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Caleres, Inc. (CAL)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

At this time, I will turn the call over to Logan Bonacorsi, Vice President of Investor Relations. Please go ahead.

Logan Bonacorsi
Vice President-Investor Relations, Caleres, Inc.

Good afternoon. I'd like to thank you for joining our fourth quarter 2021 earnings call and webcast. A press release with detailed financial tables as well as our quarterly slide presentation are available at caleris.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 online. The company undertakes no obligation to update any information discussed on this call at any time.

Joining me on the call today is Diane Sullivan, Chairman and CEO; Ken Hannah, Senior Vice President and CFO; and Jay Schmidt, President. We will 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.

Thank you, Logan, and good afternoon, everyone. I'm thrilled to report that Caleres delivered strong results, exceeding our expectations during the fourth quarter of 2021, capping off our best year ever.

Our global workforce didn't allow the significant rebound in demand and the rapid return of the consumer to pass us by. We leveraged our strengths, leaned into our capabilities, navigated the ongoing macro challenges and strengthened our balance sheet, while always keeping the consumer at the core of our focus. These tremendous efforts, coupled with our established strategies and investments resulted in a record-breaking year on effectively every financial measure.

In total, we delivered adjusted operating earnings of nearly $220 million and adjusted earnings per share of $4.29, a level nearly double that of our previous annual record. In addition, we generated approximately $286 million in adjusted EBITDA.

Furthermore, we highlighted our recent environmental, social, and governance progress and set ambitious 2025 targets in our inaugural ESG report, a report that was nationally recognized on Newsweek's Most Responsible Companies list and ranked in the top 10 for the consumer goods category. We look forward to providing an update on these efforts in our next report.

Overall, we exited 2021 a more agile and financially sound organization, poised to generate significant and ongoing value for our shareholders.

Now, let me move to some of our performance highlights from the quarter just ended. During the fourth quarter, we delivered strong fourth quarter sales, generated record fourth quarter gross margin levels, achieved record fourth quarter operating earnings of approximately $44 million and adjusted earnings per share of $0.91, eliminated the remaining portion of our higher-cost long-term debt, and maintained our focus on connecting with our consumers and advancing our efforts to unlock growth opportunities across the enterprise.

Leading this outstanding performance was the strong demand at Famous Footwear, which resulted in another record quarter for our largest brand. Most notably, Famous delivered a nearly 9% increase in sales over the fourth quarter of 2019, despite entering the period with inventory down 24%. Furthermore, Famous achieved its strongest holiday season on record as consumers looked to us for the brands and styles they love.

In addition, we sustained strong gross margin levels with a gross margin rate of nearly 49% as full-price selling continued during the period. This marks four quarters of year-over-year margin improvement and ultimately resulting in a full-year gross margin rate of 48% or 548 basis points better than 2019.

And for the full year, our Famous brand delivered its best year on record by a wide margin. Our targeted consumer marketing, coupled with merchandising, planning and allocation expertise and our unmatched local knowledge, enabled us to have the right product in the right places to meet the needs of the Famous consumer.

Going forward, while we are still experiencing disruptions due to the supply chain, we are confident that our disciplined approach to inventory and the structural shift in the industry's promotional environment will enable Famous to sustain our margin level higher than our historical averages.

The Brand Portfolio also turned in an impressive performance and made significant strides in its ongoing rebound despite a number of strong headwinds. Notably, we furthered our efforts to grow our direct-to-consumer business with our fourth quarter owned e-commerce increasing approximately 32% when compared to the fourth quarter of 2020.

Also during the fourth quarter, four of our key brands: Sam Edelman, Allen Edmonds, Vionic and Blowfish, turned in strong sales and margin results with all four outpacing quarterly sales expectations and also surpassing fourth quarter 2019 earnings levels. It's worth noting that Caleres acquired three of these four brands during the course of the last five years to differentiate our portfolio further and reach new consumer segments. This recent performance underscores our capabilities in cultivating, integrating and then growing acquired assets in a way that is leveraging and value creating.

