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Earnings Call

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Presentation

Operator

Good morning, and welcome to Shoe Carnival's Third Quarter 2025 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 including 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 call 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. With me are Kerry Jackson, our Chief Financial Officer; and Tanya Gordon, our Chief Merchandising Officer.

This is a pivotal moment for our company. Last week, we announced that our Board of Directors unanimously approved changing our corporate name to Shoe Station Group, Inc., subject to approval of the name change by our shareholders at our annual meeting to be held in June 2026. That decision reflects our Board's conviction about where this company is headed. We're building a stronger, more focused and more profitable company.

Today, I'll walk you through our third quarter performance, update you on where we are in executing this strategy and provide context for fiscal 2026 and 2027.

Let's start with the quarter. We delivered a strong third quarter. EPS of \$0.53 and net sales of \$297.2 million, both exceeded consensus expectations. Gross profit margin expanded 160 basis points to 37.6%, driven by disciplined pricing and our continued shift toward the higher-income Shoe Station customer.

We achieved positive comparable sales during August back-to-school with margin expansion. That's significant, given the promotional intensity across family footwear retail and the continued pressure on lower income households.

Athletics represented 51% of total sales in the quarter and delivered low single-digit growth overall. At Shoe Station specifically, our focus on premium brands and higher transaction values drove double-digit athletic growth in both Q3 and year-to-date. Our nonathletic categories represented 43% of Q3 total sales with a mid-single-digit comp decline overall. Similar to prior quarters, Shoe Station outperformed in every major category versus Shoe Carnival.

The story beneath these numbers is what matters most. Our two banners delivered very different results in the third quarter. Shoe Station net sales grew 5.3%. Shoe Station product margins expanded 260 basis points.

Meanwhile, Shoe Carnival net sales declined 5.2%, reflecting continued pressure on lower-income households earning under \$40,000 annually. That's a 10.5 percentage point performance gap between our

two banners. This divergence isn't new. We've been discussing it for quarters. What's different now is the scale of the gap and our conviction that it will persist.

Shoe Station's core customer, median household income, \$60,000 to \$100,000, is choosing premium product, seeking elevated service and responding to our brand positioning. The traditional Shoe Carnival customer is under economic pressure and the competitive response in that segment is driving margins down across the industry.

This quarter, we maintained pricing discipline instead of propping up traffic from a lower-income customer, a segment we are strategically shifting away from. As a result, Carnival also expanded product margin. We are not chasing unprofitable sales.

Third quarter EPS included a \$0.22 impact from planned rebanner investments. Year-to-date, that's \$0.58 per share. These are planned investments to convert underperforming locations into the Shoe Station format that's demonstrably winning. We expect to recover these investments within 2 to 3 years following each store's conversion.

Let me give you the numbers on our progress. We completed 101 store rebanners during fiscal 2025. We now operate 428 stores, 144 Shoe Station locations and 284 Shoe Carnival locations. This evolution started with test and learn, moved to scaling across the Southeast and is now a full chain rollout.

We acquired Shoe Station in December 2021 with 21 stores. We started this fiscal year with Station representing just 10% of our fleet. Today, Station is 34% of the total store fleet. By back-to-school 2026, it will be 51%. That 51% threshold is the inflection point when Shoe Station becomes the majority of this business and we expect to return to comparable sales growth.

Based on what we have learned through 101 store conversions this year, we now expect that well over 90% of our fleet will operate a Shoe Station before the end of fiscal 2028. The remaining locations will be evaluated for rebanner, outlet repositioning or closure.

Why consolidate to one brand? Running two distinct banners with different customer targets, different merchandising strategies and different operating models is inefficient. Every quarter this year, the sales performance gap between Shoe Station and Shoe Carnival has exceeded 10 percentage points. We're leaving value on the table by maintaining dual infrastructure when one banner is clearly winning.

What makes Shoe Station different comes down to three things: the customer. Station serves the American median income household, \$60,000 to \$100,000, stable everyday workers, value-conscious but not price-driven. Carnival serves a value-focused customer facing economic pressure.

The product approach. Station offers premium brand access, higher transaction values and strong full price selling. Carnival focuses on opening price points and a promotional model.

The experience. Station is modern and approachable, low-profile merchandising, easy to shop, service-oriented. Carnival is high energy, treasure hunt, promotional intensity.

