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CAL.N - Q1 2023 Caleres Inc Earnings Call

EVENT DATE/TIME: JUNE 01, 2023 / 2:00PM GMT



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

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

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**Mitchel John Kummetz** *Seaport Research Partners - Senior Analyst*

## PRESENTATION

**Operator**

Good morning, welcome to the Caleres First Quarter 2023 Earnings Conference Call. My name is Sherry, and I will be your conference coordinator. (Operator Instructions) As a reminder, this conference is being recorded.

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

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

Good morning. Thank you for joining our first 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 U.S. 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 others used in today's earnings release and our presentation on the Investors Section of our website. The company undertakes no obligation to update any information discussed in this call at any time.

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

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

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**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

Thank you, Logan, and good morning, everyone. During the first quarter, we leveraged our diversified structure to deliver earnings per share at the top end of our guidance range. Profit contribution from the brand portfolio more than offset the challenging operating environment at Famous Footwear. As we said last quarter, the structural changes we've implemented over the last several years have resulted in a much more nimble,



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productive, and profitable organization. This quarter's performance underscores the value of the Caleres platform, the strength of our omnichannel capabilities and the power of our carefully curated portfolio. We believe this structure enables us to be successful in a variety of different operating environments.

Now let's turn to some key highlights from first quarter 2023. We delivered earnings per share of $0.97, driven by a record profit in our brand portfolio. We sustained total Caleres market share of more than 6% of the U.S. footwear market. We grew market share in the brand portfolio with many of our brands improving their rankings, and we increased Famous Footwear's market share in shoe chains. We managed our inventory levels very well, ending the period approximately 13% below the prior year period and down 3.6% compared to fiscal year-end 2022.

We continue to drive investment in strategic areas that are essential for our future growth. We maintained our longstanding quarterly dividend. And we prioritized debt reduction utilizing our free cash flow to reduce the borrowings under our asset-based revolving credit facility by $16 million from fiscal end 2022. As we've communicated, after funding our dividend, we believe that continued debt reduction is the top priority for cash flow near term in this uncertain macroeconomic environment.

Now let's move to our first quarter operating results. Overall consolidated sales declined 9.8%, falling short of our initial expectations. While some of this decline was expected, Famous Footwear was particularly hard hit by the softer consumer demand within the shoe chain channel. Fortunately, the weaker performance by Famous was offset by the outsized margin performance of the brand portfolio. As a result, we achieved solid first quarter operating earnings and generated strong consolidated gross margins of nearly 46%, which represented a record for the period, and we delivered $64 million in EBITDA.

In addition, beginning in the first quarter, we initiated cost-cutting and profit improvement initiatives across the organization. In total, we expect these measures to deliver approximately $20 million of SG&A savings this year, plus an additional $10 million of better-than-expected freight costs. We took these actions while still preserving investments in areas of strategic priority, namely consumer experience, analytics, and marketing that will accelerate our long-term growth vectors.

Now let's turn to our operating segments, starting with the Brand Portfolio, which led our financial performance in the quarter. We delivered sales modestly ahead of our expectations and second only to the first quarter of 2022, which, as you will remember, included $50 million of wholesale inventory restock. Despite this difficult compare, a number of our brands, including lead brands, Sam Edelman and Allen Edmonds, delivered quarterly sales improvements.

The consumer was motivated by newness and gravitated toward fashion footwear, especially casual, new dress, casual sandals, and Retro-inspired white sneakers. We capitalized on all these trends by leaning into our Edit to Win initiative. We chased products and utilized our speed programs and supply chain network to react aggressively in season to maximize top-selling items. We are pleased that even with the expected sales decline, the brand portfolio delivered record first quarter operating earnings of nearly $43 million and achieved a 13% operating margin.

This performance was driven by a 611 basis point improvement in gross margins due to higher initial margins and lower freight costs. We believe these results are a direct reflection of the progress we've made, elevating product design, sharpening brand messaging, and maximizing our inventory investment. Also during the quarter, we capitalized on strong product trends and our capabilities to drive an approximately 8% increase in our D2C business compared to the first quarter of 2022. This increase includes notable year-over-year improvements from our overall owned e-commerce, drop-ship, and owned brick-and-mortar businesses.

