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Caleres, Inc. (CAL)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Caleres First Quarter 2024 Earnings Conference Call. My name is Christine and I will be your conference coordinator. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

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

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

Good morning and thank you for joining our first quarter 2024 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 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 is 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 will be happy to take your questions.

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

John W. Schmidt

President, Chief Executive Officer & Director, Caleres, Inc.

Thank you, Logan, and good morning, everyone. I'm pleased to report that Caleres started the year in strong fashion delivering solid financial results, making important progress against key strategic initiatives, and investing carefully and deliberately for the long-term.

In total, we achieved earnings per share of $0.88, exceeding our expectations and providing a solid foundation for the year. While our first quarter sales were slightly below our expectations declining less than 1% year-over-year, we generated stronger than expected gross margins, which led to bottom line strength. In fact, the consolidated gross margin of 47% represented a first quarter record for the company.

In addition to our financial accomplishments, during the first quarter, we gained market share in both the Brand Portfolio in women's fashion footwear and in shoe chains for Famous Footwear and saw a significant growth in the total sales and increased market share in the important Kids category. We utilized our leading speed to market capability, growing our speed penetration to 30% of Brand Portfolio receipts to capitalize on top-selling brands and styles.

At the same time, we strategically invested in initiatives essential for our future growth plans. These included enhancing our marketing ecosystem, specifically new marketing campaigns at lead brand Sam Edelman and Naturalizer, which resulted in improved consumer metrics for both expanding our international presence, opening two owned Sam Edelman stores with plans for more, including the first flagship store in Southeast Asia at the Premium Marina Bay Sands in Singapore.

Improving the consumer experience at Famous Footwear where we converted 10 locations to FLAIR and refreshed other stores in the fleet and upgrading our financial and operational system into a new integrated SAP platform. The go live for the first phase is on schedule for early June. Finally, we returned $18 million to shareholders through share repurchases and dividends.

Now, let's turn to our operating segments. The Brand Portfolio sales declined 2.6% versus our internal expectations of a 1% decline. However, the segment delivered a very strong operating margin and more than half of the company's operating earnings. We are seeing strong growth in demand for new products and momentum in fashion sneakers as well as flats and casuals, which were both up double digits.

Seasonal product continued to underperform with dress sandals down double digits versus last year and boots down significantly. We are well-positioned in sneakers and casuals going forward and have aligned our inventory with consumer demand by increasing the penetration of these categories to the total business.

Higher initial margins, fewer closeouts and a 9% increase in our owned e-commerce sales resulted in a 240 basis point improvement in segment gross margin. We invested in both marketing and design and delivered a strong 13% return on sales for the Brand Portfolio, which was even with last year.

Segment performance was led by growth in sales and profitability from our lead brands along with Dr. Scholl's. In total, our four lead brands, which include Sam Edelman, Allen Edmonds, Naturalizer and Vionic represented about 60% of the Brand Portfolio's sales and about 65% of the segment's operating earnings during the first quarter.

Now, digging into the performance of our lead brands. Sam Edelman delivered strong international growth driven by new locations, including our first flagship store in Southeast Asia. Additionally, the brand was successful in attracting new consumers during the quarter, particularly younger Gen Z and millennial consumers. The brand partnered with Nordstrom to amplify its marketing campaign at point of sale and retail sell-throughs were strong. While softer seasonal demand and lack of closeout sales versus the prior year period impacted the top line, gross margins were up nicely on higher AURs.

Naturalizer delivered another quarter of growth, rising one ranking to number 11 in the women's fashion footwear US market versus last year according to Circana's retail tracking. Its spring product and marketing efforts focused on sneakers, slingbacks and ballet flats and were effective at driving growth.

Our speed to market capabilities allowed the brand to reorder bestsellers at a record rate and has set up Naturalizer for additional sales opportunities moving forward. In addition, we were pleased with the Deepica Live Tinted beauty collaboration that we announced last quarter. All the styles sold out, but perhaps more importantly, the collaboration successfully attracted new consumers who respond to our brand positioning of comfort and inclusivity.

