23-Aug-2022

Caleres, Inc. (CAL)

Q2 2022 Earnings Call

Copyright © 2001-2022 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

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

John W. Schmidt
President, Caleres, Inc.

OTHER PARTICIPANTS

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Laura Champine
Analyst, Loop Capital Markets LLC

Mitch Kummetz
Analyst, Seaport Global Securities LLC

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

MANAGEMENT DISCUSSION SECTION

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

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

Logan Bonacorsi

Vice President-Investor Relations, Caleres, Inc.

Good afternoon. I'd like to thank you for joining our second quarter 2022 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.

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 our prepared remarks, and thereafter, we'll be happy to take your questions.

Copyright © 2001-2022 FactSet CallStreet, LLC

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 pleased to report that Caleres continued its strong execution in the second quarter, achieving yet another period of outstanding results. We delivered record consolidated sales, net earnings, earnings per share and generated still strong consolidated margin levels, and we closed the first six months of 2022 with earnings per share of $2.70, more than double the previous six-month high set in 2021 and 22% higher than our pre-COVID and full record of adjusted earnings per share of $2.21.

During the period, we continued to leverage our diversified portfolio to capitalize on demand in trending footwear categories so we could meet the needs of our core consumers when, where and how they wanted to shop and enhanced our customer file, while at the same time making strategic investments for future growth. Overall, the year is progressing very much in line with our expectations with the cadence of our quarterly results playing out as anticipated.

As we previously discussed, we projected that our first half results would represent well over half of our expected 2022 earnings per share. As a result, we are reaffirming our previous annual guidance. Specifically, we still expect to achieve diluted earnings per share between $4.20 and $4.40, which will represent record or near-record annual earnings per share.

Now taking a look at the results more closely. Among the many significant highlights for the quarter, we achieved another quarterly sales record of $738 million, driven by a significant year-over-year increase in sales from the Brand Portfolio segment. We generated record consolidated operating earnings of $68.4 million and earnings per diluted share of $1.38. We captured a consolidated gross profit margin of 45.6%, holding the consolidated margin level delivered in the first quarter of 2022. We delivered another strong consolidated return on sales reaching more than 9% during the period as Famous achieved an ROS of 14%.

We also made sure that we prioritized our strategic investments, namely in consumer marketing, to drive deeper and stronger connections with our consumers. And we also made noteworthy progress on our capital return priorities. To that end, during the second quarter, we returned $27 million of capital to shareholders via the repurchase of 1.1 million shares, or roughly 3% of our shares outstanding. As you know, we view this program as an excellent way to drive long-term value for our shareholders.

As we progress through the balance of the year, we are well-positioned to take advantage of opportunities in the marketplace and expect to generate significant amounts of cash in the year's second half. While we will constantly evaluate the optimal use of our free cash, we clearly view buybacks as an effective means of returning capital to shareholders. And with our PE still well below historical levels, we view Caleres' stock as an attractive investment option.

In short, we believe this ongoing outstanding financial performance continues to demonstrate the structural shift in the earnings potential of Caleres and highlights the significant competitive advantage of our versatile platform. And if you think about it over the long term, this structure enables Caleres to drive exceptional results in strong market environments while still generating [ph] a terrific (00:05:37) attractive levels of profitability even when there is a more difficult macroeconomic backdrop.

But let's now turn to our segment level performance, starting with our largest brand, Famous Footwear. Famous continued to perform at a high level in the second quarter, building on the strong performance in Q1 and then

Copyright © 2001-2022 FactSet CallStreet, LLC

meeting our internal expectations across all key financial metrics. In fact, Famous delivered $62 million in operating earnings on net sales down 3.8%, resulting in a return on sales of more than 14%. I would note that this is our sixth consecutive quarter of achieving double-digit ROS in the segment. Notably, Famous also sustained its strong gross margin rate of nearly 49% from the first quarter as we continued to limit promotional activity.

