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Caleres, Inc. (CAL)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Caleres Fourth Quarter and Fiscal Year 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 would like to turn the call over to Liz Dunn, Senior Vice President of Corporate Development and Strategic Communications. Please go ahead.

Lizabeth Dunn

Senior Vice President-Corporate Development & Strategic Communications, Caleres, Inc.

Good morning. Thank you for joining our fourth quarter and full-year 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 that 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 on 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 today on the call are Jay Schmidt, President and CEO; and Jack Calandra, Chief Financial Officer. 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 and good morning, everyone. I'm pleased to report that Caleres delivered another strong performance during the fourth quarter of 2023, capping off the third straight year of adjusted earnings per share above our $4 baseline. These results continue to underscore the power of our portfolio brands, the focus of our talented team and the magnitude of our structural financial transformation. Overall, 2023 marked another year of significant accomplishment and disciplined financial execution at Caleres. In total, we delivered annual sales of $2.8 billion in-line with our expectations. We achieved adjusted operating earnings of $201 million and generated a strong consolidated adjusted operating margin of more than 7%. Our adjusted earnings per share of $4.18 was in-line with the outlook we reaffirmed in January and we generated approximately $260 million in adjusted EBITDA. We are particularly proud of these results, which were achieved while navigating a dynamic demand environment and making prudent investments in support of our future growth.

In addition to our financial accomplishments during 2023, we gained market share in both the Brand Portfolio in women's fashion footwear and we gained market share in shoe chains for Famous Footwear as well as in Kids. We leaned into our Edit to Win initiative and leading speed capabilities, which facilitated a nearly 7% reduction in inventory. We generated $200 million of cash from operations and strategically used that cash to invest in and accelerate value-driving capabilities essential for our future growth. This included enhancements to our marketing ecosystem, the expansion of our international presence, particularly at Sam Edelman, the involvement in consumer experience at Famous Footwear and the upcoming go-live of our financial and operating system into a new integrated SAP platform. We also deployed cash to further strengthen our balance sheet and enhance our financial flexibility by reducing borrowings by $126 million from 2022. Finally, we returned more than $27 million to our shareholders through share repurchases and dividends.

Now, let's move to some performance highlights from the fourth quarter. During the period, we delivered sales of $697 million, up slightly from the prior year. We generated strong margins and we achieved fourth quarter adjusted earnings per share of $0.86, which represented a 32% increase over the fourth quarter of 2022.

Now, let's turn to our operating segments. The Brand Portfolio delivered its best-ever annual adjusted operating earnings, which topped $148 million, eclipsing its previous record of $112 million and was accompanied by a nearly 12% adjusted return on sales. Of particular note, the segment led the financial performance of the company for the first time in nearly two decades.

Looking more closely at the quarter, strong demand for our lead brands and largest portfolio brands drove the company's performance. Notably, sales in this segment were 4.5% higher than fourth quarter of 2022 and segment gross margin increased significantly. And while we invested in key capabilities like our marketing network and international expansion, most of the margin strength flowed through to the bottom line, leading to a 570-basis point improvement in adjusted quarterly operating margin. This strong upward momentum was broad-based with increases across both our wholesale and direct channels, primarily around e-commerce, which increased 5% year-over-year.

As the consumer continued to prioritize newness, including loafers, ballets, Mary Jane's, slingbacks and of course fashion sneakers, our brands were well-positioned to meet the diversified needs and preferences of our consumers. We saw particular strength across our lead brands during the last quarter of the year, with positive trends in year-over-year sales, operating earnings and market share. In total, these four brands, which include Sam Edelman, Allen Edmonds, Naturalizer and Vionic, represented about 55% of the brand portfolio sales and more than half the segment's operating earnings during the fourth quarter.

Diving into the performance of our lead brands, Sam Edelman had a solid quarter with improving financial metrics. We announced some big news last week. In case you missed it, Sam unveiled Kylie Jenner as the face of its spring marketing campaign. This is an exciting time for the Sam Edelman brand and team, which is celebrating its 20th anniversary this year. The brand also continued to expand internationally, opening 10 new stores in 2023, with plans to grow that number significantly in 2024. We expect the 20th anniversary marketing plans and events, international expansion with our joint venture partner in Asia and the relaunch of the Sam and Libby brand will be significant sales drivers in 2024 and beyond.

