Shoe Carnival, Inc.

NasdaqGS:SCVL

Earnings Call

Thursday, May 21, 2026 2:00 PM GMT

Call Participants

EXECUTIVES

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Marc A. Chilton
Senior EVP & COO

Tanya E. Gordon
Executive VP & Chief Merchandising Officer

W. Kerry Jackson
CFO & Executive VP

ANALYSTS

Mitchel John Kummetz
Seaport Research Partners

Samuel Marc Poser
Williams Trading, LLC, Research Division

Presentation

Operator

Good morning, and welcome to Shoe Carnival's First Quarter 2026 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 contain certain forward-looking statements and certain non-GAAP financial measures. Forward-looking statements are subject to a number of risks and uncertainties that could cause the company's actual results to be materially different from those projected in such statements. Forward-looking statements should also be considered in conjunction with the discussion of risk factors included in the company's SEC filings and today's earnings press release.

Information about our use of adjusted or non-GAAP financial measures, including reconciliations to U.S. GAAP, can be found in our earnings materials that are available on our website.

I will now turn the conference over to Mr. Cliff Sifford, Interim President and Chief Executive Officer of Shoe Carnival, for opening remarks. Mr. Sifford, you may begin.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Good morning, everyone, and thank you for joining us today. With me on the call are Kerry Jackson, our Chief Financial Officer; Tanya Gordon, our Chief Merchandising Officer; and Marc Chilton, our Chief Operating Officer. Tanya and Marc are both available to take your questions during the Q&A portion of the call. This is my second earnings call since returning as Interim Chief Executive Officer in late February. And I want to begin by thanking our Board, our management team and our associates across the company for their hard work during this period of transition.

When I returned in late February, the Board asked me to take a fresh look at the rebanner program and the broader strategic direction of the company. Working closely with Kerry, Tanya and Marc and the rest of our management team, we completed that review during the first quarter. Three conclusions emerged.

First, the Shoe Carnival and Shoe Station banners each serve distinct consumer segments, and the company is best positioned to operate both banners as permanent independent components of our portfolio. We are not pursuing a single banner strategy.

Second, while the rebanner program has been successful in markets where the consumer demographics aligned, our detailed analysis of customer data, individual store trade areas, shopping center cotenancy and brand awareness by market identified only a limited number of additional Shoe Carnival locations that meet the criteria for conversion. For this reason, we expect few store rebanners over the next 2 years, a substantial departure from the prior expectations.

Third, our store fleet includes underperforming locations that do not have a path to acceptable economics with or without banner conversion. We expect to close 12 to 14 such stores during fiscal 2026 and a further 6 to 10 stores during fiscal 2027. These decisions together with related fixed asset write-offs drove the strategic review charges of approximately $8 million that we recorded in the first quarter. I want to spend a moment on the Shoe Carnival banner, because we believe this banner has more potential than recent results have shown.

The first quarter offered an early indication of what is possible. Through a rebalancing of marketing investment and a more deliberate promotional cadence in our stores, we narrowed Shoe Carnival's year-over-year net sales decline to 2.2%, a meaningful improvement compared to the trends we experienced throughout fiscal 2025.

The plan from here is straightforward. We will restore the right product mix that delivers competitive opening price points our customer expects. We will pair that assortment with a measured in-store promotional cadence and supporting marketing presence. We'll execute consistently across the chain.

I want to be candid with you about the timing. We do not believe correcting the product mix will be visible in our reported results until back-to-school for athletic categories and into the fall season for nonathletic categories. We have also begun the effort to reengage the value-focused families and a more fast fashion-forward customer, both of whom we underserved in fiscal 2025, when our merchandising drifted toward higher price points and assortments that did not reflect what those customers historically came to Shoe Carnival to find. Reengaging those customers will take longer than a single quarter, but our back-to-school product offering and supporting promotions would demonstrate a clear return to the traditional Shoe Carnival proposition.

The Shoe Station banner net sales declined 3.1% in the quarter, the first banner level decline in some time. Part of that softness reflects the marketing rebalance towards Shoe Carnival that I just described, but it also reflects a more fundamental issue we identified through the strategic review, and one I want to address directly.

When we converted Shoe Carnival locations to the Shoe Station banner over the past 2 years, we applied a uniform Shoe Station assortment, one calibrated to the premium brand-led experience that our legacy Shoe Station customers in the Southeast know well. The assortment has performed well in markets where the trade area demographics align with the Shoe Station consumer profile. In other markets, however, the trade area retains characteristics of the original Shoe Carnival customer base and the uniform assortment has not resonated as we expected.

