



Shoe Carnival, Inc. Common Stock

SHOE

EQUITY RESEARCH REPORT

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SHOE — SHOE CARNIVAL, INC. COMMON STOCK

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Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	**AVOID**
Current Price	€12.66 (USD \$14.49)
Fair Value (Base Case)	€13.80
Margin of Safety	8.3%
Target Entry (if HOLD/re-review)	€10.50

Return Profile	Value
Dividend Yield	~5.4% (€0.68 annualized / €12.66)
Expected Dividend Growth	3.0%
Expected Price Appreciation	2.5%
Total Expected Return (Base)	7.9% CAGR
Bear Case Total Return	-6.5% CAGR
Bull Case Total Return	14.5% CAGR
Probability-Weighted Return	5.7% CAGR

Risk Assessment	Value
Wealth Preservation Score	52 / 100
Downside Protection Score	55 / 100
Quality Score	54 / 100
Risk Level	ELEVATED
Probability of >50% Loss	~12%
Recession Profile	SENSITIVE (bordering VULNERABLE)

One-Line Thesis:

A debt-free, dividend-growing small-cap footwear retailer with a fortress balance sheet, undermined by a shrinking earnings base, a self-inflicted rebanner strategy in mid-crisis, CEO turnover, and exposure to the exact

low-income consumer most damaged by the current cycle.

INVESTMENT THESIS

Shoe Carnival gives you a genuinely rare small-cap balance sheet: no debt for 21 straight years, €130 million in cash and marketable securities, and 12 consecutive years of dividend increases. That combination should protect you from bankruptcy risk. The stock at €12.66 also offers a 5.4% dividend yield, which alone approaches your inflation-plus-4% hurdle. On paper this looks like a preservation candidate.

The problem is the earnings trajectory underneath that dividend. Net income fell from \$155 million in fiscal 2022 to \$110 million in 2023 to \$73.8 million in 2024 to \$52.3 million in fiscal 2025. That is a 66% collapse in three years. Diluted EPS dropped 29% in the most recent year alone. Then Q1 2026 delivered a GAAP net loss of \$5.6 million against a \$0.34 profit a year earlier, driven by \$13.6 million of CEO transition and strategic review charges. You are buying a business that is contracting, changing its leader, and second-guessing its own store strategy at the same time. The company halted a rebanner program after converting 101 stores to Shoe Station, absorbing a \$24.1 million operating income hit, and now plans only 21 more conversions while it figures out what went wrong. When management pauses its own flagship strategy, that is a signal, not a footnote.

The demographic exposure compounds the risk. Roughly 70% of stores sit in the Midwest and South, and the core customer earns below \$40,000. Management explicitly ties its sales declines to "pressure on lower-income consumers." That customer has no cushion against inflation, higher borrowing costs, or tariff-driven price increases on imported footwear. Add the structural headwinds — Nike and Adidas pulling wholesale allocation toward their own channels, Amazon and off-price chains stealing the value shopper, footwear e-commerce penetration near 46% — and you have a business whose moat is thin and eroding. The dividend looks covered today at a payout ratio near 36% of EPS, but if earnings keep sliding, that cushion shrinks fast. You are not being paid enough to accept a shrinking earnings base with an unresolved strategy and a new, unproven CEO. Your capital works harder and safer in a 4% HYSA plus a genuinely resilient defensive name. This fails the wealth preservation mandate on return adequacy and downside protection, not on solvency.

Exit / re-review triggers (if a position existed): dividend cut; two more quarters of negative comps; gross margin below 33%; abandonment of the Shoe Station strategy with impairment charges.

1. BUSINESS QUALITY ASSESSMENT

Shoe Carnival is a value-oriented family footwear retailer operating 426–428 stores across 35 states and Puerto Rico under three banners: Shoe Carnival (core, high-energy value), Shoe Station (higher-end, now the strategic focus at ~21% of sales), and Rogan's (acquired February 2024). The model sells national brands (Nike, Skechers, adidas, Crocs) at accessible prices through off-mall large-format stores and a bricks-first omnichannel platform.

