

**S&P Global**

Market Intelligence

# Shoe Carnival, Inc.

NasdaqGS:SCVL

## *Earnings Call*

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# Call Participants

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# Presentation

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## Operator

Good morning, and welcome to Shoe Carnival's First Quarter 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 all 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.

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 the Shoe Carnival's First Quarter 2025 Earnings Conference Call. Joining me on today's call are Patrick Edwards, Chief Financial Officer; and Tanya Gordon, Chief Merchandising Officer.

The company's first quarter 2025 results were better than expected with profits outperforming expectations by approximately 10%, our rebanner expansion plans delivering outstanding results and our debt-free balance sheet getting even stronger. Given the volatility in the market and high levels of uncertainty, the teams are navigating, I'm very pleased with our position as we start the second quarter. As I may be a contrarian on this next statement but I'm starting to feel cautiously optimistic about back-to-school as we have a compelling assortment in hand and our product costs have not skyrocketed.

I would like to thank our vendor partners for their close collaboration and our merchant organization under Tanya's leadership for their tireless work, ensuring we have our best foot forward for customers during back-to-school. Our Q1 financial results landed squarely within our annual guidance ranges. We have not yet experienced nor do we have visibility to any massive product cost or price increases outside of ranges considered in our guidance. This could evolve, but that is the situation now. Our singular corporate focus is to be the nation's leading footwear retailer for families.

We operate no wholesale businesses, and this has us in a comparatively solid and flexible stance to shift our buying decisions as costs evolve. This does not mean we are immune to vendor price volatility. However, we enjoy a superior position compared to our competitors for two reasons. First, we do not have direct manufacturing exposure. Second, we are not locked into our own production commitments that could force uncompetitive decisions.

Additionally, our debt-free balance sheet with expanded cash reserves compared to the end of Q1 last year had us poised to make opportunistic buys in this volatile time and capture margin growth prospects ahead. Given all these variables, the executive team does not view it appropriate to withdraw 2025 guidance and today are reaffirming our annual profit guidance as the most likely outcome. Turning to specifics of the quarter. Similar sales trends to last year continued across our banners and the family footwear industry.

Shoe Station achieved industry-leading growth again this quarter, and Rogan's produced solid profitable results in line with our integration and synergy plans. Shoe Carnival declined similar to the industry and consistent with our annual guidance, albeit on the lower side of sales ranges for Carnival. Our teams observed a cautious customer during the quarter with the Shoe Carnival lower-income household. Tax

refund season saw muted results as it appeared customer concerns about prices today and speculation of higher prices forthcoming kept a small segment on the sidelines.

As previously shared, I do not anticipate that Shoe Carnival nor the family footwear industry return to profitable sales growth in the near term based on the current external conditions and soft consumer confidence we are seeing. However, implicit in our guidance range is a moderating sales decline trend in the back half of the year, primarily driven by Shoe Station momentum and expansion, compelling back-to-school assortments and encouraging progress on trade negotiations. The organization's organic growth approach remains focused on expanding Shoe Station from the regional market leader it is today into a national footwear and accessories market leader.

Shoe Station is our premium retail banner, attracting higher income households, providing customers the top branded assortments for both non-athletic and athletic branded footwear, high levels of service and a welcoming contemporary shopping environment. It is a market leader in the Gulf of America region and as we rebannered Shoe Carnival stores to Shoe Station stores in existing markets, we expected a positive customer response, and we achieved them. Since our last earnings call, the rebanner results continue to be outstanding, and I'd like to now unpack the results, share key learnings we have gained and provide transparency to our accelerated plans and targets.

First, Shoe Station grew sales 4.9% for the quarter, driven by the rebanner approach, growing sales low double digits. The continued Shoe Station sales growth including comp growth in the quarter is in stark contrast to the family footwear industry and Shoe Carnival trends, where both had comparable store declines in the high single digits during Q1. This creates an exciting national growth opportunity to scale up Shoe Station store counts to drive the overall corporation sales and profit growth impact. Previously, the leadership team shared a range for our Shoe Station rebanner plans between 50 and 75 stores during fiscal 2025.

Based on the continued sharp superior performance of Shoe Station versus the industry and Shoe Carnival, we will complete all 75 rebanners this year, the top point of the range. These 75 stores will be completed on the following quarterly cadence: 24 were completed during Q1; 20 will be completed in Q2, of which 3 are completed; 25 will be completed during Q3 and 6 will be completed in Q4. To summarize the Shoe Station store count progression this fiscal year, the business started this year with 42 Shoe Station stores, representing 10% of our store fleet.

Today, we operate 70 Shoe Station stores, representing 16% of the fleet, and we plan to end fiscal 2025 with approximately 120 shoe station stores, representing 28% of the fleet. Given this rapid growth of Shoe Station, we will plan to disclose the banner sales growth ongoing starting now. Each month, our teams are discovering valuable insights to help us optimize our rollout plans as we enter new markets. The corporation has already expanded significantly into new markets in Alabama, Mississippi, Georgia, Louisiana, South Carolina, Tennessee and Florida and will further extend our presence.

As operations move beyond core markets into new states, the customer and market data highlighted a large set of stores with similar dynamics where Shoe Station should also surpass Shoe Carnival and those are being rebannered now. I would like to share four brief examples from Q1 stores rebannered to highlight real-world learnings and what we are doing with those expanded insights as we move forward. Number one, Shoe Station entered the Atlantic Coast of Florida, a very large opportunity for future growth.