With the effects of the pandemic beginning to recede, we expect to build further momentum and critical mass with these four brands and the entire portfolio. So now, I'd really like to turn our attention to highlight on our key focus areas that will enable us to win in 2022.

Looking first at Famous, where we expect another strong earnings performance this year. We continue to execute with excellence on our merchandising, marketing and consumer experience strategies. First, when it comes to our product, we will continue to offer what the consumer wants through a balanced assortment of athletic sport and seasonal styles, both in-store and online. We will continue to leverage our leadership position in athletic and sport and build upon our strong relationships with key partners in these categories in order to capitalize on the ongoing demand.

We expect consumers will still gravitate towards the most well-known brands in these categories and believe Famous remains exceptionally well situated to benefit, particularly as some of our competitors have been limited in their ability to distribute certain iconic brands.

In addition, as we work to evolve our product offerings, we are testing and adding new and emerging brands across genders and categories using our nationwide network and our localized knowledge and expertise to meet the shifting preferences and behaviors of the Famous consumer. We believe this could attract new Famous consumers while at the same time, providing the current customer with additional options.

During the year, our top 20 brands represented more than 80% of our sales, with the top 11 to 20 brands growing in their importance. A great example of this would be Birkenstock, which has moved into the top 10.

And third, on merchandise, we are focused on increasing the opportunity between Famous and our owned portfolio brands, as this provides a potential for higher margin for the enterprise as a whole. There are several brands within the current portfolio that represent an excellent fit with the Famous consumers' desire for athletic and sports styling and could provide a runway for growth. These brands include LifeStride, Blowfish, Dr. Scholl's, and Vionic Beach. In fact, three of these brands currently sit in the top 20 sales performers at Famous.

In addition, the recent lift in interest and demand for occasion and dress styles by the Famous consumer could provide another avenue for some of our fashion-focused brands, both in-store and on famousfootwear.com.

Turning to marketing, during 2021, we did a tremendous amount of work to further understand the Famous consumer, while at the same time undertaking a marketing attribution study. We are using our findings to inform our strategies and to optimize our media investment in order to acquire new, reactivate previous and perhaps, most importantly, retain existing Famous consumers.

Over the last year, we saw a significant increase in AURs and margins in Famous as we improved our inventory efficiencies and pulled back on promotions. As we progress through 2022, we expect the competitive landscape to continue to support an environment of limited promotional activity, thus requiring a different approach in connecting with new consumers, engaging current ones, and establishing a strong connection with the Famous brand overall.

As a result, we are being surgical in our marketing tactics using targeting and personalization in order to drive repeat purchases and working to shift traditional one-channel shoppers to omnichannel consumers. We are highly aware of the lifetime value omnichannel customers bring and believe this to be a long-term value-creating opportunity for Famous.

Finally, I want to close the discussion on Famous with our focus on enhancing the consumer experience, an area where we're always striving to do better and where we have done a significant amount of work. It's worth noting that year-over-year top line growth was driven by increased sales at brick-and-mortar, making it a much more important that the consumer experience is consistent across the omnichannel.

As a result, we have developed and are testing a prototype store that offers an enhanced shopping experience showcasing the fact that we carry the most in-demand brands and styles, is completely localized and extremely convenient. Most importantly, it's very consistent with our enhanced digital experience and stays true to the brand's DNA.

So far, we really like the results we're seeing, making a few adjustments here and there and plan to open 10 additional prototypes in key geographically diverse markets over the next several months. We look forward to sharing consumers' reactions to the new stores as we move through the year. Beyond this, we are constantly exploring adding locations in markets where we may be underpenetrated, and where we believe we can leverage our leading athletic assortment to gain share and grow earnings.

