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Table of Contents

Call Participants

EXECUTIVES

Chris Steffes

Heena K. Agrawal
Interim Chief Accounting Officer, Senior VP & CFO

Stephanie L. Pugliese
President, CEO & Director

ANALYSTS

Unknown Analyst

Presentation

Chris Steffes

Good morning, everyone, and welcome to Duluth Trading Company's 2026 Investor and Analyst Event. My name is Chris Steffes and I'm the Senior Director of FP&A and Investor Relations at Duluth. It's great to see many of you here in person in New York and I'm glad to have those of you joining us via webcast as well.

And on behalf of the entire Duluth team, thanks for spending part of your day with us. Today is about giving you a closer look under the hood at Duluth. How we're thinking about the business, where we're focused and how we're working to build a stronger company for the long haul. But before we begin, I want to remind everyone that today's presentation contains forward-looking statements which can be identified by words such as estimate, anticipate, expect and similar phrases.

These statements involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Please refer to our most recent annual report on Form 10-K and subsequent SEC filings for a full description of those risks. The forward-looking statements made today speak only as of this date, and the company assumes no obligation to update them.

Just a few housekeeping items before we get started. First off, restrooms are located right up the stairs here on your right. We do have WiFi available here in the room, and there are cards on the tables with the network name and password. And finally, our presentation slides are available on our IR website at ir.duluthtrading.com.

Today, you're going to hear from Stephanie Pugliese, our President and Chief Executive Officer; and Heena Agrawal, our Chief Financial Officer. Stephanie will kick things off with a look at our strategy, our culture, our customers and how we see the brand and the business evolving. And Heena will follow with a look at our financial performance, our long-term plan and how we get there. The presentation will run approximately 45 minutes, and we'll go straight into Q&A before breaking for lunch.

If you are attending via webcast, we'll provide instructions on how to submit questions during the Q&A. And with that, I am very pleased to introduce Stephanie Pugliese.

Stephanie L. Pugliese
President, CEO & Director

Thanks, Chris. Thank you, everyone, for being being here today. For those of you who are here in person, thank you and for those of you who are joining us via the webcast, also thank you. I am so excited being here today back at Duluth and in front of our investor community again. It has been just an absolute thrill to be back with the brand.

And I know that some of you may know a little bit about me, many of you may not. So I wanted to give just a quick brief overview of my time with Duluth and my time in the industry. I have been in the retail and brand industry for my entire career. So just a little over 35 years. And I've had the privilege of being part of some really powerful brands in that time. But none of them are as exciting as as what we're doing at Duluth right now.

I've been with this brand for a long time. It's been part of my life for a long time. I led the organization and the brand through early stages of growth, all the way at one point through our IPO in 2015 and then after a few years of being a public company, I left the brand for a few years. And last year, a little over a year ago came back. And what I'd say to you is the reason that I came back to Duluth was really at the end of the day for one simple reason, belief, belief in the brands, belief in what we do and belief in the team and the ability to create value longer term. It hasn't been easy.

In the past, the company had made some mistakes and made some strategic decisions that stretched the business too far. And then we lost some focus that ultimately made Duluth what it is and what makes Duluth so special. But in the past 12 months or so, we've reset. It shows in both the financial results and ultimately, I hope you'll see in the future strategy.

So before we get into those numbers and the strategy, let's dig in and talk a little bit more about what makes Duluth so special. First, an introduction, who we are? We are the official outfitter of doers. We exist to champion a hands-on way of life. And what sets us apart is our unique blend of problems and solutions for our customer resulting in solution-based products that are infused with four brand attributes, authentic, humorous, humble and hard-working.

Our products and our brand evoke that emotional connection, that's distinctive, I believe, in today's retail landscape. Our customer buys on quality and value, first and foremost, not ultimately on just a price. That's why durability and that problem solving design are the foundation of everything that we make. And our Noble guarantee is not just a marketing slogan. It's about doing what we say we're going to do. And when we don't do it, making things right immediately. And ultimately, when we say we poke average in the eye because it's a fun and interesting phrase, what we really mean is that we find a better way to do things, whether that's through our products, our experience or our customer service. And then just a little bit about the numbers that you see here on the slide.

Last year, we did $565 million in revenues at a 53.4% gross margin, a little under $17 million of free cash flow and 66 stores across 32 states helped us to create an omnichannel experience for our customers. And let's talk a little bit about those customers. So our customers are people who do real work whether that's by their profession or their passion, Think about the contractor, the Gartner, the person who does weekend projects. They bring a combination of both seriousness about their work and joy in what they're doing to everything that they do.

They are defined by how they live, not necessarily how old they are or where they live. And what that means for us is that we are a brand that transcends generation, we're speaking to a value system ultimately. Last year, we had 2.8 million active buyers on our file, 50% of them are women. The majority of them shop online, as you would expect, and they have an average household income of $131,000. They buy quality because they know, ultimately, that's the right value because it lasts.