The team rebannered an underperforming Shoe Carnival store in a new market far from any other Shoe Station store. This market had demographics that appeared on paper should work far better as a station, a more affluent trade area, skewed older customer base and had a beachy vibe similar to many areas station thrive in. On paper, this store is prototypical of one we expect to hit at least a double in baseball terms, but we hit a home run here with sales growth over 20%, strong AUR growth from a superior branded assortment and accretive margins. Our action step from this learning, the organization will continue rebannered and expanding in markets like this one on the East Coast.

Number two, Shoe Station entered a new rural market in Tennessee over an hour from any major city. This is previously an average performing Shoe Carnival store with typical rural community demographics.

Customer data alone didn't clearly indicate which banner would perform better. However, our analysis of local competition and available product assortments in that area pinpointed a gap, that Shoe Station's unique merchandise mix could fill. And our prediction was accurate, with sales growing over 20% versus the prior year. And again, higher AUR and accretive margins.

Number three, the team executed the same type of rebanner in a rural market in Alabama and results were even stronger. These home runs in rural markets where the brand has awareness and also where it does not, gives us confidence to action rebanner our Shoe Carnival stores across rural markets in America.

Fourth, and very exciting and frankly, a bit surprising. We rebannered a poorly performing Shoe Carnival store in a lower income, highly diverse market in Georgia, not in a major city. The executive team thought this might achieve flattish results or maybe even be rejected by the customer. We were wrong as this lower income customer also responded very strong to the new assortments just as well as the response in rural Tennessee and the affluent Florida beach town.

This encouraging result could prove a game changer and how wide the scope is for Shoe Station customer acquisition as we go national. Action from this is the business will rebanner more stores like this one to validate a Shoe Station can consistently exceed industry benchmarks in diverse rural markets that are not affluent. To summarize our field-based learning to date. Shoe Station is outpacing the industry and Shoe Carnival quarter after quarter for over 2 years now. The rebanner approach is generating oversized growth of sales, in fact, exceeding Shoe Carnival sales by over 20% during the last 5 quarters since beginning this rollout, producing increased AURs and accretive product margins in markets we expected to win in more affluent, suburban mature customers.

These new learnings are substantial. Shoe Station also is transforming an average or poor performing Shoe Carnival into a growth store in rural America in new markets, in coastal America and is showing early signs of growth in diverse lower-income areas outside major cities. With these results in hand, it is crystal clear that Shoe Station is the future of our organic growth and future of our store base. The superior performance in regions quarter after quarter versus Shoe Carnival and the industry have provided us the customer data and the on-the-ground confidence to accelerate and increase our ambition with this approach.

Today, I'm announcing an ambitious expansion. Shoe Station will represent over 80% of our store fleet by March 2027, up from our previous target of 51%. We're accelerating our investment to maximize this rollout before back-to-school '26. By July 2026, at least 51% of our current store fleet will operate a Shoe Station. I believe this expansion gives us the scale necessary to deliver total company comparable store growth starting in Q3 2026 as the strength and scale of Shoe Station will more than offset the ongoing challenges we expect to face with the Shoe Carnival banner. We can't wait.

Tanya and I have been meeting extensively with our vendors and key stakeholders discussing this initiative. It is being met with great enthusiasm and support. I'm asked one question time and time again. Will Shoe Station represent 100% of the current store fleet in the future? I can share the organization is deeply evaluating that. While I do not have a decision today, I can share we're planning steps in market during 2026 to help us answer that based on the customer. The key topic to learn about is how best to operate our urban stores and satisfy the needs of the low household income, highly diverse customer base in cities like Chicago or Houston.

The answers aren't clear today. But I believe it is prudent to explore this topic and plan to begin testing in urban doors by early 2026. We anticipate the potential for meaningful internal synergies and efficiencies if we were to learn that the station banner can better meet all of our store needs. I look forward to sharing more about our organic growth approach after back-to-school. Turning to our inventory strategy. We've made a deliberate decision to maintain elevated inventory levels in the current environment, leveraging our strong balance sheet to navigate marketplace uncertainties.

With our cash-rich position, we determined the best approach to serve customers during back-to-school and holiday seasons was to invest early in key products, maximize our in-stock position and ensure our stores are fully prepared. Media pundits have warned about potential empty shelves across retail this year.

I want to assure you, our customers will find their favorite brands fully stocked across Shoe Station, Shoe Carnival and Rogan's locations throughout 2025.

One specific inventory investment I'd like to call out. Our men's and women's performance running brands continue to deliver exceptional results across the company and are particularly strong with double-digit growth at Shoe Station. We have the best-in-class brands with the latest styles ready for back-to-school with robust AURs over \$130 on average. As always, I'm not going to share brand-specific details for obvious competitive reasons. But I will share our merchant team is continually working with the world's best brands to add sought-after styles and the hottest brands.

No doubt, our exceptional merchants have exciting additions to our assortments coming before fiscal end. Shoe Carnival Inc. is strategically buying goods now at a lower cost basis where appropriate. And if those costs increase for whatever reason, this approach positions us well to gain margin, go to market with a sharp price or both. I like that competitive advantage and financial upside possibility. The corporation will maintain these higher inventory levels until we no longer see it as the best risk position for us.