Going forward, we will provide color on the performance of our lead brands, Sam Edelman, Naturalizer, Allen Edmonds and Vionic on each earnings call. We want the investment community to understand what's driving our business. We believe each of these brands has significant growth ahead, and we are strategically investing to power that growth. These 4 brands in total represented more than half of the brand portfolio and 27% of our total Caleres revenue in the first quarter.

We outperformed in owned channels across all lead brands in the quarter with strong positive comps driven by increased traffic. Trends in flat loafers, (inaudible) shoes and fashion sneakers drove business at both Sam Edelman and Naturalizer where we delivered an improvement of 25%



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and 11% on our own website, respectively. Allen Edmonds delivered a strong first quarter performance with sales up 11% versus last year. This improvement was led by robust consumer demand for loafers and slip-ons and positive response to its new offerings.

AE's efforts to focus on its consumer also yielded encouraging results from the relaunched loyalty program known as the collectors. In fact, we've seen our total collectors grow since the reintroduction of the program last September, and the average spend from AE collectors is 20% higher than non-collectors. And finally, we successfully launched a new brand direction for Vionic, combining a Northern California aesthetic with our unique scientific solutioning.

This new branding, which went live on our website and in catalog during the quarter, spurred an immediate positive reaction on vionicshoes.com with casual sandals and dress delivering the largest year-over-year growth. We are encouraged by the early consumer response to its new offerings.

In addition, we saw continued strength in our portfolio brands, including LifeStride, Franco Sarto and Dr. Scholl's. These are important growing assets that serve key consumer segments not currently served by our lead brands. We are leveraging our one Caleres capabilities across our portfolio to ensure all our assets are positioned to succeed. As we progress through the rest of the year, the teams will remain nimble, amplify newness, and react quickly to maintain momentum for the balance of the year.

Longer term, we are laser focused on building upon the momentum we've seen in the recent quarter and have ambitious growth plans for all of our lead brands. We expect that given the strength of our brands, the diversity of the portfolio, our flexible and agile operating model, and our improved margin performance that the [BP] will continue to contribute substantially to the company's operating performance.

Turning now to Famous Footwear. After several successive quarters of strength, Famous Footwear's contribution declined markedly as it navigated a challenging macroeconomic backdrop and decelerating spending, particularly in the month of March among its target consumer. The challenging backdrop was exacerbated by a late-breaking sandal season. Even in this difficult environment, Famous outperformed its competitive set and increased market share in shoe chains.

Our kid's business, a key differentiator for Famous, was a bright spot in the quarter. This important and growing category once again outpaced the rest of our business as families prioritize purchases of kid's footwear. In total, Famous generated $17 million in operating earnings.

And even with the weakness in shoe chains, we expect Famous to deliver a significantly stronger earnings contribution in the second quarter as consumer activity accelerates due to typical seasonal drivers, including warm weather and back-to-school beginning in mid-July.

To that end, we have taken a number of steps to ensure that Famous leverages its strength in kids and delivers for back-to-school. As you will remember, we delivered our best ever back-to-school in 2022 despite a less than ideal inventory position. This year, we have a better in-stock position from the beginning on key trending brands and styles that we've reacted to due to our well-managed inventory position. We have named a new kid's merchant to closely maximize all opportunities and a new head of stores to drive our strategy at point of sale.

We have planned a high-impact marketing campaign across all consumer touch points, but especially aimed at the millennial family. And our investments in technology, specifically launching a CDP during the quarter, should better target our messaging and improve our conversion and drive sales. Clearly, there is a lot to be excited about during back-to-school at Famous.

