

CTRN Earnings Call Transcript

Date: 2025-12-02

Quarter: 3

Operator: Greetings, and welcome to the Citi Trends Third Quarter 2025 Earnings Conference Call. At this time, participants are in a listen-only mode. A question and answer session will follow the formal presentation. We ask you to please ask one question and one follow-up, then return to the queue. If anyone would require operator assistance, please press 0. As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to your host, Nitza McKee, senior associate at ICR. Go ahead, Nitza.

Nitza McKee: Thank you, and good morning, everyone. Thank you for joining us on Citi Trends third quarter 2025 earnings call. On our call today is Chief Executive Officer, Ken Seipel, and Chief Financial Officer, Heather Plutino. Our earnings release was sent out this morning at 06:45 AM Eastern Time. If you have not received a copy of the release, it's available on the company's website under the Investor Relations section at www.cititrends.com. You should be aware that prepared remarks today made during this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Management may make additional forward-looking statements in response to your questions. These statements do not guarantee future performance. Therefore, you should not place undue reliance on these statements.

Nitza McKee: We refer you to the company's most recent report on Form 10-K and other subsequent filings with the Securities and Exchange Commission for a more detailed discussion of the factors that can cause actual results to differ materially from those described in the forward-looking statements. I will now turn the call over to our Chief Executive Officer, Ken Seipel. Ken?

Ken Seipel: Thank you, Nitza. Well, good morning, everyone, and thank you for joining us for our third quarter earnings call. I am pleased to report another quarter of consistent performance demonstrating disciplined execution and progress across every area of our business. Our transformation strategy is gaining significant momentum. Our operational capabilities are advancing, and our customer connection is strengthening. As I shared at a recent investor conference, we're in the early stages of what I believe to be a compelling transformation for Citi Trends. We've established a clear line of sight to achieve \$45 million of EBITDA in 2027, which represents a \$60 million increase from the 2024 levels. The substantial growth trajectory will be driven by our continued focus on consistent comparable store sales performance, gross margin expansion, operating expense leverage, and strategic new store expansion. Today, I'll walk you through the drivers of our third quarter results and provide additional details on how we're executing against this exciting long-range roadmap.

Ken Seipel: Turning now to our results. In the third quarter, we delivered comparable store sales growth of 10.8%, which represents a 16.5% growth on a two-year basis. This marks our fifth consecutive quarter and fifteenth straight month of strong comp growth, with total sales up 10.1% as compared to last year in the quarter. Consistent with our year-to-date performance, the majority of our Q3 sales results were due to increased customer traffic. We began the quarter with a strong back-to-school season, and we finished the quarter with an equally strong late fall fashion and pre-holiday product performance, with particular strength in children's, men's, and basic apparel categories throughout the entire quarter. Our Q3 performance brings our year-to-date comp to 10% or plus 12.3% on a two-year basis. We're seeing positive sales increases across all store volume groups and geographies, as well as across all product categories, underscoring the breadth of the top-line improvement across the

business. Plus, I am pleased to report that our holiday is off to a good start, and our strong two-year stack sales momentum has accelerated into the fourth quarter, where we are poised to generate our sixth consecutive quarter of year-over-year growth.

Ken Seipel: Gross margin rate in Q3 was consistent with the operating plan expectations and year-to-date 2025 performance. Our merchants have done a nice job of managing product cost while delivering amazing prices in the ever-changing landscape of tariffs. Due to the macro disruptions, the off-price deal flow continues to be robust, which allows us to have confidence in continued margin performance in the foreseeable future. I should also note that we made a tactical decision to pull forward some of the product originally expected in early Q4 into late Q3, which created a purposeful shift of freight expense from Q4 to Q3 this year. And as noted in our press release, the prior year gross margin rate results in Q3 2024 were artificially high last year due to Q2 strategic inventory reset activity, actions that ultimately jump-started the company's top-line turnaround last year. SG&A leveraged 130 basis points compared to last year, which includes the incremental funding of performance bonus programs for our employees this year. We're making good strides in improving execution consistency in all areas of the business, which in turn is having a positive impact on expense control. Looking ahead, we're focused on efficient execution to enable us to continue to leverage expenses as we grow the top line. As a result, we achieved better than planned EBITDA in the quarter, giving us confidence in raising our EBITDA guidance for the year.

