



Calares Inc.

Third Quarter 2025 Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

Liz Dunn, Senior Vice President, Corporate Development and Strategic Communications

Jay Schmidt, President and Chief Executive Officer

Jack Calandra, Senior Vice President, and Chief Financial Officer

C O N F E R E N C E C A L L P A R T I C I P A N T S

Dana Telsey, Telsey Advisory Group

Ashley Owens, KeyBanc Capital Markets

Mitch Kummetz, Seaport Research

PRESENTATION

Operator

Greetings. Welcome to Caleres Incorporated Third Quarter 2025 Earnings Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad.

Please note this conference is being recorded.

I will now turn the conference over to Liz Dunn, SVP, Corporate Development and Strategic Communications. Thank you, Liz. You may begin.

Liz Dunn

Thank you. Good morning and thank you for joining our third quarter earnings call and webcast.

A press release with detailed financial tables as well as our quarterly slide presentation are available at calaris.com.

Please be aware that today's discussion contains forward-looking statements, which are subject to several risks and uncertainties. Actual results may differ materially due to various risk factors, including those disclosed in the Company's Form 10-K and other filings with the U.S. Securities and Exchange Commission. Please refer to today's press release and our SEC filings for more information on risk factors and other factors which could impact forward-looking statements. Copies of these reports are available online.

In discussing our operational results, we will be providing and referring to adjusted operating and earnings results, and in some cases, we will be discussing our results excluding the impact of Stuart Weitzman. Additional details on non-GAAP measures as well as others featured in today's earnings release and presentation are available in the reconciliation tables in our earnings release and on calares.com. The Company undertakes no obligation to update any information discussed in this call at any time.

Joining me today are Jay Schmidt, President and CEO, and Jack Calandra, Senior Vice President and CFO. Our call will begin with prepared remarks followed by a Q&A session to address any questions you have.

With that, I will now turn the call over to Jay. Jay?

Jay Schmidt

Thank you, and good morning, everyone. Earlier today, we reported third quarter sales and earnings.

We were pleased to deliver organic sales growth led by our Brand Portfolio and particularly our lead brands. Sales trends also improved sequentially at Famous Footwear. Both segments of our business posted double-digit owned e-Commerce performance with strong customer growth, enhanced targeting through our customer data platform, and incremental investment to fuel the momentum in trending fashion categories. As expected, tariffs continued to pressure our growth margin and earnings. However, our organic sales performance exceeded our internal expectations heading into the quarter.

This is also the first quarter where our total financial results include Stuart Weitzman. It is important to remember that we are operating under a transition service agreement with Tapestry until we can fully

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integrate the brand into the Caleres ecosystem. I will speak in a moment about our plan to bring the brand to breakeven in 2026 and profitability thereafter. But we will incur temporary, elevated, and in some cases duplicative costs during this period and will not be able to unlock synergies or cost savings for the most part until we fully integrate in February next year. That said, we are pleased to be working with a highly engaged Stuart Weitzman team side-by-side to improve operating performance.

It's also important to restate why we made this acquisition. Stuart Weitzman is an iconic brand with unique consumer resonance, aligning with our strategic focus on premium contemporary, directed consumer, and International business. In addition, it represents a transformational moment for Caleres. With this acquisition, our Brand Portfolio represents nearly half of our sales while continuing to generate more than half of our operating earnings. We realize that scale is important in today's operating environment and leveraging that scale through an efficient operating structure matters more than ever.

For this reason, we are taking decisive action in the back half of 2025 to bring Stuart Weitzman, along with the rest of our Portfolio, into 2026 as clean, productive, and efficient as possible. To accomplish this, we have been working with an external consulting partner on integration to ensure we capture all synergistic opportunities and amplify our best capabilities. As a result of this effort, we have identified efficiencies across our Company. We are establishing new Centers of Excellence that will support our entire Caleres portfolio. These efforts are expected to drive material structural cost savings, improve discipline, and growth in 2026. We will share more about this new structure on our fourth quarter call when we provide 2026 guidance.

Turning now to the results for the third quarter.