Turning now to inventory. Our current inventory position is up approximately 18% compared to 2021 when inventory was low due to supply chain constraints. However, when compared to the same period in 2019, inventory is down approximately 15%. Therefore, we're working in real time to make sure that we're managing our inventory flow by classification and brand to emphasize and amplify what's working and selling through and what's not. Going forward, we believe there are certain spots where we can improve our inventory position, particularly in specific categories, in order to more fully capture pockets of strong consumer demand.

As I normally do, let me give you an update on a few key initiatives we feel will enhance our competitive advantage at Famous. As it relates to product, the categories and brands that have been selling continue to resonate with the Famous consumer. In fact, our top 25 brands represented more than 85% of our sales during the quarter. In addition, we believe there is significant opportunity to maximize the vertical integration between Famous and our own portfolio, which has the potential to connect with the current target customer, engage potential new consumers as well as even drive greater margins for Caleres as a whole.

In fact, in addition to LifeStride and Dr. Scholl's, which are already performing well at Famous, we believe we are uniquely positioned to leverage our extensive knowledge and deep consumer insights around fashion footwear to address the customers' increasing interest in adding seasonal footwear to her wardrobe. We are working to inject the right styles and brands in the right location to broaden our reach and to drive highly profitable incremental sales on top of our core athletic and sport business. We know that when she buys for her family and for herself, she is spending more, connecting more and returning more often.

Turning now to marketing. During the second quarter, we used the findings collected during our media mix and marketing attribution study to build out and execute a media plan that would be more effective and efficiently reaching the consumer. We strategically invested in consumer marketing, including TV, creative production and paid search, really accelerating these efforts ahead of back-to-school.

I would be remiss if I didn't highlight the outstanding back-to-school campaign that launched on July 5. In fact, Famous celebrated back-to-school in a big way with a fun, happy and musical campaign. It centered around a TV commercial featuring John Legend's Crowd Go Crazy and ran across premier programming and networks. You can see the full commercial via the link in our quarterly earnings slides.

Before I move on to the Brand Portfolio, I'd like to provide some color on the consumer demand environment and more specifically around the early trends we're seeing during this important back-to-school season. Since March of 2021, Famous has benefited significantly from elevated levels of consumer demand, and those conditions continued for most of the second quarter. However, beginning in July, we began to see demand and traffic and conversion impacted by a more cautious consumer. So, as a result, we anticipate and see clear evidence of a solid back-to-school season. We're currently forecasting third quarter Famous sales to decline approximately 4% or similar to what we've experienced in the first half of 2022.

In short, Famous had an outstanding first half of the year with double-digit operating margins, underscoring the significant power and agility of the Famous brand and providing just a terrific foundation for another strong earnings year in 2022 and beyond. And while, yes, consumer demand may moderate somewhat in the second half of the year, Famous remains positioned to win with its national footprint, its strong digital business, its

Copyright © 2001-2022 FactSet CallStreet, LLC

improving inventory position, enhanced consumer experience, and then all of those being very powerful drivers for growth.

So, now let me turn to the Brand Portfolio. The Brand Portfolio turned in an another exceptional performance, achieving significant year-over-year improvements and continuing to lay the groundwork for a significant step-up in the segment's overall annual earnings contribution. Specifically, we delivered an approximately 36% year-over-year increase in sales, driven by consumer demand across trending categories and reflecting the successful execution of our initiatives to elevate product design, refine our product assortments, and importantly, to increase the availability of inventory to meet demand.

In fact, we saw double-digit sales increases across much of the portfolio as we not only had the right products the consumer wanted, but the inventory behind the right brand and styles to meet the consumer's needs. Clearly, this was a significant shift from the environment from last year. Ken will discuss our inventory position in more detail shortly. In addition, our gross profit margin was 38%, in line with the first quarter of 2022. In total, the Brand Portfolio achieved $29 million in earnings, a 78% increase over 2021, with a 215 basis point improvement in the segment's return on sales.

Also, during the quarter, we achieved a 30% increase in the Portfolio's direct-to-consumer business, highlighting the power of our brands coupled with our improving reach of our digital capabilities. This included an approximately 9% growth from our owned e-commerce sites with solid increases from nearly every one of our branded websites. In addition, we drove a 27% year-over-year increase in new customers as consumers continue to look to our portfolio for fresh and compelling products and diverse assortments. We believe we can leverage our powerful brands, customer analytics and overall expertise to unlock more value from the total Caleres customer file over time.