In summary, we continue to have great confidence in the long-term outlook for Famous. The same strength that delivered stellar results in recent years are still very much in place and in fact continue to expand. As we move forward, we will be taking immediate actions across our product assortment, our team, our marketing approach, our digital strategy in an effort to maximize our earnings potential this year. In parallel, we will continue to leverage our leadership position with the family. Our leading assortment of national brands, our nationwide retail footprint, mostly of mall, and consistent consumer experience in stores and online to accelerate all opportunities for growth at Famous.

So overall, as we look forward to the balance of the year, we are optimistic about the strength of our Brand Portfolio segment and its ability to deliver a much stronger earnings contribution in 2023 and beyond. And while we have work to do at Famous, we believe that the relative strength in kids, its inherent competitive advantages, and its avenues for growth set us up to improve as the year progresses.



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Before I hand it over to Jack to walk through our financials in more detail, I'd like to highlight and remind you of the power of the Caleres model. We believe the structural changes we made in recent years, coupled with our diversified structure and strong financial contribution from both operating segments will enable us to deliver annual earnings of more than $4 per share on a consistent basis, while generating strong levels of free cash flow and creating long-term value for our shareholders.

And with that, I will now hand it over to Jack for a more detailed view of our financials. Jack?

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

Thanks, Jay, and good morning, everyone. In this challenging market environment, we achieved better-than-expected gross margin and profitability in brand portfolio and maintain strong financial discipline across the company. This resulted in earnings per share at the upper end of our guidance and healthy cash flow, which enabled us to reduce debt while still investing in our critical growth initiatives.

In today's call, I'll provide additional details on our first quarter performance, discuss actions we are taking on expenses in light of the more difficult operating conditions at Famous, update you on our capital allocation plan and priorities and share our outlook for the second quarter and full year fiscal 2023. My comments on our outlook will be on an adjusted basis. Please see today's press release for a reconciliation of adjusted results.

Starting with Q1. Consolidated sales were $663 million, a 9.8% decrease versus last year. Famous sales were down 9.2% as its more moderate income customer continue to grapple with inflation and higher interest rates. Comparable sales were down 8.5%. Brand Portfolio sales were $326 million, down 11% to last year and in line with our expectations. You will remember that Brand Portfolio was lapping the restocking at wholesale accounts that was highlighted in last quarter's call and factored into our guidance.

Even with this difficult compare, this sales volume was the second highest first quarter amount in Brand Portfolio's history. Despite the sales decline, consolidated gross margin increased 120 basis points to 45.7%, reflecting a significant increase in Brand Portfolio gross margin and a decrease in Famous gross margin. Brand Portfolio gross margin was 44.2%, a more than 600 basis point increase versus last year due to higher initial margins and lower ocean and airfreight costs.

Famous gross margin was 45.6%, a 360 basis point decline versus last year. This decline reflects the softer consumer demand and a more normalized level of clearance pricing and activity given last year's clean inventory position. SG&A expense for the quarter was $253 million or 38.2% of sales. SG&A expense was $7.7 million below last year as a result of lower variable expenses and incentive compensation costs.

Operating earnings were $50 million and operating margin was 7.5%. Operating margin was 13.1% at Brand Portfolio and 4.9% at Famous. Net interest expense was $5.6 million or about $3 million above last year given the higher borrowing rate. The weighted average interest rate in Q1 this year was 6.2% versus 2.6% last year. Diluted earnings per share were $0.97, at the high end of our previous guidance. EBITDA for the quarter was $64 million or 9.6% of sales.

Turning now to the balance sheet and cash flow. We ended the first quarter with $292 million in borrowings on our revolver and no long-term debt. Inventory at the end of Q1 was $560 million, down 13.1% versus last year, reflecting reductions in both in transit and on-hand inventory. By segments, inventory at Famous was down 1%, primarily a result of supply chain constraints last year, which limited the inventory level. Notably, Famous' inventory was $51 million or 13% below first quarter 2019. At Brand Portfolio, inventory was down 26% versus last year and up approximately 15% versus the first quarter of 2019.

