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PRESENTATION

Operator

Hello, and welcome to the Caleres third quarter 2023 earnings call. My name is Kevin, and I'll be your conference operator. (Operator Instructions) As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Logan Bonacorsi, Vice President, Investor Relations. Please go ahead, Logan.

Logan Bonacorsi - *Caleres, Inc. - VP, IR*

Good morning. Thank you for joining our third quarter 2023 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. In discussing the results of our operations, we will be providing and referring to certain non-GAAP financial measures. You can find additional information regarding these non-GAAP financial measures, as well as other views in today's earnings release and our presentation, on the investors section of our website. The company undertakes no obligation to update information discussed in this call at any time.

Joining me on the call today are Jay Schmidt, President and CEO; Jack Calandra, Senior Vice President and CFO. We will begin this morning's call with our prepared remarks, and thereafter, we'll be happy to take your questions. I would now like to turn the call over to Jay. Jay?

Jay Schmidt - *Caleres, Inc. - President, CEO & Director*

Thank you, Logan, and good morning, everyone. We are pleased to report earnings per share results above our guidance range. The Caleres team built on our strong first-half results, leveraged our competitive advantages and core competencies, and drove another period of solid operational and financial performance. Our consistent ability to deliver underscores the strength of our brand assets and the power of our operating model.

During the third quarter, we achieved adjusted earnings per share of \$1.37, which was above the high end of our guidance range and represented a nearly 20% increase over the third quarter of 2022. Consolidated sales declined 4.6%, slightly below our expectations. However, we saw strong sequential improvement in the sales trend in the brand portfolio, and continued strength in our cornerstone Kids business at Famous Footwear.

We achieved these results despite ongoing softness in the demand environment and weak seasonal demand in boots that impacted both segments of our business.

During the quarter, we generated strong consolidated gross margin of approximately 45%. This was driven by record gross margin in the brand portfolio and solid gross margin at Famous Footwear, as we continued to prioritize profitability over promotional sales. Both segments of our business also delivered a strong operating margin, resulting in a consolidated adjusted operating margin of nearly 9%. The brand portfolio generated record third-quarter operating margin of 12.2%, while Famous Footwear achieved a double-digit operating margin of 10.6%.

We saw strong consumer reaction to our brands and for our products, and benefited from our ongoing inventory management. Inventory declined more than 14% year over year as compared with third quarter of 2022, which allowed us to strategically adjust our promotional cadence across our businesses.

During the quarter, we continued to invest in and accelerate value-driving growth opportunities and made progress on several key initiatives. First, according to Circana, we grew market share in the brand portfolio in women's fashion footwear and increased Famous Footwear's market share in shoe chains and in Kids. Second, we leveraged our leading speed capabilities in the brand portfolio to capture demand in key trends in casual flats, loafers, moccasins, valets, and fashion sneakers, supplementing the weak trending boot category. Third, we further enhanced our marketing ecosystem by partnering with Bluecore to strengthen our ability to utilize our consumer data platform or CDP.

Fourth, we expanded our global presence by opening an additional Sam Edelman store in Asia. We've now opened five stores, fiscal year to date, with three more slated for the fourth quarter. Fifth, we redoubled our commitment to ESG by unveiling our One Planet Standard, which highlights styles in each brand that meet our strictest sustainability standards. In addition, we were recognized by the Women's Forum of New York for our ongoing commitment to gender parity on our Board of Directors. And six, we further strengthened our balance sheet and financial flexibility by reducing the borrowings under our asset-based revolving credit facility by \$22 million from second quarter of 2023. This represents a \$143 million year-over-year decline in our borrowings.

Now let's turn to our operating segments, starting with the brand portfolio, which remains on track to deliver significantly higher earnings contribution in 2023, as compared with prior years. Already, for the first time in our company's history, the majority of the earnings contribution year to date has come from this segment. During the quarter, the brand portfolio achieved a strong financial performance, delivering record third quarter adjusted operating earnings of \$39 million and generating record third-quarter adjusted operating margin of 12.2%. This was driven by a 580-basis-point improvement in gross margin due to higher initial margins, lower freight costs, strong inventory management, and reduced markdowns.