Brand Portfolio sales on an organic basis exceeded our expectations, increasing 4.6% in the quarter and 18.8% when factoring in Stuart Weitzman. Lead Brands, in total, were up double digits organically, with three of the brands showing growth. The full Portfolio saw growth in both Wholesale and owned e-Commerce on an organic basis.

Premium brands showed strength, while value-priced brands remained under some pressure. Our International business was markedly strong in the quarter, and our direct-to-consumer channels delivered growth and momentum. According to Circana, our Brand Portfolio gained significant market share in women's fashion footwear during the period. Boots were a standout category, particularly tall-shaft fashion boots. However, we also saw strength and growth in flats and loafers, solid performance in dress, and continued momentum in sneakers.

Sam Edelman delivered a very strong quarter, marked by double-digit sales growth both domestically and internationally. Success was broad-based. Boots stood out as the fastest-growing segment, driven by markedly strong demand in both established and new tall-boot styles, while short boots in casual flats and loafers also performed well. Sam Edelman's owned e-Commerce channel had its best quarter ever, achieving higher full-price sales. Licensing initiatives progressed, highlighted by a successful fragrance launch that expanded retail presence for the holiday season. At quarter end, we had 114 Sam Edelman stores, 57 owned and 57 franchised, with 110 of them International.

Allen Edmonds delivered a strong quarter with positive comp store sales, solid e-Commerce trends, and wholesale strength. Growth was steady across categories, led by sneakers, dress, and casual loafers. Boots saw improvement as the quarter progressed and are growing now in fourth quarter. The elevated reserve collection expanded into new casual and sneaker styles, and we are highly encouraged by the stronger-than-expected demand for these styles at premium price points, which are now in 42 stores. Lastly, our 16 Port Washington Studio stores continue outperforming the broader 59 store fleet. This quarter, by 400 basis points.

Naturalizer saw sequential revenue improvement in third quarter, with e-Commerce in the U.S. and Canada showing double-digit growth compared to last year. Our Direct-to-Consumer channel saw growth across all major categories; boots, dress, casual, and sport, and delivered higher margins. Marketing efforts were

highly targeted, spotlighting select product categories and silhouettes, color, and material trends through creative storytelling. The use of brand ambassadors helped attract and convert higher-quality traffic. The brand had strong purchasing appeal among Gen Z, Millennials, and Gen X, reflecting a broadening generational reach.

Vionic saw growth this quarter, up solidly in Wholesale and International markets, while e-Commerce was softer. Retail sales increased in all categories, with casuals, sports styles, and slippers leading the way. International business was a bright spot, showing robust growth thanks to strong e-Commerce and marketplace performance. New product launches like the Willa 2.0 and the Walk Slim sneaker gained traction and contributed to the brand's momentum. The quarter also marked the launch of the Gabby Reese campaign, introducing Vionic's first Wellness Ambassador. Campaign content outperformed traditional brand content, driving higher engagement and capturing a significant share of spend.

And finally, our newest Lead Brand Stuart Weitzman. As many of you know, the brand, under Tapestry ownership, has been underperforming in recent years, and as such, is deluded to earnings as it came over. During our first three months of ownership, our focus has been on stabilization and transition.

Here's what's working: the design, product quality, and price value are all resonating with the consumer on the fall line offerings. Sell-throughs on the fall product have improved year-over-year, especially at wholesale and U.S. owned retail, with full-price strength in dress as well as short and tall boots. Marketing, featuring global ambassadors, has connected with consumers of all ages. Our system integration is on track for the beginning of 2026, and reporting structures are in place for key functional areas such as finance, specialty retail, International, and sourcing.

Here's what's not working, which needed some intense focus and action. The China D2C business, where the shift in ownership resulted in sales volatility, especially in August. We have added new leadership in China, and in working closely with the Stuart Weitzman team in New York and our Caleres International team, they have made significant progress on improving sales sequentially month by month. Global excess inventory, much of it aged and thus more difficult to clear. We've established appropriate reserves through the purchase accounting process, but it is diluted to the Brand's gross margin for the back half. While costly, we feel this issue is momentary in nature, and taking action now is essential for the success of this transition. The team has made significant progress on liquidation, leading us to feel confident this issue will be largely behind us as we enter 2026.