A lot of times, we get questions about Duluth as being just a Midwest brand. This map shows that we have reach far beyond just the Midwest. We have an expansive customer base across all states with concentrations in both coasts, Texas and across the states that we're in, in our store base. The addressable market is national for us. Now let's pivot a little bit and talk a little bit about our culture. Why is that important? Well, we believe our culture is our strategic and competitive advantage. In short, we call them the wells because they're what connects us with strength. And they're important to us because they base us in everything that we do. I'm going to talk a little bit about some of these in-depth starting with our product.

Our product is our passion. Why is that? It's because what we offer to our customer is our product, and it's also what sets us apart. When we create something that helps our customers do what they do and continue with their joy of doing, we win. And what those core products do for our customers are creating solutions to their products. And that's what we're getting back to more and more.

It's what allows us to introduce ourselves to a new audience and create deeper connections with our long-standing fans. It's also the rationale behind why we went to SKU rational -- rationalization, excuse me, just this past year. The more that we can cut to the chase and get back to what we stand for, the clearer that we can stand for those products, and we know that we win. And that's how you get things like Buck Naked Underwear, no young tanks, DuluthFlex fire hose, 75% of our 2025 revenue was driven by our core solution-based products.

It's not a brand chasing trends. It's a brand that's devoted to finding a better way. And who are we serving? We're serving ultimately our customers and our customers are our compass. We know that we're doing our jobs well when our customers tell us. They're more loyal than many and they actively write in to tell us how we're doing. Well, a little bit about how we're doing. We have 16,000 5-star reviews on Buck Naked alone, 90% of our reviewed products online are our 4 or 5 star reviews and our Net Promoter Score was 72 in Q1 of this year.

But that doesn't mean that we always get it right. And when we don't get it right, our customers tell us, we have disappointed them in the past and our NPS score suffered. But when we righted the ship, NPS scores came back, retail results in our stores improved and our core product grew. And how do we bring all of this core product to market to engage more deeply with our customers.

Well, we do it through marketing that stands out. Our advertising has always been different. We don't just describe what a product does. We tell a story about it. And hopefully, we do it in a way that makes people laugh. That has been a deliberate part of the brand since day one. The Giant Angry Beaver Buck and now more recently, Max Gluteus, these characters stick. Humor gives our product a personality and makes the shopping experience feel more like a connection and less like just a transaction. And on the women's side, our women of grit and substance are real women, not models. They work hard. They inspire and they show the true value of what Duluth stands for, for our women's customers.

Our customers respond to that authenticity. So here's the deeper truth behind it all. The hard work that we do, the hard work that our customers do is really important. But ultimately, none of us take our work or ourselves too seriously. It brings us joy, and that's the foundation of the differentiation of Duluth in the marketplace, bringing joy to their lives is an emotional contract.

So I want to talk a little bit about the evolution of marketing because I think that's really important in how we are going to market, but also how we're thinking about leveraging marketing in the future. Ultimately, our marketing over the years has evolved away from the direct consumer print heritage to a more full funnel approach. And that full funnel approach today includes TV advertising, digital video, creative partnerships and still includes, of course, local marketing to drive traffic to our stores.

For most of the past several years though, the company was focused towards last click conversion, paid search, promotional e-mails, discount-driven digital spend. Those tactics were important in driving transactions, but ultimately, they didn't build the brand, and they reinforced ultimately a promotional mindset with our customers.

So over the past 12 to 18 months, we've been deliberately focused on rebalancing the approximately 70% of the conversion-based marketing that we were spending to more of a 50-50 balance today. And why that's important is that as we are doing that, we are seeing proof points that brand awareness and consideration are improving, and our traffic trends are beginning to recover.

We are being deliberate about the pace of this shift because if you remember, we're also in the process of resetting our promotional cadence and restoring full-price business back into the business. So we knew that moving too aggressively about around balancing all of this would have compounded the top line pressure? that the business was already managing.

Marketing and customer acquisition is a place where we're still learning and where we have ultimately the most to prove coming up. We're encouraged, though, by what we're seeing, and those proof points are giving us confidence and making more investments to ultimately improve the customer file.

So now you know about the brand a little bit. You know a little bit about the customer. Hopefully, you know more about the products that we create. Let's talk a little bit more and go back a little bit further around our history and talk a little bit about what we got right, what we learned and ultimately, how all of that is informing where we're going from here. So our growth story, our story, our brand story over the past 25 years has really been around certain catalysts that have driven the next stage of growth and in the next stage of development as a business.

We know that we are consistency is -- has been in finding a way to move forward and ultimately, moving forward through those different stages of growth has brought us to where we are today. That growth has come in distinct phases. Number 1 was our solution-based product focus. The decision, the active decision that we made to solve problems with our product for the people who do real work, became the foundation of everything that has come since and is still a critical piece of what we do today.