Sector classification (Stage 1): Consumer discretionary, specialty retail. Not defensive. Footwear is a recurring purchase, but discretionary timing and trade-down behavior make revenue cyclical. This is **moderately-to-highly cyclical** given the low-income customer base, which triggers heightened balance sheet scrutiny — a scrutiny this company passes.

The sector is not in secular decline, but store-based footwear retail faces structural pressure from brand DTC shift and e-commerce. The business model is understandable. The moat is what the source data correctly calls "modest but tangible" — niche scale, value positioning, vendor relationships, and an experiential store format. Switching costs are near zero.

2. FINANCIAL FORTRESS ANALYSIS

This is where Shoe Carnival earns its only genuine strength.

Metric	Value	Threshold	Assessment
Debt-to-Equity	~0.0x (no debt)	<0.5x ideal	PASS (fortress)
Interest Coverage	N/A (no debt)	>8x	PASS
Cash + Marketable Securities	€130.7M	>20% of debt	PASS
Current Ratio	>1.5x (inventory-heavy but debt-free)	>1.5x	PASS
Free Cash Flow	Positive; OCF \$71.3M FY25	Positive 4/5 yrs	PASS
Debt maturity cliff	None (no debt)	<30% any 2yr	PASS

Stress Test (revenue -30% for 2 years): With no debt and €130M cash, solvency is not in question. The company could self-fund through a severe recession. The dividend, however, would come under pressure if earnings fell another 40% from an already-depressed \$52.3M base.

Solvency Assessment: FORTRESS

The balance sheet is the reason this is not an outright dangerous stock. It is also the only pillar carrying the thesis.

3. DIVIDEND ANALYSIS

Metric	Value	Threshold	Assessment
Dividend Yield	~5.4% (€0.68 / €12.66)	1.5–5% sweet spot	Slightly above, watch
Quarterly Dividend	\$0.17 (raised with FY25 results)—		Rising
Payout Ratio (Div/EPS)	~36% of \$1.90 EPS	<75% mature	Covered today
FCF Payout Ratio	Elevated as OCF fell to \$71.3M	<70%	Tightening
Dividend Growth (streak)	12 consecutive years	>10 yrs preferred	PASS
Dividend Coverage (FCF/Div)	Adequate but weakening	>1.3x	Marginal

Stress Test: If EPS dropped 40% from \$1.90 to ~\$1.14, the dividend at ~\$0.68 annualized would still be covered by EPS but FCF coverage would tighten meaningfully given the rebanner capex drag (\$37.1M FY25) and

inventory reduction plans.

The 12-year dividend streak and 36% payout ratio look reassuring in isolation. The concern is the direction of travel: EPS down 66% over three years while the dividend rises. That gap cannot widen indefinitely.

Dividend Sustainability: SUSTAINABLE (but downgrading toward AT RISK if earnings decline continues)

4. VALUATION ANALYSIS

Metric	Current (approx)	Assessment
P/E (on \$1.90 FY25 EPS)	~7.6x	Optically cheap
P/E (on depressed/trough earnings)	Misleading	Cheapness may be a trap
Dividend Yield	5.4%	Elevated = market pricing risk
Market Cap	~\$390–420M at current price	Small-cap

The 7.6x P/E looks like value, but it is calculated on earnings that have fallen every year for three years. A cheap multiple on a declining earnings stream is not a margin of safety — it is the market correctly pricing deterioration. Applying a normalized 9x multiple to conservatively normalized EPS of ~\$1.55 yields a fair value near €13.80, giving only 8.3% margin of safety, below the 10% minimum for a BUY.

Valuation: FAIR | Margin of Safety: 8.3% (insufficient)

5. SCENARIO ANALYSIS (10-Year)

BEAR CASE (25%): Recession deepens, low-income customer trades further down, rebanner strategy fails and is impaired, dividend cut ~30%. Revenue flat-to-declining, EPS compresses to ~\$1.00. Terminal multiple 6x.

- 10-Yr Total Return: **-6.5% CAGR**

BASE CASE (50%): Consumer stabilizes, Shoe Carnival banner comps improve as management noted in Q1 2026, margins hold near 36%, dividend grows 3%. EPS recovers modestly to ~\$2.10 over the horizon. Terminal multiple 9x.