Next at Allen Edmonds, they turned in their 12th positive quarter of growth. Casual and sport styles continue to lead the way during the period, with the consumer responding to newness and colorways of our iconic shoes and introductions of new styles. During the quarter, we opened a new Port Washington Studio concept store in Birmingham, Alabama. We now have eight Port Washington Studio stores and continue to see the sales performance outpace the rest of the chain. We already have plans to introduce the Port Washington Studio into four stores during 2024 and continue to look for more opportunities to add this concept to new and existing locations.

Our Naturalizer brand had a standout quarter from both a sales and margin perspective. Sales were up double-digits and operating margin improved substantially. The brand gained 1 point of market share during the quarter, with a significant increase in new consumers. We are pleased with the rollout of the Naturalizer loyalty program named Naturalizer INSIDER and are seeing positive spending trends with loyalty members. We are also seeing an increase in younger consumers driven by strong relevant fashion offerings and targeted marketing efforts, including new collaborations and partnerships. As you know, we've done a lot of work in recent years to transform and ready Naturalizer for even greater growth. We believe there is tremendous opportunity for the brand moving forward.

Finally, Vionic's profitability improved significantly in the quarter, despite a modest decline in sales with both our wholesale and e-commerce businesses making significant contributions. Loafers, flats and sneakers drove the brand's fourth quarter business, and the Uptown moc remains Vionic's number one item. In addition, our Rejuvenate Recovery slide sold very well as did new styles in the walking category with more to come in 2024.

As I mentioned, our largest portfolio brands also delivered outsized performances in the quarter, namely Dr. Scholl's, Franco Sarto and LifeStride achieved year-over-year improvements in sales and earnings. As we've noted, these brands play an important role in our overall portfolio, reaching different customer segments while generating meaningful profit and cash flow. This year, Dr. Scholl's celebrates its 100th year anniversary with sales driving collaborations and partnerships. The first will be a collaboration with apparel brand Free People, which is set to drop in early April. Overall, the brand portfolio performed at a high level during 2023, delivering its best performance in portfolio history. As we outlined at our Investor Day last October, we continue to expect the Brand Portfolio to contribute about half of total sales and 60% of operating profit within the three-year period. We are confident the Brand Portfolio, powered by its lead brands, is positioned to lead the financial performance of Caleres over the long-term.

Moving on to Famous Footwear. Total sales declined 1.5% and comp sales declined 5.9%, representing a sequential improvement in trend from the prior quarter period, both in-store and online. Traffic was down and seasonal products, namely boots, represented much of the sales decline. Famous, once again though outperformed its competitive set, gaining market share in shoe chains. During the holiday season, the consumer was motivated by highly demanded trend items instead of promotions. Robust selling on key athletic brands and styles and cozy products like slippers drove a modestly better sales trend during the seven-week holiday period. In addition, we were particularly pleased with the performance of our Kids business, where sales increased 2% year-over-year and we gained 1.4 points of market share in shoe chains. As you know, we view Kids as our key differentiator and the entry point for the millennial family. Our Kids business has outpaced the rest of the chain for 12 consecutive quarters and 2023 marked our highest level of annual Kids sales ever.

We were also pleased with the relative outperformance of women's fashion and sales of key vertical brands, Naturalizer and Dr. Scholl's were up year-over-year at Famous. Over the last year, we've worked to drive a more balanced, athletic versus fashion assortment and we are making progress on that front. Our vertical integration provides Famous with greater access to fashion products, a key growth driver for the business as well as a greater ability to flex with trends and differentiate versus competitors. And vertical integration allows our own brands to reach new audiences. Our newest vertical brand, Sam and Libby, launched in Famous for spring with solid early reads. I will remind you at an enterprise level, Caleres captures a higher gross margin on brands sold vertically.

Finally, our efforts to enhance the consumer experience at Famous Footwear continues. We had 21 Flair stores opened at the end of the quarter. The second wave of Flair stores have proven highly successful and are outperforming the chain and delivered positive year-over-year comps in the fourth quarter. We plan to continue to refine our approach to improving consumer experience to ensure we are realizing the highest return on this investment. We will transform an additional 23 stores to the Flair concept in 2024 and we'll have 44 Flair stores by year-end.

All-in, Famous performed well in 2023. The structural changes we've made across the business have enabled the Famous segment to maintain operating earnings and operating margin well-above pre-pandemic levels and we expect this to continue. Looking ahead, we believe Famous Footwear is exceptionally well-positioned to compete and solidify its leadership position in the family channel.