In addition, we have plans to refresh and upgrade high traffic and high potential Famous stores this year. As you'll recall, this was an initiative that we began in 2019 but was paused due to the pandemic and then restarted in 2021. We're planning to update 120 stores this year, which is on top of the nearly 70 store enhancements we completed in 2021. These upgrades should further enhance the consumer experience, elevate key brand stories and unlock still greater value from these already high-performing locations.

We are already seeing positive trends in stores where we've previously completed refreshes and are optimistic that these efforts will create consumer excitement, further our differentiation and bolster our national presence and generate solid returns.

So now, let's turn to the key areas of focus for the Brand Portfolio in 2022. First, we believe that we have established an exceptionally strong foundation on which to build and view our improving performance to be a key component in our ability to continue the strong results of fiscal year 2021 in 2022.

A central component to drive brand growth is in the Brand Portfolio this year will be to ensure that we can better align inventory with consumer demand. During the back half of 2021, global supply chain dislocations limited our ability to adequately meet improving demand for certain of our brands and certain of our products. In fact, we operated in the fourth quarter of 2021 with approximately 20% less inventory when compared to fourth quarter of 2019, excluding the in-transit inventory, which was more than twice as high for the same period.

That said, we have been slowly building back our inventory levels over the last several months, managing our supply chain aggressively in real time, accelerating receipts wherever possible and placing a strong emphasis on building up each brand's top-selling styles to drive sales. We view this greater alignment of inventory as a real opportunity to capture demand and accelerate growth during the year.

Next, we have initiated an [ph] edit-to-win (14:43) strategy across the Brand Portfolio with positive impacts for our brands, consumers, retail and sourcing partners and really, frankly, Caleres as a whole. In short, we're tightening our SKU count in each own brand to enhance productivity and lower costs while building on the successful and demand products that consumers want.

We expect that this focus will result in more in-stock of what the consumer loves, leading to much higher satisfaction and loyalty rates, higher retail prices and fewer markdowns and allowances, better sell-throughs and better margins, lower development and sample costs, and simplification of functions across the product lifecycle. That's kind of a no-brainer to do that. I'm not sure why you wouldn't want to do that with those kind of outcomes.

Finally, we're putting a high degree of focus on optimizing the portfolio, emphasizing and investing in our lead brands.

In addition to Famous Footwear, which we've discussed, these include Sam Edelman, Allen Edmonds, and Vionic. We view these brands as central to our portfolio. They have advanced product innovation capabilities to pivot seamlessly with consumer trends, and had strong consumer recognition and loyalty with a clear runway for growth.

Most notably, Sam Edelman and Allen Edmonds are extremely well positioned to capitalize on the resurgence in footwear for event and work, while Vionic will continue to take advantage of the demand for health and wellness products, which has been and continues to be strong. It's worth noting that the excitement around Sam Edelman's new products and styles, which have been showcased beautifully in their recent catalogs, have driven significant increases in their direct-to-consumer business. In fact, during 2021, its e-commerce business increased 104% when compared to fiscal year 2019 with traffic, conversion, and average order value metrics all showing strong improvements over the same period.

Looking at Allen Edmonds, we furthered our product evolution in this brand by leveraging our design and innovation capabilities and our top-selling Park Avenue to create the Park Avenue Sneaker and the Park Avenue Lug-Sole, all of which are receiving a fantastic response from consumers. This progression will allow the brand to build nicely on a signature and a very popular style to attract new consumers, while at the same time reinforcing brand awareness and building on its strong consumer loyalty.

Speaking of Allen Edmonds, excitingly, the brand will be celebrating its 100th anniversary in May, a century of an American-made brand. As we honor this significant milestone, we have curated 100 creators, entrepreneurs, artists, musicians, dancers, activists and thought leaders across generations, gender and race. Photographing them all in the Park Avenue.

Through these remarkable people, we will highlight the stories and the pride that comes from the passion for creating and further underscores the 100 years of commitment to our life's work, designing and making shoes. I'd like to encourage you to follow our story and their stories on allenedmonds.com during the month of May as we celebrate our legacy.