Now, let's look more closely at some brand-level detail. First, it's important to note that several of our brands are gaining share and winning with the consumer, a consumer who is definitely out and looking for new and updated footwear for fall. In fact, given our early reads on what the consumer wants for the season, with boots showing positive trends, it appears dress and casual remains strong as well, and we are ready.

Our Sam Edelman brand delivered strong results in the quarter with the year-over-year sales increase of 86%. Of course, this performance was driven by strong demand across all categories as well as a strong in-stock position of core inventory. While the brand's wholesale business improved, the highlight again this quarter was the growth in its digital business with samedelman.com up nearly 60% when compared to the same period last year.

In addition, the brand continued to engage with consumers, increasing its consumer file by more than 30% and underscoring the significant connection the brand is fostering with new customers. I would also note, the most recent Sam Edelman catalog arrived in homes just over two weeks ago, and it is generating excitement around our fall product and translating to an uplift in sales and an increase in web traffic.

Finally, next week, we will be launching an exciting campaign with world-renowned supermodel, Naomi Campbell. We're anxious for everyone to get a look at this campaign. It's new and fresh and really uses Naomi's powerful presence to support the power of Sam's product. The campaign will showcase key items from the footwear collection, highlighting both new fashion styles, as well as the brand's heritage classics.

Next, our Naturalizer brand has continued its exceptional turnaround with total sales up nearly 70%, as the brand benefited from strong dress, casual and occasion-based trends and also from its solid inventory position behind

Copyright © 2001-2022 FactSet CallStreet, LLC

key styles. Importantly, the brand's sales improvement was broad-based with strong sell-through at our key retail partners and with a more than 50% increase on naturalizer.com.

Notably, the brand's top 10 styles generated 35% of its total business, highlighting the commitment to our edit-to-win initiative. In addition to the uplift in sales, another period of lower promotional activity drove substantial improvement in margins. The ongoing evolution of the Naturalizer brand continues to resonate with the younger, educated and more affluent consumer and has successfully combined great fit and comfort with style. We believe the brand's relevancy is attracting a wider audience, appealing to the consumer earlier in her career and meeting her needs throughout all of life's occasions.

Now Allen Edmonds also continues to show strong signs of improvement, with sales running ahead of last year, higher AURs and approximately 500-basis point increase in gross margin over the second quarter of 2021. Demand continues across dress and sneaker classification as interest in our iconic styles grows and we leverage these silhouettes in new casual ways. Also edit to win is additionally yielding great results with our top 10 shoe patterns representing 46% of our total footwear business. And in addition, our recent limited drops, namely the McAllister and Mora, have been successful in augmenting our full-priced selling and supporting our strong margin levels.

In our latest campaign, team colors, which I would definitely recommend you take a look at is the epitome of Allen Edmonds unique capabilities around customization, a feature that we know the consumer wants and loves. All things are for sure heading in the right direction at Allen Edmonds.

Finally, wow, LifeStride has really come on strong. Sales increased 79% over the comparable period last year, with AURs rising significantly. This performance demonstrates the value the brand provides consumers, particularly in this macro environment, the compelling new product design as well as delivering the comfort level the consumer is demanding post-pandemic. LifeStride, which touches a large and growing segment of the footwear market, is rapidly becoming a name that consumers know and trust.

In short, the momentum in the Brand Portfolio continues as we are seeing demand strength across many of our brands to the portfolio's versatility across categories and across price points. Consumers are looking for fresh and new for fall, and they are reacting well to our products, up and down the Brand Portfolio.

Looking ahead, we expect to build on the solid foundation established in the segment during the first half of this year. We will, of course, lean into our strong product design and our diversified assortment, make sure that we leverage that inventory position, build on our consumer insights, keep that edit-to-win initiative going, capitalize on the strong demand, and then always look for new ways to unlock future growth opportunities.