Ken Seipel: Now turning to customer dynamics. Our turnaround is rooted in a clear, unwavering focus on the needs of our African American customer, who's at the center of everything we do. As I mentioned on prior calls, I believe the primary reason for the quick turnaround in our business is our laser focus on the needs of our African American customer and our highly differentiated competitive advantage of neighborhood-based locations. Our stores are embedded in communities that we've served for years. In proximity, combined with word-of-mouth service, powerful traffic drivers. Citi Trends has built a truly differentiated competitive position in this high-performing off-price retail sector. We're really the only off-price retailer specifically focused on the African American consumer, delivering styles, brands, and trends at compelling prices that resonate with this underserved demographic. Our cultural relevance is a significant competitive advantage. African American consumers are trendsetters and early adopters, and understanding this dynamic allows us to curate assortments with immediate appeal to our core customers. We also know that our customers are discerning. They understand that value is not just about price. They're willing to spend more when the style is for them, the fashion is on trend, and the quality is right. Our consistent strong traffic and basket performance in the third quarter provides clear evidence demonstrating the strength of our uniquely loyal high-frequency customer base. We continue to strengthen this connection by elevating the cultural relevance of our assortments and refreshing the shopping experience to better align with our brand voice. Our brand promise says it all: Styles that see you, prices that amaze you, and trends that tell your story. This holiday, we are launching and have launched the rebranded Citi Trends Joy Looks Good On You holiday campaign with an updated social media presence under the we are at Citi Trends tagline. We've also implemented city bus wraps and shelter marketing in key markets to strengthen our local presence. All of this reflects a more refined, culturally relevant, modern brand voice.

Ken Seipel: Looking forward to further enhance our customer relationships and drive deeper engagement, we're making strategic investments in our technology infrastructure, including the design and implementation of a new CRM and loyalty platform. This work will deepen our interaction with our most frequent customers and enhance long-term customer value. While we're in the early stages of this initiative, we're excited about the opportunity to create a more meaningful brand interaction with our best and most loyal consumers. Before diving into this quarter's product performance, let me briefly remind you of our three-tiered product strategy. What's important to understand is that we're serving customers across all income levels, and we have a significant portion of average and higher-income customers, which creates tremendous opportunity for our assortment of recognizable brands at exceptional prices that align with their style and trend preferences. At the opening price point, we offer value-focused basics through our city score program for budget-conscious customers. The core of our business is our better tier, typically priced between \$7 and \$12, which offers a broad selection of on-trend styles that drive loyalty and consistent performance across women's, men's, kids, footwear,

and home categories. At the top end, we're expanding our best tier through two distinct approaches. First, trend-relevant fashionable styles priced well below specialty retail. And second, extreme value opportunities featuring well-known brands at steep discounts, often up to 75% off MSRP. We're targeting this extreme value segment to represent an incremental 10% of total sales as these branded treasures drive both traffic and basket growth while delivering strong margins.

Ken Seipel: With this strategic framework in mind, now let me walk you through our Q3 product performance, which was broad-based and balanced in all categories. Strong results were driven by both apparel and non-apparel categories, and all divisions posted increases. But first, I'd like to congratulate our children's team on their strong double-digit growth in back-to-school and throughout the quarter. As our children's team continues to improve style curation and product in stocks, our customers continue to respond positively. Children's is the cornerstone of our business and a model of consistent execution this year. Equally, basic product for kids, men's, and women's had a strong quarter driven by better styles and improved inventory position in store. Our men's division had another strong quarter of growth reflecting the team's work to increase trend for our younger male customer while also tending to the fashion sensibilities of our mature male consumer. We're excited about this more comprehensive approach to our male customer, and based on the positive initial customer reaction, we have significant growth ahead in this particular category. We also saw momentum in women's footwear, which is an area we've been working to regain lost market share. Still more work to be done in this category, but we're encouraged with Q3 results and customers' response to our branded product at extreme values. Looking ahead in product, we're focusing on strengthening product offering in all categories. Our creative director has significantly raised the bar and is focused on curating trends to ensure our product is always trend-right. From the opening price product to our best-branded fashion, our merchant team is finding ways to elevate trends and styles at amazing prices. In Q4, we're repositioning the men's store presentation to highlight increased emphasis on young men's trend apparel while maintaining our core and classic portions of the assortment. We're in the early stages of repositioning our women's area to better reflect the style, trend, and sizing opportunity that we see for the business and plan to introduce an improved assortment to our customers in Q1 of next year. As I've mentioned before, we're continuing our focus on growing our anticipation classifications, which includes big men's, plus sizes, and family footwear, all of which have significant upside potential in the future.