Our lead brands once again represented about half of the brand portfolio sales and nearly 60% of the segment's profitability. We continue to expect the brand portfolio sales and earnings growth to lead the total company's growth over the next three years. As I mentioned, the brand portfolio sales trends improved sequentially in the third quarter, with sales down 0.8% and many of our brands up year over year.

We are particularly proud of the performance of our speed programs, which represented 28% of our production during the quarter, versus just 12% a year ago. Speed is a key differentiator for the Caleres brand portfolio, as we can get back into products in three months or less to align with what the consumer wants to buy. As a result, we were successful in offsetting weakness in boots mostly during the quarter. The consumer continued to gravitate toward newness in non-seasonal categories, including casual flats, loafers, moccasins, valets, and fashion sneakers, which by the way, were up over 30% in the quarter.

Looking at our direct to consumer business, our owned e-commerce was a bright spot during the period, up nearly 5% year over year, with strong performances from lead brands, Vionic and Allen Edmonds, as well as portfolio brands, Dr. Scholl's and Franco Sarto. As we look to close the year, we expect further sequential improvement in the brand portfolio, as well as a return to year-over-year sales growth in the fourth quarter. Specifically, we will work to maximize top-selling categories and items, leaning into our speed to market and our Edit to Win strategy to get the consumer what they want.

Now to the performance of our lead brands. As we detailed at our Investor Day presentation in October, these four brands are transformed and readied for accelerated growth, with clear strategies to optimize our ongoing investments. Beginning with Allen Edmonds, the brand achieved its 11th consecutive quarter of growth. The third-quarter year-over-year increase was broad-based, with improvements across all channels and major categories, including casual, dress, and sport. The customer continued to respond to newness in footwear, with our new casual hybrids and sport sneakers leading the way.

During the quarter and in support of our long-term strategic growth plans, we introduced our Port Washington Studio shop-in shops in three more locations, including our new store in Oklahoma City, which opened in October. We now have seven Port Washington Studio stores and continue to see the sales performance of these concept stores comped at twice the rate of the rest of the chain. Also in the quarter, we launched a new Allen Edmonds website to accelerate the growth in Canada for the Allen Edmonds business.

Our Vionic brand delivered a strong third quarter, with sales increasing low single digits over the last year, driven primarily by their international and retail segments. Gross profit climbed significantly, increasing across all channels. Our consumers and our wholesale partners are embracing our NorCal rebranding and product newness. In line with the overall market trends, the brand's loafers and flats were the main drivers of the positive performance in the period. The Uptown moc continues to be a consumer favorite and is gaining traction as the most perfectly packable shoe in the marketplace.

Our Naturalizer brand grew market share during the quarter, climbing one spot to number 11 in women's fashion footwear. The brand continued to make progress on its consumer-focused strategies and attract younger consumers. In September, the brand launched its inaugural loyalty program, Naturalizer INSIDER, to further engage and connect with consumers. Since that launch, more than half of our owned e-commerce sales have been generated by insiders.

At Sam Edelman, the brand saw strength in feminine styles, including valets, Mary Janes, and lower heels, as consumers shifted away from heavier boots and lug soles. While the shift put some pressure on average unit retail, the brand's trend-right assortment, including their core styles, resonated with our consumer, and sneakers continued to build momentum. Profitability remains strong for the brand, and the team is busy on a number of fronts.

The Sam & Libby brand will relaunch in spring 2024, exclusively at Famous Footwear for the first month, and rolling out more broadly to the market later. The product looks great and will begin shipping in fourth quarter. In addition, I'm pleased to share that Sam and Libby Edelman will receive the Lifetime Achievement Award from Footwear News in December. And the brand is also gearing up to celebrate its 20th anniversary in 2024.

We were also pleased with the sales trend improvement and strong profitability across our portfolio brands. In particular, Dr. Scholl's, Franco Sarto, and LifeStride grew both sales and operating profit by maximizing styles in line with their consumer preferences.

Overall, the brand portfolio performed well in the quarter and is planned to close 2023 strong. We expect ongoing improvement in segment sales trends and a more meaningful contribution to the company's operating performance this year. We are confident the brand portfolio, fueled by its lead brands, is positioned to lead the financial performance of Caleres over the long term.