At that point, the team will reduce inventory levels, but only once we see limited risk of supply or cost disruption. Again, with a balance sheet that grew cash compared to Q1 last year as we invested in more inventory and accelerated our capital plans, the business is well positioned. In addition to our organic growth approach, Shoe Carnival remains committed to pursuing M&A to achieve our long-term vision to be the nation's leading footwear retailer for families. Our financial foundation started the year strong and despite the market volatility, our balance sheet is stronger now than a year or even 2 years ago.

Our prior acquisitions have integrated smoothly. Full synergies captured and built our readiness for further acquisitions when the right opportunity at a fair 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. The leadership team will pursue scale-changing M&A.

Turning briefly to an organizational topic. Earlier this year, we designated our existing office in Fort Mill, South Carolina, small town, 15 minutes south of Charlotte as our corporate HQ. This office is where I am based along with our senior leaders, merchants, marketers and our customer-facing teams. It is also where we collaborate with our vendor partners, host our annual shareholder meeting and conduct our Board meetings and earnings calls. As such, the leadership team thought this office location would best serve as our corporate headquarters.

The organization also operates our shared service back-office functions for Shoe Station, Shoe Carnival and Rogan stores as well as our supply chain from our existing office and distribution center in Indiana. Our company has been here in the Charlotte suburb for a few years now, and we founded a great advantage for engaging more frequently with our vendors, helped attract the best talent and provides us efficiencies to travel all over the country to be with our customers, vendors and stakeholders.

With that, I would like to now hand over to Patrick to provide further details on our financials and results, and then I will provide closing comments before opening the call for Q&A with Patrick, Tanya and myself. Patrick?

**Patrick C. Edwards**

*Senior VP, CFO, Secretary & Treasurer*

Thank you, Mark, and good morning, everyone. I'm pleased to report that despite the challenging macroeconomic and retail environment, our first quarter profits outperformed market expectations by approximately 10%. While our profits are down compared to last year, this reflects our deliberate decision to invest in the rebanner initiative that Mark just outlined, a choice that is already showing promising returns through Shoe Station's exceptional performance and our continued balance sheet strength.

Our first quarter net income was \$9.3 million or \$0.34 per diluted share which exceeded analyst consensus despite being lower than the \$17.3 million or \$0.63 per diluted share we reported in Q1 of fiscal 2024. This year-over-year decrease primarily reflects the planned investments in the rebanner initiative that we estimated \$0.15 in the quarter and the broader industry headwinds that Mark described. The



encouraging story behind our better-than-expected profit performance is the early success we are seeing with Shoe Station.

As Mark highlighted, while the broader family footwear industry declined, Shoe Station achieved sales growth of 4.9% and was comp positive in the quarter. The impact goes beyond just sales. Our rebannered stores showed meaningful product margin improvement compared to their performance at Shoe Carnival locations. These accretive product margins generated by the rebanner strategy, inclusive of rebannered stores contributed to our increased merchandise margin in the quarter. Store level profit contribution was also up double digits, inclusive of ongoing amortization of the new CapEx investments and normal advertising costs.

These early phase outcomes are compelling and in line with the modeling we discussed last quarter that supports a 2- to 3-year payback of the P&L investment we are making this year. This rebanner strategy is the best use of capital in our current portfolio of opportunities, and these results strongly support acceleration of the approach that Mark outlined. I found the four examples Mark shared particularly informative. Those locations showed varying degrees of improvement in profitable sales following rebanner, providing us with valuable data to refine our approach going forward.

When Mark talks about Shoe Station, representing 80% of our store fleet by March 2027, we see this as a path to restore and eventually grow our profit trajectory. Our financial foundation continues to be a competitive advantage with cash positions in a stronger position compared to the prior year even as we simultaneously accelerated rebanner investments and increased our inventory levels. We ended the quarter with \$93 million in cash, cash equivalents and marketable securities, up over 30% or \$23.5 million compared to the end of Q1 last year.

We also continue to have no debt and nearly \$100 million of available credit. This financial strength enabled the deliberate approach Mark described to increase our inventory levels, which are up 4% compared to last year. With respect to our on-hand inventory, there are a few concepts I would like to highlight. First, our inventory has been secured at competitive costs and at levels that are expected to protect and perhaps increase our margins. Second, we're maintaining an appropriate level of in-stock positions across key categories that continue to support strong conversion rates.

Further, we believe our in-stock inventory positions us well to navigate any potential future supply chain disruption. As Mark emphasized, we will adjust these inventory levels as conditions evolve balancing working capital efficiency with ensuring product availability in an uncertain environment. Our debt-free position, combined with increased liquidity on hand gives us flexibility in this volatile environment. While some competitors may need to pull back on investments due to leverage concerns, we were able to simultaneously invest in our long-term vision and strengthen our financial position.

Now moving on to our broader financial results for our first quarter ended May 3, 2025, starting with net sales. In first quarter 2025, net sales totaled \$277.7 million and compared to \$300.4 million last year, a decline of 7.5%, similar with declines across family footwear. Our comparable store sales were down 8.1%. Our net sales and comp sales in the quarter were both impacted approximately 1% by lost sales associated with the 24 stores rebannered in the quarter, in line with our expectations.