Ken Seipel: Turning now to operations. As I've discussed in the past, our transformation is guided by a three-phase framework designed to deliver sustainable, profitable growth. The repair phase focused on restoring fundamental business practices to ensure a strong foundation for growth, including sharper clarity around our African American consumer, three-tiered product assortment, and implementation of AI-based allocation software to improve in stocks, reduce markdowns, and accelerate inventory turns. We are now firmly in the execute phase, focused on implementing best practices across all areas of the business to improve productivity and enable SG&A; leverage. This includes increasing supply chain speed, reducing working capital cost, and aligning our teams around KPIs and performance-linked compensation to drive continuous improvement. From an operational standpoint, we made continued progress on these phase initiatives in the third quarter. I want to congratulate the entire team, specifically our senior leaders, for improved business execution in Q3. One of the keys to our success was consistent execution of a detailed plan that emphasized tactical excellence to win the quarter. We continue to improve our inventory efficiency, supporting a 10.8% comp with overall 3% less inventory than the prior year. Due to speed improvements in our supply chain, we were also able to execute a 4.5% higher average in-store inventory. In the supply chain, improved work processes, productivity standards, and day-to-day leadership enabled us to efficiently reduce in-process inventory. This improved efficiency drives working capital optimization and provides flexibility and speed to react to sales trends while protecting gross margin. In the quarter, we finalized implementation of our AI-based allocation system across all merchandise categories. We remain pleased with the results. Now turning our attention to an AI-based planning system to help streamline sales and inventory planning processes for our merchant teams. As I said before, retail is detail, and execution without measurement is just guesswork. Our use of KPIs and dashboards across all key functions provides the visibility that helps our team stay on track and drive continual operational improvement, which is the core element of

our execute phase strategy. Looking ahead, while we've made good operational progress, as I said earlier, we recognize a significant opportunity remains to improve execution in many areas of our business. As we advance through our execute phase and improve consistency, we expect continued SG&A; leverage to enhance flow-through of sales to profit.

Ken Seipel: Now turning to our growth strategy. We remodeled 24 stores in the quarter, including 15 high-volume stores. Year-to-date, we've remodeled 62 locations and now have about 30% of our fleet in an updated format. These refreshed stores inspire our teams, elevate brand perception in the community, and send a strong signal that we're investing in local neighborhoods. In the third quarter, we opened three new stores in Jacksonville, Florida, Columbia, South Carolina, and Bainbridge, Georgia, bringing our store count to 593 locations across 33 states. In addition, we remodeled five stores in Columbia, South Carolina, and four stores in Jacksonville, Florida. And in support of these new stores and remodels, we added local marketing, which included wrapping city buses with a Citi Trends brand message. These openings are part of our pilot market backfill approach, where we are opening new stores in conjunction with remodeling existing locations to increase market share by strengthening our store presence and reinvigorating our brand. In the first few weeks of business, the new stores and markets have responded above expectations. I look forward to giving you a more thorough update on our next call after we have a full holiday season of results in these markets. These market investment tests will inform our approach as we accelerate growth in 2026, when we plan to open about 25 new stores, followed by at least 40 stores per year in 2027 and onward. This expansion strategy will take our store count to around 650 stores by 2027, focusing on backfilling existing markets where our brand awareness and performance are proven while selectively entering new markets with strong demographic alignment to our customer base. Our positioning of Citi Trends for strategic new store growth is guided by a disciplined data approach. Our new store expansion combines advanced AI-driven analytics, local market expertise, and strict financial criteria. Using AI tools, we have analyzed three years of actual transaction data from every store location, combined with comprehensive geolocation studies to understand the specific market characteristics that drive our success. This data-driven approach has demonstrated about 90% accuracy in predicting sales, helping us identify and replicate our most successful store profiles while minimizing risk. We're applying disciplined financial hurdles to every new store decision, targeting mature store averages of about \$1.5 million and mid-teens four-wall contribution.