As we look ahead, 2022 is shaping up to be another record or near-record year for Caleres. We believe that the stage is set for a strong and highly profitable 2023 given the tremendous progress we've made across a wide range of strategic and value-driving initiatives in recent quarters.

With that, I'll now hand it over to Ken for a more detailed view of our financials. Ken?

Kenneth H. Hannah

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

Thank you, Diane. And good afternoon, everyone. I'd like to start my discussion today by sharing additional details around our strong second quarter results, our capital allocation plans, and our outlook for the third quarter

Copyright © 2001-2022 FactSet CallStreet, LLC

of 2022. It's important to note that most of my commentary will focus on the comparable period in 2021 with some supplemental comparisons to the second quarter of 2019, where relevant and useful.

We delivered consolidated second quarter sales of $738.3 million, which was 9.3% above the second quarter of 2021. As Diane mentioned, this performance was driven by the Brand Portfolio's outstanding 35.6% increase over the second quarter of 2021 as strong consumer demand for our brands and product assortments continued. As expected, Famous Footwear sales declined 3.8% in the quarter, driven by a 3.4% decline in store count year-over-year and a later start to back-to-school.

Our consolidated gross margin was 45.6%, down 209 basis points from the second quarter of 2021, reflecting a higher mix of Brand Portfolio sales and increases in freight expense. Famous Footwear delivered a gross profit margin of 48.9% in the second quarter. The 118-basis point decline was driven by a more modest level of markdowns and an increase in freight costs associated with e-commerce sales. Gross margin at Famous Footwear was up more than 550 basis points versus the second quarter of 2019.

Brand Portfolio recorded second quarter gross margin of 38.3%, a 139-basis point decline over the second quarter of 2021, driven by an increase in wholesale sales, higher discounts and markdowns. The gross margin in Brand Portfolio increased over 350 basis points over the 2019 levels. Our second quarter SG&A expense was $268.4 million or 36.4% of sales, a 206-basis point improvement as compared to the second quarter of 2021, which included approximately $10 million of stock and incentive compensation expense that will occur in the third quarter this year.

Our operating earnings for the quarter were $68.4 million or 9.3% of sales, reflecting a 14% return on sales of Famous Footwear and a 9% return on sales of Brand Portfolio. This all resulted in diluted earnings per share for the quarter of $1.38. This is up from $0.61 in the second quarter of 2019 and $0.97 in the second quarter of 2021. Our EBITDA for the trailing 12 months was $324 million in excess of 11% of sales.

Now turning to the balance sheet and cash flow. The company generated $7.6 million in cash from operations during the quarter and continued to prioritize that cash toward shareholders, funding our dividend, buying back shares and investing in our business, specifically in consumer marketing. We ended the second quarter of 2022 with approximately $349 million in borrowings under our ABL revolving credit facility and no long-term debt.

Our second quarter interest expense was $2.6 million, down $2.2 million from the second quarter of 2021, and down $4.8 million from the second quarter of 2019. Given the recent increases in interest rates and expectation for further increases from the Federal Reserve, we expect our interest expense to approximate $13 million for fiscal 2022.

I now think it would be helpful to spend some time on our inventory position. Consolidated inventory at quarter-end was up approximately 36% compared to the second quarter of 2021, and was down slightly to the second quarter of 2019. The increase included an 18% increase at Famous Footwear and a 64% increase in the Brand Portfolio. Famous Footwear inventory was down 15% when compared to 2019 levels, while the Brand Portfolio was up 14%.

As you know, we believe a central component to drive growth in the Brand Portfolio this year is to ensure we align our inventory with consumer demand. To that end, we will continue to manage the supply chain aggressively, placing a strong emphasis on building up each brand's top selling styles. We believe that having core and fall goods behind the right brands and styles could be a competitive advantage heading into fall and expect to capture demand as we progress through the year's second half.

Copyright © 2001-2022 FactSet CallStreet, LLC

As we turn now to capital allocation, as you know, we carefully and constantly evaluate the most value-enhancing avenues for our free cash flow. At the start of the fiscal year, we put in place a flexible capital return program inclusive of dividends, buybacks, and investing in growing our business. We executed on that plan during the second quarter, repurchasing nearly 3% of our shares outstanding for $27 million. As a reminder, our reaffirmed fiscal year guidance takes into consideration our year-to-date share repurchase activity.