Beyond our leadership brands, we see significant upside for Veronica Beard, Franco Sarto, and Naturalizer as demand for dress styles accelerate during the year. These brands, which were disproportionately affected during the pandemic are well known by the consumer and have exciting new offerings to celebrate the consumers more social, event-driven lifestyle. In fact, many of our brands are positioned ideally to capitalize on what is shaping up to be one of the biggest years for events, social gatherings and for sure, wedding celebrations.

One brand in particular, that has a tremendous opportunity is Natural – is Naturalizer. That brand has launched a wedding shop on naturalizer.com that showcases its expanded offerings and styles designed for the bride and for her big day as well as all the bridal party and guests and all of the special events leading up to it. We are amplifying this further with collaborations with key retail partners to bring it to life across many touch points. Currently, more than 20% of our Naturalizer web business is coming through the wedding shop. We expect the increased demand for these brands to be a significant driver also in the overall rebound for the Brand Portfolio in 2022.

So to wrap up some of my comments this afternoon, we have seen a step change in the earnings power of the organization, and we are excited about the future opportunities for our brands and the potential for long-term value creation. The strategies deployed and the capital invested have served to greatly enhance our earnings power to-date and have set the stage for even greater progress as we advance through the year.

While clearly, we are operating during a period of continuously evolving and unpredictable macro challenges, we know how and are prepared to move swiftly, and we believe we are poised to deliver the most exceptional operating and financial performance possible in these uncertain times. Even with this uncertainty and given its continuing confidence in Caleres' future outlook and ongoing improvements in the company's sustainable long-term cash-generating capabilities, the Caleres board recently authorized an additional 7 million shares of Caleres common stock for share repurchases.

With that, I will now hand it over to Ken for a more detailed look at our financials, capital allocation plans, and our 2022 outlook. Ken?

Kenneth H. Hannah

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

Thanks, Diane, and good afternoon, everyone. I'm excited about the momentum we experienced in our business during 2021. Clearly, we're focusing on maintaining this momentum, controlling the variables within our control, building on our recent success and delivering on our top priority of driving sustainable shareholder value. I'd like to start my discussion today by sharing a perspective of our outstanding results, detailing our capital allocation plans, and closing with our outlook for 2022.

While most of my commentary will focus on the comparable period in 2019, there will be some instances where 2020 is a more relevant comparison period and will be noted as such. We delivered consolidated fourth quarter sales of $679.3 million, which was 19% above 2020 and 2.8% below the fourth quarter of 2019. As Diane mentioned, this performance was driven by Famous delivering an 8.8% increase over the fourth quarter of 2019, another quarterly record for the brand and reflecting strong increases in our brick-and-mortar business despite operating 55 fewer stores in 2021 when compared to 2019.

Our Brand Portfolio continued to improve with fourth quarter sales increasing 24.4% compared to the fourth quarter of 2020, while declining 15.8% versus the fourth quarter of 2019, including the impact of the exited brands. Our consolidated gross margin was 43.4%, up 351 basis points from the fourth quarter of 2019, reflecting another quarter of strong margin performance at Famous Footwear.

In fact, Famous Footwear delivered gross profit margin of 48.9% in the fourth quarter. This 641 basis point improvement over 2019 was driven primarily by the robust consumer demand for our brand offerings, the continuation of more full-price selling, and another quarter of minimal promotional activity.

Our Brand Portfolio recorded fourth quarter gross margin of 34%, including $11 million in incremental ocean freight. This was 100 basis points lower than the fourth quarter of 2019. It did mark a sequential improvement from the third quarter of 2021. Ocean freight had a 390 basis point impact on the quarter.

Caleres delivered annual consolidated gross margin of 44.2%, 365 basis points higher than the full year of 2019. Given the structural change in Famous Footwear's margin profile and the potential for further expansion of Brand Portfolio, we expect our consolidated gross margin going forward will continue to exceed our historical averages.