Allen Edmonds posted its 13th consecutive quarter of growth with increases across both retail and wholesale channels. The business continues to be driven by sports sneakers, hybrid and dress and casual loafers. During the first quarter, we continued to see double-digit growth in our wholesale business and opened new points of distribution for the brand, including Nordstrom, as well as premier specialty store accounts. As we laid out at Investor Day, we believe the wholesale channel is a significant growth opportunity for the brand.

Finally, Vionic climbed three spots in Circana's fashion footwear ranking, while at the same time, delivering a strong first quarter where sales and profitability improved markedly. The Uptown moc continues to be a top-selling style, not only for Vionic, but for all of Caleres. We are introducing new colors and getting behind the style with inventory, marketing and retail activations. Going forward, Vionic has a major opportunity to build consumer awareness and brand loyalty. We know that when consumers wear Vionic, they often become loyalists to the brand. The Uptown franchise is introducing the brand to new consumers.

Beyond the lead brands, Dr. Scholl's deserves a special callout for its significant sales and profit growth in the quarter. Dr. Scholl's has two big sneakers, the Time Off and the Madison Lace and they have each had viral TikTok videos driving a sellout on our website and at our wholesale partners. Our speed program has allowed us to get back into these trending styles and we are well-positioned to capture demand. Dr. Scholl's is celebrating its 100th anniversary this year and the brand is stronger than ever.

Overall, the Brand Portfolio performed at a high level during the first quarter, delivering a solid start to the year and has set the stage to lead the financial performance of the company once again in 2024. We have the right brands and products and the strategy and team to both navigate changes in consumer behavior and to win market share in this dynamic marketplace.

Moving on to Famous Footwear. Total sales were flat during the first quarter and comp sales declined 2.3%. While sales were lower than anticipated, we are encouraged by the sequential improvement in trend since the prior quarter and in each month during the first quarter. Seasonal products continued to underperform relative to last year with boots down double digit, representing almost half of the comparable sales shortfall. While sales moved roughly in line with the overall market, Famous once again outperformed its competitive set, gaining market share in shoe chains driven primarily by Kids and Women's.

Notably, we continued to see the strategically important Kids category outpace the total business with sales up high single digits. Our Kids business has now outpaced the rest of the chain for 13 consecutive quarters. Kids penetration of the total Famous Footwear business reached 21% in the quarter, and we gained 1.9 points of market share in shoe chains based on Circana data. We are leaning into our competitive advantage in Kids for the balance of the year big time, particularly as we approach the back-to-school season from both an inventory and marketing standpoint.

We were also pleased with the performance of our own brands at Famous. Sales of our Caleres brands were up in the quarter and the chain benefited from Dr. Scholl's and Naturalizer's brand strength. Our own portfolio does provide Famous with greater access to fashion products. As you know, at an enterprise level, Caleres captures the higher gross margin on brands sold vertically. Additionally, our Famous Footwear e-commerce business was strong in the quarter, up 11% year-over-year with much of the business fulfilled through stores.

Finally, we continue to focus on and further our efforts to enhance the consumer experience at Famous. As I mentioned earlier, we converted 10 stores into the FLAIR format during the period and we now have 31 FLAIR locations in total. We experienced a 7 point sales lift versus the rest of the chain in our fall 2023 and spring 2024 FLAIR stores.

All in, Famous Footwear continues to perform well despite the challenging consumer demand environment. Looking ahead, we believe its inherent competitive advantages, namely its leadership position with the millennial family, especially Kids coupled with its clear avenues for growth and support from the Caleres structure position the business to gain additional market share in shoe chains, generate robust levels of cash and increase profitability over the long-term.

As we look forward, we are confident in our ability to deliver earnings per share in line with our guidance. Longer term, we believe we are exceptionally well-positioned to execute our clear and actionable growth plan, invest to fuel our growth initiatives, achieve our three-year growth plan and drive sustained value for our shareholders.

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

Jack P. Calandra

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

Thanks, Jay, and good morning, everyone. During today's call, I will provide additional details on our first quarter 2024 performance and share our outlook for the second quarter. For the first quarter, sales were $659 million, down slightly to last year. As Jay mentioned, this performance was driven primarily by declines in seasonal items, namely sandals and boots in both business segments, as well as by pressures from the challenging consumer demand environment.