Breaking down performance by storefront. Shoe Station sales increased 4.9% and were comp positive in the quarter. Rogan's achieved results in line with our synergy and integration plans with net sales above \$19 million, both this year and last year. Shoe Carnival experienced the industry-wide challenges that Mark referenced with total sales declining 10%. Shoe Carnival's high singles comp decline in the quarter was the main driver of our overall comparable store sale decrease.

Let me now provide some additional color on our performance by major footwear categories, which offers further insight into both our challenges and opportunities. Athletic footwear, which accounted for 46% of our revenue in the quarter was in greater demand and outperformed our overall comparable store metrics. The mid-singles decline in athletic footwear in the quarter reflects the relative resilience of our consumers' emphasis on casual and active lifestyles. Shoe Station's athletic business grew low teens during the quarter, demonstrating that even in a more competitive category, our premium banner

positioning, including in the performance running category resonates with consumers willing to invest in quality branded athletic footwear.

In women's nonathletic footwear, which represented 24% of our business in the quarter, we saw comp declines in the mid-teens compared to the same period last year. This category was most impacted by the cautious consumer behavior Mark described with Shoe Carnival's comp decline nearly double Shoe Stations. Within our Shoe Station banner, women's nonathletic was driven by stronger performance, primarily in dress shoes. This notable outperformance compared to Carnival underscores the power of our rebanner initiative and Shoe Station's appeal to a different customer demographic.

Men's nonathletic footwear, which represented 7% of our business in the quarter, declined low singles compared to Q1 last year. Similar to women's, we saw a significant divergence between the banners, with Shoe Station achieving low singles comp positive growth in this category. The difference was particularly pronounced in casual footwear with Shoe Station's expanded branded assortment and higher price points.

Finally, children's footwear representing 18% of our business in the quarter experienced a low teens decline versus the prior year. This category was particularly challenged by the low income consumers reduced spending. However, Shoe Station's Kids business declined only low singles, significantly outperforming the company average. This relative outperformance in the children's category at Shoe Station is encouraging as we approach the important back-to-school season.

What's particularly notable across all these categories is the consistent pattern of Shoe Station outperforming Shoe Carnival regardless of category. This reinforces our confidence in the rebanner strategy as a driver of future growth. We believe the combination of upgraded store environments, enhanced brand presentations and higher service levels that characterize the Shoe Station format creates a compelling value proposition that resonates across multiple footwear categories.

Moving on to gross profit. Q1 gross profit margin was 34.5%, consistent with expectations and was lower than Q1 2024 gross profit margin by 110 basis points. BD&O resulted in 160 basis points of the decrease, most of which was deleveraged as a result of lower net sales. Our merchandise margins were higher in the quarter by 50 basis points, consistent with our profit objectives to not chase unprofitable sales and is impacted by benefits from the rebannered stores.

First quarter 2025 SG&A was \$83.8 million, representing an approximate \$500,000 decrease in the quarter versus 2024's first quarter. In the quarter, selling expense increases associated with the rebanner strategy were offset by the timing of selling expenses impacting other stores. As a percentage of net sales, SG&A in the quarter was 30.2%, up 2.1 percentage points from last year. That increase is reflective of rebanner costs in the quarter, including store closing costs, amortization of new store construction costs and customer acquisition costs.

Our first quarter tax rate was 28.1% compared to 25.4% last year. This increase resulted from discrete adjustments this year and last year related to share settled equity awards. We anticipate a tax rate in a range around 26% for all of fiscal 2025. Regarding the rebanner initiative that Mark outlined, we continue to expect \$30 million to \$40 million of capital expenditures to complete the 75 rebanners this year. During first quarter of 2025, capital expenditures were \$10 million for rebanners.

In addition, we continue to expect a P&L investment of between \$20 million and \$25 million, inclusive of 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 continue to 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.

The amount of the P&L investment estimated during the quarter was in line with expectations at approximately \$5.5 million on a pretax basis or \$0.15 per share, inclusive of an approximate 1 percentage point decrease in our sales and an approximate 2 percentage point increase in our SG&A as a percent of net sales. When we analyze our capital allocation options, this 2- to 3-year payback period on this P&L



investment makes the rebanner initiative the most compelling use of our resources. Few retail investments offer this combination of reasonable payback, proven execution and strategic alignment.

Moving on to our outlook. As Mark indicated, we are reaffirming our annual fiscal 2025 outlook which calls for net sales of \$1.15 billion to \$1.23 billion, representing a range of down 4% to up 2% versus fiscal 2024. GAAP EPS in a range of \$1.60 to \$2.10, gross profit margins in the range of 35% to 36%, SG&A in a range of \$350 million to \$360 million, and CapEx in a range of \$45 million to \$60 million with \$30 million to \$40 million for rebanners.

As a result of the changes taking place in fiscal 2025, we are providing additional information on the second quarter. For Q2 specifically, we are forecasting net sales in the range of \$310 million to \$320 million and EPS in a range of \$0.55 to \$0.65. We expect our Q2 gross profit margins to be in a range of 36% to 36.5%. As Mark noted, we expect a moderating trend in our sales declines in the back half of the year. This moderating decline results from our rebanner strategy and continued success in event period shopping.