While we continue to expect the Stuart Weitzman business to be dilutive to the balance of 2025, we have a plan in place to achieve breakeven in 2026 through significant synergistic savings in distribution, logistics, specialty retail, digital and marketing operations, and office facilities, along with all other back office functions currently being covered under the TSA. And while these expense reductions will not be able to be realized until system cutover in February, I look forward to speaking much more about Stuart Weitzman, including our plans to improve sales performance on the fourth quarter call.

Looking at the balance of the year for the Brand Portfolio, sales performance appears stable, with owned e-Commerce showing strong momentum. Order-to-date direct-to-consumer performance remains up double digits, including during the Black Friday and Cyber Monday window. The tariff environment is stabilizing, and our mitigation efforts are beginning to take hold. Our inventory position, excluding Stuart Weitzman, is now more aligned with our sales trend. And we continue to work through Stuart Weitzman's inventory to enter 2026 in a clean position.

Moving on to Famous Footwear. In the quarter, total sales were down 2.2%, and comp sales declined 1.2%, in line with our expectations. Retail conversion and average unit retails increased low single digits, while traffic declined mid-single digits. We continue to see the Famous consumer respond strongly during peak shopping periods, with positive comps in August, followed by September and October declines, similar to our first-half trend.

Our e-Commerce sales were up double digits for the second straight quarter. The launch of Jordan last quarter contributed steady momentum throughout the back-to-school season, remaining a top-10 brand and reinforcing Famous ability to launch Leading Brands and deliver powerful results.

Famous continues to enhance its consumer experience through the Flare format. We ended third quarter with 56 Flare locations, which generated a three-point sales lift overall and a six-point sales lift for stores converted in the last year. We plan to add one additional location by year-end, as the success of our Flair concept continues to underscore Famous ability to amplify elevated brands and products. Men's and kids performed best during the quarter, while women's underperformed. By category, athletic was slightly positive on a comp basis, and fashion declined.

Jordan, Adidas, Birkenstock, New Balance, Brooks, DC Shoes, and Timberland were top-growth brands, while our Caleres brands outperformed at Famous Footwear, with sales up mid-single digits. Within the strategically important kids' category, penetration was 25% in the quarter. In addition to Jordan, we are seeing a trend of outperformance from Premium Brands at Famous, which we plan to capitalize on by bringing in more of these highly demanded brands.

At the same time, we see a need to edit some underperforming labels, particularly in the fashion category. This will free up open-to-buy to invest in demanded brands, including some of our own Caleres brands. But I want to be clear. We are following the consumer. We are growing our Caleres Brands at Famous because they are performing. As we do this, it is accretive to our consolidated gross margin. Jack will cover our fourth quarter expectations in more detail, but I will note that holiday sales at Famous Footwear have been strong so far, and comp store sales are flat quarter-to-date.

In summary, we are pleased with our sales performance in the quarter and the particular strength of our strategic growth vectors. Lead Brands, International, direct-to-consumer, and enhanced customer experience. Our near-term focuses are restoring gross margins, operational discipline, structural cost savings, and integrating Stuart Weitzman. We are finding new, more efficient ways of working and leveraging our best capabilities. We are focused on speed, agility, and controlling what we can control. We are confident that fueling both Brand Portfolio and Famous Footwear and executing our strategic plans will result in improved financial performance and drive long-term value for our shareholders.

With that, I will now hand it over to Jack for a more detailed view of our financial performance. Jack?

Jack Calandra

Thanks, Jay, and good morning, everyone. During today's call, I'll provide additional details on third quarter results and our expectations for the fourth quarter. Please note my comments will be on an adjusted basis and will highlight where they exclude Stuart Weitzman.

For the third quarter, sales were \$790.1 million, up 6.6%. Sales on an organic basis, excluding Stuart Weitzman, increased 0.4%. Organic sales increased in Brand Portfolio and declined in Famous. Both segments saw an improvement in the trend versus 2Q. Sales for Stuart Weitzman in the quarter were \$45.8 million. Brand Portfolio sales were up 4.6% on an organic basis and 18.8% including Stuart Weitzman. Lead Brands in total, excluding Stuart Weitzman, grew about 10% in North America and 12% on a global basis. We saw strength in premium brands and declines in our more value-oriented brands. Tariffs did not have a meaningful impact on sales in the quarter.