Both models work for their customers, but consumer preferences are shifting toward best brands, premium product and quality over lowest price. That's the Shoe Station customer.

Consolidating to one brand creates significant structural advantages. By the end of fiscal 2027, we expect \$20 million in annual cost savings and operating efficiencies. We expect comparable sales growth to resume as Shoe Station becomes the dominant banner.

And we're executing this on a foundation of financial strength. We're debt-free with over \$100 million in cash and securities, funding this entire program from operating cash flow just as we've funded operations and growth for 20 consecutive years. We're building one team, one infrastructure, one P&L.

Now turning to inventory and the value we're unlocking. We bought heavy this year to de-risk tariff volatility. It worked. We delivered positive comps during back-to-school. We're fully loaded for fall, holiday and spring. Now we plan to sell through this extra tariff-related inventory and move to the next phase. By the end of fiscal 2027, we'll free up \$100 million in working capital.

This isn't about cutting corners. It's a fundamentally different operating model. Shoe Station unlocks this capital through superior merchandising. Station presents product clearly, curated, organized, easy to browse and shop. Station generates higher transaction values, which means we need fewer units to deliver strong sales performance.

The Carnival model is stack it high and let it fly, requiring deep inventory to maintain towering displays and promotional volume. Shoe Station delivers a superior customer experience with less inventory per store. Better merchandising drives better turns, better margins and capital efficiency. That's \$100 million we plan to deploy toward growth.

Let me walk you through what's ahead and the key milestones. Fiscal 2026 is our inflection year. We're converting 70 stores to reach the critical 51% Shoe Station threshold by back-to-school. That's the milestone when Station becomes the majority of this business and the dominant driver of our results.

First half of 2026 will see similar dynamics to 2025 as we work through rebanner conversions. Second half, we cross 51% and expect to return to comparable sales growth. This requires P&L investment in fiscal 2026. One brand synergies begin, but the full benefit comes towards the end of fiscal 2027.

The end of fiscal 2027 is when the full picture comes together. We expect \$20 million in cost savings, \$100 million freed from inventory reduction, comparable sales growth restored and EPS expanding.

Bottom line, we're investing through 2025, all of 2026 and into 2027. We see modest gains beginning in 2027 and meaningful acceleration in 2028. Kerry will give you more specifics on fiscal 2026 and 2027.

Let me bring this together. The performance gap tells the story. Shoe Station outperformed Shoe Carnival by more than 10 percentage points this quarter. Station margins expanded 260 basis points. The industry is declining, but we're growing where the consumer is headed, premium brands, better experience, customers who value quality.

We're executing this from a position of strength, debt-free, over \$100 million in cash and securities, 20 consecutive years of self-funding our growth. We have the financial flexibility to invest through this transformation and build for the long term.

When our Board approved changing the corporate name to Shoe Station Group, it wasn't about branding, it was about conviction, conviction that this strategy is right for long-term value creation and building a stronger company. This isn't a rebrand, it's a repositioning of this entire company around what's winning.

I'll now turn the call over to Kerry for the detailed financials, our fiscal 2025 outlook and perspective on '26 and 2027. After Kerry's remarks, I'll have brief closing comments before we open for questions. Kerry?

W. Kerry Jackson

Executive VP & Chief Financial Officer

Thank you, Mark, and good morning, everyone. Let me start with the quarter performance, then walk you through our outlook and the financial framework for fiscal 2026 and 2027.

Net sales totaled \$297.2 million, down 3.2% versus \$306.9 million last year. Comparable store sales declined 2.7%, including approximately half a percentage point of headwind from the 56 stores rebannered during the quarter. The banner divergence Mark described is the critical story.

Shoe Station net sales grew 5.3% with mid-single-digit comparable sales growth. Shoe Carnival net sales declined 5.2% with mid-single-digit comparable sales decline. Rogan's generated \$21 million in net sales, consistent with our integration plan.

Three category highlights worth noting. First, men's and women's athletics, 35% of our business, delivered breakeven comps overall, but Shoe Station's athletic business grew high teens.

Second, kids footwear, 22% of Q3 sales, delivered low double-digit athletic growth at Station. Overall, for the company, kids was down low singles for the quarter due to weakness in kids nonathletic footwear.

Third, the boot season started modestly, but we're well positioned with inventory depth as we move into the heart of the season.

Rounding out the categories, men's and women's nonathletic categories both declined mid-single digits compared to Q3 last year.

