

**S&P Global**

Market Intelligence

# Shoe Carnival, Inc.

NasdaqGS:SCVL

## *Earnings Call*

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	10

# Call Participants

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## EXECUTIVES

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*President, CEO & Director*

**Patrick C. Edwards**

*Senior VP, CFO, Secretary & Treasurer*

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# Presentation

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## Operator

Good morning, and welcome to Shoe Carnival's Fourth Quarter 2024 Earnings Conference Call. Today's conference call is being recorded and is also being broadcast via webcast. Any reproduction or rebroadcast of any portion of this call is expressly prohibited.

Management's remarks today may contain forward-looking statements that involve a number of risk factors. These risk factors could cause the company's actual results to be materially different from those projected in such statements. Forward-looking statements should also be considered in conjunction with the discussion of risk factors included in the company's SEC filings and today's earnings press release. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of today's date. The company disclaims any obligation to update any of the risk factors or to publicly announce any revisions to the forward-looking statements discussed on today's conference call or contained in today's press release to reflect future events or developments.

Today's call will reference non-GAAP measures. The non-GAAP or adjusted results referenced exclude the purchase accounting, merger, integration, and transaction costs related to the acquisition of Rogan's Shoes. A reconciliation of GAAP to non-GAAP results is included in today's earnings press release.

I will now turn the conference over to Mr. Mark Worden, President and CEO of Shoe Carnival for opening remarks. Mr. Worden, you may begin.

## Mark J. Worden

*President, CEO & Director*

Good morning, everyone, and thank you for joining us today for Shoe Carnival's Fourth Quarter 2024 Earnings Conference Call. Joining me on today's call are Carl Scibetta, Chief Merchandising Officer; and Patrick Edwards, Chief Financial Officer.

We're excited to share our fiscal 2024 growth results with you today and discuss the transformational news announced this morning about our Shoe Station growth strategy. First, I'll start with a brief overview of 2024 trends and results. Over the past few years, our industry has faced a challenging landscape with inflationary pressures constraining purchases among lower-income households and urban consumers.

We've seen footwear customers shop at high engagement levels during key event periods, such as back-to-school and holiday, and then pull back spending and engagement during non-key periods. Despite the many headwinds our customers and industry faced last year, our long-term strategies set our results apart from the competitive set and enabled us to deliver industry-leading sales growth during fiscal 2024 and achieve net income growth.

We remain disciplined throughout the year, relentlessly focused on maximizing margin delivery, cost controls, synergy capture, profitably engaging customers, and bringing the nation's best brands to market. We gained market share again in 2024. We entered new geographies, expanded our customer base, and acquired a regional leader in the Midwest.

Our balance sheet started fiscal 2024 strong and got even stronger by year-end. We expanded our cash flow generation and built up higher year-end cash balances during a year where we also acquired a chain from 100% cash on hand. We provided shareholders our 52nd consecutive dividend. And for the 20th consecutive year, we started a year with 0 debt and ended a year with 0 debt.

Ultimately, our strategies resulted in net income growth and EPS results at the very high end of our profit guidance range. I'd like to thank our exceptional vendor partners and team members for all their efforts to achieve these results during a tough year.

Turning to a few highlights of fiscal 2024 results.

Net sales were \$1.2 billion this year, a growth of 2.3%. This contrasts to the industry contracting mid-singles for the year and reflects solid growth, particularly given this was a 52-week year compared to a 53-week in the prior year comparison. Our Shoe Station Growth banner grew an industry-leading 5.7%, successfully entered new markets, captured new customers, and achieved comparable growth for the year.

Rogan's achieved profitable results beyond our expectations with integrations completed well ahead of target and full synergies captured. The contributions from these 2 acquisitions drove our overall sales growth and led to achieving the high end of our EPS guidance for the year.

Our digital-first marketing approach continued to drive highly profitable growth and efficiencies, particularly during event periods, where we achieved sales growth during both the Thanksgiving and Christmas holiday periods, similar to growth achieved earlier in the year during back-to-school and spring events.

During non-event periods, customer trends remain unchanged with a lower-income customer at our Carnival banner. We continue to see customers pull back on spending in the industry in these nonevent periods and Shoe Carnival contracted at similar levels as the broader industry declines during fiscal 2024.

Looking at these first months of 2025, which are nonevent shopping months, I can share the trends have not changed, and we expect this downtrend to persist this year with lower income customers in nonevent months.

Additionally, the 2024 boot season was a disappointment with unseasonably warm weather in Q3 lingering late into Q4 and then an average customer response for the balance of the year. Boot inventory dollars are down around double digit currently versus last year with smart inventory management.