Ken Seipel: Looking ahead, we continue remodeling about 50 stores per year as a part of our ongoing fleet maintenance and market investment strategies. This disciplined approach allows us to progressively upgrade our store base while achieving planned returns on invested capital and positioning us to expand intelligently while maximizing return on investment. Longer-term growth in early October, we had a chance to share our multiyear growth plan at an investor conference. The presentation we shared is available on our investor relations website. But I do want to take a minute just to review some of the key objectives of our long-range plan. The first objective is to grow sales to \$900 million or more in fiscal 2027 with consistent comp store sales growth plus the addition of about 25 new stores in fiscal 2026 and 40 stores in 2027. We plan to achieve a gross profit rate of 42%, a 400 basis point expansion compared to fiscal 2024. And we plan to leverage expenses by 200 basis points to a rate of approximately 37% or less. Resulting EBITDA is expected to be \$45 million or more in fiscal 2027, a \$60 million improvement to 2024, and an EBITDA margin rate of approximately 5%. These are not distant goals. They're achievable outcomes driven by the actions we are actively executing to drive the turnaround of this important business, and with our fiscal 2025 results today, I think it's fair to say that we're off to a pretty good start. With that, I'd like to turn the call over to Heather to discuss our financial performance for the quarter in more detail and our outlook for the fourth quarter. I'll return after Heather for some closing remarks. Heather?

Heather Plutino: Thank you, Ken, and good morning, everyone. I'm pleased to walk you through the details of our third quarter performance, which demonstrates once again the consistency and effectiveness of our transformation strategy. That clear strategy plus the foundational improvements made to date have created remarkable momentum across the business, and we are delivering measurable progress across key operational metrics. Starting with the top line, Q3 total sales were \$197.1 million, up 10.1% compared to Q3 2024. Comparable store sales increased 10.8%, 16.5% on a

two-year stack basis. Ken said this already, but it's so good it warrants repeating. Our Q3 performance marks our fifth consecutive quarter and fifteenth straight month of strong comp growth. A remarkable feat, particularly in the current retail environment. We delivered strong comps in each month of the quarter and saw consistent year-over-year growth in both traffic and basket as our revised merchandise assortment, including off-price deals and more branded extreme value products, continues to resonate strongly with our customers, enabling us to gain market share. We also saw positive results across all climate zones, across all store volume groups, and across all product categories, demonstrating the broad-based nature of our improving results.

Heather Plutino: Third quarter gross margin was 38.9%, while 90 basis points lower than Q3 2024, these results were in line with our expectations. Recall that in the second quarter of last year, we incurred significant markdowns from our strategic inventory reset, allowing us to exit aged and slow-moving product while freeing up open-to-buy for our revised product strategy to fuel our top-line growth. As a result, markdowns and shrink in Q3 of last year were unnaturally low, creating an unfavorable comparison for the current year period. As Ken mentioned, early in the third quarter, we decided to shift inventory and the related freight expense from Q4 into Q3 to better manage freight flow for the distribution centers. Doing so drove additional freight expense in Q3, about a 40 basis point impact to margin rate while accomplishing the smoothing we wanted to achieve, protecting the holiday and delighting our customers with earlier access to holiday goods. Importantly, product margin was consistent with results from the first half of the year due to the hard work of our merchant teams, as Ken remarked on earlier.