The second phase of the business and the growth was around national advertising, which transformed us from a catalog-based business into a national business that had reach far beyond where we could just mail books. And then the third phase of the business and growth was in omnichannel. And what happened there was we proved something really important, that the combination of having stores and an online business in markets proved more powerful than just having an online presence alone or stores alone and that ability to leverage both aspects of our brand has become very important and stays very important to us.

But ultimately, and you can see in some of these phases, some of that growth created some challenges for the company. The big dam blueprint, which was a framework for building a multi-brand platform through extensive infrastructure investment added complexity that ultimately compressed our margins and stretched the business beyond what it had grown to and what it could sustain profitably.

Our revenue, as with many retailers peaked in 2021 and then declined over the next three years. We began the reset in 2025. Our foundation is now more solid, and now this is our next inflection point. So what did we exactly learn from those phases and the different points in our strategy? What worked -- what works is when we build product that was problem solving and connect with our customers. Foundationally, that's the most important thing.

The second thing that worked is some of the structural improvements that we put in place, like, for example, our direct-to-factory sourcing, gave us margin improvements got us closer to the production of our product and gave us more control ultimately. And the multichannel model, I just mentioned it a moment ago, stores plus Web creating synergies for our customers.

Some of the things that didn't work, early in rapid store expansion outpaced the company's ability ultimately to create significant comp growth year-over-year. The SKU proliferation diluted our focus and led to a more promotional environment at the time. And then ultimately, the business fell into a promotional cycle that compounded with customers expecting promotions and us having to spend the marketing, as I mentioned earlier, around that last click attribution and the infrastructure investment over the past couple of years ran ahead of the returns that the company had to justify it.

So at the end of the day, with the big idea or the big lesson here is that when the company and when we focus on core product serving our customer well and operational discipline we win. When we chase short-term volume for its own sake or we let strategic investments get ahead of our growth, we know that, that doesn't work the way we need it too.

So this is now the lens that we're applying to everything that we do go forward. Let's talk about how we build from here. We've got the clarity that's driving the plan and here's how we're putting it to work. First, let me introduce the Build-to-last-framework. You can see that this comes in three separate phases, one of which we have mostly completed. In 2025, we deployed all of our efforts and our talent to sealing the foundation.

Ultimately, it was about operational and financial discipline getting the operations stable, improving discipline overall and restoring the financial health of the business. That work is largely done. 2026 and 2027, obviously, where we are right now is about framing the structure. It's reenergizing the core customer. I'll talk a little bit more about that in just a moment focusing on core product. I've already mentioned that.

Again, I'll go deeper in that, reducing reliance on promotions, work that we started about a year ago and testing new distribution. The goal ultimately is to prove out the pieces of this model until -- before we scale it. And then ultimately, 2028 and beyond is where we raise the roof once the core is stable, and healthy and the unit economics are proven, we add loyalty at scale, growth in women's and additional points of distribution. We prove out the model and then we scale. Each phase builds on the last and the financials will show it.

Let me talk you through now what this looks like in practice, our 2026 priorities how we're marketing behind them and the strategic vision ultimately for where we take the brand. 2026 priorities are pretty straightforward. They're all pointing in the same direction, and that is go forward with what works. First, we're returning to core work-focused product that our customers love and the customers who built this brand respond to fewer SKUs, deeper investment in what we know sells and bigger, bolder marketing stories around that product told more consistently.

Second, we are rebuilding the e-commerce experience to build into and match how our customers actually shop. This means things like better search ability. Apple Pay, better discovery, we saw that improvement begin to show up in our Q1 online trends. And then third, we're focused on reversing the leaks in our customer file.

That means, first and foremost, reactivating lapsed high-value customers, not chasing price-sensitive customers with clearance activity. Full-price relationships, sustainable acquisition. We're still learning here, but the proof points are building. And last and fourth, we are carefully testing new distribution.

Our Amazon launch will go live this quarter. There are already 1 million searches for Duluth on Amazon. Our customers are looking for us there, and we're meeting them where they shop without compromising our pricing or our brand. Let me talk a little bit more deeply about the marketing strategy that I've mentioned over the past couple of slides. So for the past several years, we've built our marketing budget around trying to convert people who were already actively shopping. And we did that through things like paid search, promotional e-mails, discount-driven spend, lower funnel activities. It worked in the short term, and it buffered some of the shortfall in the customer file.

However, it didn't build the brand long term. And ultimately, it taught a lot of our customers to wait for a sale. That's what we're rebalancing. We've shifted from approximately 70% of lower funnel activity to close to a 50-50 split between upper and lower at this point.

The idea is to move away from last click attribution that buys a customer in the moment and building brand marketing that builds a lifetime value long-term customer. We need both but we have been underinvested in brand for a long time. What does that look like then in practice?

It means more time, money, devotion, focus in things like national television, high affinity podcast, distinctive digital video, campaigns like Max Gluteus or Dibs on the Bibs. They are driving real growth in product categories like men's underwear and women's gardening. That's the full funnel that ultimately works the way it should. And we're focused heavily on bringing customers back. Our active customers have been -- have a household income of $131,000. They buy on quality, not on price, reactivating that customer base not only continues to bring high customers back into the active file, but it's also a very cost-effective way to begin to bring our customer file back into health.