So before I hand it over to Jack to walk through our financials in more detail, I would like to highlight a few key focus areas that will enable us to achieve our long-term strategic operating initiatives and financial targets. First, we are focused on expanding our direct-to-consumer business and expect our own e-commerce business to continue to outperform. We have launched loyalty programs across several of our lead brands that will allow us to engage more directly with our consumers and capture more share of wallet. We are utilizing our marketing and analytics capabilities to engage consumers efficiently and profitably.

Second, we will continue to focus on our enhanced speed programs to read and react in real-time. During 2023, 20% of our brand portfolio receipts came through speed and we expect that penetration to grow well-above 20% moving forward. Now more than ever, our brands are positioned to capitalize on trend, whether the trend is casual, dress or sneaker-driven. Our speed programs create a virtuous circle, aligning inventory with consumer demand to drive sales productivity and expand gross margin.

Third, we believe Famous is well-positioned to return to growth and drive greater market share in the family channel. This year, we will build on our leadership position in Kids, continue to focus on evolving our Flair store format, offer an elevated and curated assortment of key in-demand brands for the entire family, ensuring a more advantageous mix of athletic and fashion and leverages the consumer data platform or CDP to connect with and drive an even greater level of engagement with consumers through personalized communication and localized assortments.

Fourth, as we outlined at our Investor Day, international is a significant growth area for Caleres. In the fourth quarter, we hired Erica Mackoul as Senior Vice President of International to focus more intensely on that effort. In 2024, we will continue to build the Sam Edelman business in China with 45 new stores. Naturalizer will reenter China with its newly created global flagship store design with 10 new stores in the fall of 2024 as well as a digital relaunch. This is just the beginning. International is a big growth opportunity for Caleres.

And, finally, we are investing to fuel growth. In 2024, we will make outsized investments in international expansion, consumer experience, both in-store and online and across our marketing platform. These investments are an accelerant to unlock additional growth opportunities for the future. At the same time, we will remain disciplined and rigorous in managing our expense level to drive strong financial performance and shareholder value.

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'll provide additional details on our fourth quarter and full-year 2023 performance, update you on our capital allocation activities and plans and share our outlook for 2024. Today's comparisons will include the 14th week for Q4 and the 53rd week for the full-year unless otherwise indicated. We've included a table in the release outlining the sales impact of the extra week for each segment and for total company. As a reminder, my comments will be on an adjusted basis. Please see today's press release for a reconciliation of adjusted results.

Before I turn to the adjusted results, I wanted to give you some detail on the factors leading to the large one-time item included in our GAAP results. Our GAAP results include a release of deferred tax valuation allowances of $0.76 in the fourth quarter and $0.75 for the year, which had primarily been established in 2020 after incurring a significant pre-tax loss associated with the pandemic impact to the business. As a result of our strong earnings performance in 2021, 2022 and 2023, we are no longer in a cumulative three-year loss position and were able to release most of these valuation allowances. Additionally, the adjusted results include a benefit of $0.05 in Q4 and $0.13 for the full-year from our cost reduction initiatives.

Now turning to sales. Fourth quarter sales were $697 million, up slightly to last year. As Jay mentioned, this performance was driven by a 4.5% increase in Brand Portfolio. Famous Footwear sales were down 1.5%, slightly better than our initial expectations. Comparable sales were down 5.9%. Consolidated annual sales were $2.82 billion in-line with our expectations and down 5.1% versus fiscal 2022.

Fourth quarter consolidated gross margin was 43.9%, a 348-basis point increase versus last year and a record for the fourth quarter. Brand Portfolio's fourth quarter gross margin was 42.6%. a 660-basis point increase versus last year due to lower freight costs, higher initial margins and fewer markdowns and allowances. Famous Footwear's fourth quarter gross margin was 42.9%, a 54-basis point improvement versus last year. For fiscal 2023, consolidated gross margin was 44.8%, 154 basis points above last year, reflecting a 537-basis point increase at Brand Portfolio and a 156-basis point decline at Famous.