Heather Plutino: Third quarter adjusted SG&A; expense totaled \$79.5 million compared to \$74.6 million in the prior year period. The increase to last year was driven by \$3.2 million of higher incentive compensation accrual and store and DC expenses to process higher sales. As we've shared in previous calls, we reinstated an incentive compensation accrual at the beginning of this fiscal year after incurring very minimal related expense in fiscal 2024, causing the bonus to no bonus comparison again in the third quarter. In addition, due to improved expected financial results for the year, we set the bonus accrual to the max payout, driving a catch-up accrual in the third quarter. On a rate basis, Q3 adjusted SG&A; was 40.4%, 130 basis points lower than last year. Adjusted EBITDA for the quarter was a loss of \$2.9 million, in line with management expectations and better than a loss of \$3.3 million a year ago.

Heather Plutino: Before turning to the balance sheet, let me provide a few details on our performance through the first nine months of fiscal 2025. Comparable store sales for the first nine months increased 10% with a two-year comp stack of 12.3%. Comps were driven by a 6% increase in transactions. This is the metric we're most proud of as it is evidence that our loyal customers are responding positively to the changes we've made in our assortment strategy and to the in-store experience. Adjusted nine-month EBITDA was a loss of \$100,000, an increase of more than \$21 million to last year. EBITDA growth was driven by more than \$47 million in incremental sales, 290 basis point margin rate expansion, and 100 basis points of SG&A; leverage. So improvement across the board.

Heather Plutino: Now turning to the balance sheet. Total inventory dollars at quarter-end decreased 3.1% compared to last year, with average in-store inventory up 4.5% as we strategically positioned ourselves for holiday sales, including the pull forward of inventory receipts from Q4 into Q3. As Ken mentioned, our success in driving double-digit sales increases with a modest increase in in-store inventory reflects our work to improve inventory efficiency through higher turns and improvements in supply chain speed. As we enter the important Q4 holiday selling season, we remain pleased with our inventory level, composition, and freshness. At the end of the third quarter, we remained in a healthy financial position with a strong balance sheet, including no debt, no drawings on our \$75 million revolver, and \$51 million in cash. This financial strength continues to give us the flexibility to invest in our growth initiatives while ensuring operational stability throughout our transformation.

Heather Plutino: Now turning to our fiscal 2025 outlook. Based on our results through the third quarter and our confidence that the effectiveness of our turnaround plan will continue through the fourth quarter, we are pleased to update our outlook for 2025 as follows: With sales momentum of the first nine months of the year continuing into early Q4, we now expect full-year comp store sales growth of high single digits, at the high end of our previous outlook. We now expect full-year gross margin

expansion of approximately 230 basis points versus 2024, also at the high end of previous outlook due to continued progress on inventory efficiency and planned supply chain improvement. 2025 SG&A; is expected to leverage approximately 90 basis points versus last year, reflecting continued expense control. Once again, this is at the high end of our previous outlook of 60 to 90 basis points leverage versus 2024. With these updates, we now expect full-year EBITDA to be in the range of \$10 million to \$12 million, an increase to the \$7 million to \$11 million range in prior guidance. The revised guidance is \$24 million to \$26 million above fiscal 2024 results. There is no change to our effective tax rate of approximately 0% for the year. For the year, we will open three new stores and will remodel 62 locations. Both of these targets have been achieved as of the end of the third quarter. In addition, we are planning to close four stores in the fiscal year, just above our previous guidance of three closures. Heather Plutino: And finally, full-year capital expenditures are now expected to be approximately \$23 million, at the lower end of our previous outlook of \$22 million to \$25 million. While we don't provide quarterly guidance, given where we are in the fiscal year, we want to offer thoughts on our expectations for the fourth quarter. Q4 comps are expected to be up high single digits with a two-year stack in the mid-teens. Q4 gross margin is expected to be in the range of 40% to 41%, up to prior year. SG&A; is expected to be approximately \$82 million, and Q4 EBITDA is expected to be in the range of \$10 million to \$12 million. Before I turn the call back to Ken, I want to emphasize that our third quarter results reflect more than just three months of strong execution. They demonstrate the durability of our business model, the effectiveness of our strategic initiatives, and most importantly, are a continuation of the improvement we've achieved across the last several quarters. As we look toward the fourth quarter into fiscal 2026, we remain committed to our disciplined approach while maintaining the flexibility that has served us well throughout transformation. The foundation we've built gives us confidence in our ability to deliver sustainable profitable growth while continuing to create shareholder value. I'm excited about the opportunities ahead as we continue to execute against our strategic plan. With that, I'll turn the call back to Ken. Ken?