The path forward is not to reverse those conversions, rather, our merchandising team under Tanya's leadership and in close coordination with our key vendor partners is calibrating the assortment at each converted store to align with the actual demand profile of its trade area. In some markets, that means a more accessible mix within the Shoe Station banner. In others, it means leaning further into the premium brand-led positioning. The Shoe Station banner remains our premium concept, but the assortment discipline behind it is being tailored to each market. This is the most important operational priority for our merchandising team between now and August.

Our goal is to have the right assortments by store based on the customer shopping that particular store and time for back-to-school. Looking further forward, we expect to begin selective new store growth in fiscal 2027. Our plan currently contemplates 3 to 5 new stores in fiscal 2027, expanding to 8 to 10 in fiscal 2028. These new stores will be primarily under the Shoe Station banner and suburban trade areas within our existing 35-state footprint where the consumer demographic clearly supports the concept. We are executing this plan from a position of financial strength.

We ended the first quarter with $129 million in cash, cash equivalents and marketable securities, an increase of more than $36 million compared to the prior year quarter, and we operate with no debt. During the quarter, we also returned approximately $7 million to shareholders through the repurchase of 390,492 shares of common stock. This financial flexibility is a deliberate result of disciplined capital management over many years, and it allows us to fund the actions I have just described. The moderated rebanner activity, the store closures, the inventory normalization and the future new store program entirely from operating cash flows and existing reserves.

On a GAAP basis, we reported a first quarter diluted loss per share of $0.21, reflecting the costs associated with the Chief Executive Officer transition and the strategic review of our rebanner program. Excluding those charges, the underlying business generated $0.23 of non-GAAP adjusted diluted earnings per share, consistent with the consensus analyst expectations for the quarter.

Net sales of $270.7 million and a comparable store sales decline of 2.1%, both came in modestly ahead of consensus and gross profit margin of 33.3% was in line. Selling, general and administrative expense on a non-GAAP adjusted basis was modestly above consensus. That said, meeting consensus this quarter should not obscure the underlying issues we identified through the strategic review. The macro environment was a contributing factor.

Our customers, particularly at the Shoe Carnival banner are absorbing higher costs for fuel, food and other essentials with recent geopolitical developments adding pressure. We saw that reflected an unusually consistent softness across all 4 of our major footwear categories: adult athletic, men's nonathletic, women's nonathletic, and children, were each down low single digits in the quarter. That kind of cross-category symmetry tells us this is a consumer pressure story, not a category-specific one.

More fundamentally, the underlying issue in the first quarter was our product positioning at both banners. At the rebannered Shoe Station stores, our assortment was tilted toward a customer profile we have not yet attracted in meaningful volume to those locations, and one that, in many cases, does not naturally shop at the centers where those stores are located.

At our legacy Shoe Carnival stores, our merchandising has drifted toward a more moderate income customer, while underserving the value-focused family and fast fashion customers in large metropolitan areas, both of whom have been important customers for the Shoe Carnival banner. We believe those positioning issues are reversible, and both are being addressed by the corrective actions I described earlier.

We expect the work to begin to show in our results at back-to-school and athletic categories and through fall and nonathletic categories. Looking ahead, the consumer environment remains challenging. We expect continued pressure on moderate income households through the balance of fiscal 2026, particularly given the recent geopolitical developments affecting fuel and food costs. We are planning the business accordingly.

At the same time, the bulk of our annual earnings opportunity sits in back-to-school and fall, and our corrective actions at both banners are deliberately targeted to land in advance of those critical selling periods. For that reason, we are reaffirming the fiscal 2026 guidance we communicated in March. The most important quarters for our business are still ahead of us, and it is too early in the year to step away from the guidance we set. Kerry will walk you through the detail in his remarks.

I am confident in our team and the strategic conclusions that we have reached and in the financial foundations from which we are executing.

Kerry will now provide a detailed financial review of the first quarter. We will then open the line for questioning, after which I'll offer brief closing remarks. Kerry?

W. Kerry Jackson
CFO & Executive VP

Thank you, Cliff, and good morning, everyone. Our first quarter results came in within the range of consensus analyst expectations with sales modestly above consensus, gross margin in line, and adjusted diluted earnings per share of $0.23 matching consensus. I will walk you through the detailed financial results, our balance sheet position and our reaffirmed fiscal 2026 guidance.

