

CURV Earnings Call Transcript

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Quarter: 3

Operator: Question and answer session. If you would like to ask a question, please press 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press 2 if you would like to remove your question from the queue. Our first question comes from Janine Stichter with BTIG. You may proceed with your question.

Janine Stichter: Hi. Good afternoon. Thanks for taking my question. Can you elaborate a bit on some of the product missteps that you talked about? What cues are you getting from the consumer to tell you that this is where the challenge is and this is what needs to be fixed? And then you mentioned about the promotions being higher on the digital channel. Maybe elaborate on why that is or why you think that is and what you saw in stores during the period? Thank you.

Lisa Harper: Thanks, Janine. Hi. It's Lisa. The merchandising missteps were very focused on tops as we mentioned. So tops were about half of the total revenue miss for the quarter. Shoes were about 40% and then jackets, because of their seasonal importance, were about 10% for the quarter. So it was pretty significant. We've talked through the shoe situation, which is a pause based on the tariffs. We've reintroduced shoes and boots recently and are having a great response to them. We'll continue to build that business back up and recapture that revenue as we move into 2026. But for the quarter, the biggest miss and the biggest action was really focused around the top category. What I would say from a merchandising perspective was the abdication of a couple of our core fabrications and core kind of entry point solution-based products for the customer. And so we've been able to chase that product very quickly. It's longer tops, more tunics, brushed waffles, super soft knits, and challi in the woven category. So it's very focused on a few fabrications and very focused on a few end uses. And because we are able to platform that fabric, we're back into some of those businesses in December, and throughout January and February in terms of receipts. So we expect to see improvement in those categories as we move into early first quarter, as we'll have, I think, chased the bulk of what we feel is missing in the assortment right now. So what we've done to avoid that in the future is really enhanced. Although we have pretty substantive guardrails to this, this was a merchandising miss that was, obviously, very disappointing and frustrating for the organization for the quarter. And so we put enhanced guardrails around the process. We've put in a robust assortment planning, multifunctional approach to the categories particularly. And we've increased oversight, and I'm involved in every step of that. I would say that as an organization, they were able to effectively kind of innovate and balance product assortments in all areas except for tops. So I would say that and I would all areas except for tops and jackets. The benefits of those innovations and expansion to the core product are present in denim, non-denim dresses, and intimates. And so those areas were able to positive comp. As we mentioned in the prepared remarks, they weren't able to offset the detriment of the tops miss. So if you think about the total miss for the quarter, I'll restate it. It's about 50% tops, about 40% shoes and a related transaction with shoes, and then about 10% in jackets for the quarter. Now I'll turn it over to Ashlee Wheeler to answer the promotional conversation.

Ashlee Wheeler: Hi, Janine. I see that the accelerated promotional activity was in large part correlated to the miss in the top space. So as Lisa noted, in the absence of some of those core franchises, entry price point solution-based items, and a swing into highly novel or more fashion-oriented assortment, it put a little more pressure on promotional activity, AUR, for example. In the absence of those entry price

point categories. That said, I think we've done a really nice job making sure that we're coming out of the season clean. So there are no inventory issues to speak of related to some of these missteps in assortment.

Janine Stichter: Perfect. And then maybe just one more for me. And, you know, the full-year guidance implies, I think, a mid-teens revenue decline in Q4. Anything you can share about where you're tracking quarter to date versus that guidance?

Lisa Harper: Obviously, we are able to incorporate current performance into that guidance. We don't anticipate a substantive recovery in either tops or shoes for the balance of this quarter. We'll start to see some improvement in tops in the first quarter. We'll still have a drag in shoes as we go through the fourth quarter and the first half, and that's next year. So all of that is contemplated into that guidance.

Janine Stichter: Alright. Thank you very much.

Lisa Harper: Thanks.

Operator: Our next question comes from Brooke Roach with Goldman Sachs.

Brooke Roach: Good afternoon, and thank you for taking our question. Lisa, for a couple of years now, the balance of fashion versus basics and opening price point versus stretch product has been something that the business has been chasing. What's changing in the processes to ensure that you have both those opening price point and balanced items in your assortment and planning architectures? And other than oversight, do we ensure that this is something that's more systematic on a go-forward basis as we look into 2026 and beyond?