Turning now to Famous Footwear, our comp store sales were down 6.9% in the quarter. However, the brand outperformed its competitive set, gaining 50 basis points of market share in shoe chains and saw continued strength in its Kids business. During the third quarter, Famous experienced some softening demand trends, as families continued to be impacted by inflationary pressures and other macroeconomic concerns. Additionally, a sharp drop-off in boots had an outsized impact on Famous Footwear's results.

Our Kids business, a key differentiator for Famous, increased 4% over last year, as we distorted our inventory investment behind key trends, brands, and styles heading into back-to-school. And those bigger bets paid off. We increased our Kids market share in shoe chains by nearly 2 percentage points, and we achieved record Kids sales during the 10-week back-to-school season. We believe these results further cement our leadership position as the go-to shoe store for back-to-school, and the go-to shoe store for Kids all year long.

As we detailed, we view Kids as a key component to our growth strategy at Famous and have made investments to support this critical area of our business. Famous owned 27% of the Kids market share in shoe chains through the first nine months of the year. We believe we are well-positioned to grow our share even further, particularly as our Kids dominance in shoe chains increases, and as consumers prioritize Kids purchases in this tough macroenvironment. In addition to the strength in Kids, many demand brands that Famous has been increasingly known for also showed strong increases during the quarter, just not enough to offset declines in seasonal categories.

Famous generated \$48 million in adjusted operating earnings, resulting in a return to a double-digit operating margin of nearly 11%. Gross margins were down 50 basis points versus last year, to 44.2%. And overall, we continue to prioritize the health of our business. Our nimble approach to inventory has allowed us to react to soft demand for seasonal goods, mitigate markdown risk, and capitalize on what consumers are buying.

And while we expect the consumer demand and competitive environment for Famous to remain challenged for the balance of the year, we are confident that Famous will continue to capitalize on pockets of demand, including shopping for holiday, gaining market share in key categories, and focusing on profitability by managing inventory and expense levels. Longer term, we are confident Famous Footwear will continue to build on its leadership position with the millennial family, and deliver growth and profitability.

In summary, as we outlined at our Investor Day in October, we have transformed our company, resulting in a step change in the earnings power of the organization. One that supports our baseline earnings of \$4 per share. And we have a clear plan and actionable strategies for growth in 2024 and beyond. Our unique structure is an asset that provides scale and stability, and allows us to leverage our capabilities synergistically.

In 2024, Caleres will return to growth by leveraging our competitive advantages, powerful brands, innovative products, and compelling experiences across channels and geographies. Our successful execution of these operational initiatives will deliver strong financial performance and generate significant value for our shareholders over the long term. And with that, I will now hand it over to Jack for a more detailed view of our financials. Jack?

Jack Calandra - Caleres, Inc. - Senior VP & CFO

Thanks, Jay, and good morning, everyone. In today's call, I'll provide additional details on our third-quarter performance, discuss the progress we've made on our expense reduction initiatives, update you on our capital allocation activities, and share our revised outlook for full-year 2023. My comments will be on an adjusted basis. Please see today's press release for a reconciliation of adjusted results.

Starting with Q3 results. Consolidated sales were \$762 million, down 4.6% versus last year. At Famous, sales were \$450 million, down 6.7%. Comparable sales were down 6.9%. The lower sales were driven by softness in seasonal categories, namely boots, which was partially offset by strong performance in Kids.

Brand portfolio sales were \$321 million, down 0.8%, and reflected a continuation of the sequential year-over-year improvement. Consolidated gross margin increased 210 basis points to 44.7%, with an increase in brand portfolio gross margin and a decrease in Famous gross margin. Brand portfolio gross margin was 43.7%, a 580-basis-point increase versus last year. This gross margin was a record for the third quarter and was due to lower ocean freight costs, higher initial margins, and disciplined inventory management.

Famous gross margin was 44.2%, a 50-basis-point decline versus last year. This decline reflects lower initial margins and a more normalized level of clearance pricing, given last year's clean inventory position. That said, our change in promotional strategy, with significantly less BOGO, drove a favorable comparison to 2019.