Athletics across our men's, women's and kids categories was 51% of our business in the quarter, up from 49% in Q3 last year and was key to our overall comp positive results in back-to-school August. Shoe Station's athletic sales have strong comparable store growth every quarter this year as our premium brands continue to resonate with the higher-income consumers that the Shoe Station banner attracts. Non-athletics was 43% of our total sales in Q3, down 1% from last year, again, reflecting the strong athletic cycle we are in.

Gross profit margin expanded 160 basis points to 37.6%, exceeding the high end of our guidance. Merchandise margins increased 190 basis points, driven by disciplined pricing, favorable mix shift towards Shoe Stations higher-income consumers and our strategic inventory investments. This more than offset 30 basis points of deleverage in our buying, distribution and occupancy costs.

SG&A was \$93.2 million or 31.3% of sales compared to \$85.9 million or 28% of sales last year. The 3.3 percentage point increase breaks down as follows: 2.5 points reflects banner reinvestments, including store closing costs, new store construction depreciation and customer acquisition costs. The remaining 0.8 points is the deleveraging on lower sales.

The rebanner P&L investment in Q3 was approximately \$8 million. Year-to-date, we've invested \$21 million in operating income or \$0.58 per share towards this transformation.

Net income for Q3 was \$14.6 million or \$0.53 per diluted share compared to \$19.2 million or \$0.70 per share last year. This year-over-year decrease of \$0.17 primarily reflects our rebanner investments, which we estimate impacted Q3 by \$0.22 per share. In the quarter, our EPS otherwise grew by \$0.05.

The 2- to 3-year payback of these rebanner investments we've consistently discussed remains on track. Shoe Station's net sales were up 3.8% year-to-date compared to Shoe Carnival's net sales down 8.5%.

Said differently, year-to-date through Q3, Shoe Station's net sales growth has outperformed Shoe Carnival by 12.3 percentage points. These results support the One Banner strategy time line Mark just outlined and our view of the long-term profit potential from doing so.

Our balance sheet continues to strengthen. We ended the quarter with over \$107 million in cash, cash equivalents and marketable securities, up 18.2% versus last year, and we remain debt-free with \$100 million of available credit.

Based on strong Q3 results and continued rebanner momentum, we updated our full year outlook. We are reaffirming our net sales guidance and continue to expect net sales of \$1.12 billion to \$1.15 billion. We are raising the EPS guidance range to \$1.80 to \$2.10, increasing the low end by \$0.10. We continue to expect gross profit margin of 36.5% to 37.5% and now expect SG&A in the range of \$350 million to \$355 million, down \$5 million from previous guidance.

For Q4 specifically, we are forecasting net sales of \$240 million to \$270 million, ranging from down 7% to up 2% compared to Q4 last year, with the midpoint down 3%, consistent with Q3 trends. Our Q4 net sales range is wider than typical, given macroeconomic volatility, consumer behavior in nonevent periods and fourth quarter weather uncertainty.

We expect Q4 EPS in the range consistent with consensus prior to our earnings release in a range of \$0.25 to \$0.30. Q4 EPS in that range targets full year EPS at the lower end of our annual outlook. The higher end of our outlook assumes stronger holiday selling and improvement in lower-income consumer spending.

Regarding our One Banner strategy, we have rebannered 101 stores in fiscal 2025, including 56 in Q3 and 1 additional store after quarter end. We anticipate no further rebanners this year. The Rogan's acquisition

is now fully integrated into Shoe Station. And beginning in Q4, we'll report Rogan's results as a part of the Shoe Station banner.

Year-to-date rebanner CapEx is approximately \$31 million with minimal additional CapEx expected for the remainder of the year. Full year P&L investment remains on track at approximately \$25 million. For Q4, we expect rebanner investments of \$0.10 to \$0.12 per share, bringing the full-year impact to \$0.68 to \$0.70 per share.

Looking ahead to our fiscal 2026 and 2027 framework, while we're not providing detailed fiscal 2026 guidance today, that will come in March, we can provide transparency on what to expect.

As Mark has clearly identified, it's critical for our financial success to reach the milestone of 51% of our stores bannered as Shoe Station, our inflection point.

To achieve that goal, fiscal 2026 will be a year of continued investment. We believe that next year's investments will lead to a return to sales and earnings growth in fiscal 2027 and further accelerating in fiscal 2028 as we complete the rebanner program.