SG&A expense for the fourth quarter was $273 million or 39.1% of sales. Annual SG&A expense as a percent of sales was 37.7%. Annual SG&A expense was $5 million lower than 2022, despite absorbing an extra week, reflecting our expense management initiatives and lower incentive compensation costs. Fourth quarter operating earnings were $33 million and operating margin was 4.7%. Operating margin was 11.9% at Brand Portfolio and 4.9% at Famous. Annual operating earnings were $201 million or 7.1% of sales. It's worth noting that this consolidated annual operating margin is 270 basis points higher than pre-pandemic levels and was achieved while navigating consumer demand headwinds at Famous.

Brand Portfolio achieved a record annual operating margin of 11.7%, a 316-basis point improvement versus last year. Famous delivered a 7.8% operating margin, maintaining a margin level above pre-pandemic averages. Fourth quarter net interest expense was $4 million, down about $1 million from last year and annual net interest expense was $19 million. Fourth quarter earnings per diluted share were $0.86, a 32% improvement versus last year and annual earnings per diluted share were $4.18, marking our third consecutive year of EPS above our $4 baseline.

EBITDA for the trailing 12 months was $260 million, or 9.2% of sales. Inventory at year-end was $541 million, down 6.8% versus last year, primarily in Brand Portfolio, reflecting a more normalized supply chain and disciplined inventory management across the business. By segment, inventory at Famous was up 2.5% versus last year but down 4% when adjusted for the 53rd week. At Brand Portfolio, inventory was down 13.6% versus last year. 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 $200 million during the year and deployed cash for strategic investments in the business, paid our quarterly dividend, repurchased shares to offset dilution and lowered borrowings on our revolver. Specifically, during year, we spent $50 million on capital expenditures, $10 million on our quarterly dividend and $17 million on share repurchases. And with the $40 million paydown in Q4, borrowings are more than $125 million below fiscal year-end 2022. Debt-to-trailing 12 month EBITDA was 0.7 times.

Looking ahead, our capital allocation priorities remain consistent with what we've communicated previously. First, invest for organic growth, focusing on our lead brands and key capabilities. Second, maintain the dividend. Third, given still elevated interest rates, we will continue to focus on reducing debt in the near term. As we said at Investor Day, by 2026, we expect borrowings to be less than $100 million and less than half a turn of EBITDA. Fourth, share repurchases. Given our debt reduction progress and expectation for free cash flow in 2024, we have the opportunity to both reduce leverage and buyback shares. We will evaluate these alternatives in light of business performance and market conditions as we proceed through the year. We had 5.6 million shares remaining under our current board authorization at year-end.

Now, turning to our outlook. As we mentioned when we outlined our three-year plan last October, we don't expect our growth to be linear and embedded in that outlook was more modest growth in year one. In addition, our plan assume that the overall footwear market would grow at 1% in 2024. Circana now expects a decline of 1%. Including this adjustment, as well as balancing the strong momentum in our Brand Portfolio against anticipated headwinds like inflationary pressures and higher freight costs, for 2024 we expect sales to be flat to up 2%, which includes the impact of the 53rd week in 2023. Excluding the 53rd week, we expect sales to be up 1% to 3% and earnings per diluted share of $4.30 to $4.60. We anticipate earnings to be up more in the first-half than the second-half. However, due to the timing of expenditures, including marketing for the Sam Edelman campaign and expense for the common platform implementation, we expect EPS down in Q1 and up in Q2.

Additionally, we are providing guidance on the following metrics for the full-year. 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 Q1. We expect consolidated net sales to be flat to up 1% and earnings per diluted share in-line with Q4 2023 on an adjusted basis.

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

QUESTION AND ANSWER SECTION

Operator. Thank you. [Operator Instructions] Our first question is from Laura Champine with Loop Capital Markets. Please proceed.

Laura Allyson Champine
Analyst, Loop Capital Markets LLC

Q

Thank you for taking my question. I wanted a little bit more about what's behind your expectation that the footwear industry will decline this year? And maybe if we could start with where do you think last year likely fell out as an industry knowing that it's fragmented and then what's behind the expectation that we'll have another rough year this year?

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

A

Yeah. Laura, this is Jack. Thank you for your question. So we get, as part of our planning process each year, the expectations from Circana and what they're projecting is the market to be down about 1% with units down a little bit more than that and some favorability on the AUR side. And then when we look at it by segment, it looks like fashion is expected to be the weakest with sport, leisure and performance stronger than that. And so we look at that and we apply those categories and those growth rates to our portfolio to come up with what we think it would look like for us to basically hold market share in 2024. And as you know, we've been very successful in growing market share and this plan assumes that we will grow market share in both Famous and in Brand Portfolio.