SG&A expense for the third quarter was \$274 million, or 35.9% of sales. SG&A expense was \$9.5 million below last year from lower variable expenses and the benefits of our cost reduction initiative. Operating earnings were \$67 million and operating margin was 8.8%. Operating margin was 12.2% at brand portfolio, a record for the third quarter, and 10.6% at Famous.

Net interest expense was \$4.5 million, up \$0.5 million from last year due to a higher borrowing rate. The weighted average interest rate in Q3 was 6.9% this year versus 4.2% last year. Diluted earnings per share were \$1.37, in excess of the high end of our guidance range, and 19% higher than last year. EBITDA for the third quarter was \$81 million, or 10.6% of sales.

Turning now to the balance sheet and cash flow. We ended the third quarter with \$222 million in borrowings and no long-term debt. Inventory at the end of Q3 was \$556 million, down 14% versus last year, principally in the brand portfolio and reflecting disciplined inventory management across the business. By segment, inventory was down 2% at Famous and down 27% at brand portfolio. In general, we feel good about the composition of inventory, as aged inventory as a percentage of total is lower than last year in both segments.

Regarding cash flow from operations, we generated \$32 million during the quarter and deployed cash for strategic investments in the business, including the omnichannel experience, marketing technologies and analytics, and international. We also paid our quarterly dividend and reduced borrowings on our revolver. Specifically, we spent \$20.5 million on capital expenditures and \$2.5 million on our quarterly dividend.

With a \$22 million paydown in Q3, borrowings are approximately \$143 million below third quarter last year and down \$86 million year to date. As a result, we are now below 1 times on a debt to trailing 12-month EBITDA basis. Given the volatile consumer environment and higher interest rates, we will continue to focus on reducing debt.

That said, the achievement of our leverage target and expected free cash flow in Q4 gives us the opportunity to both reduce leverage and buy back shares. We will evaluate these alternatives in light of business performance and market conditions as we proceed through the quarter. We have 5.6 million shares remaining under our current board repurchase authorization.

Turning now to our outlook. Given our performance year to date, coupled with soft consumer demand trends at Famous that accelerated in October and have continued fourth quarter to date, we are tightening our full-year earnings per share range to \$4.10 to \$4.20. As a result, for the full year, we now anticipate consolidated sales to be down 4.5% to 5.5%, including the impact of the 53rd week. Consolidated operating margin of 7.3% to 7.5%.

We still expect to generate \$20 million of in-year savings from our expense management initiatives and have identified additional opportunities for cost savings in 2024. As a result, we are increasing our one-time charge to \$7 million and increasing our projected savings on an annualized basis to \$35 million to \$40 million. We took \$4 million of that charge through Q3 and expect to take the remaining amount in the fourth quarter.

We expect net interest expense of about \$18 million, an effective tax rate of about 25%, capital expenditures of about \$50 million, and shares outstanding of approximately 34.3 million, which assumes no additional share repurchases this year. With that, I'd like to turn the call back over to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. We'll now be conducting a question-and answer-session. (Operator Instructions) Dana Telsey, Telsey Advisory Group.

Dana Telsey - Telsey Advisory Group LLC - CEO & Chief Research Officer

Hi, good morning. Nice to see the progress of brand portfolio and also the careful management, as we move through this Famous Footwear -- as we move through the environment. Jay, if you think about the Famous Footwear business, was there any time period, whether it's going back to the GFC, whatever, that was similar to now? And how you plan on merchandising, assorting promo Famous and promo-ing Famous Footwear as we move through into 2024?

And then on the margins, which were very impressive, how do you think about under the hood on the margins and the puts and takes, whether it's for the remainder of the year and into 2024? And Jack, you mentioned further expense reduction. How much do you think it could be and what would it entail? Thank you.

Jay Schmidt - Caleres, Inc. - President, CEO & Director

Well, I think I'll begin by saying that, as we look at the Famous business and the promotional cadence, it's continually that balance of really, sales and profit that we're really managing very, very closely. So we do not have any return to go back to, what I would say the pre-pandemic levels of what we're doing. So we'd like to think we're competitive where we need to be with the marketplace and not any further.