We achieved gross profits over 35% for the fourth consecutive year with a steady focus on targeted smart promotions and buys that maximize margins and conversion. Adjusted net income grew to \$75 million or \$2.72 versus \$74 million or \$2.70 in fiscal 2023. Patrick will provide additional commentary on fiscal 2024 results.

I'd now like to turn to what I believe could be the most transformational strategy in our company's 46-year history. This morning, we announced a new strategic plan to scale up Shoe Station from a regional retailer to a national footwear and accessories leader.

Today, we will review the first phase of this plan, the investments, the expected payback period, financial leverage, and thoughts on following phases. Shoe Station is our premium retail banner, attracting higher-income households, providing customers the top branded assortments for both nonathletic and athletic branded footwear, high levels of service, and a welcoming contemporary shopping environment.

Since we acquired Shoe Station in 2021, we've been evaluating customer analytics, market data and developing strategies to expand the chain beyond its roots in the Gulf region of America. Over the past 2 years, we've been expanding Station into new markets, and it has become the industry's fastest-growing retailer and solid market leader in the Southeast where it competes.

As discussed in prior calls, we conducted an extensive in-market test to validate what our customer and market data indicated that Shoe Station would better meet customer needs than Shoe Carnival in many markets we operate. We methodically went about testing this, including closing 10 underperforming Shoe Carnival stores across multiple markets and opening 10 new Shoe Station stores.

After a full year of testing and analysis, I can share the test is now complete, and it is clear that Shoe Station was preferred by customers to Carnival. This creates a transformational business opportunity to invest now to accelerate our future earnings potential.

The overall results from the 10 rebannered stores exceeded our success criteria. Combined, they generated sales over 10% higher than Shoe Carnival, expanded margins, attracted higher-income households, converted new customers, and ultimately delivered a double-digit increase in profits, excluding closing and opening costs.

Patrick will unpack the payback model for this strategy, but I will share that the return on investment is high, fast and currently is our best usage of our solid cash flow to drive organic growth. We originally planned for 25 rebanners this year and then a gradual expansion over many years. We now believe that is too conservative an approach based on the customer response, financial accretion, and the continued headwinds we anticipate the lower-income households face this year. We will move swiftly with executing our transformation plan in order to capture future earnings and market share. Within 24 months, 51% of our current store fleet will be operated under the Shoe Station banner.

Let me break out the specifics in a little more depth. During this fiscal year, we have increased the rebanner store count to 50 to 75 from the 25 originally planned. Growth this year will include markets where Station is already well known to customers in the South as well as entering new markets where we operate a Shoe Carnival. This will result in Station representing between 22% to 27% of the company's total store count by fiscal end versus a little under 10% at the start of this year. We will rebanner 100 or more stores between the start of fiscal 2026 and April 2027, resulting in 218 Shoe Station stores in 24 months. At that point, we believe our growth banner has the scale needed to offset the negative trends of the Carnival banner and lower-income customer headwinds.

During 2026, 2027, we will begin testing Shoe Station in regions the company does not compete meaningfully or not at all. We will be evaluating these markets over the year ahead and expect to have information to share on these expansion markets as we get into 2026. To be clear, we see the 24-month plan as just the first phase of Shoe Station scaling up. Based on our customer data, industry-leading growth achieved in the past 2 years, enthusiastic vendor partners, and profit potential, we intend to scale Shoe Station nationally over the long-term horizon.

The profit leverage of this plan is substantial for long-term earnings accretion and will receive our prioritized investments in 2025. Patrick will provide the details, but the headline is the year 1 investments to scale this plan up total to approximately \$0.65 reduction in EPS this year, and the downtime for the 50 to 75 store closures and reopening amounts to approximately 1% sales reduction during the year. That near-term investment is expected to pay back fully in a 2- to 3-year horizon and increase our annual profit contribution to these stores by over 20% in 2027. Said differently, in the second full year after rebanner, we expect store profits to increase over 20%.

In addition to our organic growth strategy, we remain committed to pursuing M&A to achieve our long-term vision to be the nation's leading footwear retailer for families. We start this fiscal year in a competitive position of strength with a strong balance sheet and robust cash flow generation. Our 2 prior acquisitions have integrated smoothly, full synergies captured, and built our readiness for further acquisitions when the right opportunity at an attractive valuation becomes available. Our M&A targeting focus is on market-leading footwear retailers with scale, providing geographic expansion and/or diversifying to a higher-income customer base.

Before handing it over to Carl, I'll summarize with a few closing thoughts. Fiscal 2024 was a very profitable year and EPS was at the top end of our guidance, led by the success of our acquisitions, relentless focus on margin delivery, cost controls, and continued efficiencies in our successful digital-first marketing approach. Our Shoe Carnival comps remain under pressure during non-event periods. We anticipate that pressure continues this year with a lower-income customer, uncertainty of tariffs, and increased volatility with Hispanic customers.