Let me detail our future expectations for sales, SG&A and inventory reductions.

Sales trends will mirror what we've seen in fiscal 2025. The first half will be challenging as Shoe Carnival's mid- to high single-digit declines more than offset Station's growth. The inflection comes in the second half when Station crosses 51% of the fleet. We expect flat to very low single-digit growth in the back half.

Overall, for fiscal 2026, we expect net sales and comparable sales will be down, but improved compared to the 6% year-to-date declines we have seen so far this year.

With respect to SG&A for fiscal 2026, we expect rebanner investments to range from \$25 million to \$30 million for the entire year. Given the timing of the rebanners in fiscal 2026, we do expect costs in fiscal 2026 to be more front-loaded. In addition, we will continue to recognize costs associated with stores rebannered in fiscal 2025 as we continue to educate customers in those markets and as CapEx investments made in fiscal 2025 are depreciated.

As a result, we currently see significant SG&A investment in Q1 and Q2 of fiscal 2026 compared to 2025. And we expect those headwinds to moderate post back-to-school as fiscal 2025 costs become comparable and the \$20 million of expected synergies and efficiencies from implementation of the One Banner strategy begin to be realized. Overall, we do not expect SG&A to decline in fiscal 2026 compared to fiscal 2025 and may increase.

Given the impacts on sales and SG&A, we expect fiscal 2026 EPS to be lower than fiscal 2025 with more significant decreases in Q1 and Q2 compared to the prior year.

Now for more insight on expected inventory reductions driven by the One Banner strategy. We expect higher inventory for the remainder of fiscal 2025 and for inventory at the end of fiscal '25 to be flat to up from the Q3 balance, inclusive of additional buys in Q4 to support launching new athletic assortments and styles next year.

The level of inventory we are carrying this year has been intentional given the tariff backdrop and the opportunistic buy of seasonal merchandise and in-demand product. These opportunistic purchases were key to our 160 basis point gross profit margin increase in Q3 and 270 basis increase in Q2.

We expect our inventory position will also drive a margin increase in Q4 of over 100 basis points. We expect tariff-related increases in our inventory to moderate in fiscal 2026, assuming there is more tariff certainty.

As Mark stated, we are planning for more dramatic shifts in inventory as Shoe Station becomes our dominant banner, which is expected to free up \$100 million of cash through inventory reduction over the next 2 years. This inventory reduction comes from Shoe Station's fundamentally different operating model, which requires 20% to 25% less inventory per store compared to Carnival's model.

When we get to 51% of our stores operating the Shoe Station model, we expect a \$50 million to \$60 million reduction by the end of fiscal 2026. As we transition the inventory model, we expect some near-term gross margin pressure from selling through legacy Carnival inventory, partially offset by the lower-cost opportunistic purchases we made in fiscal 2025. This inventory reduction will more than fully fund our rebanner capital needs over the course of the year, maintaining our debt-free position at year-end.

We expect rebanner capital expenditures between \$25 million and \$35 million to be concentrated in Q1 and Q2, while inventory reductions may be more gradual and more focused on the back half of the year. The payoff comes in fiscal 2027 and accelerates into fiscal 2028.

By the end of fiscal 2027, we expect to see the full \$20 million in annual cost savings from reduced dual-brand complexity, the full \$100 million in working capital freed from inventory reduction, a return to annual comparable sales growth and EPS growth resumes in fiscal 2027 and expand significantly in fiscal 2028. We'll provide more specific fiscal 2026 and 2027 guidance in our March earnings call.

With that, I'll turn the call back to Mark for closing remarks before we open the call for questions.

Mark J. Worden

President, CEO & Director

Before we open for questions, let me put this quarter and this transformation in context. We're not at the beginning of this journey. We're at the acceleration point. Shoe Station was 10% of our company when we started this fiscal year. Today, it's 34%. 8 months from now, it will be 51%, the inflection point where this business returns to comparable sales growth. Now we're scaling Shoe Station across the fleet.

This transformation unlocks significant value, \$20 million in annual cost savings by the end of fiscal 2027, \$100 million in working capital freed from inventory reductions. We're building a company positioned for sustained growth while funding this entire transformation from a debt-free balance sheet with over \$100 million in cash.

The performance gap between our two banners continues. Station outperformed Carnival by more than 10 percentage points every quarter this year. Station margins are 260 basis points higher than Q3 last year.