I would say as a result of that, when we do have products that really are not performing, we are using our clearance ability to clear goods and provide value to the consumer. And those would be more in the second and fourth quarter of opportunities, which I think we've said before, coming through.

Looking forward though, our whole focus with Famous is really on the family and all the inventory and products that the consumers want. Obviously, beginning with Kids and really thinking about this millennial mom as she comes to shop for her family. So I would say our items and our interest is all in there, and we are reacting aggressively to those in the marketplace. And then I'll let Jack fill in on the margin piece of it, which I think was the second part of the question.

Jack Calandra - Caleres, Inc. - Senior VP & CFO

Yeah, Dana, thanks for the question. So for margins, as you know, we continue to see really nice gross margin improvement in brand portfolio. I would say just in terms of the order of those improvements, ocean freight is clearly driving the largest piece of that, followed by fewer markdowns associated with our better inventory management, and then some of the higher initial margins and prices. And I would say we expect similar improvement in brand portfolio gross margin in Q4, in what we've seen in Q3.

And then on Famous, as you noted, we were down 50 basis points. In that case, we had lower initial margins. I would say some increase in shrink, nothing to the extent that some of the other retailers have talked about, we've probably certainly seen that rate tick up. And then the inventory that we're managing in terms of we've got a little more clearance than we had last year, and we're taking that clearance prices down a little bit. So that's really driving the margin in Famous. And then I think your third --

Dana Telsey - Telsey Advisory Group LLC - CEO & Chief Research Officer

Thank you. Yeah, go on.

Jack Calandra - Caleres, Inc. - Senior VP & CFO

Yeah, your third question was on expense reduction. And as we continue to look for opportunities to streamline the organization and eliminate costs, we have, as we've done our work, found further consolidation opportunities in some of our smaller brands in the brand portfolio, as well as some additional opportunities in corporate infrastructure. And those changes are really driving up the annualized savings, about \$5 million from the range we communicated previously.

Dana Telsey - Telsey Advisory Group LLC - CEO & Chief Research Officer

Thank you.

Jack Calandra - Caleres, Inc. - Senior VP & CFO

Thank you, Dana.

Operator

Abby Zvejnieks, Piper Sandler.

Abby Zvejnieks - Piper Sandler & Co. - Analyst

Great. Thanks for taking my question. Can you just give us some color on how trends have evolved, maybe both at Famous and the brand portfolio since we last spoke at Analyst Day? And then how are you planning inventory buys for Famous engaging what demand will look like for at least the first half of '24? Thanks.

Jack Calandra - Caleres, Inc. - Senior VP & CFO

Yeah, I'll start, Abby, with the Famous piece. So what I would say is over the course of Q3, we saw comp sales lower each month of the quarter. So October was worse than September, September was worse than August. I would say the first couple weeks of November continued that trend, although we've seen improvement now, November month to date, and I would say more noticeable improvements in the past few days. And as we think about Q4, basically, our guidance assumes that the Q3 comp, back down 6.9%, is pretty much the midpoint of what we've modeled for Q4. So we feel pretty good about that. Did you want to talk about, Jay, how we're thinking about inventory for next year?

Jay Schmidt - Caleres, Inc. - President, CEO & Director

Yeah, so in Famous Footwear, obviously, like many retailers, we're going to continue to be very fluid and, I think, agile in reacting to market trends. We have good positions in some of the key brands that have been trending all the way through this year and we'll continue to model that very closely. But I think the inventory management has always been very strong and conservative right now. So we're going to continue that posture as we go into there. and keep looking at opportunities and working with our key strategic partners to do that.

Jack Calandra - Caleres, Inc. - Senior VP & CFO

Yeah, and just to add to that, as we've started to look at our plans for 2024, we are certainly going to be looking for the continuation of turn improvement in inventory. And so we will look for that to be, again, a nice opportunity to manage working capital and unlock some cash.

Abby Zvejnieks - Piper Sandler & Co. - Analyst

Got it, makes sense. And just one more for me, if you can. Just on the brand portfolio, top-line trends sequentially improving. What gives you confidence, I guess, in 2024 growth of the brand portfolio? And what are the main drivers there? Thanks.