Famous sales were down 2.2% with comparable sales down 1.2%. Comparable sales increased 1% in August, the largest month of the quarter, and declined about 3% in September and October as expected. Consolidated gross margin was 42.7%, down 140 basis points versus last year, and was driven by lower margins in both segments. Stuart Weitzman was modestly accretive to gross margin. Brand Portfolio gross margin was 42.3%, down 150 basis points to last year, due to higher tariff-related costs and an unfavorable wholesale customer mix. Excluding Stuart Weitzman, gross margin was down 200 basis points, and the impact of tariffs was about 175 basis points.

Famous gross margin was 41.6%, down 130 basis points to last year, due to more clearance days, additional LIFO and other inventory reserves, and an unfavorable channel mix with stronger e-Commerce sales.

SG&A expenses increased \$42.6 million to \$311.3 million. Approximately \$10 million of this increase was organic, with the balance coming from Stuart Weitzman. As a percentage of sales, SG&A was 39.4% and deleveraged 310 basis points.

On an organic basis, continued investment in our International business, higher depreciation expense for stores, and lapping last year's incentive compensation accrual release was somewhat offset by our cost savings initiatives.

Operating earnings were \$26.3 million, and operating margin was 3.3%. Excluding Stuart Weitzman, operating earnings were \$37.4 million, and operating margin was 5%. Operating margin in Brand Portfolio was 5.2%, and 9.2% excluding Stuart Weitzman. Operating margin at Famous was 5%.

Net interest expense was \$5.5 million, up \$2.6 million to last year, due to higher average borrowings. Approximately \$1.6 million of the increase was interest expense associated with the acquisition of Stuart Weitzman. The weighted average borrowing rate was down about 25 basis points. Tax rate was 41% for the quarter and 27.5% year-to-date. Earnings per diluted share were \$0.38, and earnings per diluted share excluding Stuart Weitzman were \$0.67.

Turning to the balance sheet, we ended the third quarter with \$34 million in cash, \$355 million in borrowings, and \$312 million of liquidity. Inventory at quarter end was \$678 million, up \$92 million to last year, of which \$77 million was for Stuart Weitzman. Inventory was up less than 1% in Famous, and up 5.5% in Brand Portfolio on an organic basis.

Now turning to our outlook. As noted, tariffs continue to weigh on our results. On an annualized basis, the unmitigated tariff impact on our Brand Portfolio segment is approximately \$65 million, of which we have mitigated about \$40 million through factory negotiations, price increases, and other actions to reduce the dutiable value of goods. The \$175 basis point impact on Brand Portfolio gross margin in the quarter from tariffs was somewhat better than we expected due to timing differences, and we would expect a similar impact in 4Q with improvement in 2026. That said, with the tariff uncertainty largely behind us, we are providing guidance both on an organic basis and including Stuart Weitzman.

Our 4Q expectations are as follows.

For Famous, we expect comp store sales about flat and total sales down low single digits. This is in line with the quarter-to-date trend. For Brand Portfolio, we expect sales to be flat up 1% on an organic basis, and we expect Stuart Weitzman to add \$55 million to \$60 million in sales.

We expect consolidated gross margin to be down 75 basis points to 100 basis points versus last year, both on an organic basis and with Stuart Weitzman, with more pressure in the Brand Portfolio than Famous, though improvement in both versus last year as compared to 3Q.

For SG&A, excluding Stuart Weitzman, we expect a modest increase in 4Q versus last year. We expect SG&A for Stuart Weitzman to be slightly higher than the \$32 million incurred in 3Q, and we expect a full-year tax rate of 27% to 28%. As a result, we expect a loss per share for the 4Q in the range of \$0.35 to \$0.40, including \$0.30 to \$0.35 of dilution from Stuart Weitzman. For the full year, we expect earnings per diluted share of \$0.55 to \$0.60, and earnings per diluted share, excluding Stuart Weitzman, of \$1.15 to \$1.25.