Laura Allyson Champine
Analyst, Loop Capital Markets LLC

Q

Got it. Thank you.

Operator: Our next question is from Dana Telsey with Telsey Advisory Group. Please proceed.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Hi. Good morning everyone. As you think about the cadence of the year, first quarter, second quarter, how are you thinking about Brand Portfolio and Famous? And did you notice any deterioration or stabilization in the core Famous Footwear consumer in the fourth quarter? And what are you seeing in order trends for Brand Portfolio from the wholesale channel? Thank you.

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

A

Hi, Dana. It's Jay. I think overall and just thinking about the consumer, we are seeing I think the demand environment remains mixed as I would say, as we leave fourth quarter and into first quarter. We see our Brand Portfolio consumer continually trend-driven and responding very well to the newness right now, which is driving demand. And at our Famous consumer during fourth quarter and into early first, we did see the market environment remains choppy. Our target consumer, the millennial family, continues to prioritize Kids. And – however I will say that we're seeing some very strong reaction from both segments on really these highly demanded items. So, that's really our goal is to continue to get in front of them and go there. We are seeing a slightly better trend as we move from February into March and that gives us some signs for optimism but obviously very early on in the quarter.

And then, finally, in terms of order trends, they're very consistent to where they've been in previous quarters right now. As you know, our business is highly demand-driven and dynamic on our Brand Portfolio and we continue to react in real-time with our speed program, our dropship program and also our replenishment program to continue to meet that consumer demand.

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

A

And then, Dana, I'll just add a couple of things on the cadence for Famous. So just in terms of our overall guidance, we are assuming that Famous will be sort of a modest negative to modest positive comp in our guidance range, low and high. We are anticipating the first-half to be stronger than the second-half and a lot of that is just due to the calendar shifts. So as you know, with the calendar shift, the first week of August, which is a critical back-to-school week for Famous, is now falling into fiscal Q2 versus fiscal Q3 last year. And then obviously we have the impact of the 53rd week on Q4 this year. So there's just some shifts with those with the calendar that's moving the numbers between the quarters.

And then I would just say, look, we expect the promotional activity in Famous to be broadly in-line with 2023. And with that would come sort of a flattish gross margin.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Got it. And then as you unpack SG&A Jack, anything that we should be thinking about as we go through the year, any quarterly ups or downs in terms of the SG&A impact?

And then Jay as you think about your own brands in the Famous Footwear store, where are you along that path and what could that add to the margin opportunity there? Thank you.

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

A

Sure, Dana. I'll start with the SG&A. So part of the reason are we're guiding to earnings down in Q1 is there are some investments we're making in SG&A in Q1, particularly the Sam Edelman marketing campaign, and then expenses related to our common platform implementation, the first phase of which goes live at the end of May. And so there are some expenses associated with that. And then as we go through the year, obviously in Q4, we don't have that 53rd week of expense in Q4. But what I will say is that we talked about last year taking some actions on costs. And I'm pleased to say that we delivered those cost reductions both in 2023 and those are built into our 2024 plan.

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

Okay. And then as far as our own brands, we're seeing some really nice results coming out of fourth quarter and then moving into first quarter, particularly with our Dr. Scholl's brand at Famous, our Naturalizer brand and we're pleased with the early launch of Sam and Libby. And so we feel that we are well on our track of how we led to our three-year goal there and we are planning those brands up significantly. And obviously Jack the profit on vertical brands is significantly higher than where we go as a company, right?

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

That's correct.

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

So we're very excited for what we're seeing there, and again that was a concerted effort and we look like we're well on track.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Thank you.

Operator: Our next question is from Mitch Kummetz with Seaport Research. Please proceed.

Mitch Kummetz
Analyst, Seaport Research Partners
Q

Yes. Thanks for taking my questions. I've got a few. I want to start just on the guide. I want to clarify a couple of things because I think you guys said that you expect to take share in both Famous and Brand Portfolio. And you're – as far as kind of a market outlook, you're basing that on Circana down 1%. So Jack, you're saying on Famous, same-store sales maybe down a little to up a little, is that correct?

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

Yeah. Our guide, Mitch, assumes the low-end would be down a little bit and on the upper-end would be up a little bit and again the market numbers that I shared are, in total, that would include wholesale and retail. And obviously what we've seen is the retail business has been a little bit more or at least the retail channel that we compete in and measure market share against, which is the shoe chain channel, has been a little bit more challenged.