Our fourth quarter SG&A expense was $251 million during the period or 36.9% of sales, a $9.8 million decline from the same period two years ago, including investments made in digital, marketing and consumer experience in the quarter. For the year, our SG&A expense was $1 billion, or 36.3% of net sales, representing a $57.7 million decline from fiscal year 2019. As a reminder, our full year SG&A expense includes incremental expense of approximately $30 million compared to 2019, relating to incentive compensation and profit sharing for the extraordinary results achieved this year.

Our operating earnings for the quarter were $43.8 million or 6.5% of sales and $219.3 million or 7.9% of sales for the full year. EBITDA for the trailing 12 months was $286 million, representing 10.3% of sales. Our inventory at year-end was down approximately 3.5% compared to fiscal 2019, and included a 21.9% decline at Famous Footwear and a 17.1% increase for the Brand Portfolio.

The Brand Portfolio inventory included more than $160 million of inventory in transit. Excluding this in-transit inventory, the Brand Portfolio inventory would be down approximately 20%. As Diane discussed, we will be laser focused on managing our inventory levels in the Brand Portfolio, focusing on the top styles and brands with strong consumer momentum in an effort to counterbalance the ongoing delays in receipts and better align inventory levels with consumer demand and drive sales.

The company generated approximately $168.4 million in cash from operations during the year, and use that cash to further reduce debt levels, fund our dividend, buy back shares and continue to invest in our overall business. We proactively called and subsequently shifted all of our higher-cost long-term debt to borrowings under our lower cost revolving credit facility. Ultimately, these actions allowed us to end fiscal 2021 with $290 million of debt, down from $448.9 million at the end of fiscal year 2020. All told, these activities will reduce our interest expense going forward by $20 million from our 2019 levels and provide the financial flexibility we need to execute our plans.

During the fourth quarter, we utilized approximately $21.3 million in cash from operations as our working capital investment needs increased ahead of our spring selling. We expect this to continue into the first quarter of 2022.

Now, let's turn now to our capital allocation. As you know, we carefully and constantly evaluate the most value-enhancing avenues for our free cash flow and put it in place a flexible capital return program, inclusive of dividends, share buybacks and then investing and growing the business. This year will be no different, and we will focus our capital allocation on, first, returning cash to shareholders via dividends and buybacks.

As Diane mentioned earlier, we announced this afternoon, our board of directors authorized an incremental 7 million shares for our share repurchase program. With this increase, we now have approximately 9 million shares under the current authorization. Second, we will be investing in organic growth in areas such as marketing, digital and consumer experiences. Third, we will be looking at funding strategic and bolt-on acquisitions. And fourth, we will continue to be looking at opportunities to selectively reduce our revolving line of credit.

Finally, as we look forward into 2022 and inclusive of the company's current expectations for its underlying business, along with anticipated macro challenges that include geopolitical concerns, inflationary pressures, ongoing supply chain disruptions, and lack of comparable government stimulus efforts, we expect our annual consolidated sales to be flat to up 3% in 2022 when compared to fiscal 2021. We also expect our earnings per share to be between $3.75 and $4 per share. This range does not include any impact associated with any share repurchases.

Additionally, it's worth noting that given the current strength we're seeing in the underlying business, along with the ongoing uncertainties in the macro environment, we expect 50% of our earnings in 2022 to be in the first half of the year.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question will come from Steve Marotta from CL King & Associates. Please proceed.

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

Q

Good morning. Good afternoon. Excuse me. I'm all backwards. Diane, Ken, and Logan, congratulations on ending the year terrifically well. Very, very well done. I was wondering, just a couple of details on the guidance. Does the $3.75 to $4 for the year assume incremental share purchase? And then, Ken, maybe you can walk through the puts and takes and expectations for gross margin and SG&A through the year, not necessarily on a quarterly basis, but just the big deltas in what you would consider comparables against, say, incremental freight comparables from a channel standpoint, from an increased promotion standpoint, that's all on the gross margin line and then maybe on SG&A as well?