Shoe Station was the fastest-growing footwear chain in our industry again, and our rebanner in-market test exceeded our success criteria. We rolled out today our new strategy to scale up Shoe Station from a regional to a national footwear leader. The first phase will be complete in 24 months with 51% of our current store fleet operated under our station growth banner. It is a significant near-term investment that pays back quickly and is expected to drive over a 20% increase in profitability at the rebanner stores.

Despite a volatile landscape in the industry, our team strengthened our competitive and financial position during 2024 and achieved our expectations. The early 2025 industry landscape is shaping up like 2024. And as such, we expect continued mid- to high singles declines from the lower income household at our Carnival banner. We also have the added unknown of tariffs yet to play out with the customer, vendors, and industry pricing.

Yet despite the market volatility expected in 2025, we are well positioned with our strong balance sheet to advance our strategies and invest during this down cycle to prepare for long-term profit growth in 2027.

Finally, as we announced previously, Carl Scibetta is retiring April 4 after over 50 years in the retail industry and over a decade of service to Shoe Carnival. Thank you so much, Carl, for your outstanding partnership and leadership. We also recently announced that Tanya Gordon has been appointed to succeed Carl as our next Chief Merchandising Officer. I've worked with Tanya for many years and can share she is passionate about brands, growth, prioritizes vendor relationships, and will work tirelessly to drive our vision into reality. On behalf of the Board of Directors, I would like to congratulate Tanya.

And now for one last time, I'd like to hand it over to Carl. Carl?

**Carl N. Scibetta**

*Senior EVP & Chief Merchandising Officer*

Thank you, Mark. For full-year fiscal 2024, we achieved a net sales increase in line with our expectations and delivered \$2.68 earnings per share, which is at the very high end of our guidance. The sales trends we have been experiencing through 2024 continued during the fourth quarter. We performed well during the peak event times of Thanksgiving and Christmas. During off-peak times, we saw traffic and comp sales declines at our Carnival banner. I am very proud of our team as they manage their way through the changes in customer behavior.

Utilizing well-thought-out targeted promotions and strong vendor partnerships, we achieved our product margin expectations. We increased our receipts in January to prepare for the first quarter rebid our stores as well as deliver product early to avoid the effect of potential supply chain disruptions and additional tariffs. Ending inventory was flat versus year-end 2023, excluding the inventory of Rogan's Shoes that was acquired during 2024. Patrick will take you through the individual product category performances for Q4.

As I prepare for my retirement next month, I would like to congratulate Chief Merchandising Officer and Executive Vice President, Tanya Gordon, on her new role. Tanya brings extensive retail experience to the position and has played a key role within the Shoe Carnival merchant organization for 10-plus years. She has worked closely with Mark and the officer team and is a cultural leader within the company. Tanya has established excellent vendor relationships while at Shoe Carnival that have contributed greatly to the success of the company. I am very confident I leave the team in good hands.

Being part of this industry for many years, I've had the pleasure to work with countless individuals. I would personally like to thank the vendor community for support they have given me year after year, especially thankful for your support for Shoe Carnival over the past 12-plus years. We together have achieved much success. I am most proud to have been part of this great company. I would like to thank Mark Worden, Cliff Sifford, and the Board of Directors for giving me this amazing opportunity. Thank you to the management team here at Shoe Carnival for their unwavering support as well as our over 6,000 employees. A special thanks to the Shoe Carnival's amazing and talented merchant team. It has been my privilege to have been part of this team for over 12 years. We have seen a great deal of change and at times, unheard-of disruptions. You have performed brilliantly through it all. You truly are the best in class, and I know you will achieve great success in the future.

With that, I would like to thank our investors and analysts. I have enjoyed working with you over the years. I will now turn the call over to Patrick for a review of our financials. Patrick?

**Patrick C. Edwards**

*Senior VP, CFO, Secretary & Treasurer*

Carl, I would like to thank you for your guidance and leadership. Now moving on to our financial results. We delivered EPS at the high end of our guidance for the quarter at \$0.54 per share on an adjusted basis and \$0.53 per share on a GAAP basis and grew our annual top line and adjusted EPS compared to the prior year. Comparisons between our quarterly and annual results in fiscal 2024 compared to fiscal 2023 were impacted by a 1-week shift in the retail calendar, which benefited net sales of approximately \$20 million in fiscal 2023's 14-week fourth quarter and \$15 million in fiscal 2023's 53-week year.



We estimate the retail calendar shift contributed EPS of approximately \$0.10 in the fourth quarter last year when we earned GAAP EPS of \$0.57 and adjusted EPS of \$0.59. Taking into account this \$0.10 headwind, we otherwise grew our fourth quarter results, led by our Rogan's acquisition, inclusive of synergy capture and Shoe Station's industry-leading performance.

