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Shoe Station Group Inc.

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Earnings Call

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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

James Andrew Chartier
Monness, Crespi, Hardt & Co., Inc., Research Division

Mitchel John Kummetz
Seaport Research Partners

Samuel Marc Poser
Williams Trading, LLC, Research Division

Presentation

Operator

Good morning, and welcome to Shoe Station Group's Second Quarter Fiscal 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 forward-looking statements that involve 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. 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.

Management's remarks today will also reference certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP measures are included in today's earnings press release. I will now turn the conference over to Mr. Cliff Sifford, Interim President and Chief Executive Officer of Shoe Station Group, 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 our first earnings call as Shoe Station Group, which became official in June. The new name reflects our strategic vision, Shoe Station as our primary vehicle for long-term growth, operating alongside Shoe Carnival in an ongoing 2-banner model, with each banner serving its localized customer base with the right assortment at the right price.

Our second quarter results fell short of our expectations. This morning, I'll cover what drove the quarter, what our product and customer data tell us and the actions underway for the fall season, several of which are already showing up in our Q3 results. Kerry will then take you through the financials and our updated outlook. Three factors drove the quarter, and they interacted with one another. First, and this is the issue we identified and discussed with you on our first quarter call, the assortments in our Shoe Carnival and rebannered Shoe Station stores were not fully aligned with the customers actually shopping those stores. This alignment by location includes brand, assortment and sizing, all of which were not up to the standards we have set for our stores. When the assortment and sizing based on the customer that shops the store is wrong, promotion cannot fix it. Both of these opportunities showed in our quarter 2 results.

Second, we accelerated the liquidation of our aged and excess inventory. This was also deliberate. It pressured merchandise margin in the quarter, but it converted slow-moving inventory into cash and open receipt dollars for our fall assortments that I will describe in a moment. Our inventory ended the quarter down 5% from last year, and we remain on plan to reduce inventory approximately $50 million by year-end. Third, the footwear marketplace became increasingly promotional as the quarter progressed. Faced with that environment, we made a deliberate choice. We priced in-season product competitively to protect our market position rather than defend margin rate and lose the customer.

That said, we were pleased with our customer conversion rate. When customers came in our stores during the quarter, they bought. Store conversion improved in both banners, rising to levels we have not experienced in years. What declined was traffic. Lower prices alone did not bring customers through the door. Our challenge is clearly traffic and consumer awareness, not price, and that shapes where we need to invest. We will be communicating our value proposition and our assortment to both the legacy Shoe Carnival customer and the Shoe Station customer. The message will be differentiated, but it will communicate our improved assortment and value proposition. We need to rebuild trust with our customers that our stores offer the best selection of shoes and accessories at a great value for the entire family, and that takes effective and targeted communication, not deeper discounting.

Let me spend a moment on the product because the category detail tells you exactly where the assortment work matters and where we believe it is already paying off. Adult athletic, our largest business at roughly 37% of sales, declined mid-single digits, but the story underneath is mixed. Men's athletic was down only about 1%, with the running category comping positive in both men's and women's. Where we underperformed was fashion athletic, including the basketball category.

Running shoes are a staple for our customers. They trust us to have the best brands and a broad assortment. And when we have the right brands in the right doors, we win. That is the localization thesis in one category. Women's nonathletic, roughly 23% of sales, declined high single digits, with both sandals and women's sport casuals down double digits. Children's shoes declined high single digits. This is a business that we should own in the Shoe Carnival stores. Our family proposition in these stores start with the children's business. Our children's shoe buyers are as good as it gets in the industry, and they are rebuilding this business back to the levels we have traditionally experienced. This is a huge opportunity for us, and we believe we will once again be the destination shop for kids' shoes.

Men's nonathletic declined high single digits in dress and casual, while men's work boots, a replenishment business with a loyal customer, comped up about 2%. The pattern across all categories is consistent. Replenishment categories performed better. The categories that depend most on having the right localized assortment and sizing structures underperformed. We believe this is fixable, and we are very focused on making that happen.