On a GAAP basis, we reported a first quarter net loss of $5.6 million or $0.21 per diluted share, reflecting $13.6 million of pretax charges associated with the CEO transition and strategic review of our rebanner program that Cliff described. These charges break down as $5.3 million of costs related to the CEO transition, primarily cash severance, the accelerated vesting of equity awards, outplacement fees, related payroll taxes and related legal costs. And $8.3 million of strategic review charges comprising of the impairment of 7 store locations, some of which were previously identified as rebanner candidates, write-offs of rebanner-related and corporate fixed assets and related lease costs.

The after-tax impact of these charges was $11.9 million or $0.43 per diluted share. Excluding these charges, non-GAAP adjusted net income for the first quarter was $6.2 million or $0.23 per diluted share. This compares to a net income of $9.3 million or $0.34 per diluted share in the first quarter of fiscal 2025. Net sales for the first quarter were $270.7 million, modestly ahead of consensus compared to $277.7 million in the first quarter of fiscal 2025. Total company comparable store sales declined 2.1%, also modestly ahead of consensus.

Breaking down performance by banner, Shoe Carnival banner net sales were $177.3 million, representing 65% of net sales, a decline of 2.2% compared to the first quarter of fiscal 2025. Comparable store sales at Shoe Carnival declined approximately 1.7%. This represents a meaningful improvement from the mid- to high single-digit comparable sales decline we reported at Shoe Carnival banner throughout fiscal 2025.

Shoe Station banner net sales were $93.4 million, representing 35% of total net sales and declined 3.1% compared to the first quarter of fiscal 2025. Comparable store sales at Shoe Station declined approximately 2.9%. While we saw an improvement in the rebanner stores, a moderation in the increase in Shoe Station's e-commerce sales resulted in the comparable store sales decline.

First quarter gross profit margin was 33.3%, a decrease of approximately 120 basis points compared to the first quarter of fiscal 2025. Within that, merchandise margin decreased approximately 140 basis points, primarily reflecting increased promotional activity and higher e-commerce-related shipping costs. The decrease was partially offset by approximately 20 basis points, primarily due to lower buying, distribution and occupancy costs.

The first quarter gross profit margin compression of 120 basis points is consistent with the full year fiscal 2026 gross margin expectation we communicated in March, which contemplates approximately 260 to 270 basis points of gross profit margin compression for the year, with the majority of that compression weighted to the first half.

Selling, general and administrative expense on a GAAP basis was $96.1 million in the first quarter, an increase of $12.3 million compared to the first quarter of fiscal 2025. Excluding the $13.6 million of nonrecurring charges associated with the CEO transition and the strategic review, adjusted SG&A was $82.5 million, a decrease of approximately $1.3 million compared to the prior year quarter. Of that decrease, approximately $0.2 million reflected lower rebanner-related costs and $1.1 million reflected the other lower selling expenses.

First quarter income tax expense on a GAAP basis was $0.6 million despite a pretax loss for the quarter. This reflects the nondeductibility of certain CEO severance payments, which increased reported income tax expense by approximately $1.6 million. On a non-GAAP adjusted basis, our effective income tax rate in the first quarter was approximately 27% compared to 28% in the first quarter of fiscal 2025.

We continue to operate from a position of significant financial strength. At the end of the first quarter, cash, cash equivalents and marketable securities totaled $129.3 million, an increase of approximately 39% or $36.4 million compared to the end of the first quarter of fiscal 2025. We remain debt-free.

Cash flow from operating activities in the first quarter increased $32.7 million compared to the first quarter of fiscal 2025. Capital expenditures during the first quarter totaled approximately $10.4 million, a decrease of approximately $3 million compared to the first quarter of fiscal 2025, primarily reflecting the moderated pace of rebanner activity.

Merchandise inventories at the end of the first quarter were $417.2 million, a decrease of approximately $11 million compared to the end of the first quarter of fiscal 2025. Consistent with the framework we communicated in March, we continue to expect inventory to decline by $50 million to $65 million by the end of fiscal 2026 compared to the end of fiscal 2025, driven by disciplined buying and planned promotional activity during the first half of the year.

During the first quarter, we returned approximately $12 million to shareholders through a combination of dividends and share repurchases. We paid a dividend of $0.17 per share, an increase of 13.3% compared to the first quarter of fiscal 2025. This marked the 12th consecutive year in which we have increased the quarterly dividend rate and the 56th consecutive quarter in which the company has paid a dividend. We also repurchased 390,492 shares of common stock during the first quarter for approximately $7 million, at an average price of $17.93 per share. As of the end of the first quarter, approximately $43 million remained available under our existing share repurchase authorization.