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

A

Steve, it's Diane. Thanks for the kind comments. And obviously, it's a team effort. Everyone across the company put a tremendous amount of time and energy into helping to deliver these results. So we thank everybody on that. And just as a quick note, in terms of the share repurchases were not included in that guidance of $3.75 to $4. And Ken, I'll let you start walking through some of that...

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

Q

That's helpful. Thank you, Diane.

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

A

... as we go along.

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

Yeah. I think probably the easiest way to think about it, Steve, is from a gross margin standpoint, we delivered a little over 44% this year. And I think you can assume that we're going to hold that rate in the 2022 period. There's really two different dynamics that are going on. One is Famous had delivered 48%. We're allowing for a little bit of promotion and some investment there. So you could expect that to be a little bit lower.

And then on Brand Portfolio, as we mentioned, we were only down 100 basis points in the fourth quarter, up against a 380-or-so basis point impact from ocean freight. We don't see the ocean freight expense going away across the first half and that it will be comped in the back half. But the price increases that the team has put through for the most part, we'll be able to offset that. And we would expect the Brand Portfolio gross margin to be up 100 basis points to 200 basis points. So when you net all of that out, I think you can make it really easy and just kind of assume we're going to work to kind of hold right around that 44% range for the year.

On the expense side, we went through – we shared where we were investing dollars. I think we ended the year of that being around 36%, 36.5%, I think you can assume that with inflation in wages, whether it's in stores or also in our DCs, we would expect that to go up a little bit, probably not more than 100 basis points. And so I think you can use that to kind of model across the year. And I think you can get within the sales guidance that we provided of flat to up 3%. Clearly, the growth that we see is really going to be driven on the Brand Portfolio. And then Famous is lapping some government stimulus and the like. And so I think you can get to those ranges by modeling it that way.

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

That's very helpful. And just a follow-up to that. As far as offsetting incremental costs like ocean freight, I just want to sort of reiterate what you just said. The price increases that have been instituted for the first half of the year are expected to offset those incremental costs, I guess, unlike the fourth quarter?

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

That's right. That's right.

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

Okay.

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

The third quarter, if I recall, Jay, you guys were down roughly 350 basis points to 400 basis points. That was almost all driven by the $12 million of incremental ocean freight. And what we said at the time is we didn't go back and change pricing on orders that we had already taken when we saw those ocean freight costs going up. And so our price increases were really effective for spring. We shipped some of that spring in the fourth quarter, and we were able to offset about 280 basis points of that. And then the expectation is that you should see the offset in Q1 and Q2 come through based on the price increases that we had passed through.

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

Q

That's very helpful. Diane, just a question on the wholesale order book. Do you see a material change in fashion for goods that are being delivered, say, in the first half of the year versus the second half of the year? Is dress and dressier items becoming a larger portion of the mix of what is being demanded at wholesale in the back half or is it relatively similar?

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

A

Great question, Steve. As you can very well imagine, our order book right now and our position, we're feeling very good about what that currently looks like. And as we get more inventory in and as we get that out to retail and in front of the consumer, we really see our sell-through rates continuing to improve. And as we have taken a look at this demand for dress, right, who would have really expected that it would come back this quickly, but it's just been tremendous.

So as we've been taking a look at that, close to, I think, 30% of some of the our bookings have been in that category. And don't – think about it not as so-called traditional dress, but anything really that opened up dress, things to go to social occasions, anything things on a heel, that sort of thing. So yes, it's grown considerably because the consumer really wants to get out and is going to wedding. So I think we heard, Jay, [ph] didn't weigh (36:11) that [indiscernible] (36:13).

And I think a lot of the people have 2.5 million weddings in 2022 and they're having a hard time getting places to have the weddings and the reception. So there's a lot of people thinking that's going into 2023, which, of course, we're praying for that actually didn't happen. But Jay, anything else on the – or backlog and the pre-books and all of that sort of things.