Back-to-school is the first evidence that our localized assortment focus is working. Ahead of the season, we were able to change many distributions to a more localized athletic assortment, the category that drives back-to-school. And in August 2026, the beginning of our third quarter, comparable store sales declined 2.7%, a substantial improvement from the second quarter's 7.1% decline with improvement in both banners and continued double-digit e-commerce growth. As we move forward, our merchandise will reflect not only the right product based on the customer shopping in each store, but also the size profiles that best serve that customer.

We believe the bigger opportunity is still ahead of us. The majority of our fall receipts localized across categories, notjust athletic, arrive after back-to-school. And I will say this plainly, I believe our boot assortment is outstanding, the strongest we have offered in several years, and boots are the most important fall category in family footwear. The brands, the styles and the depth are targeted to each store's customer in a way they have not been before.

We are supporting the season with intensified advertising and incremental investment directed at building customer traffic and communicating our assortment and value to both customer groups I described. The second quarter demonstrated that price alone will not deliver traffic. We believe communication is the missing element. During the quarter, we completed the rebannering of 20 stores, bringing the year to 21, and we do not expect to rebanner additional stores for the remainder of fiscal 2026. This pause allows us to concentrate on retail fundamentals, assortment, presentation and the customer relationship, particularly at our converted stores where that relationship is still being established.

We expect the promotional environment to persist through the balance of the year, and our updated guidance reflects that reality. We are not assuming the environment improves. What we are assuming is that the actions I have described, localized assortments arriving for fall, a boot offering we believe in and intensified advertising continue to close the sales gap the way back-to-school has begun to. We enter the second half debt-free with a strong cash position and inventory positioned for the season. With that, I'll turn the call over to Kerry to review the financials and our updated outlook in detail. Kerry?

W. Kerry Jackson
CFO & Executive VP

Thank you, Cliff, and good morning, everyone. Our second quarter results came in below the expectations underlying our first quarter guidance, driven principally by lower sales and gross profit margin in an increasingly promotional footwear marketplace. This morning, I'll review the quarter, our year-to-date results, fiscal August and our updated fiscal 2026 guidance, which we have lowered. I will start with the balance sheet because it is a foundation from which we are managing through this period. We ended the quarter with $131.6 million in cash, cash equivalents and marketable securities, an increase of $39.7 million compared to the end of the second quarter of last year.

We have no debt outstanding with $99 million currently available under our $100 million credit facility, which we expect to renew or replace in the second half of fiscal 2026. During the quarter, we paid the 57th consecutive quarterly dividend. Inventory ended the quarter at $426.6 million, down $22.4 million or 5.0% from last year, with inventory per store down 3.6%. This reduction was achieved deliberately through the accelerated liquidation of aged and excess inventory Cliff described, and we remain on plan for an approximately $50 million reduction in inventory by fiscal year-end. We are converting slower-moving inventory into cash while funding open-to-buy for localized fall assortments.

Due to the lower than originally expected sales performance for the year, we are targeting the year-end inventory reduction at the low end of the range we gave in Q1 2026. One additional item. Following the Supreme Court's February rule striking down certain tariffs imposed under IIEPA, we submitted initial tariff refund claims in July and expect to file additional claims in the second half of fiscal 2026. We expect these claims to total approximately $1.2 million, and we will record refunds when collected. Net sales in the second quarter were $284.3 million compared to $306.4 million last year, a decline of 7.2%. Comparable store sales declined 7.1% compared to a 7.5% decline in the second quarter of last year.

By banner, Shoe Carnival net sales were $178.5 million, representing 63% of total net sales and declined 6.5% with comparable store sales down 6.3%. Shoe Station net sales were $105.7 million or 37% of the total and declined 8.4% with comparable store sales down 8.5%. E-commerce was a bright spot. Comparable e-commerce sales grew 18.8% with growth in both banners, while store comparable sales declined 9.5%. We believe the sales shortfall in the quarter was concentrated in store traffic, not in demand for our banners. Gross profit margin in the second quarter was 31.9%, a decrease of 690 basis points from last year. Merchandise margins decreased 630 basis points, while buying, distribution and occupancy costs deleveraged 60 basis points on the lower sales base, even though those costs declined in dollars.