Because reactivation and retention cost us roughly 1/3 of new customer acquisition. Those are the economics that we're building going forward. And then ultimately, we get to the phase of raising the roofs. Phase 3 is where everything that we are building yesterday and today gets to scale.

Once that core is healthy, the unit economics are proven and the customer file is growing, we begin to raise the roof. And what that means practically, loyalty at scale, returning to real growth in women's, select new stores and additional distribution channels.

We expand our customer base and drive steady positive comps across our retail and our direct networks, brand integrity, pricing power still stays at the core of the decisions that we ultimately make. And structurally, this model is designed to create consistent free cash flow and improved margins.

So speaking of improved margins and consistent free cash flow, I'm going to now turn it over to Heena, who will take you more deeply through the financials.

Heena K. Agrawal
Interim Chief Accounting Officer, Senior VP & CFO

Thank you, Stephanie, and good morning, everyone. The strategy you just heard is driving the financial transformation. Over the past several quarters, we've done the heavy lifting required to reposition our financial model by moving past the operational complexities that previously weighed our bottom line we have built a leaner of a far more structurally profitable business.

In this section, I will walk you through the evolution of our business model, detail the specific operational levers and margin drivers behind our targets and share our long-range financial road map through 2028.

Our financial turnaround is substantially complete. We have successfully shifted away from a capital-heavy infrastructure phase and into an agile cash-generative model designed to maximize our return on invested capital. As we outlined how we are building our future, let's look at some concrete operational milestones achieved during fiscal 2025. Our seal the foundation phase was about executing hard choices to restore long-term health to Duluth's Trading. At the start of last year, we set four clear goals: one, to restore our price integrity through resetting our promotional cadence, improve inventory and cash management, streamline our operations and restore the health of our store portfolio.

We delivered on all four. First, we reset our promotional strategy to restore brand and price integrity. We shifted away from margin-dilutive deep, site-wide discounts to targeted events increasing our average unit retail and average order value by double digits.

Full price selling drove higher quality revenue across both our channels and we delivered three consecutive quarters of gross margin expansion. Second, we rightsized our inventory and assortment. At the end of 2025, our inventory was down 21% with sequential year-on-year improvement every single quarter. We focused our assortment on coal products with stronger in-stock positions and lower clearance penetration.

Our SKU count was down 20% in 2026 spring, and we are on track to have another double-digit reduction by fall of 2026. Third, we implemented our enterprise planning system, which is an integrated process that connects merchandising stores and our supply chain, improving our forecast accuracy.

We consolidated our logistics network, we took it down from four fulfillment centers to two, and this helps us maximize our automated Adairsville hub, and we saw that our click-to-ship time reduced in half versus prior year. We also reduced our cost by more than what we had planned and forecast. Instead of $10 million, we delivered $12 million in cost reductions through head count reductions, controllable expense cuts, and streamlining our fulfillment network.

And finally, our retail real estate strategy is working. We combined local marketing and optimized our inventory to have the first year of positive comp sales, along with 550 basis points of store level profitability improvement in 2025. Every store in the fleet is profitable. And our two new stores are on track to be pay back in three years.

These operational improvements directly translated into a financial step change for fiscal 2025, while our disciplined promotional pullback created a top line revenue decline, the quality of our revenue improved. This focus on profitable transactions expanded our full year gross margin by 420 basis points to 53.4%, successfully absorbing an $11 million tariff headwind. This change is structural, not cyclical.

On the expense side, we exceeded our cost reduction targets, reducing SG&A by $27.1 million year-over-year. As a result, our full year adjusted EBITDA scaled by $10.3 million to $24.9 million. Most importantly, our working capital improvements and capital discipline reversed years of cash consumption generating $16.6 million in positive free cash flow, a meaningful $41.8 million improvement compared to fiscal 2024.

We ended the year with zero debt on our asset-based lending facility and net liquidity of $141 million. These results reflect structural changes as to how we operate the business. How we manage inventory, how we plan, how we price and how we manage costs. As many of you may have seen this morning, we announced our first quarter 2026 results and they came in better than expected.

And we raised our full year adjusted EBITDA guidance. Here are a few highlights. Our performance in the first quarter confirms that our structural turnaround is taking hold ahead of plan. Our fourth -- this Q1 represents our fourth consecutive quarter of year-over-year net income margin and free cash flow improvement. With the annualization of our promotional reset and price increases from last year, net sales of $98.6 million declined 4% year-over-year.

However, the underlying top line trends continue to gain momentum across both channels. Retail posted another quarter of positive comp sales and online trends improved materially versus prior year.

Growth in coal products serves as another proof point that our assortment strategy is working. Gross margin expanded by 540 basis points to 57.4%. This is a structural improvement driven by higher average unit retail, greater full price penetration and our direct-to-factory sourcing savings.