Turning to our fiscal 2026 guidance. The first quarter unfolded broadly in line with the consensus expectation on the key financial metrics. We are reaffirming the fiscal 2026 guidance we communicated in March, which continues to contemplate: net sales of $1.125 billion to $1.147 billion, representing a range of down 1% to up 1% versus fiscal 2025; adjusted diluted earnings per share of $1.40 to $1.60; gross profit margin of approximately 34%, representing approximately 260 basis points of compression versus fiscal 2025; reductions in adjusted SG&A of $12 million to $14 million versus fiscal 2025; and an effective adjusted income tax rate of approximately 26%. Our adjusted diluted earnings per share guidance excludes the impact of the CEO transition costs previously identified and strategic review charges recorded during the first quarter.

With that, I will open up the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Mitch Kummetz with Seaport Research Partners.

Mitchel John Kummetz
Seaport Research Partners

I guess, I've got a few. So let me start on the stores. I think you're at 426 now. So what is the mix between Carnival and Station on that number?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Do you want to take that? Marc, you want to talk about that?

Mitchel John Kummetz
Seaport Research Partners

I'm sorry?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Marc Chilton is on the call, and I'd like for him to give you that number.

Mitchel John Kummetz
Seaport Research Partners

And while you're looking for that, Cliff, you talked about closing 12 to 14 this year, and then you also talked about slowing the rebanners. So could you also address -- I mean, are the 12 to 14 all station stores? Are they some Carnival stores? And how many rebanners are you still looking to do this year?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

And again, I'll turn that question over to Marc, who is our Chief Operating -- he's in charge of the stores. So Marc, please?

Marc A. Chilton
Senior EVP & COO

Yes, Mitch, when you look at the breakdown of Carnival, Shoe Carnival, Shoe Station, there's 281 Shoe Carnivals and 145 Shoe Stations...

Mitchel John Kummetz
Seaport Research Partners

And then the count of store closures?

Marc A. Chilton
Senior EVP & COO

I'm sorry, Mitch, have you asked about of the stores were closed. Almost a majority of them are Shoe Carnival. I think we have one right now slated in '26 to close that is a Shoe Station.

Mitchel John Kummetz
Seaport Research Partners

And then how many -- are you still rebannering over the balance of this year? And if so, how many are you doing?

Marc A. Chilton
Senior EVP & COO

No, we completed the rebanners for this year, this month in the middle of finishing them up. So we will be done going forward this fiscal year.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Mitch, If can I add. Can I add to that? The goal here now is to find sites to grow Shoe Station with new stores in the areas where the demographics match what we want Shoe Station to be. So there are chances that even in the cities that we serve today with Shoe Carnival, we'll be opening up across town with Shoe Station because that's where the customer that the Shoe Station wants to serve live. So that's the goal. And the new stores that we're opening up over the next 2 years will primarily be Shoe Station stores.

Mitchel John Kummetz
Seaport Research Partners

So maybe, Cliff, elaborate on that because in the press release, you mentioned, and I also think you hit on this in your prepared remarks that you see 2 distinct customer segments, one for Shoe Station and one for Shoe Carnival. Can you just maybe speak a little bit to what that means? Is this really about income level? Or is it -- how do you see these 2 customer segments?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

In Shoe Carnival, you followed us a long time so that you know we served a very diverse customer base. Our strongest market was Chicago. We also had a strong market in Houston and other markets where we serve the Hispanic customer base, African-American, but we served a very distinct customer base or diverse in Shoe Carnival.

Shoe Station has been a little different and one that we found resonates well with a higher income customer, also diverse, but higher income, looking for better brands, better product. So that's the way we're going to run or the way we're going to grow Shoe Station in the future going after that customer, a diverse consumer with higher income, living in better size of town with -- and maybe a little older.

But one of the things that we've seen with Shoe Carnival is that it's a very young customer, families just getting started. And as they grow up and they get better jobs and their better income, sometimes we lose them at Shoe Carnival and we're replaced by the younger customers that are then coming up. Shoe Station takes amount at that point. And it is a great opportunity for us to service all customers of all income brackets. And that's why we're -- that's one of the reasons we're so excited about our opportunity. It's going to be a great growth opportunity going forward in markets and neighborhoods and shopping centers that we would not have been successful with, with Shoe Carnival.