Jay Schmidt - Caleres, Inc. - President, CEO & Director

Yeah, I think coming out of Investor Day, really, it's our focus on our lead brands. We think all of them are poised for growth and they have specific opportunities by brand that range from more international and -- our Sam & Libby growth, in our Sam Edelman brand. In Allen Edmonds, they have a specific wholesale opportunity. And I think all of them, along the way, have a big digital opportunity as we go forward. So we're looking at all those vectors to stimulate growth as we go into 2024.

In our brand portfolio, our net sales were down negative 0.8%. And that improved sequentially, where we were down 7% in the second quarter, and even more in the first quarter. So we really are starting to see a very -- move to a new normal here, and I think a place where we can really start to grow again. And I'm impressed, Abby, by the brands' ability to take market share in this environment. And that'll be a continued focus as we go forward.

Abby Zvejnieks - Piper Sandler & Co. - Analyst

Awesome, very helpful. Thank you.

Jack Calandra - Caleres, Inc. - Senior VP & CFO

Thanks, Abby.

Operator

(Operator Instructions) Mitchel Kummetz, Seaport Research.

Mitchel Kummetz - Seaport Global Securities LLC - Analyst

Yes, thanks for taking my questions. I guess, at first, just wanted to better understand how to think about, like, Famous Footwear comp holistically. Because it sounds like in the third quarter, back-to-school was good, that's a peak shopping period. And then September and October were difficult, some of that being due to the seasonal side of the business. And then for 4Q, it sounds like it started, we just gotten better.

So are you thinking that, like, similar to 3Q, that your business at Famous will be pretty good around holiday because it's a must need shopping period, but then, like, once we get through that, in January, you'll be soft again because you're post-peak shopping. Is that how holistically we think about the business? People showing up during these key periods, but then, given the macro challenges, business in between is pretty tough?

Jay Schmidt - Caleres, Inc. - President, CEO & Director

Yeah, I think, Mitch -- hi, it's Jay, I think you've got it mostly right. I think that's basically how we -- how third quarter played out and how we feel about fourth quarter. We were reacting to and did react to all of the key trending products that really were identified by the consumer as being really important to them and are in good position on them on an item and SKU strength. So that's really been our focus as we go into fourth quarter. And then we'll see about January. The one thing I will say is that this is continually on a changing environment, we're watching it very much in real time. But I would say that's pretty much how we see it.

Mitchel Kummetz - Seaport Global Securities LLC - Analyst

And then on brand portfolio. We just came out of vendor earnings season last month, and a lot of the vendor-specific companies talked about challenges around reorders and spring order books, and there was a lot of guidance that was taken down. That's a very different story than what you guys are telling on BP.

So maybe just elaborate on, like, why are you guys seeing such strength? It sounds like you're taking market share. Why do you think you're taking share? Is it that you guys are in some favorable categories? Or is some of it the competitive advantage of the speed program? Like, why is it that your brands are holding up better than what, at least my impression was, coming out of vendor earnings season, where numbers were coming down and there was a lot of negativity around replenishment, [that one], and future orders, things like that?

Jay Schmidt - Caleres, Inc. - President, CEO & Director

So I think, for myself, I'll begin, I think our speed to market, which was outlined, really allowed us to capitalize on key market trends. And as I reported last second quarter and into Investor Day, we saw, really, the fashion sneaker business really take off, as it was going from early spring to late spring. And we really positioned ourselves, going into third quarter, with a big play there. And that did work across our portfolio really nicely and gave us a nice lift.

We're going to see similar trends, I believe, as we look at the key categories of these casual flats, new low heel dress, and other items as we go into first quarter. And those are all on reorder for that time period. So I would say, in a broad-based way, Mitch, it really is this really -- staying very close to a consumer, utilizing our speed program. And also, the really strong inventory management has allowed us to maintain our flexibility and agility in really going after this and feeding it. I think the brand work that people have done has been really strong and the lead brands are continuing to perform there.