In general, we feel good about the quantity and quality of inventory in both segments. Regarding cash flow from operations, we generated $38 million during the quarter and deployed cash for strategic investments in the business, paid our quarterly dividend and reduced outstanding borrowings. Specifically, we spent $6.5 million on capital expenditures, $2.5 million on our quarterly dividend, and $16 million to reduce borrowings.

Given the ongoing macroeconomic uncertainty, we continue to believe that the best use of free cash flow after maintaining the dividend is to reduce our revolver borrowings to below 1x on a debt-to-EBITDA basis and to increase overall liquidity. On a trailing 12-month basis, we ended



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the quarter with a debt-to-EBITDA ratio of 1.1x, and we anticipate getting below 1x in the third quarter. That said, we have 6.4 million shares remaining under our current board repurchase authorization, and we'll continue to consider share repurchases based on market conditions.

Now turning to our outlook. Despite a more challenging macro environment, we continue to expect full year earnings per share of $4.10 to $4.30 as we anticipate offsetting top line softness in Famous with cost savings and gross margin and SG&A. Additional full year guidance metrics are as follows: We now expect consolidated sales to be down 3% to 5% versus our original guidance of flat to up 2%, including the impact of the 53rd week. We now expect consolidated operating margin of 7.3% to 7.5% versus our original guidance of 7.1% to 7.3%.

The improved operating margin outlook is being driven by better-than-expected ocean and domestic transportation costs and specific actions we are taking on overhead expenses, including eliminating open corporate positions, reducing non-merchandise procurement costs, realizing additional Brand Portfolio synergies and lowering depreciation expense. The specific actions we are taking on cost will generate about $20 million of in-year savings and $30 million to $35 million on an annualized basis.

For the in-year savings, $3 million was realized in Q1, $5 million will be realized in Q2 and the remaining $12 million in the second half. We anticipate a onetime cash charge of approximately $4 million in Q2 associated with these actions. We also expect about $10 million of additional freight savings versus our original guidance. $3 million was realized in Q1, and we expect the remaining $7 million in the second half. We now expect net interest expense of $17 million to $19 million versus our original guidance of $18 million to $20 million.

We continue to expect an effective tax rate of about 25%. We continue to expect shares outstanding of approximately $34.3 million. This assumes share repurchases to offset dilution of any stock-based compensation, but no additional share repurchases. And we now expect capital expenditures of $55 million to $65 million versus our original guidance of $60 million to $70 million. In addition, we are providing the following guidance for the second quarter. We expect net sales to be down 4% to 5% and earnings per share of $0.87 to $0.92.

Before we take questions, I will now turn the call back over to Jay.

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**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

Thanks, Jack. In closing, we are pleased to have delivered EPS at the upper end of our range for the first quarter and maintain EPS guidance for the year. These results demonstrate the power of our portfolio, the strength of our company and the dedication of our team. We are committed to disciplined and nimble expense management as we continue to invest in capabilities to drive growth. I am confident that the commitment of our incredibly talented team, coupled with our strategic approach will help us deliver strong results for the balance of the year.

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

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question is from Abi Zvejnieks with Piper Sandler.

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**Abigail Virginia Zvejnieks** - *Piper Sandler & Co., Research Division - VP & Senior Research Analyst*

I have 2. So first, is there any color you can give on the guidance for both the second quarter and fiscal year between your expectations for Famous Footwear and the Brand Portfolio. I guess specifically on the Brand Portfolio, do you expect that you will continue to face tough compares with fill in the second quarter? Or was that mainly just the first quarter dynamic?

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**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

I think just in terms of the Brand Portfolio, we do believe that we will have lapped most of that by the time we get into the second half. And then I'll let Jack fill in on the color by segment.

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

Yes, Abi, thanks for your question. So we don't give specific guidance by segment, but to be helpful, let me give you a little bit of color. So we are certainly expecting Famous' sales to improve versus the first quarter. We are tracking to our forecast quarter-to-date. So we feel good about that. And then I would say in the back half, really, our guidance assumes anywhere for Famous, anywhere from a deterioration of what we expect in Q2 to an improvement in what we expect in Q2.