Consumer preferences are shifting toward premium brands and quality over price. We're aligning our entire company with where the market is headed. Our Board's approval to change the corporate name to Shoe Station Group reflects conviction about this path.

We're investing through fiscal 2025, 2026 and into 2027 to capture gains that begin in 2027 and accelerate into 2028. This isn't a rebrand, it's a repositioning of this entire company around what's winning.

Now I'd like to open up the call for questions.

Question and Answer

Operator

Your first question comes from the line of Mitch Kummetz with Seaport Research.

Mitchel John Kummetz
Seaport Research Partners

Welcome back, Kerry. You guys provided a lot of color around the rebanner and kind of the cadence of those impacts. I was hoping you might be able to boil it down a little bit more. So I think you said that for this year, the drag on earnings is \$0.68 to \$0.70.

Can you say what the additional drag will be next year? And then help us kind of think through what happens in 2027 and '28. How much of that you get back in '27? And by '28, will all of that kind of flow back to the P&L? And I've got a few follow-ups.

W. Kerry Jackson
Executive VP & Chief Financial Officer

Well, what we said -- Mitch, thank you for the welcome back. I appreciate it. It's good to be back with my friends. We said \$25 million to \$30 million in rebanner expenses are expected next year to kind of help you understand what those are going to be. And we said they're going to be front-loaded because we're going to be doing approximately 70 stores in the rebanner of those stores next year.

The effect of that, we will continue to have rebanner costs as we have store closing costs, the depreciation on the investments of the CapEx in the stores, along with customer acquisition costs will continue as we go through those multiple years.

However, an important point on that is that when we look at each store individually and the time frame that we make those investments, we're seeing -- we're expecting to get those monies back in a 2- to 3-year time frame in the profitability of those stores post conversion.

Mitchel John Kummetz
Seaport Research Partners

And when I think about -- so just from like a core earnings standpoint, like pro forma earnings, if I were to try to adjust out some of these rebanner expenses, is it fair to say that you'll -- like 2026, you'll see stronger earnings growth than 2025, like if I strip these things out?

I mean I kind of get there just because it sounds like you'll perform better from a comp standpoint. So I think that would go a long way towards better earnings growth next year on the kind of -- in terms of the growth rate this year versus -- or I'm sorry, next year versus this year?

W. Kerry Jackson
Executive VP & Chief Financial Officer

No. Let me unpack a little bit of what I said. What we want -- next year, we're going to be an investment year. So in the first half of the year, what we're saying is Shoe Carnival is still going to be the dominant brand. We expect it to be down mid-single digits in sales, and that's going to override any gains we get out of Shoe Station. So we expect sales to be down in the first half.

Now once at back-to-school, once we hit that 51% threshold where Shoe Station is the dominant brand, we expect to see a flat to slight positive sales gain in the second half. Having said that, we also expect that as we transitioned our stores, we might see some margin pressure longer term in the second half of the year from the rebanners as we have less Shoe Carnival stores to transition the inventory to.

And so in '25, we had significant amount. So when we converted a store, if we had remaining Shoe Carnival stores, we could transfer those products to other stores. As we have fewer of the stores available, we may see some margin pressure on clearing out the non-go-forward Shoe Carnival inventory.

We also expect to see significant pressure, particularly in Q1 and Q2 on our SG&A line because of the rebanner expenses. And we expect that SG&A next year will be flat to possibly up. So while we're not in a position to give full guidance as we will in March on '26 numbers, you can see that, that will be a down earnings year when you take into account lower sales, a little margin pressure from clearance and then flat to up SG&A.

Mitchel John Kummetz

Seaport Research Partners

Got it. I was just trying to think about it in terms of stripping out some of these sort of extraneous events. But a couple of last ones for me. One, I think it was mentioned that boots started slowly. I think that was more of a Q3 comment. Have you seen any improvement in the boot business early in the fourth quarter? And kind of what is your outlook there? And then I have one last one.

Tanya E. Gordon

Executive VP & Chief Merchandising Officer

Yes. Mitch, it's Tanya. And yes, boots did start a little bit slow. But as we got our inventory in, again, just based on some delayed deliveries as we moved into October, we saw nice double-digit increases. So bodes well as we move into fourth quarter, and we really saw it balanced across all categories. So tall shaft boots, booties, combat looks and fur doing very well.