John W. Schmidt
President, Caleres, Inc.

A

Yeah. I think, Steve, we see the dress piece, we said it's about [ph] 30% up or on order (36:42) position that compares against 15% in 2021. And that is actually above where we were in the first half of 2019. So it's a really strong trend. I think the most exciting thing is as the product comes in, the sell-throughs are very, very high. So we see that continuing as we go through the year.

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

Q

Jay, that's really helpful. And I just have one more question for whoever wants to answer regarding the supply chain. Do you see any let up in either or by the third and fourth quarter of this year? Or is this really just planned to be as sticky as it is now through the balance of the year?

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

A

I think, Steve, our assumption is that it's going to be sticky all the way through 2022. I don't think there's any reason right now to believe that we should expect anything different. I think it allows us to be really proactive and working through what we have to do to ensure that we have the goods here to satisfy our partners and our consumers all the way through. So we don't expect it to change significantly. And you hear a little bits coming out of China or Vietnam to where there little districts will pop up with COVID happening or the latest one yesterday where there's a shutdown or lockdown in different cities.

So that – I don't think that we can expect that that's going to go away completely. So we're sort of used to it. It's the new normal that we're operating against in and we'll just manage our way through it and do what we need to do. But don't see it changing.

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

Q

Very helpful. Thank you. I'll take the rest of my questions offline.

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

A

Thanks, Steve.

John W. Schmidt
President, Caleres, Inc.

A

Thank you, Steve.

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

A

Thank you.

Operator: Your next question will come from Laura Champine with Loop Capital. Please proceed with your question.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Thanks for taking my question. It's a little bit more around the guidance for – or half of earnings to come in the first half. Especially Ken, in keeping with the thought that Brand Portfolio probably has a better back half based on margins. What does that imply in terms of expectations for sales and promotional trends this back-to-school season?

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

A

I think it's more – it's the momentum coming out of Q4, and Q1 and Q2 being quite a bit larger than what they have traditionally been as opposed to Q3 being less. So what we – we typically – if you go back pre-pandemic, we would see 40% of our earnings come in the first half and then 60% come in the back half. So just in modeling, we thought we would make it easy for everyone if you take the $3.75 to $4, and you just divide it by 2 and you split it across the first two quarters, you ought to be pretty close to kind of what we're thinking.

Obviously, there's a lot of work required to actually make that happen, but we felt like that was probably the easiest way to explain our view of kind of what's going to happen across the first half.

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

A

And Laura, maybe to your question about promotional activity, and what did that mean in the back half. It really our promotional calendar will not change at all relative for 2022 versus what we did in 2021. So very consistent calendar in the quarter.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Got it. Does that imply that you keep the positive top line momentum in the first half but maybe see a lower sales result in the second half? Or should I not try to find a sales outlook in your guidance today?

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

A

No. I mean I think that as you heard from Jay, our spring order book is good. We expect good spring selling. And then I think our view is Q3 and Q4 right now, managing the day-to-day just seem like a long way off. And so clearly, our visibility over the first half is much better than it is across the back half. So I wouldn't read a whole lot into the selling. I mean, we tried to give you that range between flat to up 3% to account for some of that variability.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Understood. Thank you.

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

A

Thank you, Laura.

Operator: Your next question will come from Dana Telsey with Telsey Advisory Group. Please proceed with your question.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Good afternoon, everyone, and congratulations on the nice progress. A couple of things. As you think about the SKU count, I think Diane, you had mentioned you're tightening the SKU count. Where is it now from where you had been? And where do you see it going forward? And any updates on [ph] Active (41:25) and Nike, what you've seen in Famous and how that has contributed? And then I have a follow-up. Thank you.

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

A

Great. Thank you, Dana, for your thoughts/comments as well. Let me start with your second one first. Actually, our business at Famous, so momentum that we really ended fourth quarter with has continued into the first quarter. And we have not seen any slowdown at all in our athletic and our sport business. In fact, it's continued to be as strong as it has been with a few new items coming into being some of the top sellers, which has been nice to see. Our business with Nike continues to be great, and we don't expect to see anything with any change with respect to our performance there. So really feeling very good about the momentum with our Famous business overall.