We cut SG&A dollars by 5.2% to $61.8 million, leveraging expenses by 70 basis points through consolidation in our distribution network, and disciplined management of overhead expenses. This combination drove adjusted EBITDA to a positive $2.6 million, marking a $6.4 million improvement versus last year and our balance sheet continued to strengthen.

Total on-hand inventory was down by 24.8%. We ended the quarter with a robust net liquidity position of approximately $100 million and lifted our first quarter free cash flow by $42.6 million versus prior year. This turnaround is tracking ahead of plan with tangible proof points, which is why we have raised our adjusted EBITDA guidance for the full year.

Our strategic turnaround required a reimagining of the business model. Under the previous big dam Blueprint framework, the company chased capital-intensive expansion to create a multi-brand platform. It created an expensive complex assortment, excessive inventory and a heavy reliance on deep promotions to clear the product.

Our marketing spend was inefficiently skewed toward the lower funnel and our capital allocation was heavily weighed down by multiyear infrastructure over bills. We have replaced that model with our Build to Last framework. We are hyper-focused on our core hero products and our core self-reliant customer profile.

We are committed to a truly omnichannel model, serving our most valued customers where they are across optimized digital channels, our profitable physical stores and selective wholesale distribution. Through integrated planning and disciplined pricing, we have cleared excess inventory and streamlined our assortment. As you can see in our results, we are now able to realize the structural benefits of buying directly from factories versus going through agents.

Our capital model continues to be self-funded with guardrails and a more balanced allocation directed towards both growth and infrastructure investments. So our 2028 financial targets are anchored by a clear operational driver and across four key levers. For the first lever -- revenue we are targeting a 1% to 3% compounded annual growth rate, driven by a focus on core products, steady comp growth, the maturation of our loyalty pilot, growth in women's and measured distribution extensions.

Our second lever is gross margin expansion of 200 to 300 basis points over fiscal 2025 levels. This structural improvement is expected to flow from inventory rightsizing, reduction in promotions and markdowns and ongoing sourcing optimizations through our direct-to-factory initiative. Our third lever is leveraging SG&A by 200 to 300 basis points through distribution network optimization, store fleet rationalization and enhanced technology productivity from systems like Manhattan Omni. These initiatives are in execution phase, and they are already contributing to our 2025 and first quarter results.

Our fourth lever is capital discipline. Our capital expenditures are expected to be capped between 2% and 3% of sales, funded out of internal cash generation. This ensures we remain free cash flow positive without requiring external capital. Each lever is grounded in work that is already in progress. And together, these four levers get us to $50 million to $60 million in adjusted EBITDA by 2028, more than double the 2025 levels and representing a compounded annual growth rate of approximately 30%.

Our financial road map outlines a clear trajectory from stabilization to high-margin growth. In fiscal 2025, we successfully sealed the foundation intentionally removing margin-dilutive top line to deliver 420 basis points of gross margin expansion, combined with SG&A reduction of $27 million we delivered a 4.4% adjusted EBITDA margin. Inventory reduction and capital discipline added to this profitability to deliver the first year of positive free cash flow since 2021.

As we move through the '26 to '27 frame the structure phase, we anticipate near-term top line stabilization. For the first half of 2026, sales are expected to decline as we complete our promotional reset and lap nonrecurring wholesale orders. In the second half of 2026, sales are projected to stabilize between negative 2% to positive 2% as pricing adjustments anniversary.

Adjusted EBITDA is expected to expand to 5% to 7% of sales as gross margin benefits accumulate and operating leverage kicks in. By 2027, net sales are planned to transition to low single-digit growth, with adjusted EBITDA expanding to 5% to 7%.

We are being cautious in our top line expectations as we navigate macro and consumer uncertainty. We are relying on what we can control and proof points we have seen across channels, products, customers to support these targets. By 2028 and beyond, as we raise the roof, our model is expected to unlock mid- to high single-digit revenue growth with loyalty at scale.

Women's expansion, select new stores and additional distribution. Combined with structural gross margin and SG&A improvements, this is expected to translate to an 8% to 10% EBITDA margin and a compounding free cash flow profile.

A little bit about our approach to capital allocation. It is designed to maximize shareholder returns and derisk our business model. First, our plan is entirely self-funding, thanks to our structural gross margin expansion and tight working capital management we do not anticipate requiring external capital, equity or debt to execute this strategic growth road map.

Second, we have established guardrails Total capital expenditures are capped between 2% and 3% of sales, aligning us with industry standards and ensuring that we are investing sustainably and driving a return on invested capital.

In 2026, we reduced our CapEx to $12 million. Third, we maintain a balanced allocation. Capital is allocated between growth initiatives and infrastructure efficiencies and maintenance. Every growth dollar is funneled into proven avenues ensuring measurable returns above and beyond the base plan, we have the flexibility to be opportunistic. And that optionality grows as cash accumulates and we will make sure that we are disciplined about it.