Now going into more detail, starting with net sales. In the fourth quarter, net sales totaled \$262.9 million, consistent with expectations compared to \$280.2 million last year. As noted, sales in Q4 2023 benefited from the calendar shift by approximately \$20 million. So net sales otherwise increased by approximately \$2 million. Net sales in the comparable 52 weeks last year were led by growth from Shoe Station, which outpaced the industry, and Rogan's acquisition adding revenues of \$16.5 million. On a comparable store basis, which excludes the impact of the calendar shift, Rogan sales, and other new store growth, net sales for the fourth quarter declined 6.3%, primarily due to Shoe Carnival sales in non-event periods.

From a category perspective in the quarter, adult athletic sales decreased mid-singles, while athletic performance at our Shoe Station banner delivered a high single increase led by running and court. Children's sales were down low teens, primarily due to the softness in boots, while children's athletics grew at our Shoe Station stores as we continue to increase children's penetration with our Shoe Station customers.

Fourth quarter sales in women's nonathletic footwear were down high singles with boots the key driver once again. Casual was up high singles and sandals continued to perform well with a low singles increase. Men's athletic comp sales were down low singles, dress was down mid-teens and boots were down mid-singles. Consistent with women's, men's casual was up low singles.

On an annual basis, net sales in fiscal 2024 totaled \$1.203 billion and grew 2.3% compared to fiscal 2023 which had an extra week of sales. Without the 53rd week benefiting last year, sales were up 3.7%. This increase was primarily due to our Shoe Station growth strategy, which increased sales by 5.7% compared to the prior year's 53-week period, our acquisition of Rogan's, and growth during event period shopping. Comparable sales were down 3.9%. As Mark mentioned, our 2.3% sales increase was consistent with expectations and exceeded the competition.

Q4 gross profit margin was 34.9% on a GAAP basis and 35% on an adjusted basis compared to Q4 2024 gross profit margin of 35.6%. On a GAAP basis, gross profit margin declined 70 basis points. The decrease was primarily due to BD&O costs, which increased on higher occupancy costs from operating more stores and deleverage as impacted by the retail calendar shift. Our merchandise margins were higher in the quarter by 35 basis points, inclusive of higher product margins on boots. For the year, the gross profit margin was 35.6%, consistent with expectations, and exceeded 35% for the fourth consecutive year. Overall, gross profit margin was down 20 basis points compared to last year, with BD&O down 30 basis points on increased occupancy costs, offset by merchandise margin up 10 basis points.

SG&A in Q4 was \$77.6 million, representing a decrease of \$2.1 million versus 2023's fourth quarter. The decrease was primarily related to lower selling costs at Shoe Carnival and Shoe Station stores given the extra week for store operations in last year's results. This, combined with current-year expense reductions and optimized advertising spend more than offset new costs associated with Rogan's in the quarter. As a percentage of net sales, SG&A in the quarter was 29.6%, with deleverage reflecting the extra week of sales last year, offset by the lower expenses.

Now going into more detail on Rogan's. The Rogan's acquisition contributed solid results this year with net sales approximating \$16.5 million in the quarter and over \$80 million for the year as expected. When we purchased Rogan's, we guided that it would earn \$10 million of operating income and that operating income would increase after synergy capture was complete. In FY '24, we beat that \$10 million original target by over 20%, with the primary driver being synergy capture in advance of the original time line.

In the fourth quarter, we recorded \$3 million of tax credits and other income associated with Rogan's operations. And we recorded a benefit to income taxes related to Rogan's that favorably impacted our annual effective tax rate by approximately 80 basis points. Our ability to integrate the acquired business ahead of schedule and capture full synergies was a key driver of increased value for shareholders this year.

Fourth quarter 2024 net income was \$14.7 million or \$0.53 per diluted share compared to fourth quarter 2023 net income of \$15.5 million or \$0.57 per diluted share. On an adjusted basis, excluding merger and integration expenses, the fourth quarter of 2024 adjusted EPS was \$0.54 compared to \$0.59 in the fourth quarter 2023. As previously noted, we estimate the retail calendar shift benefited the fourth quarter 2023 by approximately \$0.10. For the full year, net income in fiscal 2024 grew to \$73.8 million or \$2.68 per diluted share compared to net income of \$73.3 million or \$2.68 per diluted share in fiscal 2023.

Adjusted net income in fiscal 2024 grew to \$75 million or \$2.72 per diluted share compared to \$74 million or \$2.70 per diluted share in fiscal 2023. Our growth strategies led by Shoe Station and Rogan's more than offset the impact of sales at our Shoe Carnival banner declining mid-singles for the year and the extra week last year.