Ken Seipel: Thank you, Heather. Before I turn the call back to the operator to facilitate Q&A;, I do want to emphasize that the transformation of Citi Trends is well underway. We remain guided by our three-phase framework designed to deliver sustainable profit growth. The first phase, repair, is about restoring fundamentals and establishing a strong foundation for growth. The second phase, execute, focuses on hardening consistent best practices to drive reliable, predictable performance. The final phase, optimize, leverages the work of the first two phases to accelerate our EBITDA growth. As a result of our efforts in the first two phases of this transformation, we've made meaningful improvements, including an improved product assortment strategy, a better in-store shopping experience for our customer, and improvements in many processes and systems. Our five consecutive quarters of comp store growth is a proof point that our strategy is working, our execution is getting better, and our customer connection is stronger than ever as we firmly establish ourselves as a leading off-price retailer for our customers. While we're proud of our results so far, we fully recognize there is significant opportunity ahead. I want to emphasize that we're in the early stages of this transformation. There's still work to do, processes to refine, categories to optimize, and systems to build. But the path forward is clear. We are confident in our ability to deliver continued transformation, drive shareholder value, and expand our role as the leading neighborhood retailer for African American families. I want to thank the entire Citi Trends team for executing with discipline, driving quickly toward our stated goals, and most of all, for delivering results. The team is doing the hard day-to-day work to unlock sustainable growth and shareholder value. And we are just getting started. Thank you, everyone. And now I'd like to turn it over to the operator for questions.

Operator: Thank you. We'll now be conducting a question and answer session. If you'd like to be placed in the question queue, please press 1. You may press 2 if you'd like to remove your question from the queue. As a reminder, we ask you please ask one question and one follow-up, then return to the queue. Our first question is coming from Michael Baker from D.A. Davidson. Your line is now live.

Michael Baker: Great. Thanks. Great quarter. So if I think about the two-year plan to get to about \$900 million, you know, it probably implies another \$85 million or so in sales growth in '26 and '27. You talked a lot about some merchandising opportunities and categories, but a little bit more detail on where the biggest holes are in your merchandising right now, either by product category or by good, better, best,

or however you want to articulate, you know, where do those incremental sales come from?

Ken Seipel: Yeah. For sure, Mike. Thanks. As I mentioned in the script, we are seeing broad-based growth throughout all the categories. And so at the top level for all categories, we've really sharpened our focus on better trend product, and we've seen good reaction to that this year and continued reaction. I mentioned briefly that we have just implemented a young men's category. That's actually just setting in the stores right now. We're seeing good reaction to that. And as we begin to understand a little bit more about that dynamic, there's significant opportunity there. Equally, across the aisle in our women's category, we've always had a pretty strong junior's business, but we recognize that there's a missing component of that as well as plus sizes that need to be fully matured. And then on top of that overlay, trend product in those categories as well. And so that's a little bit of a new business for us, relative to those two categories getting reset. And then, across the fleet, we're just getting going in shoes in our footwear category. The team, as I remarked, had a pretty good Q3 in women's. We're off to a good start there. But we have significant opportunity, multiple millions of dollars of opportunity to grow our shoe business back to even historical levels, let alone to catch up to where we are in the overall store. So there's significant opportunity there. And then I would highlight, and I don't mean to make this so broad-based, but really truly is how we're looking at it. In kids, for example, as we continue to build that business, it gets stronger and stronger and stronger. We've been executing quite well in kids. But as we continue to invest in inventory, we need to get growth. So there's areas throughout the store that we see that just offer us tremendous opportunities for growth. And then I guess I'll put at the punch line for all this, the other piece of it, don't forget that we have the extreme value opportunity, and we're doing a fairly small percentage of our business in extreme value right now. It's working quite well. And we see significant growth there. All of that actually totals up to, in my mind, a very obtainable \$900 million.