The merchandise margin decline reflects 3 drivers. First, the second quarter of last year included a temporary benefit from rising retail prices ahead of tariff-driven cost increases while selling through inventory purchased at pre-tariff costs, a benefit that did not repeat. Second, we priced competitively in an increasingly promotional marketplace, which lowered average transaction size. And third, we accelerated the liquidation of aged and excess inventory, accepting margin dilution in exchange for inventory quality. A simpler way to size these pieces as we look back 2 years to the second quarter of fiscal 2024 before last year's tariff-related pricing benefit.

On that comparison, gross profit margin declined approximately 420 basis points and the merchandise margin declined approximately 240 basis points. Put plainly, of this year's 630 basis point merchandise margin decline, roughly 390 basis points came from lapping last year's temporary pricing benefit and roughly 240 basis points reflects today's promotional environment and our inventory liquidation. SG&A in the second quarter was $83.0 million, a decrease of $10.6 million from last year, driven by lower selling costs, primarily advertising and other rebanner-related expenses and lower incentive and equity compensation. As a percentage of net sales, SG&A was 29.2% compared to 30.6% last year. In the normal course of business, we recorded $396,000 of store impairment charges on 4 stores during the quarter, bringing year-to-date impairment charges to $6.7 million on 11 stores, including the impairments recognized in the first quarter as part of our previously discussed strategic review.

Income tax expense was $2.3 million, and the effective tax rate was 26.7% compared to 25.9% in the prior year quarter. Net income for the quarter was $6.3 million or $0.23 per diluted share compared to $19.2 million or $0.70 per diluted share last year. There were no non-GAAP financial measure adjustments in the second quarter. Through the first 6 months, net sales were $555.0 million, down 5.0% with comparable store sales down 4.7%. GAAP net income year-to-date was $631,000 or $0.02 per diluted share, inclusive of the $13.6 million of nonrecurring charges recorded in the first quarter related to the

CEO transition and our strategic review. Excluding those nonrecurring charges, non-GAAP adjusted net income was $12.5 million or $0.45 per diluted share and non-GAAP adjusted SG&A declined $11.9 million year-to-date.

Turning to the third quarter to date. Comparable store sales for fiscal August, which ended on August 29, declined 2.7% and net sales declined 3.3%. This was a substantial improvement in both banners from the rate of decline in Q2 2026, and e-commerce continued double-digit growth. As Cliff described, we localized our athletic assortments ahead of back-to-school, and we attribute the improvement to that work along with competitive prices and intensified advertising. The majority of our fall receipts, localized across categories, arrived in the stores after back-to-school. I would note the promotional environment has not abated.

Our margins in August continued to run below last year's at a rate comparable to the second quarter, and our updated guidance contemplates that continuing. We are lowering our fiscal 2026 guidance to reflect second quarter results and current family footwear trends. For the second half of fiscal 2026, we expect comparable store sales in the range of down 1% to up 1%, inclusive of fiscal August. For the full year, we now expect net sales of $1.1 billion to $1.111 billion, representing a decline of approximately 2% to 3% versus fiscal 2025. GAAP EPS of $0.32 to $0.47 and adjusted EPS of $0.75 to $0.90. Gross profit margin of approximately 32.5% to 32.7%, representing approximately 390 to 410 basis points of compression versus fiscal 2025.

GAAP SG&A approximately flat versus fiscal 2025 and a reduction in adjusted SG&A of approximately $14 million, inclusive of the intensified advertising investment, and a GAAP tax rate of approximately 37% and an adjusted tax rate of approximately 27%. The GAAP guidance reflects the $13.6 million of first quarter charges or $0.43 per diluted share. The elevated GAAP tax rate reflects the nondeductible portion of the CEO severance against a lower pretax income base. Let me be clear about the philosophy behind the guidance. We are not assuming the promotional environment improves in the second half, and we are not assuming margin recovery. Our gross margin outlook contemplates continued pressure at rates similar to what we experienced in the second quarter and August. What we are assuming is continued improvement in comparable sales consistent with the trend change we saw in August, supported by localized fall assortments, our boot offering, intensified advertising and progressively easier prior year comparisons.