Our income tax rate in fiscal 2024 was 24.3%, resulting in a headwind to EPS of approximately \$0.02 per share versus the prior year rate of 23.7%. This higher rate primarily reflected discrete benefits that favorably impacted the prior year and did not recur in fiscal 2024 and a lower benefit from share-based awards in fiscal 2024, offset by the Rogan's benefit previously discussed.

Merchandise inventories totaled \$385.6 million at the end of fiscal 2024, an increase of \$39.2 million compared to the end of fiscal 2023, primarily reflecting Rogan's acquired inventory. Merchandise inventory supporting Shoe Carnival and Shoe Station stores were slightly down on a unit basis at the end of fiscal 2024 compared to the end of fiscal 2023. Additional inventory purchases were made near year-end to support rebannered additional stores and to a lesser extent, as a hedge against potential supply chain disruption from port worker strikes and from tariffs.

Fiscal 2024 marked the 20th consecutive year the company ended the year with no debt. At the end of the year, we had total cash, cash equivalents, and marketable securities of approximately \$123 million, an increase of \$12 million versus last year, including the all-cash acquisition of Rogan's earlier in fiscal 2024. Cash flow from operations in fiscal 2024 was over \$100 million and capital expenditures were down \$23 million, freeing up cash for increased dividends and further investment in growth strategies in fiscal 2025.

To further support shareholder value, last week, we increased our dividend by 11% to \$0.15 per share, representing an increased annualized dividend rate of \$0.60 per share. This new rate is a 238% increase compared to 5 years ago. We have now provided a dividend for 52 consecutive quarters and increased our dividend for 11 straight years. Including newly rebannered stores at the end of fiscal 2024, we operated 430 stores with 360 Shoe Carnival stores, 42 Shoe Station stores, and the 28 Rogan's locations.

Before discussing our outlook for 2025, I'm going to build on Mark's comments regarding our rebanner growth strategy. Industry data supports Shoe Station is the fastest-growing retailer in our industry, and we aim to capitalize on that. From our 10-store in-market test in aggregate, we have seen positive results with over a 10% top-line lift and a more than 10% increase in-store profitability. As Mark mentioned, we're going to rebanner 50 to 75 stores in fiscal 2025. And in 24 months, over half our present store fleet is expected to operate as a Shoe Station store. Over the long term, we see significant benefits of rebannered stores to Shoe Station stores.

During fiscal 2025, we anticipate spending between \$35 million and \$45 million in capital expenditures for store growth, including rebannered the 50 to 75 stores. We forecast a \$20 million to \$25 million investment impacting the P&L. These P&L impacts include amortization of the CapEx investments, other new store opening costs and customer acquisition costs, sales reductions during the 4-to-6 week period while the Shoe Carnival store is closed and the Shoe Station stores grand opened and write-offs of existing assets. We expect this \$20 million to \$25 million P&L investment to decrease our operating income in fiscal 2025 compared to fiscal 2024 in a range around \$0.65 per share.

Our modeling and end market test support a rapid payback for the rebannered stores. We expect this first-year P&L investment will be recovered over a 2-to-3 year period following the store's grand opening. In 2027, we expect that net sales from these rebannered stores will be over 10% higher, and profit contribution will increase over 20% compared to the stores before being rebannered. In fiscal 2026, our plan is to scale up further and complete 100 or more rebanners with the first year P&L investment forecast



between \$22 million and \$27 million and a similar path to payback for the investment of approximately 2 to 3 years.

As we progress towards 51% of the present store fleet operating at the Shoe Station store, increased store profitability from the stores rebannered in fiscal 2025 is expected to largely offset the P&L investment in fiscal 2026.

Moving on to our 2025 outlook. Our financial outlook in fiscal 2025 contains a wider range, reflective of anticipated volatility and uncertainty surrounding tariffs, inflation, and geopolitical topics and the impact these uncertainties might have on consumer confidence and spending for family footwear. This guidance is also impacted by variability of when each of the anticipated 50 to 75 rebannered stores will grand open. Net sales are expected to be in a range of \$1.15 billion to \$1.23 billion, representing a range of down 4% to up 2%. For fiscal 2025, GAAP EPS is expected to be in a range of \$1.60 to \$2.10. Total capital expenditures are expected to be in a range of \$45 million to \$60 million with \$35 million to \$45 million targeted for rebanners and other store growth compared to CapEx recorded in FY '22 to FY '24 that totaled \$76 million, \$56 million and \$33 million, respectively.

For a little more color on our 2025 outlook. Compared to GAAP EPS of \$2.68 earned in fiscal 2024, the \$0.65 rebanner P&L investment and the Rogan's tax benefits in FY '24 are the primary drivers to the \$1.85 midpoint of our EPS guidance. Similarly, the midpoint of our net sales guidance of down approximately 1% is reflective of the downtime associated with rebanners as stores are closed and reopened. During FY '25, we anticipate minimal change to our store count with 1 to 3 stores opening and 2 to 4 stores closing.