Lisa Harper: Thanks, Brooke. I just called you by your last name. I apologize. Thanks, Brooke. So I would say that the overall issue and opportunity in this business is about innovation and remaining relevant in commercial. That is balanced against the need of the customer and the request of the customer focus of the customer on price point. And so as we go into the first quarter of next year, we will be in terms of opening price point, close to 30% of sales and assortment associated with those categories of businesses that service our customer in terms of core products, solution-oriented, high quality at a price that she has shown us that she reacts to and values. That is built into the architecture, the assortment architecture, we move forward. It is something that we have embedded in that process. Both sides of this are important. First of all, we have to move forward and remain relevant. I think that we've been able to do that with sub-brands. We've been able to do that in the categories that I mentioned before, denim, non-denim dresses, and intimates. And the miss really is in the tops area, which had abdicated and exited through merchandising direction too many of the core programs. Those core programs are bought and will be already had been planned to be received as we get into January receipts going into 2026 sales, and it's part of the assortment architecture. So the need for the business to move forward and innovate with product was important as our customer feedback had been that our styling was not keeping up with their demands. We've balanced that, I think, in every area except for the misstep in tops. Where we will be going into the first quarter with a much stronger opening price point strategy across the board, but primarily, the highest level of opening price point will be in tops. As we move forward. It's built into the assortment architecture of the business. I don't know. Ashlee, you wanna add anything?

Ashlee Wheeler: Brooke, I might add. If we take a look at the categories where we executed well in the third quarter, so denim is a place where we stayed committed to the franchises that the customer knows us for, the bombshell franchise, for example. We stayed very committed, but we expanded upon that, gave her more innovation through leg shape, wash treatment, finish. And that system has worked very, very well. It's worked well for us in dresses where we've stayed committed to end use, covering every aspect of her life, and been very focused on multi-end use. It's worked well. Tops, where we misstepped in the third quarter, we did not do that, and we walked away from very critical end use and solutions. We have to get back and stay focused on the same balance that we applied in denim and in dresses to our tops category, which is the largest category of the business.

Brooke Roach: That's really helpful. As a follow-up, have you seen any larger or outsized shifts in engagement among any specific income demographic or age cohort of your consumer? Maybe said another way, are you seeing any changes in the demographic makeup of your business of which customers are engaging with you the best?

Ashlee Wheeler: In terms of customer demographics or income cohorts, performance has stayed

consistent across all of those. We observed in the third quarter very different from previous quarters, is our most loyal, our most engaged customers pulled back and we saw that come through reduced frequency and fewer purchases in the tops department in particular.

Brooke Roach: Great. Thanks so much. I'll pass it on.

Lisa Harper: Thanks, Brooke.

Operator: Our next question comes from Corey Tarlowe with Jefferies. You may proceed with your question.

Corey Tarlowe: Great. Thanks and good afternoon. Lisa, can we just talk a little bit about the sub-brand momentum and any updates there as that builds in the assortment and how you think about, you know, this quarter's results may alter or change the approach in the sub-brand strategy? Thanks so much.

Lisa Harper: Thanks, Corey. No change in the sub-brand strategy. I think that we have a clear winner in the Festi brand and think that that will expand. Nightfall and Retro are continuing to perform very, very well. Belle Isle is more we've identified it more as a first-half brand than a back-half brand. And so we'll be adjusting kind of the sales momentum associated with Belle Isle to be probably more 60% first half, 40% back half. And then we've introduced true interactive business, which we're very happy with the results there. And LUPSEC is still kind of, I would say, in test mode. We don't have a lot of revenue associated with that as we move into next year as we're able to refine that assortment. Moving forward. I think in general, very, very pleased with the sub-brand momentum and expect it to continue to grow dramatically as we go into 2026.

Corey Tarlowe: Great. That's really helpful. And then just to follow-up, can we talk about the leverage profile and how that changes with all the store closures and what the perhaps, new leverage profile might be as we think about easier laps in 2026 and what that could mean from a margin perspective? Thanks so much.

Paula Dempsey: Hi, Corey. This is Paula. So as we think about 2026 with the store closures, what's gonna happen is our profile will be more flexible from an expenses standpoint. So, of course, less fixed expenses, and we'll have the ability to be more dynamic. From that standpoint. I think from a gross margin, the profile may be staying closely, the same to where that total enterprise is today. But what you're going to see is a substantial EBITDA margin expansion in 2026 with the store closures. So currently, we are seeing the store closure optimization work really well. We have delivered over \$18 million in cost reductions this year alone. We expect that number to be much greater in 2026 when we annualize 180 stores. And so that will also strengthen our liquidity substantially for 2026.

Corey Tarlowe: Okay. So much, and best of luck.

Operator: Our next question comes from Alex Stratton with Morgan Stanley. You may proceed with your question.