- 10-Yr Total Return: **7.9% CAGR**

BULL CASE (25%): New CEO executes, Shoe Station strategy succeeds, market share gains, margin expansion, multiple re-rates to 12x.

- 10-Yr Total Return: **14.5% CAGR**

Scenario	Total CAGR	Weight	Contribution
Bear	-6.5%	25%	-1.6%
Base	7.9%	50%	4.0%
Bull	14.5%	25%	3.6%

Scenario	Total CAGR	Weight	Contribution
Expected			**5.7%**

The bear case total return is negative. This fails the absolute requirement that capital be preserved in the downside scenario.

6. RISK ASSESSMENT

- **Consumer concentration:** Core customer earns <\$40k; management explicitly cites low-income pressure as the sales driver.
- **Strategic disruption:** CEO transition (\$13.6M charges), rebanner program paused after 101 conversions, strategic review ongoing.
- **Tariff exposure:** Imported footwear; "pre-tariff purchases" left elevated inventory that could force margin-destroying markdowns.
- **Competitive erosion:** Nike/adidas DTC shift threatens brand allocation; Amazon, TJX, Ross attack the value shopper; 46% e-commerce penetration.
- **Earnings trajectory:** Net income -66% over three years; Q1 2026 GAAP loss.
- **Geographic concentration:** ~70% Midwest/South.

Not a risk: solvency, going concern, debt. Deloitte issued unqualified opinions; no going concern language.

7. MANAGEMENT & GOVERNANCE

Historically disciplined and conservative: debt-free for 21 years, selective bolt-on acquisitions rather than leveraged roll-ups, 12 consecutive dividend increases. That track record is real. But the recent picture is unsettled — a CEO transition, a strategic review that halted the flagship rebanner initiative, and a shareholder-approved name change tied to the Shoe Station pivot. Management is repositioning the entire identity of the company mid-downturn. Capital returns continue (390,492 shares repurchased for ~\$7M in Q1 2026, \$43M remaining authorization), which shows confidence, but returning cash while earnings collapse and strategy is under review is a mixed signal.

Management Quality: GOOD (long-term) / **ADEQUATE** (current transition)

Capital Allocation: ACCEPTABLE

8. PEER COMPARISON

Against DSW/Designer Brands, Foot Locker, and Boot Barn, Shoe Carnival wins decisively on balance sheet (uniquely debt-free) and loses on scale, brand allocation power, and growth. Foot Locker and Dick's command stronger vendor relationships. Off-price players (TJX, Ross) attack the same value shopper with better economics. Shoe Carnival's differentiation is a clean balance sheet and dividend, not competitive positioning.

9. KEY METRICS SUMMARY

Metric	Value
Net Sales FY25	\$1.135B (-5.6%)
Net Income FY25	\$52.3M (-29%)
Diluted EPS FY25	\$1.90
Gross Margin FY25	36.6%
Operating Margin	5.9%
Operating Cash Flow	\$71.3M
Cash + Securities	\$130.7M
Debt	\$0
Dividend Streak	12 years

10. MONITORING CHECKLIST

Item	Trigger	Action
Comparable store sales	Two more negative quarters	Re-affirm AVOID
Gross margin	Below 33%	Downgrade dividend view
Dividend	Any cut	Confirms bear case
CEO / strategy	Shoe Station abandonment + impairment	Bear case validated
Valuation	Price below €10.50 with stabilizing comps	Re-review for HOLD

11. MARKET EXPECTATIONS & CONSENSUS

The current ~7.6x P/E on trailing \$1.90 EPS implies the market expects continued earnings erosion or, at best, flat performance. The elevated 5.4% dividend yield signals the market prices meaningful risk to the payout. Consensus bull case rests on Shoe Carnival banner comp improvement (management called Q1 2026's -2.2% a "meaningful improvement" over FY25) and successful Shoe Station repositioning. Consensus bear case is continued low-income consumer weakness plus tariff-driven margin compression.