Mitchel John Kummetz
Seaport Research Partners

Okay. And then, Cliff, at the Carnival side of things, you mentioned that you've tweaked kind of the marketing and promotional strategies there. Can you talk about what you've done, and how that's improved the performance of that banner?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Yes. The strength at Shoe Carnival, one of the things that we talked to you about early on as you covered us, was that when the customer walks in our store, our goal -- we assume that they want to buy one pair of shoes. They're there for that. Our goal is to sell them the second or third pair.

And we use the -- what we call the mic person that we make announcements in store to entice that customer to sell that customer a second or third pair. That mic person had been silenced somewhat and we're no longer calling out promotions. We un-handcuffed them and asked them to go back to the Shoe Carnival methodology that has made us so great in the beginning. And that worked, that worked.

The other thing that you'll see at back-to-school is that the promotional cadence for back-to-school on athletic and nonathletic product will be a little -- it will be paginated a little different than Shoe Station with some lower-priced product that will appeal to that customer with large families and then Shoe Station product will be a bit different even from there with higher price points, higher product categories.

Mitchel John Kummetz
Seaport Research Partners

And then on back-to-school, it sounds like some of the adjustments that you're making to the assortment that those will be in place on the athletic side, but the nonathletic piece won't come until a little bit later. I know that back-to-school skews athletic, but are there any concerns that you won't have the right nonathletic assortment in place for back-to-school, especially on some of these kind of price point items?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

I'm going to let Tanya address that, but I'm going to start off by saying this to you is that there are brown shoe products that sell well during the back-to-school time period. And we will be in-stock on those items. But 70% of our business is still athletic during that time period.

Tanya, you should round that out.

Tanya E. Gordon
Executive VP & Chief Merchandising Officer

Yes. Thanks, Mitch. Just to build on that, we will on the nonathletic side, we have made changes. We're just going to see a bigger shift when we get into the fall season when we really get into the nonathletic side of the business. And just to reiterate what Cliff said, 70% of the business at back-to-school is athletic, and we've positioned that very well.

We have positioned on the nonathletic side, some more of our urban brands where we walked away from that consumer, the Shoe Carnival consumer. So we do have those positioned on the nonathletic side, and we do have more value positioned on the nonathletic side for back-to-school. But again, as we move into fall and we get into our boot assortment, we were able to go back and make many more pivots before the third and fourth quarter.

Operator

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

Samuel Marc Poser
Williams Trading, LLC, Research Division

Just one, the timing -- this is paperwork. The timing of the store closures that you foresee this year, could we assume Q2 and Q4? Or is most of it going to be like right at the end of the fiscal year?

Marc A. Chilton
Senior EVP & COO

Yes. Sam, it's Marc. We're looking at 5 in Q2, 2 in Q3 and somewhere between 5 and 7 in Q4.

Samuel Marc Poser
Williams Trading, LLC, Research Division

And then can you go in a little bit more into the local -- I mean, I'm paraphrasing the localized assortments that you're working to put in place and how long by both banners will take to sort of be at a level that you can work with, but I don't think you're there at the moment given the standardization of the mix that's been put in place?

Tanya E. Gordon
Executive VP & Chief Merchandising Officer

Sam, it's Tanya. Yes, you're absolutely right. We are not there today, but we, again, have made changes for back-to-school and then more changes as we get into the back half of the year. We were able to go back and make pivots, because you're right, the assortments that we have in the store today, we bought all stores the same. So we got away from our localization, meaning really leaning into that urban consumer in the Shoe Carnival stores as well as the Shoe Station stores. We have urban customers in both markets and did not serve her properly in terms of assorting to the consumer in those markets, whether it's Shoe Station or Shoe Carnival.

So we have gone back and pivoted. We've got more assortments coming in to serve those consumers and to get more value in and making sure that the Shoe Carnival assortment, when you think about the assortment in terms of good, better, best and getting the value in there, both banners need the good, but Shoe Carnival leans much heavier into that good and that value. And we have gone back and pivoted. Again, you're going to see a lot more of that as we get into the second half of the year on the Shoe Carnival side just based on the pivots that we've been able to make and really increasing some of those urban brands on the Shoe Carnival side. So you'll see -- you'll definitely see it in back-to-school. But then as we get into the fall, you'll start to see even more changes just based on who the customer is.