With that, I will turn the call back to Cliff.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Thank you, Kerry. Before we open the line for questions, I want to thank our teams across both banners and our distribution and support centers. The second quarter did not meet our standards, but the response of this organization in resetting assortments, managing inventory with discipline and delivering an improved back-to-school reflects the operating culture we are building. Our focus for the balance of the year is execution, the right product in the right store communicated to the right customer. Operator, we are ready for questions.

Question and Answer

Operator

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

Samuel Marc Poser
Williams Trading, LLC, Research Division

Cliff, can you talk about your quarter-to-date same-store sales and how much you think the shift of the later Labor Day impacted both late July back-to-school and quarter-to-date? I'm talking through Labor Day sales. Can you just give us some color in your mind there and where you are quarter-to-date?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Yes. No problem, Sam. I hope you're doing well. You are correct that the shift in Labor Day does have an effect in our quarter 3 sales as we move sales out of the first week of September and into the second week of September, which is where we are. So we have experienced a pretty good beginning of this week. However, you gave back sales in the first week. So as of right now, our sales are trending slightly negative. And -- but with this week, much better than last week.

Samuel Marc Poser
Williams Trading, LLC, Research Division

So I mean -- so it was down -- you're comping down 2.7% through July -- through August 29. So as of today, that has improved a bit since then quarter-to-date?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

No. I would say as of today, we're still trending about the way we trended in August. But again, Labor Day shifted into this week, and this week is trending much better than last week. So I think that with the -- we haven't experienced the full Labor Day shift.

Samuel Marc Poser
Williams Trading, LLC, Research Division

Okay. And then when you think about the combination of your traffic was down, your conversions were up, your product mix is improving. We're going into a period of time in between back-to-school and holiday, where we sort of get into the doldrums. How how do you weigh the sort of the macro -- like the promotional environment, your need to improve, let people know you're around again with the right stuff versus where you are in getting your merchandise assortments where they need to be? And where -- when do you think your merchandise assortments and the messaging will be optimized? I mean I know it always can get better, but like optimized relative to where you think where you need to be right now.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Yes, I understand the question very well, because it's important. As we walk out of back-to-school and into September, you said it, you enter into a doldrums time period of September where you're waiting for all the new product to catch on with the customer, and the athletic business kind of slows down a little bit and the nonathletic business picks up. What you really look forward to is October when hopefully, the weather turns cooler and then you can see the real results of the new fall product. We're getting the new fall product in every day.

I mean it's coming in rapidly, and we're really excited about it, and I have seen a few things start to tick up. But the -- I don't expect to see a true turnaround to better comps until we see a weather break, and that normally happens in October. That doesn't happen in October, then it always happens by November. So we expect that at that point, we'll see sales of fall product and our boot assortment kick in.

Operator

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

Mitchel John Kummetz
Seaport Research Partners

Maybe just to kind of follow up on one of Sam's questions. So you guys were minus 2.7% comp in August. That's kind of where you are quarter-to-date. This week should maybe be a little bit better. How are you thinking about the remainder of the quarter as we kind of go through this period of doldrums where the consumer kind of goes away for a bit until they come back for holiday or when the weather turns? And what does that mean in terms of kind of your comp expectation for the quarter? I know for the back half, you're saying down 1% to up 1%. But are you kind of anticipating sort of like a down 3% in the third quarter? And then I've got follow-ups.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

I'd tell you, we think quarter 3 is probably going to be flattish, Mitch. The -- it really depends again to October. The weather cooperates in October, then we could produce a small increase. But we can't count on that because October changes every year. Some years it's warm and others not. So we are assuming flattish for the third quarter and then the increase coming in the fourth quarter as boots kick in and the weather turns more seasonal, we think we're ready -- we're armed and ready for that quarter, and that's when we believe the increases will start.