What would validate consensus: Two consecutive quarters of positive comps and gross margin recovery above 35%.

What would disappoint: Another dividend increase outrunning declining FCF, or a Q3 (back-to-school) miss.

Forward valuation metrics (forward P/E, PEG, EV/EBITDA, beta) were not provided in the deep_dive_metrics block and are not fabricated here.

12. KEY BUSINESS DRIVERS

Driver 1: Comparable store sales

Why it matters: Direct read on core demand and low-income consumer health.

Current: -2.1% (Q1 2026), improving from -5.6% (FY25).

Bull threshold: positive comps. Bear threshold: below -5%.

Next data point: Q2/Q3 2026 earnings (back-to-school).

Driver 2: Gross margin

Why it matters: Measures pricing discipline vs. markdown pressure from excess/pre-tariff inventory.

Current: 33.3% (Q1 2026), down from 34.5%; FY25 full-year 36.6%.

Bull threshold: >35%. Bear threshold: <33%.

Next data point: Next quarterly release.

Driver 3: Shoe Station banner performance

Why it matters: The entire strategic pivot depends on this concept's consumer adoption.

Current: -3.1% (Q1 2026).

Bull threshold: positive growth. Bear threshold: continued decline plus rebanner impairment.

Next data point: Q3 2026.

Driver 4: Dividend coverage (FCF/Div)

Why it matters: Determines whether the 12-year streak survives the earnings decline.

Current: adequate but tightening as OCF fell 30%.

Bull threshold: FCF/Div >1.5x. Bear threshold: <1.1x.

Next data point: Full-year FY26 cash flow.

13. PROXY TRACKERS & LEADING INDICATORS

Proxy	Symbol	Relationship	Signal
Retail SPDR (broad retail)	XRT	Correlates	Bearish if XRT breaks below 50-day MA
Consumer discretionary	XLY	Leads consumer sentiment	Bearish on sustained weakness
Off-price peer	ROST/TJX	Share of value wallet	Bullish for SHOE if off-price softens (less
Low-income consumer proxy	DG (Dollar General)	Confirms core customer health	Bearish if DG guides down

Monitoring rule: If Dollar General guides down on low-income consumer weakness, treat as direct read-through to SHOE demand and re-affirm AVOID within 5 days.

FINAL RECOMMENDATION

RECOMMENDATION: AVOID

Reason: Fails two absolute wealth preservation requirements — bear case total return is negative (-6.5% CAGR), and margin of safety (8.3%) is below the 10% minimum. Probability-weighted return of 5.7% sits below the 7% hurdle. The fortress balance sheet and dividend streak are real strengths, but they cannot offset a 66% three-year earnings collapse, a paused strategy, CEO turnover, and structural exposure to the most pressured consumer segment.

What would change the assessment: Price below €10.50 combined with two consecutive quarters of positive comps and gross margin recovery above 35% would move this to HOLD/re-review. Stabilization of the low-income consumer and evidence the Shoe Station strategy is working would be required for a BUY.

ANALYST NOTES

Key Assumptions:

- Normalized EPS ~\$1.55–\$2.10 across scenarios (well below the FY22 peak).
- Dividend ~\$0.68 annualized (4x \$0.17 quarterly).
- No debt maintained; solvency not at risk.
- EUR figures derived from provided €12.66 authoritative price; per-share dividend converted at prevailing rate for yield estimate.

Limitations:

- Forward P/E, PEG, EV/EBITDA, and beta were not supplied and were not estimated.
- Historical EBITDA and FCF dollar figures for FY21–FY24 were incomplete in source data; scenario modeling relied on disclosed net income, EPS, and cash flow.
- Source data contained ticker inconsistencies (SCVL vs. SHOE) and minor revenue-timing discrepancies (\$1.135B vs. \$1.203B across fiscal-year definitions).

Confidence Level: MEDIUM — Balance sheet and earnings trajectory data are well-sourced and clear. The verdict rests on a deteriorating earnings base and unresolved strategic transition, which are documented but whose resolution is uncertain. The AVOID is a function of inadequate risk-adjusted return, not distress.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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