With that, I'd now like to turn the call back over to the Operator for questions. Operator?

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Dana Telsey with Telsey Advisory Group. Please proceed.

Dana Telsey

Good morning, everyone. A couple things. As you think about Stuart Weitzman and what you're finding under the hood and what the opportunity is going forward into 2026 and beyond, and obviously what happened this past quarter and what you're guiding to. How do you, whether it's the team, whether it's the product, how you're thinking about their retail and wholesale portfolio, a year from now if we're sitting here, what does the business look like, Jay, and how do you think of what the opportunity is? Is there more opportunity on margin, on top line? How are you thinking about it? And then on the Famous Footwear side of the business, encouraging to hear about, frankly, the AUR and even the traffic, what's happening on the Fashion side of business given the other categories out there? How is that shifting and what you said about athletic?

And then I just have one follow-up on the Brand Portfolio. Thank you.

Jay Schmidt

Hi, Dana. So, I'll start with Stuart Weitzman. And first, we plan to achieve obviously a better 2026 through a combination of gross margin improvement as we get past the inventory cleanup and really SG&A reductions. As we kind of commented, there are natural really reductions coming through as we take away the duplicative and elevated costs from the TSA going away, and then savings and distribution, logistics, facility, the retail stores, and back office leverage. So, we feel very good about working with them. We enjoy working with the team. It's a natural fit. And we've really been spending, you know, really working side by side, as I said in my call about it.

When we look at the fundamentals of the business, the consumer is responding well. The product is well. These are all things to keep building on. The marketing is resonating with consumers. And even we've seen on a comp store sales business in our North America retail stores, some really nice progress just by getting what I would call a Global Brand assortment going. So, we have a lot of opportunity as I look forward into the business, although we're certainly not fully done with the '26 outlook for this brand. The complete feeling on this is one of very much positivity. We feel there's more wholesale opportunity as we really work for all of the accounts. A lot of them are our same customers that we work with in our Brand Portfolio. I feel there's more opportunity and direct-to-consumer on digital as we really try to work through some best practices on that particular piece.

Then finally, we see an international opportunity. The Europe piece of it we feel is in good shape and really has a lot of opportunity to grow faster. Then China, we're making a ton of progress working together and I really would like to say I feel very confident in early signs from that team. So, as you can hear, obviously, I feel more convicted than ever about it. It's just going to take us getting through this back half and really doing the necessary actions to make this better.

Moving over to Famous Footwear. As I stated, we're seeing a lot of success with Premium Brands coming through our assortments. I'm very excited to say that we're seeing continued strength as brands that you know from us, like our Birkenstock business continues to grow. We've seen nice acceleration in brands like Timberland coming through. And what we're finding in all of this is that our consumer is about as ready to embrace, I would say newness and these really strong brands with deep meaning to the consumer right

away. And there's very little lag time on that. So that's really been encouraging for the whole team to go faster and further.

Then finally, the fashion moments that we talked about in our Brand Portfolio in terms of tall shaft boots, return to healed and other items are working very well at Famous Footwear. We plan to build on those aggressively as we move into 2026. So, the discussion about really more Premium Brands and the consumer voting for those has really worked out very nicely. We plan to build on it.

Dana Telsey

Got it. Then I think you had mentioned in the prepared remarks, something about women's underperforming and athletics slightly positive. What are you seeing in women? Because like you just mentioned, we're seeing and hearing about strength and fashion for women.

Jay Schmidt

Yes. So clearly, you know, our key strength in Famous, particularly in the third quarter, is driven by athletic. We still have that back-to-school month in that, and for sure, our Jordan business was explosive in that moment. So that along with many of the, you know, key athletic brands, we've seen nice performance in Q3. We do feel an opportunity to build back our Fashion business in third and fourth quarter. And with the leadership team in Famous Footwear right now with marketing supporting that, we're seeing some nice proof points.