Mitchel John Kummetz
Seaport Research Partners

And Cliff, it sounds like you're pretty bulled up on the boot assortment. Can you just elaborate on that? What is it about boots this year that is so encouraging to you? Maybe kind of walk through some of the detail there?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Yes. I'm going to congratulate the boot buyers once again, when they took me through the boot assortment, it's well balanced. It's balanced between low boots and high boots, and it has a mix of fashion and basics. In fact, I personally believe that the fashion boots that they showed us are so much better than the years before. We've gotten stale and the whole shoe business has gotten stale in boots ever since the whole fur or in our case, took hold, and everything began to look the same year after year after year.

And what our buyers decided to do this year and which I think is absolutely right, is just forget about the past and then build a boot assortment that attracts across the board, all consumers, young and old. And I'm just really excited about it. From a pricing standpoint, not all promotional the way it has been in the past. We expect our boot average prices will be up, in my opinion, significantly, and that's good because it just tells us that we have new, fresh product. Tanya, do you want to add anything to that?

Tanya E. Gordon
Executive VP & Chief Merchandising Officer

Sure. And something we were able to catch. Hi, Mitch, something we were able to catch just based on Cliff's return was really to go back on the boot assortments. We had placed the goods, but we went back and, based on localized assortment, made sure we were balanced, both in the Shoe Carnival stores as well as the Shoe Station stores. So we've got a really good balance of good, better, best. And based on the trends, whenever you get to a better balance of tall shaft versus booties and fur, it bodes well for a good boot season. So we're much more balanced in terms of high boots versus low boots.

So that tells me we're going to have a much better season. And I think our value proposition is much better this year versus last year, and you can see it. So the materials are better, the looks are better, the balance of fashion and the fashion pyramid is better. So excited about what that looks like for the season. And again, it's really just getting it localized back to the way we used to do things, and we got away from the true cookie cutter assortment that we've experienced in the first half of the year.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

And the point you just made, Mitch, is really important. We had gotten ourselves into a cookie cutter, all stores need to look the same. And as you know, that doesn't work for our stores because we service the distinct different customers based on the regions that we're in. And it's important that we merchandise those stores. I mentioned it several times in my prepared remarks. It's critically important that we merchandise the stores based on the customers that are walking in. And that -- I think Tanya and her team have done an outstanding job of that for the boots. Sorry, I interrupted you. Please ask your next question.

Mitchel John Kummetz
Seaport Research Partners

No, no, that's quite all right. That was -- I appreciate that extra color. One last one for me. If you could just elaborate on the promotional environment. I mean, is it mostly concentrated in fashion athletic? Is it more broad-based than that? And I know that the guide contemplates the continuation of a promotional environment for the balance of the year. But given your crystal ball, cliff, I mean, when do you anticipate things getting better? Do you think we could be in better shape, the marketplace in better shape come spring '27?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

That is -- that's where we're focused, Mitch. We think that, especially in the athletic business that things could stay challenging. When one of the larger vendors we deal with pretty much did away with MAP pricing for the time period of back-to-school. There was a race, in my opinion, a race to the bottom. And we didn't want to participate in that race. And hopefully, as product is cleared and those stores that have decided to race toward the bottom, things will recover. But the good news is, and you've heard me say this before, I really believe fashion cycles run in 3-year cycles.

And I believe we're on a -- we're entering into a cycle of nonathletic being more important to our business as we go into the fourth quarter and into the first quarter of next year. So that race to the bottom that did hurt our margins in the August time period in the second quarter won't be as pronounced because it will be a fashion business.

Operator

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

James Andrew Chartier
Monness, Crespi, Hardt & Co., Inc., Research Division

I was wondering if you could talk about the difference in performance between athletic and nonathletic in August and try and help us understand how impactful the changes to the assortment and localization were on the business so far in third quarter to date.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Do you want to take that?