Alex Stratton: Great. Thanks so much. Maybe for Paula, I think you said you expect significant EBITDA margin expansion next year. Not sure if I heard that right, but if so, can you just elaborate more on that? And what type of level is in reach? And then just as a follow-up to the sales guidance for the fourth quarter, worse pressure than the third quarter is what's implied. So is that reflecting what you've seen quarter to date? And what areas is out here getting worse from a quarter-over-quarter perspective? Thanks a lot.

Paula Dempsey: So going to Q4 guidance, are all in for Q4 guidance. So what you're seeing is essentially accounting for what Lisa had mentioned before. The miss in tops along with shoes. There is also a seasonality impact in our business typically in Q4. So it goes along with that seasonality impact. As we moved into fiscal 2026, with store closures and EBITDA margin growth, what you're going to see there is, if you recall, a lot of these stores that we're closing, actually, most of them are very highly unproductive stores. So by closing them, we're essentially giving money back to the business through reductions in many items in the P&L.; Right? So such as store payroll or store occupancy, etcetera, etcetera, etcetera. So we're gonna see a greater amount of savings from that standpoint. And just to touch base again, we're seeing retention, customer retention, sales retention from these store closures to be well aligned with our historical rates, which is a great sign for us. So everything is going really well from that standpoint.

Alex Stratton: I would say as, you know, we are on track to closing up to 180 this year. And I think that's all we have from a store optimization at this point.

Alex Stratton: Great. Thank you.

Operator: Our next question comes from Dana Telsey with Telsey Advisory Group. You may proceed with your question.

Dana Telsey: Hi. Good afternoon, Lisa and everyone. As you think about the current merchandising adjustments that are being made, what are you seeing in the competitive landscape? Do you think of this more as an internal issue that Torrid Holdings Inc. needs to fix or are there changes in the competitive landscape and whether it's product assortment, price point, or where your customer's going? Thank you.

Lisa Harper: Thanks, Dana. I do think there's a seasonal aspect to it. I think, obviously, a lot of this is self-inflicted driven by really advocating core products in the knit and woven top categories. I do think seasonally, there are a lot of options that other brands have extended sizes and it's more sweatshirt oriented, sweater oriented that are not as fit specific. We certainly didn't see this impact in the top business in the first half of this year, so it really did accelerate as we go into the third quarter. I think we have a real opportunity to build back with the opening price point strategy that we discussed and keep applications that our customer really values. More tunics in the mix, more kind of figure flattering solution-oriented products, in the knit category and then more wear to work and blouse business and woven categories. But I do think that in the third quarter, there is an ability to choose tops among a broader range of retailers. Because just the seasonal impact of being less fit specific and more oversized. I don't while we've, you know, to that end, we didn't see the degradation in any of our bottoms businesses, which are more fit specific or our dress business, which also we were able to have great representation of end uses and fit solutions. So I feel like it's isolated. Very clearly isolated. I do think it could be could have been I don't have any data to really support it, but just broadly from a mindset. It could have had a larger impact because of the seasonal nature of the products in the knit and woven category during the time. So, again, quickly move to address it. When I think Ashlee mentioned earlier about, you know, our less frequency in terms of top purchases in the third quarter. Tops really are a frequency driver. For us so that they don't buy denim as often or dresses as often, but they do buy tops more often. And I think that opportunity to buy tops other places, it might have been enhanced by, you know, by that timing. I do think anything that we've seen in terms of surveying with our customers, there's still very dedicated to Torrid Holdings Inc. They're very interested in shopping at Torrid Holdings Inc. They're still maintaining their strong relationship and our loyalty program continues to be very highly penetrated. So we have a lot of opportunity to communicate and connect with this customer and understand exactly what's missing. And as I mentioned, the one thing that continues to come up is opening price point that would say we did have fits and starts with over the last several years, but very deeply invested and committed to based on the analysis and of our previous OPP programs and the expansion related to that. So I think we're gonna be able to recapture her tops purchase in addition to the denim and dress person from her as we introduce these reintroduce these core businesses at an opening price point. Did I answer the question, Dana?

Dana Telsey: Thank you.

Lisa Harper: Thanks.

Operator: This now concludes our question and answer session. I would like to turn the floor back over to Lisa Harper for closing comments.

Lisa Harper: Thank you for joining us today. We look forward to sharing the progress on the store optimization program and the remerchandising of our tops area as we join you for the fourth quarter and fiscal 2025 conference call. Thank you.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's conference. Please disconnect your lines and have a wonderful day.