As more stores are rebannered, we expect that Shoe Station scale will eventually begin to more substantially offset the industry declines impacting Shoe Carnival. Second, we are cautiously optimistic for a back-to-school shopping season that results in market share gain, reflecting Shoe Station momentum and a compelling fresh assortment of branded merchandise. We expect this moderating sales trend in the back half of the year to be coupled with stable to improving margins as reflected by the value and strength of our inventory positions.

As noted, we do expect our SG&A to increase in Q2 and Q3 above the \$84 million expensed in Q1, reflective of the timing of our planned operating expenses. However, if these moderating trends do not present within the expected time frame, the low end of our EPS guidance is a potential outcome. In summary, our first quarter results demonstrate our ability to execute effectively in a challenging retail environment. While our profits are down year-over-year due to planned investments and industry headwinds, our outperformance versus expectations reflects the early promise of our strategic direction.

The rebanner initiative with its compelling 2- to 3-year payback period, combined with our strengthened balance sheet provides us with a clear path forward despite current challenges. We remain confident that these investments, though impacting near-term profitability position us for more sustainable performance as we progress through our transformation.

We are seeing encouraging early results with sharp sales gains over 20% better than Shoe Carnival in the quarter. Higher average unit retail selling prices from the branded assortment, accretive margins from rebannered store locations and increased profit contribution driven by controlled costs and stable labor efficiency metrics.

Before I turn the call back to Mark for closing remarks and opening the line for questions, I would like to remind everyone that our Annual Meeting of Shareholders will be held on June 25, 2025. Information about the annual meeting and related materials, including our proxy statement and annual report can be found on our investors website. Mark?

### **Mark J. Worden**

*President, CEO & Director*

Thank you, Patrick. Before we open the call for questions, I want to emphasize the key takeaways that I believe are most important about our first quarter results and strategic direction.

First, our Shoe Station growth approach is working and working exceptionally well. The rebanner initiative has consistently yielded double-digit sales growth and accretive merchants across diverse market types. This isn't just a regional success story limited to the Gulf states. We're seeing this performance in suburban markets, rural communities and even in areas with more diverse demographics. The data is compelling and provides us with the confidence to accelerate this transformation.

Second, we're implementing a disciplined approach to capital allocation. As Patrick outlined, the 2- to 3-year payback period on our rebanner investments makes this the best use of our capital. We're making

these investments from a position of financial strength, with growing cash reserves and 0 debt, allowing us to pursue both organic growth and potential M&A opportunities when the right valuation presents itself.

Third, we're executing inventory decisions that provide both defensive protection and offensive opportunity. In the current uncertain environment, we've secured key products at favorable cost, ensuring we'll be in stock for our customers while potentially benefiting from margin expansion if costs rise. Importantly, we've managed to increase inventory while simultaneously growing our cash position, a testament to our disciplined financial management.

Fourth, while industry-wide pressures continue to affect the lower income consumer, we're seeing encouraging signals in our business. Shoe Station's consistent superior performance demonstrates that our premium offering resonates with customers who remain willing to spend on quality branded footwear. The early success of our rebanner initiative in diverse markets suggest there is broader appeal for the Shoe Station concept than we initially anticipated.

Finally, I want to emphasize that we're building for the long term while producing near-term results. Our profits outperformed expectations this quarter despite deliberate investments in our future. We believe the aggressive acceleration of our rebanner initiative puts us on a path to generate total company comparable store growth starting in Q3 of 2026, with Shoe Station representing over 80% of our store base by March 2027.

This is a pivotal moment for our company as we transform from a traditional family footwear retailer to a premium-focused national leader in footwear. Our strong balance sheet, proven rebanner playbook and experienced leadership team position us well to execute this vision despite the challenging environment. With that, we'd be happy to take your questions. Operator, please open the line up for Q&A.

## Question and Answer

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### Operator

[Operator Instructions] Our first question comes from the line of Sam Poser with Williams Trading.

### Samuel Marc Poser

*Williams Trading, LLC, Research Division*

I guess I have two that are top of mind. Number one, with the decision to expand Shoe Station stores is -- more quickly. Is this really a situation where you're seeing the outperformance there? You're also looking at the competitive set because if I think of Shoe Carnival goes up against, I mean I'll just name names, SHOE SHOW, Rack Room, Famous Footwear, Kohl's, maybe Shoe Sensation, while -- and then DSW to a degree.

But then you have Shoe Station that goes more directly up against, let's say, a DSW and a Nordstrom Rack and while it does compete to some degree with those others, it's less so. So this can be more of a stand-alone situation and then looking at the private -- your private label, private brand exposure there, as you mentioned, you really don't have a wholesale component of your business either. So I mean, how much of that sort of do you think is forming the outperformance and then informing the decisions that you're making?

### Mark J. Worden

*President, CEO & Director*

Sam, it's Mark. Thanks for that great question. I think you characterized it well, and I build one thought. For Shoe Station, we see a lot of white space nationally where the competitive set is not completely fulfilling what that higher end customer wants. And when we looked at it, we really see that the moderate department store -- the moderate department store is really where we've seen that person looking for a place to shop and that off-mall large square foot store with higher-end premium brand performance running, women's is an unmet need that we are seeing, whether it's rural Tennessee or coastal Florida or as we move through Carolina, the unmet need is really capturing new customers at an exciting rate.

So thanks for the question. I think you characterized Carnival spot on too. I think that absolutely is the competitive set, the traditional family footwear. Station is a different animal, higher end, going after white space that we see national over the decade ahead.