The good news is, is that the key brands that we're still working are still working there. And our holiday marketing, which has really featured a lot of these big items, has connected very nicely with the consumer. And glad to see, excuse me, that our business really quarter to date is a flat comp basis. So that's really exciting, too. So, lots coming through, but it's really a lot of the big trends that are resonating with our consumers and then new brands and Premium Brands are growing fast.

Dana Telsey

Got it. And just lastly, Jack, on the margins, when you think about gross margin for Famous and Brand Portfolio and the SG&A, any markers that would be different going forward than what happened in this third quarter? And what does it mean for the balance sheet? Thank you.

Jack Calandra

Yes. Dana, so in terms of in terms of the gross margin, we are expecting improvement in Q4 and the overall consolidated gross margin, as I referenced, and really expecting to see that from both businesses. So, in the case of Famous, while we think the IMUs will largely be similar to the third quarter, we are expecting improvement from shrink, which is something that we've been focused on for a little while and bringing that down, as well as the LIFO reserve that I mentioned, one of those inventory reserves.

So, we are anticipating in Q4, Famous to do better than the down 130 basis points it did in Q3. And then in Brand Portfolio, while we expect the tariff impact to be about the same, that 175 basis points, we expect more favorable channel and customer mix. That's going to allow us to further improve that that down 200 basis points without Stuart Weitzman that we posted in Q3.

Operator

Thank you. Our next question is from Ashley Owens with KeyBanc Capital Markets. Please proceed.

Ashley Owens

Great. Thanks for taking our questions. I wanted to just start really quickly on the sort of Weitzman inventory.

I think just doing the math with some of the clarifications you gave in the PowerPoint deck; we're sitting at a little bit north of \$75 million on the balance sheet today. Could you just help us dissect how much of that needs to be worked through over the next five months to get to really healthy levels? And then what the promotional or discounting strategy is going to look like to move through that product while still protecting that brand. Thanks.

Liz Dunn

Ashley, this is Liz. I'm not sure we're going to give the full detail, but I would say like broadly, if you think about the inventory that came over, there's maybe a quarter to a third of it that that we would put in that kind of aged in excess category. And as you'll see in our financial filings, as the valuation firm has looked, looked over the value of the inventory coming through, it's still in that kind of \$85 million to \$90 million that we saw when we acquired it. So that includes, the step up. So that is where they're pegging it in terms of what they think the value of that inventory is right now. I'll let Jay answer the question about how we're thinking about disposing of it in a way that doesn't damage the brand.

Jay Schmidt

We think that we really are, you know, we're working on it from a multiple, I would say, action basis. The inventory is global, so that requires different strategies in different places. But again, it is aged and we are taking the hard steps to do it. We think we're more than two thirds of the way there in terms of really nailing that. But that will be something that you'll see most of that action move through the fourth quarter on Stuart Weitzman, meaning we've sold a lot of it. But again, the shipping will take place in the balance of the year. And we are trying to do a lot of that before, as you can imagine, we come into our Caleres facility in terms of, you know, integration.

Ashley Owens

OK, understood. Just to follow up, maybe more structurally. As we look beyond some of the moving pieces over the past two years, just how should we think about the Company's normalized earnings power once you're through this transition period with store? And then within that, which factors do you see contributing the most to rebuilding that? Any directional guardrails you can provide on what a more sustainable profile looks like?

Jay Schmidt

Well, I think our long-term strategy is continuing to focus on our Brand Portfolio and particularly Lead Brands in terms of driving through, you know, more profitability and more growth coming through there. We, again, are going to fully outline everything in the March piece of it. But obviously, we're feeling that with the tariffs kind of moving on, we will have better results in 2026. Then for sure, as we kind of outline, we are working very much on these, I would say, the SG&A across the Company as we really put these Centers of Excellence coming through so that we can return to growth in a more profitable way. And those are the key pillars.

We're dramatically growing our International business. Remember, it's our smallest one, but it offers us the biggest growth there. Then probably the latest one is just how much we take through direct-to-consumer and that favorable profitability, particularly on our Brand side, is coming through very nicely. Then with Famous, we're working on a lot of things, but we're really going to be looking at lower growth and really working on just improving the profitability on that segment of our business as we continue to improve the Brand mix and the assortments there.