Our sales and EPS guidance contemplate modest price increases, including from tariffs and/or inflation and consistency in consumer confidence. As a result of the changes taking place in FY '25, we are providing additional information on the first quarter. We do not expect first quarter comparable store sales trends to improve versus Q4 2024 as nonevent period buying resembles last year's trends so far. We also expect a headwind to sales of approximately 1% associated with the rebanner strategy.

With respect to EPS in Q1 2025, the \$0.65 annual rebanner investment is expected to be generally ratable between the first half and back half of the year and between \$0.15 and \$0.20 per quarter.

Before opening up for questions, I will summarize a few closing thoughts. In fiscal 2024, we grew our net sales and adjusted EPS with adjusted EPS at the high end of our guidance range, exceeding the competition. We closed out FY 2024 with strong cash generation, and our recent acquisition delivered operating income 20% greater than expectations on full synergy capture. In FY '25, we're going to rebanner 50 to 75 stores and expect that associated P&L investment will be paid back in 2 to 3 years and to materially fund continued investment in FY 2026.

Our wider view of guidance for FY '25 reflects impacts from our rebanner strategy at the midpoint and assumes customer behavior in nonevent periods resembles similar downtrends last year. Today, we announced that April 24, 2025, has been set as the shareholder of record date for our annual meeting, and the Annual Meeting of Shareholders will be held on June 25, 2025. This concludes our comments. I will now open up the call for questions. Operator?

## Question and Answer

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### Operator

[Operator Instructions] Your first question comes from Mitch Kummetz with Seaport Research.

**Mitchel John Kummetz**  
*Seaport Research Partners*

And Carl, I'd like to wish you all the best in retirement. Mark, let me start on the rebanner. So the 10-store test, if I understand it correctly, was all in the market. The 50 to 75 stores that you guys are doing in 2025, are those also all in market or some of them out of market? And I mean, it sounds like over time, some of these rebanner stores are going to be out of market. What gives you the confidence that this is going to work as well out of the market where you really haven't, I guess, tested it so far? And I have other questions.

**Mark J. Worden**  
*President, CEO & Director*

Mitch, thank you for the question. We're very excited about the strategy. We've been mining this data for a few years now, and it gives us great confidence that the higher income nonurban customer resonates with the Shoe Station banner, the premium assortment, the excellent service, the technical expertise we provide in this modern shopping experience. You're spot on, on the question. The 10 stores tested were all within existing markets, and they performed very well. Again, to recap, sales in aggregate grew over 10% better than Shoe Carnival during that period of time, and profits double digit with great growth in margin, customers in the higher income bracket and every core metric.

As we march forward, this first tranche is focused on filling in gaps largely in the markets. Right now, we have multiple of these 50 to 75 stores rolling out already in existing markets where our Shoe Station is already known. And then the plan is to expand into new markets that are not covered within existing states. So for example, in the state of Florida, we have multiple rebannered stores going on right this minute, where we have underperforming Shoe Carnival stores.

The demographics looked far superior to matching a Shoe Station. We're in the process of rebanner those now. So that would be an example of the expansion strategy in a state where the brand is known, but markets where Carnival is underperforming. As the year progresses, we'll be broadening that to go where the demographics and data looks like it should work, and we'll be methodically and slowly later in the year, expanding into new states, confirming that we have the strength of results that we've seen so far. It's not so really '26 that we see branching off into areas that are meaningfully different for Shoe Station, and that's where we're going to be getting a lot of data and testing this year. So we're very confident when we do get into those newer markets further out of SEC, South, ACC kind of territories with March Madness on my mind as well, kind of that world will kind of branch out into Big 10 and big East country as we get into further years.

**Mitchel John Kummetz**  
*Seaport Research Partners*

And then on the tariff, I think in Patrick's prepared remarks, it was mentioned that you guys are -- the guidance assumes some modest price increases. I was just hoping you could provide a little bit more color in terms of what you're seeing with the vendors that you work with in terms of what they're doing on pricing. And then on the private label side, what are you seeing in terms of kind of costing there? Any sort of color would be helpful.

**Carl N. Scibetta**  
*Senior EVP & Chief Merchandising Officer*

Sure, Mitch, it's Carl. At this point, it's pretty unsettled right now. We're getting information from vendor to vendor that is different. In most cases, the vendors are able to assume some of those costs, negotiate

with the factories. We're not seeing across-the-board price increases for fall based on tariffs, but we might be seeing some price increases on individual items, newness, new items. But so far, things have held with the big core items. We're seeing some price increases potentially in the mid-single digit at the high and certainly, we believe we'll be able to tolerate those, pass those along where we can. So we've not seen anything meaningful today. Again, the vendors are all over the board as they continue to negotiate with factories and transportation, and agents. So it's a bit -- it is unsettled right now but we don't -- we see some effect, but not the 20% that you hear about coming out of China right now.