Michael Baker: Great. Thanks for the detail on that. If I could ask a follow-up, I suppose by virtue of the 10.8% comp, your trends were probably consistent throughout the month. You talked about consistency by product category and store cohort. Can you talk about the pace through the quarter? And if there was any impact from the government shutdown, SNAP, anything during those few weeks? Thanks.

Ken Seipel: Yeah. I'll make some high-level comments, and then Heather can fill in any specifics here. But, you know, the good news about our consumer right now, they've shown remarkable resiliency with all of the macro changes around government SNAP and different programs like that. Candidly, we've really seen no major impact. The shopping patterns have remained consistent throughout the quarter. As I mentioned, we got off to a really good start in August. August was tremendous for us, led by our kids division. All divisions did well, but kids really had a tremendous back-to-school period. And then I was really pleased with how we finished the quarter. October, particularly the last three weeks of October, really accelerated quite well. We have mentioned in the script that we advanced some of our freight from Q4 into Q3. When that hit our stores, we actually saw a really strong consumer reaction.

Heather Plutino: Yeah, Mike, the only thing I would add to that is that it was a pretty tight band. Looks a little bit like a barbell, stronger in the beginning, first month, third month, middle month was a little softer, but the range is, like, 9.5 to 12. So it's not like a severe dip in the middle or severe spike. So yeah, pretty consistent.

Michael Baker: Great. Thanks. I'll pass it on to someone else.

Heather Plutino: Thanks, Mike.

Operator: Thank you. Next question today is coming from Jeremy Hamblin from Craig Hallum. Your line is now live.

Jeremy Hamblin: Thanks, and congrats on the impressive results. I wanted to just come back to the point, Ken, that you were making on some of these extreme value deals, which, you know, we saw some of those drop towards the end of the quarter. Some notable deals with products like UGG, HOKA, Timberland brands, you know, Jordan brand, etcetera. And that did seem to be a big driver of your strong traffic. But where are you in terms of extreme value as kind of a portion of the product inventory and sales today? And I think you mentioned that you're expecting over the next couple of years to get that up to about 10%. You know, how do you expect that to progress over time? And, you know, what type of visibility do you have on continuing to drive deal flow, you know, across, you know, kind of major

name brands?

Ken Seipel: Yeah. Good. Thanks, Jeremy. A couple of things on our current status. Extreme value deal flows, as I mentioned, continue to be very robust for the team. And we're being pretty discerning about what's being brought into the business right now. I guess we probably passed on a three-to-one ratio of adoption of deals that come across the desk, maybe even more. And as a result of that, the current sales performance of extreme value deals is probably in the two to 3% of business range, and that'll just give you a broad range right now. It varies a little bit by category. And back to your point, we've seen a path to getting that closer to 10% as we continue to mature. So there's a significant opportunity there. We're learning a lot as we're bringing some of these deals in. Many of them have really responded much better than anticipated. A few have been a little bit slower than anticipated. A lot has to do with consumer acceptance and reaction to it. But as we're getting better and understanding how to do extreme value deals, particularly with our supply chain processing, we see that, and I believe that remains to be a competitive weapon for us going forward.

Jeremy Hamblin: Thanks for the color. And then switching gears here to talking about the store fleet. And as you are rolling out stores for '26 and seeing a nice uptick in your unit growth, what do you expect the cadence of openings to be in '26? And then you mentioned 2027. You know, is that going to be, you know, kind of consistent in terms of, you know, store openings now that you've got visibility on the number of units that you're planning to open?

Ken Seipel: Yes. I'll give you a little bit of color on the process going forward. Our real estate team right now is working on a number of deals in the pipeline. And our goal will be going forward to open up our stores really at three distinct times of the year. We'll be opening up stores in early spring, going into the spring period, the tax season. We'll be opening up stores in July, going into back-to-school, and we'll open up a group of stores in October going into holiday. And so I would expect of that fleet going forward, the 40 stores that I mentioned earlier, you can probably divide that equally by three into those time frames and probably have a really good view of how we're looking at the business from our side. In 2026, we'll have lighter openings in the spring. We're just getting caught up there. Most of those openings will be more in July and August, probably equally split there. Excuse me. July and October equally split between those two months. Again, give you an idea as we get caught up and get this engine moving forward and do store growth.