And going back to what Cliff said, the customers are very different. The Shoe Carnival customer is a much younger consumer, fast fashion consumer at very value prices and a lot built on that good spectrum. So again, we had a lot of changing to do to get that Shoe Carnival assortment back the way it needs to be. And then Shoe Station, that consumer is a more mature consumer. They definitely like value. And on the nonathletic side, they like the brands, but they like the brands at a value.

So what we have today based on how -- what the direction was and how they were bought, we didn't necessarily have those at the right value. We have been able to go back and get the brands, the more mature brands that, that consumer likes added value, and we will be competitively priced in both banners. Does that answer your question?

Samuel Marc Poser
Williams Trading, LLC, Research Division

Yes, it does. And then I have two more. One for Kerry. You talked about this 270 basis point drop in gross margin. You said that it would be skewed towards the front half. How should we think about -- I mean, how should we think about this at all? What is Q2 going to look like from a gross margin perspective? Because I mean, are we looking down like 500-plus basis points in Q2? And then -- or even, I mean, that's -- can you help us a little bit there?

W. Kerry Jackson
CFO & Executive VP

Well, directionally, you're right about that because last year in Q2 was the biggest increase on a year-over-year basis in our merchandise margin. The merchandise margin was up almost 400 basis points. And we -- as we talked about in our Q4 call, we expect to give that back because that pricing was in front of the cost increases, and we were not competitive on our pricing at that point in time. So not only will we give up that 400 basis points, but we will -- through liquidation of product promotional categories that we'll do in Q2 to keep getting our inventories in better shape, we'd expect our merchandise margin to be higher decline. Having said that, though, we will leverage our BD&O against the higher sales base. So your 500 basis point may be a little high, but directionally, you're right -- you're right on the trend.

Samuel Marc Poser
Williams Trading, LLC, Research Division

Okay. And then lastly, for Cliff, I have to ask you this question. I apologize ahead of time, Cliff. But how does the new Chief Merchant rank versus her predecessors?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Be honest with me, Sam. Your dog just gave you that question.

Samuel Marc Poser
Williams Trading, LLC, Research Division

No, you were. I said, I didn't ask that question on the last call. So I felt like I needed to ask that. So no pressure, it's just a question, Cliff.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Here's the way I look at it. I hired Tanya. And after I got a very strong recommendation from Carl that I hired Tanya, and I hired Carl, and I always hire people that remind me of the way I did the business. So I would say I'm very proud of her, and I'm so happy that she's here. And we've just had a great string of great Chief Merchants every since I was hired by [Marc Lamont].

Samuel Marc Poser
Williams Trading, LLC, Research Division

And then -- so Tanya, when are you taking over the entire company, and I'll leave it at that. And I don't need an answer, but have a great one and I'll talk to you soon.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Talk to you soon, Sam. Thank you.

Operator

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

Mitchel John Kummetz
Seaport Research Partners

I guess, I have a few more. Cliff, you talked about some of these converted stores not aligning with their trade areas. Have you really been able to identify yet how many stores we're talking about? And can you give us that number?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

I would ask Marc to maybe jump in on this one. But yes, we know the stores that don't align because that was part of the strategic review. It's truly not a hard -- in my mind and in Tanya's mind as well, it's really not a hard fix. It's just the timing of the fix because, as you know, actually, you probably know better than anyone that you're 6 months out by the time we identified the store on getting the right product. And it's not a complete change.

It's really important to understand it's not a complete change of the total inventory in those stores. It's just adding additional product into those stores, maybe eliminating some of the higher-end product, but adding in some of the opening price points of those stores to get them fixed. And Tanya, you should jump in on that because you're the one working through it.

Tanya E. Gordon
Executive VP & Chief Merchandising Officer

Yes, absolutely. Just to build on that, the brands -- the overall brand mix, as you well know, based on the national brands, about 60%, 65% of the assortment is very similar because the national brands are what the national brands are, and we need to carry those. It's just the penetration of each of those brands that is different based on who the customer base is in each of the markets.

And then to Cliff's point, for the Shoe Carnival consumer, it's really getting in more value in those stores. And like I spoke to earlier, getting more of that younger fast fashion at a good price -- good opening price point. And then on the Shoe Station side, it's, again, really getting in the branded piece of it for that more mature consumer at a great value.