While we are constantly evaluating the optimal use of our free cash, given our outlook for strong cash generation during the second half of the year, we would expect to make ongoing purchases under the existing authorization during the remainder of 2022.

Finally, inclusive of our first half performance and current expectations around our underlying business for the year, Caleres is reiterating its annual financial guidance. More specifically, we are raising and tightening our consolidated net sales range to be up between 4% and up 6% when compared to 2021. This is up from our previous net sales outlook of up 2% to 5%. And as Diane mentioned, our earnings per share are expected to be between $4.20 and $4.40 per share.

Additionally, we're making the following assumptions regarding our third quarter 2022 performance. We expect our consolidated sales to be comparable to last year, with Famous Footwear sales down approximately 4% compared to the third quarter of 2021 and Brand Portfolio sales expected to be up between 7% and 10% over the third quarter. Consolidated gross margins are expected to be flat to last year. Our SG&A expense will approximate 36% of sales, including investments in store experience and customer acquisition.

In comparing to 2021, there is timing of approximately $10 million of stock and incentive compensation expense that is occurring in Q3 of 2022 that occurred in Q2 of 2021. Our earnings per diluted share for the third quarter is expected to be between $1.05 and $1.15 per share.

And with that, I'll turn the call back over to Diane.

Diane M. Sullivan

Chairman & Chief Executive Officer, Caleres, Inc.

Thanks, Ken. And before we begin Q&A, I think as most of you know by now, I recently announced that I plan to retire as CEO in mid-January. It's been an immense privilege and honor to lead Caleres, and I couldn't be happier that the board has asked me to continue to work with them and this terrific management team as Executive Chairman when my tenure as CEO is up.

Everybody always wants to know, like, why now and what sort of made you decide that this is the right moment. And for me, given the strength and the momentum in our business, I just thought this was the perfect time to pass the baton to Jay as part of our long-standing and carefully planned succession process. I'm confident that he's the ideal person to lead Caleres forward at this point in time and to build on the many initiatives that we've put in place in recent years to drive growth across the company.

Now I know Jay would like to say a few words before we turn the call over to the operator for Q&A. Jay, do you want to say a few things?

John W. Schmidt

President, Caleres, Inc.

Copyright © 2001-2022 FactSet CallStreet, LLC

Absolutely. Thanks, Diane. I'm excited to lead Caleres and to continue to build on our recent successes and to continue to identify new opportunities for growth. I'm also extremely confident in our portfolio and our capabilities, and most importantly, in our talented global team. Many might know I've had the good fortune to work alongside some of the best in the industry, especially at Caleres, and above all, with Diane. And I thank everyone for their support and encouragement.

Looking forward, I firmly believe in the significant potential of Caleres and our ability to unlock long-term value for our shareholders. I also look forward to talking with many of you over the coming months.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. And I'll be conducting your question-and-answer session. [Operator Instructions] Our first question today is coming from Dana Telsey from Telsey Advisory Group. Your line is now live.

Dana, perhaps your phone is on mute.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Oh, yes. I'm on mute. Hi. Sorry about that. Jay, congratulations on your new role. Very well deserved. Diane, congratulations. I'm not going to say good-bye because being Executive Chairman you still remain in the mix, which is a very good thing. Congrats...

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

A

Right. Thank you. And I have one more call or two, Dana. Well, I'm officially CEO. I told everybody I am a CEO until I'm not. But go ahead with your question. Go ahead with your question.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

No worries. So nice to see the big pickup in the Brand Portfolio. How much of the Brand Portfolio improvement is driven by the current environment of social occasion and what you're seeing there? What are you doing in terms of the inventory levels? Where do you see that Brand Portfolio inventory leveling out at the end of the year? And how is the wholesale accounts in terms of ordering patterns there?

And then just on Famous, I had a question on what you mentioned, Ken, about the later start to back-to-school. What did you see? And how are you managing pricing in this competitive back-to-school season? Thank you.

