Thanks, Diane, and good afternoon, everyone. I would like to start by echoing Diane's comments. We delivered an outstanding second quarter, which reflects the power of our portfolio, the strength of our strategy and the dedication of our Caleres team.

I'm pleased to report that in addition to another strong operating performance in the quarter just ended, we also continued to advance our efforts to reinforce our financial foundation and drive forward with the strategies intended to enhance shareholder value.

As we've previously discussed, our top priority for cash flow remains debt reduction and we made tremendous progress toward that objective once again in the second quarter. In total, we paid down an additional $100 million in revolver debt during the period, another step toward our goal of zero net debt. During the course of the past five quarters, we've managed our working capital and utilized our strong cash generation to lower our overall indebtedness by $340 million, creating significant long-term value for our equity holders in the process.

In addition to our revolver debt reduction, we elected to call $100 million or half of our outstanding Senior Secured Notes on August 16. We've shifted this long-term debt to our revolving credit facility. You will see this reflected on our balance sheet at quarter-end as the current portion of long-term debt with only $100 million of long-term debt remaining. Furthermore, we've recently entered into discussions to renegotiate and renew the terms of our revolving credit facility. We expect through these negotiations, we will extend the credit facility's maturity date by five years and restore it to pre-COVID terms. This shift and renewal, coupled with the additional revolver debt reduction, will reduce our annual interest expense by approximately $9 million.

Looking ahead, we expect to close 2021 with an even stronger balance sheet, likely ending the fiscal year with total debt around $200 million, which is on par with the debt levels that prevailed pre our Vionic acquisition. At the same time, during the second quarter, we continued to invest in our business and return capital to shareholders through our recurring dividend, which as you all will recall, we maintained throughout the pandemic. We view this as a strong symbol of our firm commitment to rewarding our shareholders for their ongoing support of our business and their confidence in our long-term prospects for value creation and growth.

Last week, we announced that our board of directors approved our 394th uninterrupted quarterly dividend which will be paid on October 1, 2021 to shareholders of record as of September 10.

Now let's look at a few of our financial metrics in a bit more detail. As Diane highlighted for the second quarter, we delivered $675.5 million in sales, driven by record second-quarter sales at Famous Footwear. Our consolidated gross margin was 47.7%, up 705 basis points from the second quarter of 2019. Famous Footwear delivered gross profit margin of approximately 50.1% in the second quarter. The 671-basis-point improvement from 2019 was primarily driven by more full-priced selling and a lower promotional environment.

Our Brand Portfolio's second quarter gross margin of 39.7% was 498 basis points higher than the second quarter of 2019, as brands pulled back on promotional activity in the wake of the ongoing supply chain disruptions. Our second quarter SG&A expense was $259.5 million during the period, or 38.4% of net sales. As expected, this included incremental expense related to the additional performance-based and share-based compensation expense associated with our improved operating performance.

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The company generated approximately $65 million of cash from operations in the second quarter and as discussed, use that cash to reduce our debt levels further. All in, we ended the quarter with a solid balance sheet, consisting of approximately $55 million in cash, lower levels of debt and improved working capital position.

Our inventory at quarter end was down approximately 28% when compared to 2019 second quarter and included an approximately 28% decline at Famous Footwear and a 30% decline for the Brand Portfolio, including a much higher percentage of our inventory in transit and not yet available to sell.

As we look to the rest of the year and as we continue to work to align our inventory levels with consumer demand, we expect constraints in the supply chain to persist. To that end, we will be hyper-focused on minimizing these challenges to the best of our ability, optimizing and maximizing our current inventory, emphasizing trending brands and brands with trending styles and taking calculated risk in order to drive our ongoing improvements.

Now turning to the outlook for the third quarter and full-year fiscal 2021. As Diane highlighted earlier, we're encouraged by the momentum we're seeing at Famous Footwear so far this quarter, and the potential for ongoing sales improvement in the Brand Portfolio and although uncertainties remain, we're taking aggressive actions to protect that momentum and mitigate macro challenges and are confident in our ability to control the variables within our control. With that said, for the third quarter of 2021, we expect to deliver adjusted earnings per share of between $1.10 and $1.25 per share.

For the full year, we expect to deliver record adjusted earnings per share of approximately $3.25 to $3.50 per share. Our Famous Footwear sales in the back half of 2021 are expected to be at or slightly above 2019 levels and our Brand Portfolio sales are expected to improved, to be down approximately 20% to the same period.

In closing, the progress we've made during 2021 is significant. In the near-term, we believe our skilled and dedicated team can leverage the strong foundation and our powerful portfolio, as well as quickly adjust to the – and capitalize on this rapidly evolving marketplace. At the same time, we will prioritize our cash flow and liquidity, place a high degree of focus on our long-term strategic objectives, invest for future growth and create long-term and sustainable value for our shareholders.

With that, I'd like to turn the call over to the operator for questions. Operator?

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QUESTION AND ANSWER SECTION

Thank you. [Operator Instructions] Please stand by while we compile the Q&A roster. Our first question comes from the line of Steve Marotta with the C. L. K. Associates. Your line is open.