So let me share my perspective on why we think the story of Duluth is worth your attention. We have spent the last several quarters transforming this business. We have confronted our challenges directly implemented rigorous operational discipline and dismantled the inefficiencies of the prior cycle. Today, we are leaner, more agile and structurally profitable. We possess a uniquely differentiated brand and an extremely loyal consumer base.

So here is the investment case for Duluth's Trading Company. It rests on three powerful pillars. First is our brand strength. We serve a highly resilient high-income demographic with solution-based apparel that commands premium price points and inspires strong customer loyalty.

This brand has 2.8 million active customers, a Net Promoter Score of 72, and 16,000 5-star reviews on a single product. Second is our proven management's track record. Every commitment we made in 2025 was met expanding gross margins, cutting SG&A, reducing inventory, overcoming the tariff challenge, as evidenced by our Q1 results, our 2026 initiatives are tracking ahead of plan.

Third, our self-funding model turned free cash flow positive in 2025 and will scale significantly by 2028. Looking at these numbers, we are positioned to expand adjusted EBITDA from 4.4% to between 8% and 10% by 2028 to $50 million to $60 million at a compounded annual growth rate of 30%. Our thesis is supported by our results and execution. Today, we are in a stronger financial and operational position with strong liquidity, improved inventory levels a more focused assortment and four consecutive quarters of improved profitability.

Stephanie L. Pugliese
President, CEO & Director

So for the webcast, I'll just step back here for one second. I just want to say thank you again for your attention over the past 40, 45 minutes. I hope this gives you a sense for those of you who aren't as familiar with Duluth a sense out of who we are, the history of this brand and business, the hard work that's been done, particularly over the past 12 months and a sense of where we're going from here. So with that, I think we will free to open it up to questions. Excited to have some conversation.

Question and Answer

Unknown Analyst

Great presentation. I would love any more color you can give on Amazon that seems fascinating and really potentially meaningful new initiative. I'd love to just hear kind of open-ended your thoughts, but I guess three specific questions. One would be, is it going to be a fairly narrow SKU count, maybe the hero products like Buck Naked at first. Second, are we fulfilling that using Amazon's fulfillment or you are using Adairsville. And then third, how do you expect the unit economics of an Amazon transaction to compare to our direct e-commerce sales through the ARM channel?

Stephanie L. Pugliese
President, CEO & Director

Let me just start for a quick second. I'll start for a quick second on how we think about Amazon, number one, as we mentioned earlier on. Okay. So we'll jump back and forth behind the podium for a second. So the -- as we mentioned before when we started exploring this, the data around having 1 million searches for Duluth on Amazon annually was compelling as a proof point for our customers are there, they're looking for us there. So it kind of falls under the idea of meeting our customers where they are and enhancing their shopping experience where they're shopping.

So that was kind of the first piece of it. From the standpoint of how we're going to show up at Amazon, two things. Number one is we know we've done some level of wholesale partnerships in the past, whether that was Tractor Supply, we actually had some product on Amazon several years ago. Costco, those were very narrow product assortments. In the case of Tractor Supply and Costco, just our underwear business, and then 40 Grit within Amazon several years ago.

And one of the things that we learned from that is without being able to present the Duluth reason for being, there was opportunity to make that presence more powerful and that's what we've done with Amazon go forward. It's a select group of our core products. So we've got the pricing integrity there. And it tells kind of a holistic story of our solution-based product heritage.

We will have a Duluth shopping store within Amazon as many brands do. And I would call it a more traditional wholesale relationship in that we are shipping to them through -- for fulfillment through Amazon. The last thing that I would just mention about when I talk about core products, it was also important for us to continue to maintain within our own channels, additional product, obviously, that customers can only get out of Duluth store or only get through our Duluth website. So that balance was something that we looked at closely when we desire to do this. And I'll swap with Heena for any other information on economics.

Heena K. Agrawal
Interim Chief Accounting Officer, Senior VP & CFO

I think you covered it. I would just emphasize that this is a much broader core assortment versus a single product, which gives it longevity. And it's a traditional wholesale model, which means Amazon picks up the product from our fulfillment centers. They own the inventory, they own the prime shipping, they own the returns and then they order as they sell through product. So it's a much different model than what we had done previously with [indiscernible].

Unknown Analyst

Thank you. I wanted to come back to the point you made about your average household, customer average household income, $131,000. In terms of how your demographics have skewed over the last 10 to 15 years, given since you kind of hit peak in '21, is your average customer getting older, getting younger. How does that change? And then when you think about your marketing strategies, you still do a lot of linear TV advertising.

How are you adjusting to a kind of digital media world, digital channels for marketing and whether or not you're planning to use social media influencers. How are you attacking that path.

Stephanie L. Pugliese
President, CEO & Director

So on average, our customer over the past several years has gotten a little bit younger. And that is through a lot of the efforts to do exactly what you just asked about around how do we evolve our media strategy. It also is a proof point around what I said earlier that what we're doing is serving a way of life and the idea of the person who is doing great weekend projects or has passion projects is kind of age agnostic in many ways. That said, the media plan obviously directs our message to certain demographics, and that's something that we've been evolving over the past couple of years.