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

A

Thanks, Dana. I'll start maybe with your second question first on Famous and back-to-school. As I said in my comments and Ken reiterated that we really have seen [indiscernible] (00:31:07) and back-to-school very much a continuation of the trend that we have seen in the second quarter. As we've been moving through August, we've seen that trend improve a little bit, which is nice to see. But there are still three to four more weeks that we have

Copyright © 2001-2022 FactSet CallStreet, LLC

of really getting through back-to-school, and we did see the build in our back-to-school business coming really a little bit later than we had seen in prior years.

Who knows? I don't know whether the consumer was really enjoying those great vacations that they couldn't have in the last two years or they were not thinking about getting back to school as quickly or whether it was the impact on inflation and gas, et cetera, really on their overall sentiment and buying much more closer to need. So really anticipate it's going to be in that down 4% range. Have seen it improve a little bit from that in the month of August, but want to make sure we are thoughtful about our outlook. And the kids business, that's actually – kids and accessories have been very, very strong. So that's a little bit on Famous, and I can come back on that if needed.

But with respect to the Brand Portfolio, I think it's a combination of so many things that have really driven that business. I think it's the great strategic work and product [ph] work (00:32:28) the teams have been doing for really I think throughout this whole pandemic cycle to make sure that we were leaving behind the things that we didn't want to carry forward and make sure that we were really focused on what we wanted this Brand Portfolio to look like post the pandemic. And I think Jay and the team has done a great job on that.

And then I would say and then I'll pass it to Jay, the only other thing is when we – look, it's not just a little piece of our portfolio that's working. It's across the entire portfolio that's been performing well. And it isn't just dress. It actually is casual product and sandals, and you name it. So the nice thing is, sure, occasion and dress, we got some nice lift in that. But it really has been broad-based.

So I'll turn it over to Jay, Dana, to give you a little bit more color on the brands.

John W. Schmidt
President, Caleres, Inc.
A

Yeah. I think that really sums it up nicely, but just to add a few more things. Over 50% of our portfolio's business is in the casual. So while we did see some nice growth coming out of dress, we also saw strong growth coming out of the casual segment, which I think really makes us feel great about the go-forward position.

I believe you asked the question about how do we feel about order book and going forward, and we do see that we're on track with that. It feels very right to where we've been working on that. And our inventory is very closely aligned with, I would say, our top sellers using that edit-to-win capability. And so, we feel really good about going forward into fall, but obviously a little more measured than we were in the first half, which is really consistent with our guidance.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Thank you.

Operator: Great. The next question is coming from Laura Champine from Loop Capital. Your line is now live.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

Thanks for taking my question. And congratulations on your announced but not yet executed retirement, Diane. And congratulations on the promotion, Jay.

Copyright © 2001-2022 FactSet CallStreet, LLC

John W. Schmidt
President, Caleres, Inc.
A

Thank you.

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

Thank you.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

This is a basic one. But why raise the top line guide a little bit, but leave the bottom line guide unchanged?

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

Yeah. Laura, I'll take that. Thanks for the question. I think the top line growth is really through the first half, we saw an acceleration in the Brand Portfolio. And as we reported, while Famous Footwear's return on sales last quarter were 14%, we've got the Brand Portfolio's are up to 9%. So it's a little bit of the mix, right? The growth that we added is coming in a business segment that has a lower percentage.

And then I think the other piece of it is really on the interest expense. That initial outlook had about $10 million of interest expense included. And just with the raises that we've seen, we have been prioritizing buying back shares as opposed to paying down that revolver debt. So that's going to be up about $3 million to $13 million. So that's really what it is. And we're trying to give ourselves a little bit of room in the rest of the year just to make sure from a margin standpoint. So that's the contribution.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

Got it. Can you see any positive – I hear what you're saying about sort of a late back-to-school and a consumer that obviously is distracted and under pressure. But are you seeing any kind of a lift from the great position you have in the market at Famous Footwear with Nike, whereas, they've consolidated some of their family wholesale distribution?