Brand Portfolio sales were down 2.6% and Famous sales were up 0.1% with comparable sales down 2.3%. Consolidated gross margin was 46.9%, a 120 basis point increase versus last year and a record for the first quarter. Brand Portfolio gross margin was 46.6%, a 240 basis point increase versus last year. This improvement was due to higher initial margins, a favorable channel mix and a reduction of discounts and allowances on cleaner inventory.

Famous Footwear gross margin was 46.1%, up 50 basis points versus last year. While the business was more promotional, which resulted in lower initial margins, improved [ph] shrink (17:25) and lower freight costs more than offset that decline.

SG&A expense was $266 million or 40.4% of sales and included planned investments in marketing behind our lead brands, the expansion of our international business and the implementation of the integrated SAP platform. Operating earnings were $43 million and operating margin was 6.5%. Operating margin was 13.1% at Brand Portfolio and 4.8% at Famous. Net interest expense was $4 million, down about $2 million from last year. The weighted average borrowing rate in Q1 was 6.6% this year versus 6.2% last year. Earnings per diluted share were $0.88 versus $0.97 last year and EBITDA was $57 million or 8.7% of sales.

Turning now to the balance sheet and cash flow. We ended the first quarter with $191 million in borrowings, down over $100 million from Q1 2023 and no long-term debt. Inventory at quarter-end was $531 million, down 5.2% versus last year, primarily in Brand Portfolio and reflecting disciplined inventory management across the business. By segment, inventory at Brand Portfolio was down 10% and at Famous was down 1%. We feel good about the amount and composition of inventory with aged inventory down in both businesses in dollars and as a percent of total.

Regarding cash flow from operations, we generated $36 million and deployed cash for strategic investments in the business, paid our quarterly dividend and repurchased shares to offset dilution. Specifically, we spent $10.2 million on capital expenditures, $2.4 million on our quarterly dividend, and $15.1 million to buy back 416,000 shares at an average price of about $36 per share.

Now, turning to our outlook. We are reiterating our full year 2024 guidance. Specifically, we still expect sales to be flat to up 2% versus last year. This includes the impact of the 53rd week in 2023. Excluding the 53rd week, sales up 1% to 3% and earnings per diluted share of $4.30 to $4.60. Additionally, we still expect the following for 2024, consolidated operating margin of 7.3% to 7.5%, an effective tax rate of about 24%, and capital expenditures of $60 million to $70 million.

We are also providing the following guidance for Q2. We expect the consolidated net sales up 3% to 4%. This includes an estimated $20 million to $25 million benefit in Famous as a result of the calendar shift of an important back-to-school week into Q2 this year from Q3 last year, and earnings per diluted share of $1.20 to $1.25.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Ashley Owens with KeyBanc. Please proceed with your question.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi. Thanks for taking the question. So first, just is there any more color you can give on the guidance for both the second quarter and fiscal year, the expectations between Famous and the Brand Portfolio, given what we saw in 1Q? I guess specifically on the Brand Portfolio, do you expect that will continue to face tougher trends within the underperforming categories and lack of promos in the second quarter [ph] or was that (22:34) more of a first quarter dynamic?

Jack P. Calandra
Senior Vice President & Chief Financial Officer, Caleres, Inc.

A

Yeah. Ashley, this is Jack. Thanks for the question. I'll start. Certainly, I think when we look at the second quarter, we expect Famous to provide sales growth probably in the mid-single digits. And again, that is coming in large part from that shift of that critical back-to-school week into Q2 this year from Q3 last year. That said, we also expect the Brand Portfolio to generate a low-single digit comp. So that gives you some sense about Q2. And then obviously as we get into the back half, we're starting to see, the initiatives that we've been investing in continuing to take hold. And so expect that trend to continue into the back half, obviously, knowing that in Q4 we have that 53rd week that we are lapping from last year. Yeah.

John W. Schmidt
President, Chief Executive Officer & Director, Caleres, Inc.

A

Hi, Ashley. It's Jay. And I think on the Brand Portfolio, I think some of the category callouts that we made are going to be behind us in the first quarter and so second quarter, we think we'll be in a better position to hit the guidance that Jack indicated.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, great. And then just also on wholesale really quickly. Can you elaborate on anything finalized between the channels [indiscernible] (23:56) department stores, shoe chains off-price? And just how you expect that to look in the back half or anything you can comment on what you're seeing so far this quarter?