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

Q

Diane and Ken, good evening and, wowie, very, very well done in the second quarter and guidance. Highest congratulations.

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

A

Thank you, Steve.

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

A

Thank you, Steve.

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

Q

So, a couple of quick questions. As it relates Diane, to back-to-school, can you talk a little bit about how – few puts and takes aside, how normal is this season on a weekly basis? Is it still skewed significantly because of the pandemic, or is it tracking somewhat more normal in its beginning peak and tail?

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

A

Yeah. Steve, I would say it's fairly normal and we've looked at it through – compared to 2019 and 2020 and looked at even the five-year average. It's peaking a little bit later maybe by a week, but not much. And we are seeing a little more of a peak this season, this year, I should say, than we saw last year. Last year was a little bit more of a flat line, this year we saw a peak in weak 28, something like that. So, yes, I would say it's returned to somewhat more normal and a little bit later.

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

Q

Got you. And Ken, how much has been airfreighted in the first half incremental to what you would normally airfreight if any, and what is embedded in the guidance for the second half?

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

A

Yeah. There's been very little airfreight in the first half. As we mentioned, there's been delays. Most of the delays have really been in terms of the time early in transit, and we mentioned with the Brand Portfolio inventory at the

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end of the second quarter, while it's down 30%, we had over $100 million of that inventory that was sitting in transit. So, it was on the water on its way and therefore, as I tried to characterize, was not available to sell. And so, to this point, we've not had a lot of airfreight. We have a little bit baked in, in the back half where we need to make sure we have goods available for our digital business and we're working with our suppliers to keep inventory flowing. But it's – lead times have continued to be extended for sure.

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

Q

Yeah. And I was just going to ask that what is the current delay, to the best you can quantify it, generally?

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

A

Well, so there's two pieces. I'll let Jay, he wants to give you some specifics, kind of jump in here, but there's two pieces. There's the delays on the water right, and that had went from 14 days to 21 days, to as high as an incremental 30 days and then there's the delays where there's factories that have shut down for periods of time with COVID and had delayed receipts and our, you know, our add capacity, so that's on a case-by-case basis. So, I don't know Jay, if there's anything in addition to that you wanted to add?

John W. Schmidt
President, Caleres, Inc.

A

No. I think it's by case-by-case.

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

A

Yeah.

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

Q

Excellent. And one last question. Just trying to think a little bit – well it's actually two-fold, as it pertains to your ordering in the spring – for spring and summer deliveries next year, are you trying to pull forward goods and maybe anticipate deliveries say 30 or 60 or 90 days earlier? And if so, maybe you can quantify that in order to beat the rush, if you will?

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

A

Yeah, it's a very good question, Steve. You know, what I would say is that we really started several months ago to begin to add lead times to everything that we've been working on, both really on the Brand Portfolio side and again on the Famous Footwear side, making sure that you know, they were really clear about their buys. And then secondly, particularly on the Brand Portfolio side, Jay's done a great job of working with the teams to try to be narrowing our assortments and trying to go deeper on big items, because those assortments and those breadths are really not – we're not going to be able to build the business on that kind of breadth. We've got to get much narrow and deeper. So, we've been doing a lot of work around that.

And then, really, again continuing to diversify our supplier base, you know, not shifting too quickly in one direction, but making sure that we're shifting our supplier base and everything from who is producing our shoes, as well as container resources, and then continuing to make sure we do a great job too on all the consumer insights that

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help us make good decisions around that as well. So, anyway – so there's a lot there, but, you're right. It really is – when I look at where the – some of the focused challenges may come, it really may come in Q1 with Vietnam and a lot of the issues that people are experiencing out of there. But that's what we're doing to mitigate that as much as we can.

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

Q

Sure. And then just one last follow up, as it pertains to spring and summer deliveries, can you give us a little bit of look into what the order book is like right now say compared to 2019 at this time?

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

A

I don't – Steve, it would be hard for us to judge at this particular time. We really don't look at the order book that same way because growing part of our business is coming on reorders and replenishment and drop ship and a lot of e-commerce piece. But we'll take a little look to see if there's an indicator there that we could get to, that would give you a sense of all of that.

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

Q

Sure. I'll take the balance off line. Thank you.

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

A

Thanks, Steve.

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

A

Thank you, Steve.

Operator: Thank you. Our next question comes from the line of Dana Telsey with Telsey Advisory Group. Your line is open.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Good afternoon and congratulations on the terrific results. As you saw the environment through the second quarter, any specific categories that you would call out differing one from another? And pricing, how are you thinking of pricing going forward? Are there raw material increases that you're taking price on? Thank you.

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

A

Yeah. Okay. Thanks, Dana. Well, first of all, in terms of the trends and what we saw throughout the quarter, any of the iconic brands that have been performing really throughout the spring season continue to do so and the trends that you've seen, whether it's in athletic and sports, whether it's footbed sandals and Crocs, all of those things continue to be terrific. But what we did see, as the consumer was much more comfortable and ready to go out and go to social occasions, that opens up dress and sandals and heels definitely were something that the consumer demanded.