Tanya E. Gordon
Executive VP & Chief Merchandising Officer

Sure. Jim, so the difference between athletic and nonathletic in the August time frame, we saw really great improvement in athletic specifically. And the month of August with back-to-school is still really dominated by the athletic category. And adult athletic shift from Q2 down low singles to August, up low singles. So saw a significant shift there. And that inventory as Cliff had spoke to, came in localized. So that was bought. We were able to get those localized assortments in place, which is why I think we're seeing better performance overall in athletics.

And then the nonathletic piece of it, we were down high singles for Q2, and we brought those to down mid-singles for the month of August. So we're definitely seeing as we get more product in the right stores at the right prices on the nonathletic side, we're seeing some success. But based on my point earlier, we bought all of the first half of the year, cookie cutter. And we also bought the nonathletic areas down to last year pretty significantly. So we didn't have the inventory to do the sales.

So a lot of things that we've gotten in, in casuals, for instance, in women's, the flat category, the clog category, we're seeing really high sell-throughs. So we're getting new product in, in those categories every day. So I think we'll see a difference as we continue to move through the second half of the year in the nonathletic piece of the business because we will have the localized assortments. We'll have a better balance in our inventory, and we'll continue to work through the aged through the end of the year.

James Andrew Chartier
Monness, Crespi, Hardt & Co., Inc., Research Division

Okay. And then in terms of the opportunity from an assortment perspective for athletic versus nonathletic, is there more opportunity in one versus the other?

Tanya E. Gordon
Executive VP & Chief Merchandising Officer

There's more opportunity in the nonathletic business. definitely in both men's and women's and actually in kids' nonathletic as well. And we already started to see a shift in the month of August in the kids athletic versus nonathletic. The athletic kids business was actually down mid-singles in August and the kids nonathletic business was up mid-singles. So we're already starting to see a shift there. And as we get, again, the stores more localized, we get to our customer in these rebannered stores, I think we've got a lot of opportunity on the nonathletic side, which is timed very well with Cliff's point of just the cycle and coming back into a nonathletic cycle.

James Andrew Chartier
Monness, Crespi, Hardt & Co., Inc., Research Division

Okay. And then last question. How did kind of your advertising investment for back-to-school in terms of the amount of incremental advertising and the type compared to what you're planning for holiday?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

Let me make sure I understood the question. You're asking how we thought the advertising for back-to-school performed as compared to what we're going to go for?

James Andrew Chartier
Monness, Crespi, Hardt & Co., Inc., Research Division

No. How much more did you invest in -- like, how much was the growth in advertising spend for back-to-school year-over-year? How does that growth rate compare to what you're planning for holiday? And then in terms of the opportunities to shift the mix of that advertising around, how does that opportunity for holiday compare to what you're able to do for back-to-school?

W. Kerry Jackson
CFO & Executive VP

Jim, on the advertising -- I'll generally talk about the second half. So we're going to be relatively flat on total advertising on the second half compared to last year. Now if you remember last year, we were overinvesting in advertising for the rebanner stores. And at the beginning of the year, we had intended to rightsize that since we weren't rebannering stores, we were going to have savings against -- in the SG&A by reducing the advertising by not having to advertise the rebanners.

We're going to -- we've adjusted course on that, and we're going to reinvest those dollars into advertising, so they're going to be -- but they're going to be distributed slightly different. I think to answer your question a little bit, it might give you a little context on the advertising about how it did at back-to-school. We were pleased in that we were advertising to that Shoe Carnival customer again. And for -- while we were down 2.7% comp in the August time frame, Shoe Carnival was down less than 1%. So we saw a significant trajectory change in that banner. What we saw, though, is Shoe Station did not respond as quickly.

They were down mid- to high single digits. It's better than what they had performed in Q2, but it just goes to show that our efforts are introducing that those rebanner stores that used to be Shoe Carnival, helping people understand what is that new rebannered Shoe Station store look like? What does it have? What is its promotions. And that's what that additional advertising is going to be partly directed at is helping those rebanner stores to improve the Shoe Station performance in the second half.