And then the last thing I would say is just that so much of our business -- really, it's close to 50%, is really in what I would call this dynamic model. So between our dropship ability, our own DTC, and our replenishment programs, we're really seeing some really nice return there in working all the way through on that. And that goes across the portfolio. So we're staying really close to consumer trends, really working well with everybody. But again, our model is fluid, and I think it's benefiting us in this time that we're in.

Mitchel Kummetz - Seaport Global Securities LLC - Analyst

And then I guess the last one for me, you mentioned a return to growth in 2024. Can you just provide me with some more color? I know you're not giving 2024 guidance, but a little color as to what exactly that means. Does that mean top-line growth for both Famous and BP? It sounds like there's an opportunity on the expense side, like -- and then maybe on the margins. I don't know, Jack, like, you guys are definitely benefiting from freight right now. I don't know when that -- year anniversary of that, and it runs out as a tailwind.

Jay Schmidt - Caleres, Inc. - President, CEO & Director

Well, I think first of all, going back to our Investor Day model, we did say that more growth was going to come out of our lead brands as we move into 2024. And that, I think, continues with some of the key strategies that were outlined there. And then going forward, we do see a return to more moderate growth as we lean into a lot of the things that are working right now, and what we're doing with Kids and Famous and the family and other places. But that growth will be more moderate. So that's -- I think we're still very, very focused on that whole part of the play.

And then the piece on, really, margin, too, is that we really are -- when we looked at it, we're seeing a nice benefit from our internal -- our initial margins and the flow through all the way coming out of that from really great management, straight through the business. So we do see a lot of that returning. And then the last part is that as we continue to grow the lead brands out of our portfolio, we're going to see a lot of that margin come out more strongly as the mix shifts.

Jack Calandra - Caleres, Inc. - Senior VP & CFO

Yeah, and just to just add to Jay's comments, I think, also, we have the continued inventory management. We're looking for improved turns that drives oftentimes lower markdown expense, which improves margin. And then just the mix of channels as well, with DTC growing faster. Certainly, in the brand portfolio business, DTC is a higher margin business than our traditional wholesale business.

Mitchel Kummetz - Seaport Global Securities LLC - Analyst

Alright, thanks. Good luck for holidays.

Jack Calandra - Caleres, Inc. - Senior VP & CFO

Thanks, you too.

Operator

Laura Champine, Loop Capital Markets.

Laura Champine - Loop Capital Markets LLC - Director of Research

Thanks for taking my question. I wanted to get a little more color on how Nike is performing inside Famous Footwear. And also, how your owned brands are performing inside Famous Footwear.

Jay Schmidt - Caleres, Inc. - President, CEO & Director

Hi, Laura, it's Jay. As far as Nike, we see, in our total business, it pretty much was similar to how Famous did perform in the quarter. What we did see is strength out of Nike in those retro and court-inspired sport shoes. Our Kids business was very strong. Our Performance business was a little on the softer side, and particularly in the Men's part of Performance. So that's how I would say that summed up there. And then some we did see, again, all the -- that kind of retro sport-type of product continue to perform from all of the key athletic brands.

Over to our Caleres brands, we saw them actually perform better than the total Famous performance. And that's really come from a key focus on that area and really working there. We did put someone in charge of that entire buying responsibility at Famous, who came from the brand portfolio, knows it very well. So we're seeing some of that start through. Again, it's a small part toward total right now, but that growth trajectory that we outlined at Investor Day, going from 6% to 10%, seems to be well on track right now.

Laura Champine - Loop Capital Markets LLC - Director of Research

Got it, thank you.

Jay Schmidt - Caleres, Inc. - President, CEO & Director

Thank you.

Operator

Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to Jay for any further or closing comments.

Jay Schmidt - Caleres, Inc. - President, CEO & Director

Hi, before we close today, I'd like to thank the talented Caleres team for their focus, their hard work, and their dedication. We remain confident in our ability to close 2023 in a strong position, poised to execute on our long-term strategies.

As we look ahead, we believe the stage is set for us to continue to create exceptional product, to exceed our consumers' expectations in this dynamic marketplace, and to drive significant value for our shareholders. Thank you for your interest in Caleres and best wishes on a happy, healthy, and safe holiday season. We look forward to seeing many of you at the ICR Conference in January.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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