Mitch Kummetz
Analyst, Seaport Research Partners
Q

And so on Brand Portfolio, what kind of sales growth are you looking for there for the year?

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

Yeah. We're looking to continue basically the trend that we came out of Q4 with, adjusting for that 53rd week. So there was a little bit of a benefit for the 53rd week. So I would say, we're looking for a low single-digit positive numbers from Brand Portfolio in 2024. Obviously, lead brands being stronger than that and the other brands being a little bit below that.

Mitch Kummetz
Analyst, Seaport Research Partners

Q

And then Jack I think you said that at Famous you expect promotions to be in-line with last year. I think you made a comment of flat gross margin. Was that a Famous comment or is the op margin guidance you gave assume a flat gross margin on a consolidated basis for the year?

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

A

Yeah. The comment that I made was Famous-specific on the flat gross margin. In terms of the 20 to 40 basis points of operating margin improvement, in 2024 we're looking for more of that actually to come from gross margin and particularly on Brand Portfolio. As you remember, Mitch, when we talked about our Investor Day model, we talked about all of the different headwinds and tailwinds in gross margin over three years and said that gross margin at the consolidated level would be relatively flat and we would get operating margin improvement from SG&A leverage. In 2024, again we're looking for a little bit more on the gross margin side because of some of these critical investments we're making in international in some of our lead brand marketings and in the common platform.

Mitch Kummetz
Analyst, Seaport Research Partners

Q

And then Jay you mentioned that March was better than February. I would guess it's more of a Famous comment. Is that – do you think that's to do with weather or do you think there's some change in consumer shopping behavior or strengthening of the consumer? Is there anything you can attribute that to?

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

A

Yeah. While it's early in March, I think it's all of those things and then one more. I think the weather in early spring is always good and we've had a much better weather pattern than we've had last year, particularly when you think about Famous being across the country. And – so that's the first thing. And the – I think the second thing that just really stood out was the – that we really are in much better position in some of these key demanding items and the key brands at Famous and that has really propelled it through with the consumers really pointing very specifically. We've seen our top brands in Famous come back quite a bit.

And then just to answer your question on the Brand Portfolio, we are seeing some nice trends that are similar to that and again focused on just really I think some of our brands opening up and reacting to a warmer cycle. So, some early signs on sandals and some of our brands have been positive. And as you well know, we did not see that last March. So there's reason to be optimistic but it is early still.

Mitch Kummetz
Analyst, Seaport Research Partners

Q

And then last question for you, Jay. There's a lot of talk in the back-half of last year as the consumer, with shopping events, be it back-to-school or holiday and then kind of disappearing in between. Do you think that continues this year and how do you see the impact of events in the first-half? Is there much going on from an event standpoint before we get back-to-school? Like to what extent do you think like Easter or Memorial Day, Mother's/Father's Day, things like that could drive the business?

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

Yeah. I think they've been actually not as important as they might have been in past times and we're really seeing weather as an impact. Spring break and vacations kind of stimulating some things but not as much as those bigger buildups but really we are consistently on our best product and our best place. And then, as Jack pointed out, there is some discussion of the tax refund. So I don't know if you want to fill in on that?

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

Yeah. For the Famous business, we look very carefully at where tax refunds are coming in. And right now it looks like through data last week, the number of refunds was down about 13%. The average refund was up about 6%, so the total dollars refund is again through the end of last week was down 7%. And we do know that there is some impact of that certainly to our Famous consumer.

Mitch Kummetz
Analyst, Seaport Research Partners
Q

Okay. Thanks, guys.

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

Thank you.

Operator: Our next question is from Abbie Zvejnieks with Piper Sandler. Please proceed.

Abbie Zvejnieks
Analyst, Piper Sandler & Co.
Q

Great. Thanks for taking my question. You talked a little bit about the consumer being more selective, buying the product that they want and promotions not moving other inventory as much. One, are you seeing that same dynamic in both Men's and Women's versus Kids? And then two, are you changing your merchandising efforts at Famous Footwear in any capacity in order to meet some more of that key style demand?