Mitchel John Kummetz

Seaport Research Partners

Okay. That's helpful. And then last one for you, Mark. On the Shoe Station side, you talked about how it's a higher-income consumer and more premium brand access and more service-oriented stores. I'm curious, is there an opportunity to further elevate the assortment there?

Like Tanya just mentioned the [fur] business. I mean you guys -- you sell Ugg in athletic -- I'm sorry, [HOKA] in athletic, but you don't sell Ugg. Can you get Ugg? Or even across your athletic business, you sell VL courts, but not Sambas or you sell court visions, not Air Force 1.

I mean as Shoe Station becomes a bigger player in the industry, is there an opportunity to get even more elevated product versus just the elevation that you see going from a Carnival to a station, but is there more elevation opportunity within Station going forward?

Mark J. Worden

President, CEO & Director

Mitch, absolutely. We believe that maybe the most exciting part of the Shoe Station model and the key reason of why we're proceeding publicly now with our move to Shoe Station Group is so that Tanya and I can be working transparently long term with our partners to build out those new assortments and new brand launches and more premium topics.

And so now we're having those great fully multiyear discussions with the best of the best brands in the world. And we're getting very enthusiastic partnership meetings of where we could go together.

I think it's that core element of serving the middle-income American household, that working everyday American consumer that values all of the activities that get life done. So absolutely. And Tanya's team is doing a great job. We'll see new assortments, new styles coming in Q1.

Operator

Your next question comes from the line of Sam Poser with Williams Trading.

Samuel Marc Poser

Williams Trading, LLC, Research Division

So I just would like to dig into the comp that you talked about for Shoe Station. So as I understand it, at the end of the third quarter last year, I believe there were 42 Shoe Station stores. And today, there are 144. Is that correct?

W. Kerry Jackson

Executive VP & Chief Financial Officer

The 144 is correct. I'll have to double check -- the 42 is approximately right.

Samuel Marc Poser

Williams Trading, LLC, Research Division

What was the comp -- so the comp that you're comparing to is the comp versus Shoe Carnival. So the question I have is what were the comp on those 42 stores like on like-for-like Shoe Station last year, Shoe Station this year store? I know it's not a big picture, but that is the cleanest view of how an existing Shoe Station store a year ago is compared to existing Shoe Station store today.

W. Kerry Jackson

Executive VP & Chief Financial Officer

Well, Sam, we're not going to break down the banners into smaller components. We've been breaking down the rebanner stores to help you understand what happens when they transition from one to another. But we've got enough critical mass that in future quarters, we're going to talk about the banners exclusively in the total numbers because they tell the right story right there that they tell you the information you need to know to understand what's the underlying fundamentals of the business.

We think the exciting part of the business is the overall brand. And in all honesty, within the full banner, there's a range of outcomes, but the range of outcomes comes down to be a very positive number, particularly when you look at the Shoe Carnival on a like-for-like, you're seeing that they're continuing to decline, but we're seeing the increases.

Now I hate to try to parse out the various pieces of it just for the fact that the noise may take away from the real story.

Samuel Marc Poser

Williams Trading, LLC, Research Division

Okay. And then the inventory decrease, you talked a little bit about this on the call to bring the inventory down 50 million to 60 million next year and the margin. So within getting the inventory down 50 million to 60 million next year and then another 40 million to 50 million in '27, there's different ways to do it. There's -- you can return goods to vendors. You can take -- you can have lower margins, which would then increase your COGS, and you can bring in less product.

How should we think about the breakdown of that? You talked a little bit about -- and how much gross margin and how much gross margin pressure should we anticipate in fiscal '26 in that what you brought up about not being able to shuffle inventory around as there are less Carnival stores?

Mark J. Worden

President, CEO & Director

Sam, it's Mark. Let me take that first and team can build on it. I think aside from the new assortments will be opened up to a Shoe Station, the structural change to how we service the customer is the area I'm probably most excited about. And when we think of the Carnival store, as I like to describe it, they're towering displays that promotional products above person's arm length unless you're Shaquille O'Neal.

Shoe Station has a very structural difference that our vision and where we're progressing towards of curated product, lower profile, accessible, the customer can see and easily navigate. And by nature of that significant change of where we're heading, we have in that 20% to 25% reduction of units on hand in the stores when we get it right, that endpoint.