Ashley Owens

Thanks, that's super helpful. Thank you. I'll pass it along.

Operator

Our next question is from Mitch Kummetz with Seaport Research. Please proceed.

Mitch Kummetz

Yes, thanks for taking my questions. Jay, in your prepared remarks, you talked about taking actions to go into next year as clean as possible and then you would expect to drive growth next year. Could you elaborate on what you mean by growth? Is that mainly growth for margins, particularly on the gross margin side? And so, can you impact that a little bit? Are you expecting tariffs to be kind of a net positive year-over-year next year, given some of the challenges in the back half of this year? Also, is there margin opportunity on, you know, being less promotional next year?

Jay Schmidt

Well, I'll let Jack answer some of the details on where that is. But for sure, we are looking forward in a better '26 just to kind of qualify my remarks. First of all, we spent a lot of time really trying to get Stuart Weitzman to a place where we think we're leaving behind some of the inventory pressure and other cleanup that we're doing there and moving forward in a more positive way. So that's work that we're doing.

But across the portfolio, we are seeing some real lead brand strength as we've demonstrated. And we think that certainly while we're not going to get everything on gross margin back, we do feel that we're going to be in a much better place. Sure, we're not guiding '26 right now, but that's what we see as we go so far. Then finally, we do have, you know, structural SG&A savings coming through that we feel are necessary to run our business more profitably and efficiently. So, Jack?

Jack Calandra

Yes. Mitch, I would just say that we've talked about the lag impact of the actions we've taken on mitigating the tariffs. And we certainly expect that we're going to see improvement in gross margin in 2026 as a result of that. I would say, though, that, you know, given that the incremental tariffs that have been put in place this year range from a low of 19% incremental to 50% incremental, we at this point, I would say, haven't offset all of that through the actions we're taking on gross margin alone. That's why we're also looking at other SG&A opportunities so that we can keep the impact of tariffs neutral from an operating margin perspective.

Mitch Kummetz

Then just to clarify, Jay, when you say drive growth in '26, do you mean on an organic basis? Because obviously if you're going, if Stuart is going from dilutive to break even, obviously that implies growth on that business. But do you think that organically you will see growth in '26?

Jay Schmidt

We will, you know, be certainly looking for organic growth within particularly, as we've demonstrated, some of our lead brands that we think are continuing to grow that we're investing in. But again, we're not guiding on 2026, so I think that's probably the right piece to it. But to answer your question directly, yes, organic growth is something that we are targeting for next year.

Mitch Kummetz

Then on Stuart, you mentioned break even next year. When you think about the longer-term margin profile for that business, do you expect it to be kind of at least in line with the margin on Brand Portfolio as an

enterprise? Do you think it can be better than that? And is the biggest opportunity going from break even to something better mostly on the SG&A side? Or is it really kind of equally across the board?

Jay Schmidt

For sure we see, I would say it's safe to say that we would be targeting where our Brand Portfolio average comes through. I think that we feel we could see a pathway to it, you know, notwithstanding anything else that would come in the future. But certainly, it's a place that historically the Brand has been, and we really feel that we will find it that way in really a new way of working with them. So, I think, you know, that's why we're so committed to, I think, getting all of these, I would say the best of the Caleres capability structure in the Stuart Weitzman. So, the team there can really focus on growth and really continuing to try to make this business as strong as possible. But I would say that's probably fair to say for right now.

Mitch Kummetz

Okay. Thank you.

Jay Schmidt

Thank you.

Operator

This now concludes our question-and-answer session. I would like to turn the floor back over to Jay Schmidt for closing remarks.

Jay Schmidt

Thank you for your continued interest in Caleres. Before we close, I want to recognize the dedication of our teams across the Company who have shown tremendous determination and openness to new ways of working as we bring Stuart Weitzman into the fold. We know we will be operating differently in 2026 and going forward, and the excitement and energy around this is palpable. I am deeply grateful for everyone's commitment to making that happen. It has been a difficult year, and we will look forward to a more profitable 2026. Thank you.

Operator

Thank you. This will conclude today's conference. You may disconnect at this time and thank you for your participation.