**Mark J. Worden**

*President, CEO & Director*

And if I could build on it, it's Mark. And that's what our guide assumes continues. As Carl laid out, what we're seeing today, if we see a volatile swing with double-digit changes pass through from Vietnam in particular or major China implications, that is not implicit in our guidance we provided today, and we would revisit that if that changes. But as Carl said, we've not experienced that sharp implication yet.

**Mitchel John Kummetz**

*Seaport Research Partners*

And then I guess maybe as a last question, just on the guide. So for the full year, you're giving us sales and GAAP earnings. Is there any more you can say in terms of what comp outlook is embedded in that as well as maybe a margin breakout, kind of any thoughts around gross margin, op margin? And then in the first quarter, is there sort of an EPS range that you're looking at in the first quarter? And I wasn't really clear what the rebranding impact -- rebanner impact is in Q1. Is it -- I think you said something like \$0.15 to \$0.20? Maybe just more clarity there.

**Patrick C. Edwards**

*Senior VP, CFO, Secretary & Treasurer*

Mitch, it's Patrick. Nice to talk to you. With respect to the first part of comp, we expect minimal store openings and closings next year. So the guide that we provided of up 2% to down 4% would be the same for both total sales and comp. On gross profit margin, our expectation is we -- both Mark and I touted the fourth year above 35% our expectation for next year based on where we sit today. And as Carl mentioned and Mark mentioned with respect to the impact of tariffs on things that we think are happening in our guide, we think that above 35% is going to stick for next year. There's obviously a lot of play in that number given the uncertainty and unsettling in the market right now.

In Q1, we're going to reiterate what we said before, which is what we've seen so far today on sales, which is that they're down in nonevent periods, much like they were in Q4 last year. And that we expect it to be a little bit worse than that because of the rebanner strategy. So a sales forecast would be -- would be outside of our guidance range for Q1 if you take both of those things into account. And then with respect to the rebanner strategy, the \$0.65 is obviously a range. It's not an exact number. We would love to be that good, but we are obviously not that good with the number of stores. And the guide for that is going to stick with the \$0.15 to \$0.20 impact for Q1. But they are duplicative, the nonevent sort of thing that we've seen thus far that Mark talked about and then the \$0.15 to \$0.20 on the rebanner strategy.

**Operator**

Your next question comes from Sam Poser with Williams Trading.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

I'll save the best question for last. But the -- I want to just follow up on Mitchel's question regarding how many stores are you -- can you sort of give us the breakdown of how many stores you're rebanner by quarter or something? Can you just say, okay, of these 50 to 75 x percent will be at what time -- by what quarter or within which quarters? I know some will overlap quarters, but...

**Mark J. Worden**

*President, CEO & Director*

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Sam, good morning, it's Mark. Thanks for the question. We plan at half the guide range before back-to-school and half the guide range after back-to-school is the simplest way to say that.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

So with the majority -- with that -- and you wouldn't be doing it during holidays. So could we assume that -- and you want to be ready for back-to-school. Could we assume that Q1 and Q3 would be the most -- sorry, Q1 and the end of Q3 into the beginning of Q4 be the most impacted periods of time from this? Is that the right way to think about it?

**Mark J. Worden**

*President, CEO & Director*

It's not wrong. The back half is still not 100% firm, but you're absolutely right thinking about we'll be doing the work in downtime and nonevent periods. It's the approach for the most part. We don't want to impact customer and shopping behavior during BTS or holiday period so spot on with that. We're going right now with -- again, we don't have the exact point that we're guiding, but it wouldn't be wrong to think we get in that 35 to 40-ish of the stores before back-to-school gets going. That would be a nice ambition of us if everything goes smooth with construction and product and materials. So it wouldn't be wrong to think about it that way. And then we'll pick back up after back-to-school with the maximum amount we can accomplish without distracting the holiday period in sync with getting the great product in stores and construction flawless. So you could see some go into January if we feel it's too late to not impact DAT and holiday. But the way you described it is right, overall.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

So then like your comps from -- just theoretically, your comps in -- during the back-to-school season, which arguably is the end of Q2 into early September, and then holiday comps, given the event period and the timing of all of this should be the best comp periods of the year for both the event period situation and these stores will be open and going and theoretically performing at a better rate than they did before.

**Mark J. Worden**

*President, CEO & Director*

Yes, absolutely. Yes, spot on. By holiday, we'll have between 22% and 27% of the company under the station banner compared to 9-something as we started the year. So you're absolutely right. As that percent starts to become a meaningful scale, it will start offsetting what we anticipate mid-to-high single declines in Carnival and why we're moving as fast as possible because as we said, we had comp growth in Station last year, and we're very pleased with where it's gone. So bang on.