But in both cases, we still are expecting negative sales -- negative sales growth for Famous for the year. In BP, and Jay will give a little bit more color on some of the initiatives that support this. We are expecting BP to show some improvement in the back half. Again, part of that is no longer lapping this wholesale restock that we talked about as well as some of the initiatives we've got and feel really good about on our lead brands.

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**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

And I would say, Abi, that includes, obviously, the investments of the lead brands we talked about, Sam Edelman, Naturalizer, Allen Edmonds and Vionic. And then specifically, as we really are modeling the market right now and product opportunities, we see the whole fashion sneaker part of our business growing exponentially, and we're able to get back into position on that in late second quarter and think that, that will really help us drive through really further showing this power of our company, our sourcing model and our portfolio. And all of those lead brands fit really well and we'll be maximizing that category as well, too.

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**Abigail Virginia Zvejnieks** - *Piper Sandler & Co., Research Division - VP & Senior Research Analyst*

And then just your inventory management has been really strong. I mean, especially compared to peers in the space that have said they'll need to continue to be promotional. So you said you feel good about the quality and quantity of your inventory, but how do the peer's promotional strategy impact your promotional strategy through the remainder of the year?

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**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

Well, I think we believe that obviously, we're going to model it very closely and keep in control of that, and we'll be watching the competitive landscape all the way through. But continually, we -- our model on the brand side is not really -- it's managing those brick-and-mortar inventories really closely driving our digital business. And the same as we kind of look at it the same way where we're really maximizing our in-store opportunities and giving them what they need and really watching the quality of that inventory. And I think that's going to be the key thing that helps us manage it as we go forward.

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

Yes. And Abi, just to add to Jay's comment, I mean we believe that our consolidated inventories will continue to be down versus last year in Q2 and Q3. So we will be making sure we continue to manage that tightly and don't have to take any actions to clear our own inventory.

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**Operator**

Our next question is from Laura Champine with Loop Capital.



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**Laura Allyson Champine** - *Loop Capital Markets LLC, Research Division - Director of Research*

I'd just like a little more color on what the investments are that you're making in those key Brand Portfolio brands. Are those marketing investments? Are they infrastructure? What do you need to do there?

**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

Well, they're both marketing and in terms of product, more category expansion within those brands that we see will continue to drive. And then they also are feeding off of some growth vectors as we develop different points of distribution and different customers, while we continue to develop our own digital business and continue to drive that. So it is a combination of things. It's not just one thing, but we do feel that, that will continue to get us there and maximize through.

**Operator**

Our next question is from Mitch Kummetz with Seaport Research.

**Mitchel John Kummetz** - *Seaport Research Partners - Senior Analyst*

I've got a few. Jay, starting with Famous in the quarter, you mentioned it was worse than planned. Can you speak to why that was? Was weather worse than your planning? Tax refunds had maybe a bigger impact than you had thought? Or was it just that, that moderate income consumer ended up just being softer than what you thought going in? Or maybe there are some other reason?

**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

Yes. Actually, a little bit of all the things you mentioned, Mitch, I think that was accurate. First of all, coming into the first early 2 months, we did see weather as a factor. And that March was our worst month in Famous. And we saw a nice improvement on that in April. So I have to believe the weather had something to do with it. But in general, we know that there are some headwinds coming out there, and people are actually really focusing their purchases on the key items they want. And so that's what we've done has really come back on Famous and really improved our inventory position and continue to fuel the things that we can control, which is mostly the items that they want in all the colors and sizes that they need.

So that would be really our strength for that. But we do think it's a little bit of all of what you described. As usual, we focus on controlling what we can control and then -- and that's really where we put our efforts.

**Mitchel John Kummetz** - *Seaport Research Partners - Senior Analyst*

And so April was better than March. Has that continued into May? And as you've guided for 2Q, particularly as you're thinking about the Famous piece, is the uptick from Q1 based on kind of what your trends that you're seeing quarter-to-date? Or is it more about optimism around back-to-school or again, maybe some combination of the 2?