Now that gets us along with selling through the tariff inventory at accretive margins, that gets us the \$100 million reduction that Tanya and I and Kerry are talking about. We're going to get there quickly, but we need to do it in conjunction with our partners through those means you just mentioned, Sam. So all of those things are going to occur that you just said.

The most strategic of it will be, as Tanya and I work through our buys from back-to-school of this year forward. We'll be buying with intentionality to meet where Station is and where the rest of the company is going now that we're not in test and learn.

Now Kerry touched on a point that's super important, and we're not going to hold on to Carnival product that's stranded past the season. So as we get past boot season, for example, this year, we're having a good start, as Tanya said, we've got the right product. But if you get to the end of boot season, we're going to clear it. We're not going to carry it if it's not a go-forward in the Shoe Station, that will have some margin pressure.

It's the right thing to do. We're not going to hang on to that for a year, and we've got the financial balance sheet to clear that out. So there will be some margin pressure as we liquidate non-go-forward Shoe Carnival product from boot season, for example. For the 51% of the stores that will be Shoe Station by back-to-school, there will be non-go-forward brand styles and assortments. And same thing, we'll be liquidating that.

I think we'll be able to do a much better job as we get into our formal guidance in March to unpack the specificity of that. But our intent today is to let the stakeholders understand that's where we're heading, significant structural advantage, clearance of the tariff-related product at full strong accretive margins and then liquidation of non-go-forward products because you and I have talked many times, Sam, why on earth would you want to carry that forward? We don't. So there will be some pressure.

I don't know, Kerry, if you have any [builds], or Tanya?

W. Kerry Jackson

Executive VP & Chief Financial Officer

I agree with you, Mark, that right now, we need to get through the inventory further along. We'll know in March better how those stores, what their position of their inventories are on the stores we're going to be rebanner and therefore, the potential for the inventory that might be clearance. At this stage, it's too early. We need to see some sales through of those products.

Samuel Marc Poser

Williams Trading, LLC, Research Division

Okay. And just to follow up. I mean, so I'm backing in, and again, I know it's not a clean number, but receipts of this year of around -- to get to slightly above, I'm a little bit higher, but call it, \$770 million of receipts this year versus down from last year a bit. But next year, to get to where you want to get to on my numbers means that your total receipts, even with margins off a little bit, would probably have to be down in the -- inventory receipts probably in the range of \$100 million.

Is that -- am I thinking about that properly? That's probably a better Tanya question, but am I thinking about that properly?

W. Kerry Jackson

Executive VP & Chief Financial Officer

Well, let me start out with that, and then Tanya can build on it.

The idea -- you got to remember that we have pre-bought goods for the spring season. So the opportunistic buys and the tariff product, we're going to carry that type of product into the season of the spring. So therefore, we have front-loaded those purchases, so there will be a reduction in the overall. So directionally, you're right about purchases.

Tanya E. Gordon

Executive VP & Chief Merchandising Officer

Yes. And just to build on that, Sam, based on the pre-tariff goods that we're bringing in, those are sitting in our current inventory today. And then based on our go-forward model, rebanner to Shoe Station, our pairs have to come down. Our pairs are coming down in that model, and our AURs are going up. So the new model, our pairs have to come down significantly. So that's what's going to get us back to the inventory levels that we need to be at.

Samuel Marc Poser

Williams Trading, LLC, Research Division

Okay. And then -- but that -- but when you front-load a lot of spring products and you're buying it well ahead of time to do it, I mean, the consumer wants what the consumer wants, and you're buying a lot of that stuff probably earlier and at discounts that may not be -- you might not be able to realize the margin.

So how -- I mean when we think about reducing -- I guess, let me just break it out. When you say you're going to get conceptually to down 50 million to 60 million next year, what percent of that is less receipts? What percent of that do you foresee as RTVs? And what percent of that do you think is just going to be higher cost of goods, lower gross margin? I mean how do you think about that conceptually?

Mark J. Worden

President, CEO & Director

Sam, it's me again. Sam, it's Mark. You're not thinking about it wrong in general terms. We're not ready to provide firm guidance, but thinking about receipts coming down next year in a range around \$100 million is not the wrong way to think about it right now.

We'll get tighter at Q1, but I don't want to dance it. You're thinking about it similar to how we're thinking about it. We'll get tighter as we fine-tune some of those elements we've talked about. But spot on. Our model requires less receipts.