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

Right. I would say that we have not seen a lot of that as of yet, but I think that has, Laura, for us, as we look at that, that it feels that's one of the areas of those pockets of consumer demand that's strong that we don't have all of the inventory in the places that we'd like. So while our kids business and Nike, we seem to have pretty good inventory availability there, although that's getting a little tighter given the strength of it, that we believe that in the next 30 to 60 days, as we receive more receipts, that I would expect to see that advantage continue to sort of play out in the late third and fourth quarter and obviously into 2023.

And I would – the other thing in terms of inventory levels, too, it's that double-edged sword. We've also tried to manage that so carefully. So we had the right things in the right places. So in Famous' case, it's a little more of an opportunity for us right now. So things like Converse, too, could be any area that we'd like to see some additional inventory, and a few other places, too. So the market was so disrupted and there was a lot of dislocation with

Copyright © 2001-2022 FactSet CallStreet, LLC

respect to inventory, and I always believed that it was going to take much of the full year of 2022 to really get things back in line with where we thought we were really going to be specifically.

But I think overall for Famous, they've done a really nice job of really balancing that, making sure that we manage that as well as that we possibly could. [ph] They're (00:38:04) still down 15% from 2019 levels. So, opportunity, I think about it as an opportunity to go forward.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

Got it. Thank you.

Operator: Right. The next question is coming from Mitch Kummetz from Seaport Research. Your line is now live.

Mitch Kummetz
Analyst, Seaport Global Securities LLC

Q

Yeah. Thanks for taking my questions. Let me add my congratulations as well. So, Diane, you made a comment I think early on in your prepared remarks about some positive reads on boots. Can you just remind us how important the boot category is to both the Famous business and also the Brand Portfolio and kind of how you think fashion trends in boots will play out especially with maybe a bit of a pendulum swing to kind of dress on occasion?

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

A

Right. Great question, Mitch. And thank you for the congrats. Appreciate that. Yes, the early read actually on boots for Brand Portfolio is very good and it's great also in our Famous business as a percent of the total, and Jay's kind of looking it up, but I think we're about a third of our business in fall is in boots. We're seeing things that are not quite as casual as they had been, a little bit more dressed up, dressed up a little bit more on heels and lugs also have continued to be pretty good in certain categories of boots. So – and the Brand Portfolio is extremely important for us in the fall season and we really think we're in great position to take advantage of that.

And the Famous business, it's really more on the casual side and more in I would say outdoor kind of looks. But that's again, as we look at the intercompany opportunity there, there's lots of ways that we can really work with Famous to take advantage of not only our expertise and our knowledge of where things are trending, but also help in terms of some of the short-term opportunities that they might have.

So, I think, again, it bodes well for us in the back half of the year, and it feels good so far. I was kind of surprised to see it start. I think people are so anxious to see something new and add something that they haven't added to their closet in a while, and I think that's really what's happening there. Jay, would you – any – what else are you seeing on boots...?

[indiscernible] (00:40:28)

John W. Schmidt
President, Caleres, Inc.

A

...I think the only other thing is that high shaft, although it's much smaller portion of the total boot business, it's come on very strong, and that's a trend we haven't seen really work well in I would say almost three years. So, it's again going back to that consumer reacting to newness and where it's fashion appropriate, but some really nice

Copyright © 2001-2022 FactSet CallStreet, LLC

sellings and we've seen it in a couple of our brands, Sam Edelman and Naturalizer being two of them that have been very strong.

Mitch Kummetz
Analyst, Seaport Global Securities LLC

Q

Okay. Great. And then, on the Brand Portfolio business, can you remind us how much you sell into the department store channel? And some of the department stores have reported they've talked about some inventory challenges, albeit maybe not necessarily in your categories, and they've cancelled receipts and things like that. I'm just wondering if some of that activity is at all filtering down to the Brand Portfolio business at all as maybe they're just overall becoming a little bit more cautious on the consumer and the environment?

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

A

Yes. I'll add a few things and then Jay can jump in too. Mitch, it's about 20%, the department stores are roughly 20% of our total Brand Portfolio business. And that's been around that range I'd say for the last couple of years. The great advantage that we have with that, though, is it's not just what we're selling into the brick-and-mortar there, right? We also have a great opportunity, they do tremendous businesses digitally, and then we do a lot of our business drop-ship, too. So, as the consumer's looking for certain brands and products, that capability that we have really helps us address those opportunities with the consumer.