### Samuel Marc Poser

*Williams Trading, LLC, Research Division*

I just want to follow up real quick. You mentioned, Patrick, when you were going through the -- you mentioned that dress shoes did well in Shoe Station. Do you think that, that -- I mean, is that really part, Mark, of the same -- is that just another one of sort of -- is that another part of that proof point?

### Mark J. Worden

*President, CEO & Director*

Sam, it's Mark. I'm going to grab that. Absolutely. I think we offer to our customers dress assortment that's very hard to curate in any of the competitive set. Those competitors you mentioned would be the competitive set as well as the mall department stores. But Tanya's team has got a spectacular women's and men's dress category with exciting brands, high AURs and profitable margins. And that is a great competitive advantage to be able to get nonathletic dress or nonathletic period with the best athletic brands all under one house of brands. So thank you. Two great questions, Sam.

### Samuel Marc Poser

*Williams Trading, LLC, Research Division*

Okay. And then lastly, speaking of athletic, one of your competitors is getting the Jordan brand, and I had thought that sort of Shoe Carnival was probably more of a natural fit there. But -- and it appears that they

have it exclusive for this year. Is that something we're going to see in the mix next year, and I'll just point this right to Tanya so she can welcome aboard and good luck and Carl misses you while he's on the beach somewhere.

**Mark J. Worden**

*President, CEO & Director*

I'm going to grab that. That is a great brand, which we do not offer today. As always, Sam, we're not going to share forward-looking brand information with our competitors on the line, but I'll share two things. We are focused on the hottest category in athletics right now, which is performance running and have the best-in-class brands, new assortments coming for back-to-school.

And we're going to be able to continue with that double-digit growth trend I talked about a little earlier. Second, and I'm not going to answer it, but here's how I'm going to answer it for you. Our merchant team is always working to add the brands our customers want most. I have no doubt they will secure new brands before fiscal end.

**Operator**

[Operator Instructions] And our next question comes from the line of Mitch Kummets with Seaport Research Partners.

**Mitchel John Kummets**

*Seaport Research Partners*

I think I got maybe a handful here. So I hope you'll indulge me. Mark, on the rebanner examples you provided, especially the three that were kind of rural, lower income, how instructive are those initial results to how those locations might perform on a go-forward basis? I'm just curious, was there any kind of unusual marketing that was put behind those rebannerings? I'm wondering if maybe the consumers in those markets were kind of attracted to something new in the area. Like is there anything about the initial results that you wouldn't think would continue as the stores are in those locations like the further down the road we go?

**Mark J. Worden**

*President, CEO & Director*

I've got one that I didn't talk about, but I can build on that. We're just starting to lap the stores we did last year. And so last year, we had a store in rural America that just did outstanding and got us invigorated to do more and more stores. It's comping up again as we're in year 2 without significant activity going on. And we read that as an incredibly encouraging thing that it grew double digit in its first year, capturing new customers with the new assortments and higher AURs, and in year 2, it was able to sustain that. Hey, it's early, and we've got a lot more stores we'll keep evaluating, but we thought that was encouraging.

Second, in the Tennessee or Florida example, it's really looking at the competitive set and that we have that unique offering. Like Sam asked, it really is setting a white space where unless you want to go to an A or B mall where you could find similar nonathletic products, or, say, DICK'S Sporting Goods where they have outstanding, of course, athletics, we offer all of that stuff under one building. So you don't have to go to a mall and then do a DICK'S Sporting Goods. You can come straight to our place and get both of those things. So those are some early learnings. We're going to learn a lot more as we do the full 75 this year, and we get towards, well, above 51% at minimum by back-to-school next year.

**Mitchel John Kummets**

*Seaport Research Partners*

Yes. And then maybe for Patrick. I'm trying to understand the rebanner impact on the P&L for next year. I mean, so this year, from an earnings standpoint, it's a \$0.65 drag on 75 stores. It looks to me that next year you're going to be 2x plus in terms of the rebannerings. So should we think of like \$1.30 negative drag on EPS? And I would imagine there is some offset to that as you then -- you're pulling the \$0.65 drag out of the business this year and the next year plus you get the benefit of the performance of the rebanner stores. Like how should I think of it? I think prior to this acceleration, like next year kind of

looks like it might just be sort of a wash. But now I would think rebanners are going to be a drag on next year's earnings. Is that fair?

**Patrick C. Edwards**

*Senior VP, CFO, Secretary & Treasurer*

Mitch, thanks for the question. We're really excited about the 10% revenue growth that we saw last year on these rebanners, and we're excited this year as we continue to see the double-digit growth in sales that Mark talked about and seeing down the P&L, store level profit contributions also increase. And we pointed to the 2- to 3-year payback period, and our results early on in this process are continuing to support that.

With respect to next year, we've got a number out on the street that was \$22 million to \$27 million of P&L investment and that was to rebanner approximately 100 stores over the entire horizon through March of 2027. That number has now been accelerated where we would expect to spend those sort of dollars by the end of Q2 in advance of back-to-school now to meet that 51% goal that we had.

So you're correct. All of that -- all of those costs that we've disclosed previously have been accelerated into the first 2 quarters. With respect to what happens in Q3 and Q4 and into Q1 of next year, we don't exactly have all of those costs identified and planned out through our process yet. So there's still work for us to do on that front and additional information that we'll provide at a later date. But we do anticipate that there will be more cost beyond the \$22 million to \$27 million that we've disclosed.