Jeremy Hamblin: Great. And then just one more for me. I know that you've got a lot of initiatives that are going on, technology initiatives. But I wanted to ask about your shrink mitigation efforts. I know this is something that you've been working on very diligently, and I think you had a pretty decent gap to close of where you wanted to get that to. But any color you can share on the progress on those efforts, what the impact is to your gross margin, and what you expect to pick up from that kind of in 2026?

Heather Plutino: Hey, Jeremy. I gotta grab that one. So we've rolled out new camera systems in about a third of our stores in 2025. And these new camera systems not only provide what you would expect, visibility into the store, but they're AI capable and allow for our loss prevention team to use facial recognition, which you can imagine is helpful not only to protect our stores but to engage with local law enforcement and to help the community, not just our Citi Trends stores. So we're excited about that. Those cameras also have, outside of loss prevention and shrink prevention, they have heat mapping capability, which will help us understand customer shopping patterns, and they have traffic counting capability, which obviously is an important component as well. So we're excited about that. We're going to roll out to more than two times that number of stores into 2026 so that we can leverage that very, very quickly. You and I talked about this before, but our shrink rate in 2025 still remains what I understand to be in line with averages for retail, but we're not satisfied yet. And that means that it's less than 1.5% of sales. Right? So still higher than we want it to be. Less worried about the rate than I am about the dollars. I think we still have a few million to give back to the company on shrink mitigation over time. Now as I look at 2026, our plan assumes a decrease in both dollars and rate in 2026. Based on technology, based on talent, we are upgrading and updating our talent in our loss prevention teams, and based on processes, we are training regularly our store management teams and our district managers on shrink mitigation. So all of that comes together to say that we expect a decrease in 2026 and a further decrease in 2027.

Jeremy Hamblin: Fantastic. Last one for me. So you also noted the implementation of technology,

improving CRM. Can you elaborate at all in terms of how you plan to use that, as the company continues to gravitate to using a bit more digital marketing efforts? You know, is there a thought around a loyalty program that you're leaning into? But any more color you might be able to share on the timing of when the CRM update is happening and what you expect the outcome to be from that?

Ken Seipel: Yeah. For sure, Jeremy. We are in the process, as I mentioned, of really getting it out, testing, and developing the systems and the processes that go along with that. Our goal will be to launch a CRM in Q1 of this next year. And we don't have an exact date yet, so trying to pin down some stuff on the technology and its readiness and so forth. But think about a phase one implementation in Q1, and then there'll be a phase two implementation in the fall of 2026. The way I want you to think about CRM and loyalty for our business is we're actually going to be calling it, quote, unquote, the insiders club. We'll have a much better title, I'm sure, by the time we get to it. But it's effectively going to be a way for our customers to tap into emerging trends and deals. You think about the value of being a part of our loyalty club and being one of the first ones to know about some of these amazing extreme value deals that are coming down the pipeline. Well, we have the ability to notify our best customers. They can come in and shop first and best and be kind of in the know, if you will, around emerging deals that are coming to the store. We believe that there will be significant interest in that. And that actually has the ability then to drive incremental traffic with some of our best and most loyal consumers. So beyond that, we're also trying to build in additional tools to make the shopping experience easier for our best customers. As an example, one of the things that they'll gain is actually the ability to have electronic receipts. And so, quickly, they can have that stored and be on their phone, and eventually, we'll have an app on there that they can just simply access that. Also, layaway programs and things of that nature will have digital access. So the goal here is to make it an insider's club and then to find ways to make the shopping experience a little bit easier and more convenient for our consumer. And then, as you mentioned, the intangible value for us is we're going to have a pretty significant database of consumers that are highly engaged that we can speak to with regularity via these marketing ideas.

Jeremy Hamblin: Great. Thanks for all the color, and best wishes.

Ken Seipel: Thanks, Jeremy. Appreciate it.

Operator: Thank you. We've reached the end of our question and answer session. I'd like to turn the floor back over for any further or closing comments.

Ken Seipel: I'd like to thank everybody for attending today's call. We look forward to talking to you next quarter.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.