**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

I think it's a little bit of a combination of 2. As I said, April was markedly better than March for us. So we think that, that's a little closer to where our modeling comes through. And then with the actions that we've taken to really put ourselves in a better place going into back-to-school. We do think that those 2 things in combination will do it. As the consumer will continue to prioritize, we believe, purchases for the family, particularly their kids.



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**Mitchel John Kummetz** - *Seaport Research Partners - Senior Analyst*

And then on the profitability, so Famous was -- in Q1 was down year-over-year, but better than '19 and BP was, I think, better for both. So how are you thinking about where do you think those could sort of land for the year? I mean I assume you expect Famous margins, EBIT margin to be down. Do you still expect it to be up over '19 levels? And then BP as well. BP margin's going to be up year-over-year, do you think?

**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

Well, we do believe that the BP margin will continue to be up based on a lot of things working in our favor there. And it's really about the -- that initial margins that we've been able to do, our mix is much better. And obviously, with continued savings on the freight side, all 3 of those things will help us, I think, there, too. And then we have some other pieces there. I'll let Jack jump in on the Famous piece.

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

Yes. Mitch, on the famous piece, we posted 11.5% operating margin last year in that business. We had signaled that, that was going to come down this year. I think just given the softer expectations for sales, we likely will not hit that sort of 10% operating margin target this year, but we still feel like that's the appropriate target long term. And that's why we're making these changes on the cost structure in Famous, but also in other parts of the business to provide sort of that fuel to get that margin back at 10%.

**Operator**

Our final question is from Dana Telsey with Telsey Advisory Group.

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

As you think about the comp store sales, particularly at Famous Footwear, what were the complexions of the comps, what you saw in ticket or traffic? How did that range? And is the uptick that you've seen now, are we seeing a meaningful improvement? And then on the Brand Portfolio with the margin improvement, what are you seeing in terms of wholesale orders and also AUR?

**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

Okay. As usual, Dana, I'll start with the last part of your question and move my way backwards. But we did see, first of all, AUR was actually up for us. So it's up slightly. So that means a really nice hold as we came through and really came through that 22 space where we really do feel our strategy there has worked really nicely. In terms of our wholesale inventory or wholesale order book, I should say, it's very much in line with what we've seen quarter-to-quarter.

Obviously, there's more reorders coming through, more drop ship than everything else versus last year when people were out buying quite a bit. But we see our order book as we feel pretty confident that it really meets where our guidance has been and does just reflect a lot more of it's going to be more dynamic, I would say, going through there. And our model really pivots to accomplish that.

So then in Q1, overall, we did see kind of a mix on Famous Footwear pointing to the quarter. Our conversion was actually pretty good, but our traffic in brick-and-mortar was down for the quarter. And then we had a little bit of a different dynamic in Q1 in -- on the e-com side, but where that was -- conversion was actually down. Our traffic was roughly flat. So I would say overall, we just saw a much slower start to the whole season. And obviously we're working on things to improve it.



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

And then just unpacking the gross margin for a second and operating margin. Freight benefits this year, what are you seeing for that? And is there any other puts and takes as we go through the back half of the year, whether it's on raw materials or any other commodity costs we should be mindful of?

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

Yes, Dana, it's Jack. Thanks for the question. No, I would say in terms of the freight benefit, we're actually expecting more freight benefit in the back half. About 60% of the freight benefit is coming through the back half versus about 40% in the first half. And that includes both what we had planned for and then this incremental $10 million that we talked about. So that's obviously a nice tailwind in terms of the gross margin there.

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**Operator**

We have reached the end of our question-and-answer session. I would like to turn the conference back over to management for closing remarks.

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**John W. Schmidt** - *Caleres, Inc. - President, CEO & Director*

Okay. Well, thank you, everyone, for joining us. I just want to close by again thanking our great team at Caleres, couldn't accomplish any of this without them. And also thanking both our vendor partners at Famous and our retail partners out there. We look forward to seeing many of them in the market and many of you as well. So thank you again.

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**Operator**

This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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