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

Yes. We are seeing it in both segments right now as the consumer continues to prioritize spend in different ways. We've said in Famous that the consumer continues to prioritize Kids purchasing, so that has continued, and then also very much demanded on the styles and the items that they do like and the brands that they really favor, which fortunately we have. Over on the Brand Portfolio side, we're seeing the same thing in terms of newness and trend delivering it. And so I think what you'll see is on our websites and our continued messaging and communications, we're continuing to focus on new item launches, new styles and new drops. And we're seeing that both in Men's and Women's.

And then over to Famous, one of the things we will be adding to all stores this year as we go into back-to-school, it's really the focus on two trend tables as you walk into the stores to really call out these key messages so we can continue to make that impact. And then as we continue to build the Flair store concept, we'll continue to bring that to its fullest extent. So you'll see a lot more from us on that. But for sure, it's consumer reacting in both segments, very specifically by style, by SKU.

And then the last thing I'll say is that our speed program really allows us to really meet that demand much better as we continue to bring in more product earlier, particularly online and then get back into it exactly how the consumer is demanding. So it's been a very good approach for this timing right now.

Abbie Zvejnieks
Analyst, Piper Sandler & Co.

Q

Got it. That's helpful. And just one more specifically on the Brand Portfolio. Restocking has been a big topic of conversation with brands with exposure to the wholesale channel. So just in terms of Brand Portfolio's wholesale exposure, have you seen any of that like "restocking" yet or is that something we should look for as a tailwind maybe 2025?

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

A

I don't think we've seen an effort on that. Retailers are continually monitoring their inventories well and they're just reordering more and it's less upfront but that's something that we're used to and actually our model allows us to fill into. So we haven't seen the effect on that as of yet. So – but right now I would say that's where we are and, yeah, I don't see any change in that right now.

Abbie Zvejnieks
Analyst, Piper Sandler & Co.

Q

Got it. And sorry, just one more on dropship. Can you just talk about that business and how you're utilizing it? Has that changed at all as the retailers have gotten into a better inventory position? Just anything there?

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

A

Yeah. It continues to model in a very dynamic moment. As we get more into position in stores, we'll see some of that shift into other places where we do slightly more business in the stores and less of that dropship need. We are looking at our wholesale business really as a complete ecosystem. And so we're continuing to manage the total in a really omni way. So, we'll see variations of that I think start to ebb and flow. And then again as demanded items continue to be more built, the consumer will continue to find them in whatever way we choose to fulfill them. So – but right now I don't have any major swings on that to report.

Abbie Zvejnieks
Analyst, Piper Sandler & Co.

Q

Okay. Great. Thank you guys so much.

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

A

Thanks.

Operator: Our next question is from Ashley Owens with KeyBanc Capital Markets. Please proceed.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. Thank you. So just on Famous, you mentioned Kids grew in the quarter. Could you just provide some color on the performance between athletic, casual and dress, just maybe where the assortment stands today?

And then, secondly, just given the customer preference for newness right now, as you're thinking about the cadence of product launches throughout the year within the Brand Portfolio, how does it compare to years prior? And then would you say that you're coming to market with more products or would you say it's better products that are kind of going to be helping driving that growth this year? Thanks.

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

Okay. So first on Famous. The Kids business is – we have about a 50% penetration in total athletic on our Famous business. That position skews much higher in Kids as they continue to focus on athletic shoes there. But we are also seeing a lot of our big brands work very well there. Just to name a few, we have a Crocs business that's continually strong in Kids, a HEYDUDE business that's turned out nicely. And then Skechers and then obviously Nike is the biggest one there. We're also seeing newer brands like Birkenstock continue to go in and then new offerings from brands like adidas work very well in Kids. So anyway, I would say it – the brands that work very well at Famous continue to totally work very well in Kids but we do see a distortion on athletic.

And then finally with your Brand Portfolio question, I hope it's everything that you said. And as the consumer continues to respond to it, we're doing more new launches of products, we'll see more limited drops as we go through. We're seeing more collaborations. As we mentioned, there were two in Dr. Scholl's, you'll see more in that from Allen Edmonds. And then obviously Sam Edelman's anniversary campaign has events that go throughout the entire year. So we're going to continue.

And then we have two new collaborations coming up with Naturalizer but you'll see more and more of this coming through from us all the way through the year. So stay tuned. We'll have much more to report.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. Thanks so much.

Operator: We have reached the end of our question-and-answer session. I would like to turn the call back over to Jay 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, hard work and dedication. We're confident in our plans for 2024 and beyond as we execute on our long-term strategies. We believe 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 and have a great day.

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