By back-to-school, it will be our strongest period of growth, we expect also. stations don't have the scale to demonstrably move the needle. But as we flip forward to back-to-school '26, now we're starting to get to a point where we believe there's enough scale. We're getting very close to 51% with each quarter, and that's where we believe we can start seeing positive trends. Certainly, as we get to holiday '26 and into '27, but you're spot on. It should get better with each passing quarter as we get towards holiday of this year and event periods.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

And within back-to-school, what percent of back-to-school selling in general happens in Q2 versus in Q3?

**Mark J. Worden**

*President, CEO & Director*

It's about half, a rough estimate.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

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And then lastly, this is for Carl, I'm going to miss you, Carl. But I've got to ask you, and I'm going to follow up on the same question for Mark. Who do you think is better, the current Chief Merchandising Officer or the incoming Chief Merchandising Officer?

**Carl N. Scibetta**

*Senior EVP & Chief Merchandising Officer*

Well, Sam, I'll put it this way. Since the incoming Chief Merchandising Officer is somebody I recruited 11 years ago and have been working with closely all that time, I believe there's potential for growth in the future.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

Well, that's not -- I mean, I'm going to have a conversation because that's not an overwhelming -- there's potential either -- I mean -- all right. Well, and then Mark same question.

**Mark J. Worden**

*President, CEO & Director*

Sam, let me say this. We are very -- I'm very excited to turn the reigns over to Tanya. We have -- we'll work very, very closely in the future. And I think she's going to do a terrific job. And the team here really is excited and supports her 100%.

**Carl N. Scibetta**

*Senior EVP & Chief Merchandising Officer*

Well, when I met her, I thought she had more support than you, but now I'm not really sure.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

And Mark, I asked you the same question.

**Mark J. Worden**

*President, CEO & Director*

I love the question, Sam, because I've been so fortunate. I've had the best Chief Merchant in the industry and so fortunate to work with Carl and like you, I'm going to miss him. And April 6, I have the next best chief merchant in the industry. And I think the vendor community talking to so many people is so supportive of where we've been and where Tanya is going to take it. Tanya is the absolute right person to bring this next vision to life as we transform the corporation. Tanya is going to be very aggressive about growth. She's going to be aggressive about building our relationship, taking it from strength to strength, but a new thing as we go after higher-income customers with half of the corporation or more and go after getting the best brands at premium prices, Tanya is going to be -- we've got great confidence in her and so does our vendor community. So I've been fortunate, 2 great chief merchants, one retiring after 50 years and one just about to start.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

All right. I'm just going to throw one more in for Patrick. Again, a follow-up to Mitchel's question on the gross margin. I mean, how do we think about the gross margin from the BD&O and the merge? Because I mean, I assume that Q1's gross margin is going to be down quite a bit reflective of Q4, again, because of the -- mostly because of the BD&O. Is that the right way to think about it?

**Patrick C. Edwards**

*Senior VP, CFO, Secretary & Treasurer*

Sam, with respect to our overall concept on just talking about the year and the full guide on margins. At the midpoint, we would expect some deleverage because our sales are expected down. There is a

commitment in our process for what we see right now, assuming that everything holds on tariffs and on consumer confidence and on the general basis of market conditions right now that we would expect a margin above 35% for the whole year with some deleverage on the BD&O and some stability in our merchandise margins. And in the quarter, the expectation would be the same, but there would be a little bit more deleverage because the sales are planned down a little bit more.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

And that would also be true at the end of Q3 going into Q4 because of the store because of the store redos, but offset by the new store -- you get offset by the new stores being -- the stores that were converted earlier in the year, which you don't get right now. Is that right?

**Patrick C. Edwards**

*Senior VP, CFO, Secretary & Treasurer*

That is correct. That is a fair assessment, Sam.

**Operator**

There are no more questions. I will now turn the conference back over to Mark Worden for closing remarks.

**Mark J. Worden**

*President, CEO & Director*

Thank you all so much for joining us today. 2024 was a tough year in the market, but I want to thank our vendors, our team for achieving growth in sales, growth in profits, and a bulletproof balance sheet where we started the year with no debt, ended the year with no debt. And I really like where we start 2025. It's volatile without a doubt, as we talked through, but we have a strategic plan here to rapidly move from under 10% of our company with our growth banner to over half of our company marketed and engaging with our customers with our growth banner in just 24 months.

The profit accretion that comes from this investment and the payback are fast, they're high, and we've got a great enthusiasm from the vendor community to help us continue to bring the most distinct family footwear brand to the market. So thank you so much, and I really look forward to talking to you all again at Q1 about early insights from the rollout and how we're progressing. Best wishes to talk to you soon.

**Operator**

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.



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