What I can say to you is if I look back to when I was at Duluth in 2019 and prior, if you looked at the way that we divided our marketing pie, if you will, you would have seen a lot of the traditional media buys, things like national TV catalogs out-of-home for store-based traffic driving. If you look at how we're thinking about it now, while we are doing TV, there's the digital streaming that we pay a lot of attention to, addressable TV, where we can reshow and create more frequency with people that are more -- that are more likely to engage with us.

So there's nuance even within the kind of TV advertising, if you will, and the other pieces that you'd see are kind of new slices of the pie, if you will, around influencer strategy, other digital strategies to bring customers into our brand in the way that they are, again, already shopping, meeting them where they are. We know that our customers around our stores love having both the store experience and the digital experience. So we cater to them in a slightly different way. And for example, we're testing again a light print run of post cards in our store environment -- in our store like a radius sub, think -- it's about 60 miles or so from each of our stores to drive traffic specifically that.

So we're always testing and learning in addition to evolving how we spend marketing overall. But the most important thing that I want to leave everyone with is the upper funnel, lower funnel split. Because as we got so focused in on driving immediate transactions. That's where we got unbalanced, and that's the balance that we're creating again.

Unknown Analyst

And what is the average age of your male versus your female customer?

Stephanie L. Pugliese
President, CEO & Director

Low 50s.

Unknown Analyst

I just wanted to ask, so I believe your sales penetration for women's was about 20% at IPO, and now you're saying it's 50%. So can you...

Stephanie L. Pugliese
President, CEO & Director

Just to clarify 50% of our buyers are women. It's not 50% is the women's business.

Unknown Analyst

What was that at IPO then? What was the percent of buyers?

Stephanie L. Pugliese
President, CEO & Director

You know what, Mark, I'm sorry, I don't know that. I don't remember that from the IPO. I can tell you that the percent of the women's business has increased since the IPO, but we still have a lot of women that are buying for men.

Unknown Analyst

Got you. So I was just curious, actually, just you called it out as being a category for growth as a growth driver. So is there like a penetration level that you're targeting for that? Or what's the next fiscal '28 plan?

Heena K. Agrawal
Interim Chief Accounting Officer, Senior VP & CFO

Heena just said she will answer. So I'll step out of the way. So 50% of our shoppers are women, but only 30% of our sales are women's sales. So that's where we see the upside and the gap versus the number of women shopping only for men or other people in the household versus themselves. So that's kind of one of the tenets of that women's expansion and we've done a lot of work in the physical stores where a lot of our physical stores now have men's and women's equally split in the store, whereas previously, it used to be a much smaller section.

Unknown Analyst

Thanks, Stephanie and Heena for a wonderful presentation. My one question is regarding the like overall gross margin in and the net EBITDA margin. This quarter, we delivered 57% gross margin, and you are anticipating that over 2028, that is where our annual gross margin would like sort of pivot towards -- what I'm trying to understand is why are we still in that 8% to 10% adjusted EBITDA range when some of your peers and competitors like to just name one like Colombia, they do low teens of EBITDA margins at like 42%, 43% gross margin or even lower than that.

So I would love if you can tell us more about like our cost structure and also -- if there is a meaningful difference in profitability between our store sales and online sales, and is that driving some of our adjusted EBITDA margin to the lower side. Because I would expect that 57% gross margin, we should have absolutely no problem doing 11% to 15%, adjusted EBITDA margin when our competitors are able to do that similar adjusted EBITDA margin in like high 30s or low 40% gross margin.

Heena K. Agrawal
Interim Chief Accounting Officer, Senior VP & CFO

Yes. So I can take that. On gross margin, like we said, we've made assumptions that are proven and that we are seeing proof points for it. And so if you go back a little bit in history in 2019 when we did not have all these promotional issues that we are now resetting, it translates to 200 to 300 basis points better than 2019, which shows the impact of direct-to-factory sourcing initiative coming to life. What we have not assumed and this is -- because of the uncertainty, we are assuming the higher tariff rates that have been eating into some of these gains in recent years. So that could be potential up side, but we cannot predict that. So we are going to maintain, like I said, things that we can control and see and see proof points on, on the gross margin piece.

On SG&A, we've made a lot of capital investments in the big dam blueprint era. Some of those we have reversed, but some of those have longer lasting impacts, and we may see more SG&A leverage beyond the '28 period that we are presenting today.

Unknown Analyst

[indiscernible].

Heena K. Agrawal
Interim Chief Accounting Officer, Senior VP & CFO

So we don't think about -- we think about online as our biggest to. It has -- we have 2/3 of our sales online. We have a lot of synergies between online and our stores because our stores provide buy online, pick up in store return services. We see that our omnichannel customer is 2.5x more valuable than a single channel customer.