Mitchel John Kummetz
Seaport Research Partners

And then as an enterprise, as you think about running both of these banners long term, I think you said -- I think you're in 35 states. I know that station when you bought it, was relatively small initially. I think it was based out of Alabama that had a kind of a real Southeastern presence. Are there any -- do you see any limitations on Station, in terms of growing into your kind of geographic footprint of 35 states? I mean as you've opened stores in geographies outside of this kind of core, have those stores worked well? And do you see it as a banner that can function as broadly as the Carnival banner has?

W. Kerry Jackson
CFO & Executive VP

Mitch, let me start with that one. I think that the key differential for the Shoe Station when we're looking at it is finding the right customer base, which, as Tanya and Cliff both said, is a little older, a little more affluent. So I think that is the limiting factor, not -- but ethnicity, as Cliff said, it hasn't been an issue in Shoe Station. So we don't perceive that there is a limitation to being a nationwide retailer if we can find the locations. Now obviously, that's over time.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

That just -- I get excited when I think about some of the towns like Indy or St. Louis, some of the towns that we have historically been strong in, but in more urban areas, opening up those cities with a Shoe Station store in a higher income neighborhood or a shopping center and servicing the customer on both ends of the income spectrum, I just see it as a tremendous opportunity for long-term growth.

Marc, do you want to add?

Marc A. Chilton
Senior EVP & COO

Mitch, I would add to what Cliff just said. If you look at some of our top markets where we're very successful, we don't operate out of that entire market because there's large sections that a Carnival does not make sense. This gives us the vehicle to complete a market and to -- and I think it gives us a lot of room for growth as we look forward into areas, markets and states we already know very well.

Mitchel John Kummetz
Seaport Research Partners

Okay. And then two last ones. I think these are for Kerry. One, on the first quarter, can you give us comp by month? And then -- I don't know if you can add it to sort of how early 2Q is trending?

W. Kerry Jackson
CFO & Executive VP

Well, directionally, I'll give you -- as we said at our Q4 call, February started out nicely, and we were comping up low singles. And then you get into the shift of Easter, which makes it a little bit more difficult. And then we ran into the macro issues where you could see a slowdown in the consumer. So the quarter ended much more difficult than it began.

Mitchel John Kummetz
Seaport Research Partners

And has that continued the macro, I don't think it's gotten any better in May. Have you seen that kind of continue into May?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

We have -- that has -- that trend has continued into May. And we -- I'll just tell you, we believe that we're going to see a continuation of this trend into the macroeconomic issues clear up whenever that might be, or until we get to back-to-school. Because when we get to back-to-school, we'll be talking to our customer where they live and how they shop. And I think it's going to set us up differently than we've been set up in the past.

I'm truly excited about the opportunity for that time period and beyond. I said through -- I mentioned I'm going to get all subject in a minute and Kerry is going to slap me around. But I sat through a boot presentation the other day for this fall. And I just have to tell you, it is by far the best boot presentation I have ever seen, and it is so targeted to the customer that shops each one of these brands, Shoe Carnival and Shoe Station. And I just -- I am so excited about our opportunity even when you get past the boot presentation and see that the product mix in athletic and women's nonathletic past boot brand, it's just is very exciting to see. We have even reenergized the kids department where before, I believe that it was downplayed because it didn't seem to fit the Shoe Station customer base. But I've seen it. I'm excited about it. And I do believe that as we get toward back-to-school, you're going to see a change in direction from our sales.

Mitchel John Kummetz
Seaport Research Partners

So this is when Kerry steps in and guide to a double-digit positive comp for the fourth quarter then, right?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Yes. That's why I said he's going to not be happy with me. But I do -- there's a change. And yes, the geopolitical issues of today will still have an effect, but I think we can overcome some of that with the product mix I've seen.

W. Kerry Jackson
CFO & Executive VP

Partly why we were able to feel comfortable reaffirming our earnings is that even with the difficult trend we're seeing in Q2, the opportunity we see in the second half, which we've said all along is that we expect to see a down first half and an up second half, and that's still played into our thought process when we reaffirmed our guidance.

Operator

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

Samuel Marc Poser
Williams Trading, LLC, Research Division

Okay. No more silliness. The comp that you -- sorry, will the comp be better in Q2 -- do you expect the comp to be better in Q2 than it was in Q1, given that you'll be in better position for back-to-school? And I assume July -- I mean July is what, 40%, maybe more of Q2 revenue?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

I don't think it's quite at 40%. Back-to-school starts the third week of July, and it really is an August play for back-to-school.