**Mitchel John Kummetz**

*Seaport Research Partners*

Got it. That's helpful. I still have a few more. On 2Q, you guys provided sales and earnings gross margin guide. I'm curious if there's anything you can say in terms of kind of what comp is embedded in that sales range? Is there anything you can say about kind of performance quarter-to-date?

**Mark J. Worden**

*President, CEO & Director*

Mitch, I would think through that guidance as a similar comp expectations with Shoe Carnival performing poorly, like it has been and Shoe Station outperforming at similar rates we've just disclosed is our baseline assumption.

**Mitchel John Kummetz**

*Seaport Research Partners*

Okay. And then, Mark, I know you don't want to talk about brands necessarily, but you -- in your prepared remarks, you talked about some exciting addition of assortments, and in response to Sam's question, you talked about on the performance running side, some new product for back-to-school. So I mean, is it fair to say that in terms of what you're -- the brands that you're adding for back-to-school, they're all on the Shoe Station side. Is that correct?

**Mark J. Worden**

*President, CEO & Director*

I think that's what I'm most excited about to see our continued strength, and that's our focus, of course, as we progress towards 80% or over 80% of the company being station. We're focused on building those relationships with the world's best brands, ensuring we have all those world's best brands. Some we don't have today. But Tanya is aggressively scouring and meeting with people across all coasts over the last few weeks, learning, seeing what excites her and getting ready to go.

**Mitchel John Kummetz**

*Seaport Research Partners*

And then I guess lastly on the tariff side. Obviously, you guys haven't changed your guidance. I think in your prepared remarks, Mark, you said something like you haven't experienced any cost increases outside of the guide. That being said, versus when you provided that initial guidance, we're now looking at a 30%

China tariff versus 20%, and we're now looking at a 10% universal tariff, which I believe didn't exist when you provided the initial guidance. So is there essentially no change at all in your thinking around tariffs in terms of kind of what the -- what vendor pricing might look like as you get further into the year? I know you guys brought a lot of inventory in early, but -- I mean, so no change at all? Or is there anything more you can say there?

**Mark J. Worden**

*President, CEO & Director*

Again, I'm going to be a contrarian here. I feel really optimistic about how this is playing out. And in the longer term, thoughts for, you have jobs coming to America is a good thing for our footwear in the long term. In the short term, near term, comparatively, as I said in my prepared remarks, we're not a wholesaler.

So comparatively, we're in great position with what we do, with what we control, and Tanya is doing a fantastic job working with our partners to help them get some things in here opportunistically. Our balance sheet is very strong. And with our cash position, Tanya and I have taken a position of let's bring in key brands, key products right this second at attractive prices and have been continuing to do so, whether that's for BTS or boots or sandals next year. Great products at great prices are things I like a lot. So I feel good about all that.

As I said in my prepared remarks, and of course, I don't -- we're not naive. The vendors have to sort through a myriad of changing fluid things. To date, we've had nothing that surprised us. That could change tomorrow if this is very fluid. But as I sit here today, Mitch, we've seen no cost or price change that materially impact how we think about the shape of the year, how we think about back-to-school or how we have a great relationship with any particular partner. So I feel cautiously optimistic.

The one thing that we don't have a good read on is consumer sentiment, right? Cost and price isn't what's spooking us. What is concerning is the endless barrage of the world is ending in the media, and we keep hearing that. It's a very small segment of our Shoe Carnival customer that is pulling back. Our Shoe Station customer is expanding. And so we feel good, but consumer sentiment going into back-to-school is the one big question mark that we'll learn a lot more about.

**Operator**

Our next question comes from the line of Jim Chartier from Monness, Crespi, Hardt & Co.

**James Andrew Chartier**

*Monness, Crespi, Hardt & Co., Inc., Research Division*

Could you talk about trends during the first quarter, how did March, April compare to February? And then what is kind of the 2Q guidance assume? Does it assume the trend for March, April continues or gets better or worse?

**Mark J. Worden**

*President, CEO & Director*

Jim, it's Mark again. Yes, February was tough. As I said, we didn't see an exciting tax miss season this year. As March, April, we look at those combined, we think it's silly logic for people to separate that as Easter shifts later and call victory. We'd say March, April combined was okay. Again, the trends we talked about weren't materially different across, Carnival did poorly across the months. Station was exciting. Rogan's delivered just as we thought.

So we didn't have a real material trend. Yes, March, April was better with the holiday there, but nothing I would pound our chest on about exciting consumer sentiment or trends other than what we've said about Station. Nothing to share early May. We haven't seen any major changes in that. So I'm going to ask Tanya to maybe just build on sharing your sandals perspective on the first couple of months. So the team could hear, hello to our new Chief Merchant, too.

**Tanya E. Gordon**



*Executive VP & Chief Merchandising Officer*

Yes, sure. Thanks, Mark. So just to speak to sandals, which comprises a big portion of our women's business, it was a little softer than we initially planned. However, last year was our best sandal season that we've had in the history of the company, at least since I've been here, and that's 11 years of sandal season.

So I really -- I went back and looked at the 2-year stack. And based on the 2-year stack, we were up low double digits. So that makes me pretty happy sitting here today. So I feel good that the sandal trend, the seasonal trend is really normalizing, and we've gotten -- we've enjoyed some increased AURs and increased margins in the sandal category. So we feel good about that.