Samuel Marc Poser

Williams Trading, LLC, Research Division

And then lastly, if -- one of the things is that if you're -- the comps at Shoe Carnival have remained tough and are difficult and you're anticipating that they will remain that way. Why not just -- if the consumer is not showing up right now, one, why not get more aggressive while the ducks are flying during holiday to just get really clean, especially in the 70 or so stores you're not going to -- that are going to convert with that product that won't go forward in the stores?

Which I'm gathering it's about -- would I be right in like the 50% range that -- between brands and styles that are the same or different for that matter between Shoe Carnival and Shoe Station, be it from Nike, Skechers, Adidas and so on, while like with the Birkenstock, you carry some of the same product, but you got the big buckle Shoe Station that doesn't go to Carnival, but then that will go into Carnival?

So -- but there's a good deal of it, still a big chunk of product that won't go forward. So how aggressive are you being? And then in the plan to possibly create clearance stores, why not start to do that earlier to give yourself an out, so you can turn some of these Carnival stores into clearance stores ahead of time to help yourself out of -- through liquidation?

Mark J. Worden

President, CEO & Director

Those are three great questions. This is Mark again. Let me answer them all.

The first, it's not wrong to think 40% to 60% of the Carnival inventory does not go forward into Shoe Station. There's variability, but the range you're talking about is the right way to think about it.

Second, the 70 stores that are Shoe Carnival today and will be Shoe Stations, that product that does not go forward will be liquidated aggressively. Totally agree with your point, it will be gone. And that's what

we're alluding to. You said it better than we may have communicated it. That's what we're alluding to when we say there will be margin pressure.

In the past, when it was test and learn, it was easy to reallocate 10 stores. And then it was still easy to do it when it's 25. Now that it's not test and learn and it's a full corporation rollout, now we need to clear that product out because it makes no sense to move it around. We'll be doing that for those 70 stores, full stop.

Sorry, you might have had a third or fourth point, but hopefully, that answers your question, Sam.

Operator

Your next question comes from the line of Jim Chartier with Monness, Crespi, Hardt.

James Andrew Chartier

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

You previously talked about getting to 80% of stores rebannered by March of 2027. Is that still the plan? Or is that pushed back?

Mark J. Worden

President, CEO & Director

Jim, it's Mark. What I tried to say in the speech today is we will be well over 90% before we finish 2028, and we will surpass the critical point of 51% this summer. We're not putting any intermediary dates in there because we think it's far more important that we focus on delivering that experience, that inventory transformation we've just talked about and unlocking the \$20 million of synergies.

As we get closer, we're going to learn a lot more, and we can provide better guidance on those intermediary dates of '27 as we get much closer. We're going to stay really focused on the tight 2026. Here's what we know. We're doing 70, we'll get to 51, and we turn that pivotal quarter this year. We'll do more in '27, but we want to lock into 2028 versus an intermediary date. Now that's not test and learn, and it's a full company rollout.

James Andrew Chartier

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

Okay. Makes sense. And then on the \$20 million of savings, how much of that do you expect flows to the bottom line versus might go towards reinvestment? And then, how should we think about the timing of those savings?

Mark J. Worden

President, CEO & Director

Yes. As we get into 2028, we think it flows. We may choose to invest more in brand building for the corporation or other activities. But when you look at SG&A this year versus SG&A that year, excluding advertising expense, I would see it would flow in 2028.

Now Kerry did a nice job saying it's not going to manifest in 2026 because there's other investment costs here. But Kerry can build on that, if you like.

W. Kerry Jackson

Executive VP & Chief Financial Officer

That's the key right there. So 2026 is an investment year. We're going to be rebannered significant stores, and we'll just be starting to get the benefit of that \$20 million in 2026, but it might mitigate some of the rebanner costs, but it's not going to offset them, like Mark said, that once the rebanner costs are diminished in '28 and we have that full benefit of that \$20 million savings, that's when we can start to realize it.

Operator

That concludes our Q&A session. I would now like to turn the call back over to Mark Worden for closing remarks.

Mark J. Worden

President, CEO & Director

Thank you all for joining us today. As we said, it's a pivotal moment for the company as we move towards Shoe Station Group becoming our new corporate name, pending shareholder approval next summer, the majority of our fleet next summer, and we progress towards one brand unlocking significant value.

I want to thank you all so much for your time and wish each of you and your families a happy Thanksgiving and holiday season ahead. I hope to see you in the markets or a Shoe Station store between now and then. Take care.

Operator

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

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