W. Kerry Jackson
CFO & Executive VP

Mitch, I think we're going to be cautious on giving any sales guidance at this stage on Q2 or even direction on that until we see the macro issues more identifiable. So it's a wildcard for us right now.

Samuel Marc Poser
Williams Trading, LLC, Research Division

Well, let me ask you a different way, Kerry, is whatever you're trending, like you know how many dollars a week or dollars a day you're doing right now, correct? I assume over the first few weeks of Q2, correct?

W. Kerry Jackson
CFO & Executive VP

Okay, yes.

Samuel Marc Poser
Williams Trading, LLC, Research Division

And you know on a relative basis, given that the macro or the micro or -- it's not great out there, you generally know how things accelerate at back-to-school. So it would tell you even if things don't get better, they will stay the way they are, do you have some idea of where they're going to be. And -- but things have gotten arguably worse since you gave your initial guidance earlier in the year. So why not give direction based on what you know today, assuming it stays lousy?

W. Kerry Jackson
CFO & Executive VP

Here's the thing, Sam, is that if the macro environment cleared up quickly, you could have a rebound with the consumer on the spring product, and they could be more open to buying at BTS earlier. If the macro environment doesn't open up for us, then we may not get that rebound we're seeing. We might have to get more aggressive there. So that's why we're going to shy away and stick with our annual guidance direction of we expect for the year to be down 1, up 1 and the first half to be down and the second half should be up.

Samuel Marc Poser
Williams Trading, LLC, Research Division

And then can we assume that the gross -- because the gross margin guidance is inferring that, gross margin is going to be down triple digits in the back half. Is that just because you're going to be running sort of a more aggressive promotional cadence than you did, coupled with -- I mean -- and then -- well, then -- and how much is the tariffs work or the lack of thereof of tariffs help you potentially in the back half of the year?

W. Kerry Jackson
CFO & Executive VP

Yes. And I add one additional item as we talked about in the Q4 call is that our margins -- so we raised the prices in Q2 of last year, and we weren't very competitive. We saw it in our traffic, but it helped our margin throughout the year. So we're more competitive on pricing, and I called that in the last call, somewhat artificial margin enhancement because it really wasn't sustainable over the long term. So that's where we're at.

So yes, in the second half, we will still have margin compression. It's really getting back to more promotional pricing, but we're also seeing average unit cost pressures through tariffs. And in the first half, you have to add in we have a liquidation product that we're trying to clear out our inventories and get cleaner and get the inventories down. So those components all play into it.

Samuel Marc Poser
Williams Trading, LLC, Research Division

So then theoretically, you hit a base at the end of fiscal '26 and then that should -- and then once you get cleaner and where you should be, that's where potentially you can build back margins by within better localized assortments, being more directed, being able to target this promotional activity the way you once did, but not how you have recently done. Is that sort of -- I'm not asking for numbers, but is that -- that's a generally fair way to look at it?

W. Kerry Jackson
CFO & Executive VP

Yes. And I made the statement last quarter that we expect to rebound in 2027 back into the 35%, which are more traditional. It's below what we did in '25, but that '25, but that wasn't sustainable. And '26 is below because we're getting a rebound effect, cleaning out inventory, but we should rebound back to normalized margins in '27 based on a reasonable economy.

Operator

We have reached the end of the Q&A session. I will now turn the call back to Cliff Sifford for closing remarks.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Thank you for your questions and joining us this morning. Before we close, I'll leave you with three thoughts.

First, the strategic review we completed in March and April has resolved the questions about our direction. The Shoe Carnival and Shoe Station banners are permanent independent components of this company's portfolio. The work from here is operational, getting the right product into the right stores, executing with discipline across the chain and reconnecting with our customers at both banners.

Second, the corrective actions we have set in motion are deliberately timed to support the back-to-school and fall selling periods, which represent the expected bulk of our annual earnings opportunity. The visible results of that work are expected to arrive during the third and fourth quarters, not the second. The team's focus through this summer will be execution against that plan.

Third, we are reaffirming our previous communicated fiscal 2026 guidance, and we are doing so from a position of financial strength. With $129 million in cash and marketable securities, no debt, and continued capital returns to shareholders during the first quarter, we believe we have both the time and the resources to execute this transition properly.

I am confident in the management team you heard from this morning and the strategic conclusions we have reached and in the financial foundation from which we are operating. Tanya, Marc, Kerry and I look forward to speaking with you in early September when we will announce our second quarter results and give an update on the important back-to-school selling season. Thank you for your interest in Shoe Carnival.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.