Operator

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

Samuel Marc Poser
Williams Trading, LLC, Research Division

To follow up, one, what percent of your sales right now are driven by the replenishable goods that you said had been outperforming?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

It's a small percent, Sam, at this point, mainly in men's, which is roughly about 18% of our total sales, between 16% and 18% of our total sales. And that's where most of the replenishment comes from. Very little replenishment in the athletic business and in the women's business from a weekly replenishment. Now we buy a lot of product off the floor. So if we see a brand that's or a style that's selling through at a higher rate than we anticipated, we're on the phone that vendor immediately buying more of that product. We've always been aggressive in that regard.

When I talk about replenishment, I'm talking about automated fill-ins. You sell an 8, you get an 8 back. And that is something that we had not done very well in the previous year. It's something that one of the very first things that I, course, corrected on when I got here is that there are just certain categories of products, especially in men's, especially in work, where you cannot afford to be out of size. And it's actually -- you're utilizing the vendor inventory. So I don't know why in the world, we wouldn't be filling in. But the fact is that I think that we downplayed that fill-in business over the past year or 2.

Samuel Marc Poser
Williams Trading, LLC, Research Division

And then secondly, given that a lot of the you had that big chunk of gross margin in the quarter that was due to the price increases from last year pre-tariff stuff. And this other part of your business is being -- the gross margin is being driven down by promotions. When we look into '27, should we anticipate like -- I mean, is a 35% gross margin getting things sort of back to sort of close to 24%? Is that a reasonable assumption? Or is it just going to take longer to build back?

Clifton E. Sifford
Interim President, CEO & Vice Chairman

No. I'd tell you, Sam, the concentration, and I mentioned this on the very first call after I came back, this is a year we're getting our inventories back in line. We mentioned to you that inventories would be down as much as $50 million by the end of the year. And this is the year we get the inventories back in line in the year that we retarget the customer that are shopping our stores. And if we do that job correctly, and I have all faith that we will do that, and we get the inventories back in line and understand who the customer is that shopping each of our stores and get the product right as we go into the spring, I believe that margins recover.

Recover not to pass expectations of 2004 and before, but closer to what we've been running over the past couple of years. But it's all about -- and you -- Sam, you're on this all the time. It's all about inventory control. We cannot continue to run the kind of inventories in our stores that we have run over the past year or so, and we got to get that back in line. And we announced that on my very first call. We're working hard to get it there as part of the margin decrease that we had in the second quarter. That's part of the guidance that we gave you for the remainder of the year. And I think that next year, you'll see the margins recover to where they were over the past couple of years. But again, it's about inventory control. You got to keep the inventories controlled in our stores. Kerry, do you want to add anything to that?

W. Kerry Jackson
CFO & Executive VP

No, I think you said it well. We had said in last quarter's call that we thought we'd get back into historical margins that we were closer to the 24% and the 35% range. It depends on the sales growth, the comp increases and leveraging some of the fixed costs. That's part of what we have to do is accelerate that growth because we are being penalized on that side of it. So those 2 in combination will help us get back to those historical margins.

Samuel Marc Poser
Williams Trading, LLC, Research Division

Okay. And then lastly, you have a lot of cash on the balance sheet. Are you considering -- I mean, given where the stock is this morning and everything, do you -- can you give us some of your thoughts on how you're going to utilize that cash maybe through buybacks or something else?

W. Kerry Jackson
CFO & Executive VP

Well, we have that always as an opportunity. We don't telegraph what we're going to do in the marketplace ahead of time. But we have the standard 3-pronged that dividends, buybacks and acquisitions are how we expect to return value to shareholders.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

We can't comment on that today.

Operator

There are no further questions at this time. I will now turn the call back to Cliff Sifford for closing remarks.

Clifton E. Sifford
Interim President, CEO & Vice Chairman

I want to thank you all for joining us on the call today. We look forward to speaking to you again in November.

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