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And actually I can tell you from our Sam Edelman business, we're completely out of stock in core sizes in things like the HAZEL and YARO. So that says to me that there's definitely some pent-up demand there. So that would be a little bit of a sense of what we see and early reads on boots, while it's extraordinarily early, seemed to be good as well.

As it relates to price increases and input costs and really all of the – all of the costs that are that are going up right now, yes, we have definitely taken a look at all of that and are raising prices going into the latter part of the fourth quarter and to – and for spring of 2022.

Jay, I think you could maybe comment a little bit on that in terms of what you're seeing with respect to pricing, maybe a little bit around, on average, what that might look like?

John W. Schmidt
President, Caleres, Inc.
A

Yeah. I think our – first of all, our AURs for even the Brand side we are up about 8% in the second quarter, which was good and we're going to see that I think build as we get into fall, really going into the 10% moat. So that's where we're going on the AUR front and we have seen material costs going up as well. So that's really aided toward that.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Yeah. Okay. So I think that – Ken anything else on that question?

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

No. I think we're good.

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

Okay.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Thank you. Congratulations.

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

Thanks, Dana.

Operator: Thank you. I'm showing no further questions in the queue. I would now like to turn the call back over to Ms. Diane Sullivan for closing remarks.

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

All right. Thank you...

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Operator: We do have one that came up. I'm sorry. Would you like to take it?

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

It's great. Fantastic.

Operator: It's from Susan Anderson with B. Riley. Your line is open.

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

Great.

Susan Anderson
Analyst, B. Riley Securities, Inc.
Q

Hi. Good evening. Nice job on the quarter.

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

Thanks, Susan.

Susan Anderson
Analyst, B. Riley Securities, Inc.
Q

I guess just a follow-up on the back-to-school question, I'm kind of curious, are you – it sounds like it's a little bit more normal, but are you still expecting it to be a little bit more drawn out versus, say, 2019 and continuing into October? And then I'm curious just how you're thinking about holiday too. It may be a little bit early, but as we look into holiday, last year it started very early. Are you expecting that also to be more drawn out as we saw last year?

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

Yeah. Great question, Susan. So back to – on the back-to-school, no, I'm looking at the data here right now, and I would say it's elevated for sure over the 2019 levels, the overall volume, but it's in a fairly similar pattern. We'll see how the next couple of weeks play out, but I would say, pretty consistent with what we had expected and what we've experienced in the past. A little bit later, but not much to show yet.

And then as we look to holiday – I think it's a great question. We do think same thing that the consumer is going to be excited and thrilled again to be celebrating holidays, we hope, like – we hope, in a more normal way, so that the opportunity that we have during that time period should be terrific. And again, with the consistent flow of inventory and making sure we're trying to supply new items all the time, we're really hoping that we engage her and everyone in terms of looking at our assortments and – as fresh and new, on a much more consistent basis. So, I think we're feeling overall quite good as indicated in kind of our guidance for Famous Footwear, being you know somewhat flat to slightly up to 2019, so.

Susan Anderson
Analyst, B. Riley Securities, Inc.
Q

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Great, great. And then I'm just curious, I like the – the Ryder Cup partnership for Allen Edmonds sounds interesting. I'm curious if there's been any reads on the new casual product you have out for the brand or the new updated merchandizing and marketing?

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

Yes. I'll turn – I'll let Jay answer that one.

John W. Schmidt
President, Caleres, Inc.
A

Well, we're about two days into it. So I think it's very short, but, so far we've seen it's our most trafficked part of our website at all, and it's gotten the biggest hits of anything we've seen so far. So, we'll...

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

It's the Ryder Cup shoes.

John W. Schmidt
President, Caleres, Inc.
A

The Ryder Cup shoes, yeah.

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

And then...

John W. Schmidt
President, Caleres, Inc.
A

Yeah. And – as a specific call out. So, we're very excited about that and we'll have more to communicate on that very soon.

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

And then the casual site is up to 40% right, casual and sports?

John W. Schmidt
President, Caleres, Inc.
A

Yes. And the casual – the sneaker piece is up. If I look back to 2019, it's almost triple where we were. So, as a penetration to total. So, it all feels like we're going in the really right direction there and really doing a lot of great things with the brand to change our outcome.

Susan Anderson
Analyst, B. Riley Securities, Inc.
Q

Great. That sounds good. Well good luck in the back half.

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

A

Thank you Susan.

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

A

Thank you.

Operator: Thank you. I'll turn it back – the call back over to you, Diane, for closing remarks.

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

Okay. Thanks so much. Thanks again for joining us on today's call and for your interest and your ongoing support.

In summary, I think you can tell for all of our comments, we really believe we're well-positioned to capitalize on improving consumer sentiments and all these great new purchasing habits to finish the year in a record-breaking manner. We also believe we're poised to maintain this momentum into 2022 and beyond, given the powerful one-two punch that we have of our expansive direct-to-consumer network, anchored by Famous Footwear, and our exceptional portfolio of value-driving brands.

In our view, our multi-faceted platform for engaging consumers is a significant and differentiating strength, one that greatly enhances our overall value proposition.

Thank you, again, and look forward to seeing you on the next call.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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