### **Operator**

Our next question is a follow-up from the line of Sam Poser with Williams Trading.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

Real quick, you've guided the full year to be down 4% to up 2%. And then you called out that -- and basically, your comp and your store sales growth totaled pretty close. You also said that you anticipate that year-over-year sales will start to be up in Q3 '26. How do you get -- I mean, how do you foresee you even get to this high end of the trend this year? Or are we most likely looking at a down 2% to 4% comp kind of situation where Q4 could be up because you have -- you'll have all those conversions up and you've got a holiday with more Shoe Station stores open and so on, and that could offset on lessening weakness at the Shoe Carnival?

**Mark J. Worden**

*President, CEO & Director*

Clear, Sam. So Mark, again, we see the pace moderating as the two things you laid out happened, more Shoe Station percent of total fleet, continued success on that. And that starts to dampen the continued negative results we expect on Carnival. We foresee that when we get 51% of the fleet being Shoe Station that Q3 2026 becomes a pivotal moment where we go comp positive, and we can't wait to get there.

In the back half of the year, you're right, some things have to go our way for the sales to hit the high end of our guidance. It's not implicit. But if things were to go our way with back-to-school season being not just a market share gain, which we expect but a consumer sentiment helps us, we can start to see moderating trends turn to flattish results in Q3 with potential for even better in Q4.

That's not our expectation, implicit in the mid-zone. But is it possible? Absolutely, as we have very strong market share growth plans that we are confident about for BTS, holiday and into next year. But I would think about it more like you said, that mid- to lower end of the range is the right way to think about the sales. And I think I addressed it Shoe Carnival was very much on the low ends of our expectations during the start of the year, and we anticipate that likely doesn't change.

**Samuel Marc Poser**

*Williams Trading, LLC, Research Division*

And then secondly, how -- what -- like can you talk about your use of private label, both at Shoe Carnival and how -- and what's going on with the private label product that you have at Shoe Station? I mean it's like -- it appears to be a promotional vehicle on key items at Shoe Carnival. I'm wondering what that percent is and then how do you utilize it at Station?

**Mark J. Worden**

*President, CEO & Director*

I think we're very small percent, under 10% is private label and smaller than that. You didn't ask it and a very small percent of any exposure to the high tariff country risk. So it's almost de minimis. We do see a

unique role for having private label in Shoe Station to provide women's nonathletic uniqueness and traffic driving activity as we continue to develop that.

So we're excited about the role it can play but let's make no mistake. We are a house of brands. Shoe Station is a house of the best brands. That's our vision. And private label will be a small place to fill in, maybe a price point, maybe a promotional point or something unique. So we will have the best brands at high AURs and robust margins at Shoe Station.

#### **Operator**

Our final question is a follow-up from the line of Mitch Kummertz with Seaport Research Partners.

**Mitchel John Kummertz**  
*Seaport Research Partners*

Mark, you made the comment that you will be evaluating whether or not it makes sense for Shoe Station to become 100% of the total business. When I kind of do my math on store count, assuming that the 429 sort of stays 429 over the next couple of years, Rogan stays around 28 and you grow Station to be 80% of the total. That puts Carnival down to like around 60 stores or somewhere in that neighborhood.

I don't know if you can endorse the math, but if that is somewhat correct, does it make sense for Shoe Carnival to be a 60 store concept? And if it -- and at that level, it seems like it would have to be very concentrated within just a few states, I wouldn't think that it would make sense to have like 60-ish stores over 20-something states across the U.S. Can you say anything along -- about that?

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

Yes, happy to, Mitch. So your math is not wrong, it would be under 100 stores for the Shoe Carnival banner by the time you get to March 2027 on this announcement. So that's accurate. And you're right, there will be significant synergy, internal efficiencies that can be gained if we learn that the Shoe Carnival banner customers can better be served by Shoe Station in those particularly urban markets concentrated with lower-income diverse households.

And we believe it is a high possibility it can, but we don't have the proof points for me to say it today, and I don't want to get ahead of myself. But I want to be real transparent. I like the potential synergies that could come from that. We are going to answer that question within market data to see if that's the right path for our customers and shareholders.

I hope that is the outcome that the data shows us because that leads to an even more profitable 2027 and beyond for our corporation. But I don't know now. We'll take the steps to do that at the latest by early 2026. And if opportunity presents towards the end of this fiscal year, we might get an early start in trying to learn that. So great question, more to come after back-to-school.

#### **Operator**

And that will conclude our question-and-answer session. And I will now hand the call back over to Mark Worden for closing remarks.

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

Thank you for your questions and joining us today. I hope you can hear we are incredibly excited about our news that Shoe Station is working incredibly well with customers, our partners and our stakeholders, and we are accelerating this to be the largest portion of our corporation and we believe the fastest growing.

It's our path back to comp growth as we get into the back half of '26 and profit accretion is on the horizon as we look at '27. It's a big investment now, but it's absolutely the right thing as we pursue being the leading family footwear across America. I want to take the chance again to welcome Tanya to our

leadership team. So excited to have her here and for all of you to get to know her. So wishing you all a great summer, and we'll talk to you after back-to-school.

**Operator**

This concludes today's conference call. Thank you all for joining. You may now disconnect.

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