I think as we look at our [ph] edit-to-win, (42:28) which Jay was really the architect of making sure that we thought about that because it was critically important as we looked at a much tighter supply chain and we looked at productivity and profit and really wanted to get our gross margins up much higher on the Brand Portfolio side that it was important that we make sure we keep the customer happy to. And we wanted those brand loyalty scores and our ESQi scores and all of those things up as high as possible.

So I would say, Jay, I'll let you give the numbers, but I think we are – we cut it back about 10% to 15% the first slug and you're looking to do another 10% I think, on top of that or so. But...

[indiscernible] (43:12)

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

Yeah. That's really the story. It's 10% to 15% was where we were. We're looking at it very closely by brand and really making the right decisions. And I have to say so far, it looks like – our initial results seem like it's pointing in the right direction. We're going to continue to update quarter-by-quarter on our progress against that strategy. And obviously, seeing how it works, but it's allowed us to really get our inventory behind the most meaningful styles that are really helping propel our business.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Got it. And then a quick follow-up. On the Brand Portfolio, I think the price increases for spring was set at around 15% in the Brand Portfolio. Does that continue in the fall selling – in the upcoming fall selling season? Or how you're thinking about that? Does it differ by brand? And then one for Ken, given that interest expense is lower by around $20 million versus 2019. As you think about selectively reducing debt going forward, what's the picture of that as you look forward? Thank you.

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

So Dana, on that. You're exactly right. Your memory is good on the price increases. It was 15%. And Jay, do you want to comment on kind of how you see it going forward?

John W. Schmidt
President, Caleres, Inc.
A

I think we'll take it all the way through the third quarter. I think we'll continue on that 15%. And then obviously, we'll start to lap that as we go into fourth quarter where we come up against where we hit the spring already. So I think that's really the answer. But yes, that would be the number, very consistent.

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

Yeah. And Ken, on that interest expense?

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

Yeah. On the interest expense, I mean, we'll generate well over $200 million of operating cash in 2022. And so our decision of how much will go to paying revolver debt down will likely depend on kind of what happens on the stock price. At these prices, we feel like it's highly undervalued. And so fortunately, our board was willing to increase our authorization. So we plan to be using some of that cash to buy back those shares. So that will all depend on kind of how that plays out.

But we're comfortable where we are today. We've got zero long-term debt. We've got $290 million outstanding against our line of credit. We will be going into Q1, investing in working capital. As you saw, there's $160 million of inventory in transit. We're working our way through to make sure that we're positioned to capture the demand that we think is out in front of us. So we're looking forward to putting that cash generation to work.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

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

A

Thanks, Dana.

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

A

Thanks, Dana.

John W. Schmidt
President, Caleres, Inc.

A

Thank you.

Operator: You do have a follow-up question from Steve Marotta from CL King & Associates. Please proceed.

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

Q

Good evening, again. I was just wondering if there were any shares repurchased in the year-to-date period?

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

A

There has not been any in the year-to-date period. We would have been closed in terms of the window. So we did buy about 600-and-some-odd thousand shares back $17 million, I think, in Q4, but we have not purchased any here in Q1.

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

Q

Helpful. Thank you.

Operator: And at this time, there are no further questions in queue. I would now like to turn it over to Diane Sullivan for closing remarks.

Diane M. Sullivan

Chairman & Chief Executive Officer, Caleres, Inc.

Thanks, everyone for listening this afternoon. 2021 was an exceptional year for our company. We did capitalize on market opportunities, control the controllables and really made excellent progress against our strategic initiatives. We're confident that these results, coupled with the structural changes that we've made across our business should drive long-term value creation for our shareholders. We really look forward to providing you with an update when we next speak with you in May. Thank you very much.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.