John W. Schmidt
President, Chief Executive Officer & Director, Caleres, Inc.

A

Well, we are seeing a significant movement toward casual and away from dress. And we see that building for the full year. As called out, our sneaker business has been good and it's been good in across channel and across brand and across price point, and that's in the fashion side on the Brand Portfolio. So we see those – that trend continuing as we move forward. And then again, the shift toward more casual and lower heeled product as we go through and that will probably go into the boot piece.

Over on Famous, we continue to see that build happening. And in Famous, the prioritization between Kids being first, Women's second and Men's third seems to be continuing, which is why we're really amplifying the priority of that in that order. The other thing about Famous is that athletic continues to perform better than fashion at the moment, and we do see a lot of athletic [indiscernible] (25:11) per brand going forward into the third quarter and fourth quarter. So I think you'll see those trends again toward athletic, sneakers and casual continues through the year and our ability to pivot towards that is really going to be what drives those numbers going forward.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks so much.

John W. Schmidt
President, Chief Executive Officer & Director, Caleres, Inc.

A

Thank you.

Operator: [Operator Instructions] Our next question comes from line of Dana Telsey with Telsey Advisory. Please proceed with your question.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Hi. Good morning, everyone. As you think about the current state of the consumer, both for Famous and also for the Brand Portfolio, anything that you're noticing change between the fourth quarter and the first quarter? And when you think about, Jay, fashion innovation newness out there, what percentage of the offering is being driven by that? Are you adjusting any prices or is the margin or price points on that higher?

And then lastly, as we think about back to school, any difference in how you're planning back to school this year versus last year? And just lastly, with the FLAIR stores, how are those doing? Any updates on versus the base and any tweaks being made in terms of how you're thinking about performance for the back half of the year? Thank you.

John W. Schmidt
President, Chief Executive Officer & Director, Caleres, Inc.

A

Okay. Well, I think totally in terms of coming out of Q4, we're really just seeing a build of, again, the sneaker performance and also the casual component being much stronger. We can see it in places like again our fashion sneaker business in the Brand Portfolio is very, very good, up double digits. We're continuing to lean into that with our speed program and that works completely across. We're even seeing the same thing in our Men's business in Allen Edmonds where the sneaker business is very, very strong. So we're going to continue to make that probably, it's not that it changed, but it's even building faster. So we're really using our speed to really pick up and get that to be a very high penetration of the casual offering.

Over on the Famous side, I think we saw strength in a lot of brands coming out of fourth quarter that were more athletic and also brands like Birkenstock and Crocs and others, and those big brands continue to perform. We're seeing some good athletic strength happening there and a continued focus on really the item and the sneaker that the consumer wants. So it's continually being very specific and item driven.

In terms of newness, we continue to [audio gap] (28:08) a priority of our business every single moment. I don't have the exact number on what that would be to our total, but for sure, the consumers like that. They also like new versions of the same styles that they've had before, new SKUs, new materials, new colors as we continue to build on item strength. So that's what we're also leaning into and getting this to really work.

And then finally, our FLAIR stores are doing well. What did we learn from our experience? We like a larger store footprint that we can really showcase the brands that we're showcasing in those stores. So that's very important to us in terms of the size of the store. We're also highly visible stores from a major entrance or something are actually working better. And we continue to – the other thing we did with all of the FLAIR stores beginning this year is moved the Kids to the front of the store, and we've seen that had a very strong effect as people walk in.

And then we continually pivot and make sure that as you walk through all of the brand assortments that we're seeing continue to shift as the business shifts with them and the brands become more important. But we're very, very excited about what we're seeing, and mostly because the consumer is excited about it and that combines with the better growth lift. You'll continue to see more effort on us from – in this area going forward.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: Our next question comes from the line of Mitch Kummetz with Seaport Research. Please proceed with your question.

Mitch Kummetz
Analyst, Seaport Research Partners

Q

Yes. Thanks for taking my questions. Jay, you mentioned in your prepared remarks sequential improvement through the quarter. Can you elaborate that on the Famous side? And any – anything on early May as well? And then I have some follow-ups.

John W. Schmidt
President, Chief Executive Officer & Director, Caleres, Inc.