I'm sure, Jay, you could comment a little on kind of what you're seeing with how the department store is now thinking about some of their opportunities.

John W. Schmidt
President, Caleres, Inc.

A

Yeah. I would say that the – there's – while people are still cautious, we're really looking at the business with our sales and our inventory kind of being in line going forward and watching that very closely, using the drop-ship capability that we have to really fuel additional growth, but we're seeing that measured. And then, our retail inventories while up to 2021 commensurate with the sales are still down to 2019 by about 13%. So, we're really – when we said we're kind of bringing them back in a new way, we really are bringing them back in a new way and watching that to make sure it doesn't get out of line.

Mitch Kummetz
Analyst, Seaport Global Securities LLC

Q

Okay. Thanks. Good luck.

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

A

Thank you.

Operator: Thank you. The next question is coming from Steve Marotta from C.L. King & Associates. Your line is now live.

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

Q

Copyright © 2001-2022 FactSet CallStreet, LLC

Good evening, Diane, Jay, Ken and Logan. Diane, it might be a little bit early in the season, but can you maybe comment on the fact that back-to-school [ph] like last year (00:43:26) just be long tailed and not necessarily muted overall when you look at the entirety of this season?

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

A

Yeah. It's hard to know yet, Steve. I know that it seems like it was building 7 to 10 days later than kind of what we had expected and we're yet to see whether or not that you catch all of that or is that business not going to materialize or is it going to come later. So, I think we've got a couple of more weeks to see it and to understand what that's going to look like. And as I mentioned, August has been a bit better than that 4% that I talked about. That was a continuation from second quarter, but we want to make sure that we see it, because it is a little unusual. The consumer sentiment, the inventory levels, the – what they have in their closet, what they don't. It's a little more of a shift again this year. So, I'm trying to make sure that we take all of that into consideration and give a good and reasonable outlook for that back-to-school season. But we sure hope so. We hope...

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

Q

Sure.

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

A

...to see it continue longer into September.

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

Q

Sure. I understand. My follow-up question, Ken, can you talk a little bit about costing expectations maybe for the first half and second half of next year? Not necessarily obviously to the penny considering that you're still taking orders and it's a lot of moving targets, but also considering that largely commodity costs are rolling off, there's chatter of capacity that's coming online or that's now available in factories where it might not have been earlier and that generally costing is rolling off or seemingly peaked and wondering how that is affecting your unit costing in the first half of next year and the second half as well?

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

A

Yes. So, I don't think we're seeing a ton of costing rolling off. What I would say on our pricing is the demand for our brands, I think the [ph] strength (00:45:37) there has allowed us to continue to hold our price and price increases, if you will, into the second half. Our initial guidance for the year had us holding our total gross profit margin flat and that was giving back 100 basis points at Famous and seeing a couple of 100 basis point improvement. And that was with an assumption that we were going to be able to continue to hold the price increases we took for spring into fall, and that's happening.

Ocean freight is something that we're starting to see come down a little bit, more so than product cost. But that really won't show up until those goods come in through inventory and then are sold back through and we realize the profit on those products. So, we're not seeing a big reduction right now across the board in cost. I don't know, Jay, if there's anything that you would add to that around pricing or costing?

Copyright © 2001-2022 FactSet CallStreet, LLC

John W. Schmidt
President, Caleres, Inc.

A

No, we haven't seen that come through yet, although the supply chain is normalizing, I would say. And so, we're going to get back to a more normalized flow. So – but not yet have we seen the component prices coming down.

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

A

So, more to come there, Steve, kind of as we get into starting to lay out our specifics around next year.

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

Q

I'll take – yeah, I'll take the balance offline. Thank you.

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

A

Yes.

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

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

Yes. Thanks, everyone, for joining us this afternoon. We appreciate it. And we look forward to speaking with you along the way and on the third quarter call as well. Take care.

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.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.