A

Okay. So we did see basically with that sequential performance that the quarter – the month has got better as we moved into it. I think that's kind of embedded in the fact that we saw boots being down significantly in Famous that impacted our February performance, got better in March and then improved somewhat better in April. We're seeing maybe slightly softer as we get into – head through the month there. It is one of our smallest months in the quarter and obviously we're focused on our key back-to-school time period, which is going to be soon. So that's really where we saw the trend lines going for Famous as we move through.

Mitch Kummetz
Analyst, Seaport Research Partners

Q

And then, actually maybe a follow-up there on back-to-school. How confident are you from a product standpoint just in terms of kind of what the pipeline looks like and your availability on inventory, particularly around sneakers, which I would think would be important for you guys for back-to-school?

John W. Schmidt
President, Chief Executive Officer & Director, Caleres, Inc.

A

For sure. And the pipeline is very, very good. We're not having issues with that. Obviously, we continue to build on our Kids inventory and we'll be in good position for back-to-school, but for sure, we're looking to continue to expand on that. And then the other piece as we've talked about, it's a lot of key athletic brands have continued to surge as well as Nike, where we are in better position going into back-to-school. So, we're feeling really very good and confident about that and that's been a key effort, and then having our marketing and our stores positioning aligned with that is going to be very important. But for sure, we're not experiencing pipeline issues at this moment.

Mitch Kummetz
Analyst, Seaport Research Partners

Q

And then, Jack, on the margins for 2Q, can you maybe speak to what you're anticipating gross margin versus SG&A? And then I've got a follow-up for you.

Jack P. Calandra
Senior Vice President & Chief Financial Officer, Caleres, Inc.

A

Yeah, Mitch. So I think if I – I go back to the comments we made when we gave our full year guidance back in March, was that we expect this year to get 20 basis points to 40 basis points of operating margin improvement and for that operating margin improvement to come from gross margin improvement and for that gross margin improvement to really be focused on Brand Portfolio. And I think you've seen that play through on Q1. In terms of the second quarter, I would anticipate we'll continue to see nice improvement in gross margin in Brand Portfolio. So a continuation of that. The investments we're making in SG&A around marketing, around international and our SAP common platform continue into the second quarter, those start to fall off – some of those start to fall off a little bit in the back half. So that's how I kind of think about Q2 in terms of those two components.

Mitch Kummetz
Analyst, Seaport Research Partners

Q

Okay. And then I guess lastly, just on the Brand Portfolio gross margin. It was up I think over 200 basis points in the first quarter. Are you expecting that level of improvement over the balance of the year or are there some – when you think about the puts and takes on gross margin, are there certain things that are less beneficial to you as we kind of roll through the year? Anything you can say there?

Jack P. Calandra
Senior Vice President & Chief Financial Officer, Caleres, Inc.

A

No. Again, I think again the gross margin in Brand Portfolio, the improvement there will be the driver of that overall consolidated gross margin that we've talked about and that will be the driver of the operating margin improvement. So, I would say we're still looking for really nice improvements in gross margin year-over-year. Again, we're getting it through – as we said, we're getting it through initial margins, we're getting it through the benefits of cleaner inventory and we're getting it through a more favorable channel mix given that our direct-to-consumer business is growing faster than our wholesale business. So I would expect those three things to continue as we move through the year.

Mitch Kummetz
Analyst, Seaport Research Partners

Q

Great. Thank you.

Jack P. Calandra
Senior Vice President & Chief Financial Officer, Caleres, Inc.

A

Thank you.

Operator: Thank you. We have no further questions at this time. Mr. Schmidt, I'd like to turn the floor back over to you for closing comments.

John W. Schmidt

President, Chief Executive Officer & Director, Caleres, Inc.

Okay. Thank you. Before we close today, I would like to thank the talented Caleres team for their focus, their creativity, their hard work, and their dedication during this quarter and throughout, of course, the year. We are pleased with our first quarter performance and confident in our plans for 2024 and beyond as we execute on our long-term strategies.

Caleres is well-positioned to continue to build our powerful brands, create exceptional products that exceed our consumers' expectations, and deliver financial results to drive significant value for our shareholders. Thank you all for joining us this morning and thank you for your interest in Caleres. Have a great day.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.