So we look at it from a total synergy standpoint. Even the two new stores that we've put in place last year. We see the impact not just from incremental sales in that store but also the online channel improving for that whole market. So it's the best way to look at it is from a synergy and omnichannel customer perspective versus trying to break it out specifically by channel alone.

Stephanie L. Pugliese
President, CEO & Director

The other piece that I would add to this is, when I spoke earlier about the kind of 25-year history and those inflection points that created growth opportunities for us, one of them was around national TV advertising, which took us away from being wholly dependent on where we mailed catalogs and the people that we reached through a book. And then when you think about what Heena just described with store expansion and creating the omnichannel synergies.

When you look at both of those, the core idea behind this is how do we create more opportunities for customers to come and buy Duluth. And in the past, that was very specifically focused in and perhaps limited to where we could put a store or where we could mail a book. Then with the online business to kind of create that reach and talk to our existing and future customers through national advertising, that allowed us to kind of spread our wings, if you will. As we look forward, that is the idea behind the additional points of distribution. It's the idea behind going on to Amazon shortly to create that additional net to capture customers that we know have the same affinity, have the same desire for solution-based products and high-quality products and cast that wider net. When you look at businesses like Colombia that you mentioned earlier, their structure is totally different when you think about where they get their revenues from.

They are primarily wholesale partnerships and so if you think about that and those points of distribution, I'm not suggesting that we're suddenly going to have that many wholesale relationships in the time frame that we're talking about, but creating that ability to reach customers is how we're looking at it.

Those are the structural things that we are testing and learning and then ultimately going to build on. That's how we're thinking about the business for longer term.

Unknown Analyst

A few questions. One is you talked about reducing the amount of SKUs. How does AKHG fit into this whole of reducing SKUs and other pieces? You've tried to run it before, I think it's kind of a separate brand. How should we be thinking about that as it fits into this flow here?

Stephanie L. Pugliese
President, CEO & Director

I would start and if there's anything you want to add, Heena. One of the challenges that the company had over the past several years was the idea of siloing in essence, parts of the brands. So the underwear sub-brand, Duluth as its own thing. Alaskan Hardgear as its own thing.

And one of the things that was learned in that was that while the intense was to give each business more focus, if you will, and more ability to shine. The reality became that the limited resources around marketing or store space, et cetera, ended up competing. And we actually lost the halo of what Duluth can do for all of the components of the business.

So the way that we're looking at Alaskan Hardgear, we have SKU reduced an Alaskan Hardgear, AKHG. Most recently, just like we have in the rest of the business, we've more dramatically decreased our SKUs in women's AKHG because of the performance there. But we are rebuilding into core within AKHG over the next 12 to 24 months and serving the part of our customers' lives that really is outdoor and our customers need high-quality, again, solution-based product for that part of their lives without siloing it as its own kind of stand-alone idea.

Unknown Analyst

Okay. I kind of want to switch over to stores. So you've closed a few stores. You've talked about how this year about 6 or 7 have leases come due and you're going to figure out what to do with them. What makes a good store, what makes a bad store? And in this model here -- what should we be thinking about in terms of store growth now? And what is the potential that you see longer term for how many stores there could be?

So what I would say in terms of what makes a good store is and/or a bad store is, first and foremost, we look at the financials. And we have thresholds of our 4-wall EBITDA as well as our sales per square foot that we are judging the store fleet on. The really good news is that over the past 12 months, we've turned all of our stores profitable.

Heena mentioned it earlier. Improved 4-wall EBITDA significantly by over 500 basis points. And I would attribute that, number one, to being smart about the product and the inventory that we put in the stores, whether that was not over-inventorying them, but also in a lot of cases, making sure that we were in stock in our stores when our customers came in to buy. We've elevated the management teams in all of our stores. I give a lot of credit to that team and quite frankly, to our team overall. And we have -- we did close one store last year. We opened two new stores in the fall of last year. And so we're learning in the two new stores that we opened there in a more highly trafficked shopping center location.

So we're learning about that. We're pleased with the amount of traffic that we're getting in those stores. And so we're starting to kind of morph if you will, how the store fleet looks and doing so as the leases come up. The successful stores, the stores that we have actually. It's kind of an interesting range around the success of our stores. Some of our top stores are stores in historic downtown locations that represent the brand.

Other stores are stores that we have as freestanding stores that are in parts of the markets that have grown up kind of with us. We might have entered that part of the market, as that area was growing. And so we've been able to contribute and benefit from growth in those areas. Generally speaking, though, what our stores have suffered from in the last several years is obviously, a promotional environment that, quite frankly, the stores didn't need in some ways, that when people are coming to us for that experience, they are more likely to pay either full price or at a very shallow discount relative to online.

But the other piece of it was just the operations of the business and making sure that we're in stock and ready for the inventory when the stores get there. Eric to answer the last piece. And then Heena, if you have anything to add, happy to share the podium here.
The last piece of it is how do we look at stores for the future. It's why we've put a pause on opening new stores this year and next, because we are -- not even -- we're about 6 or 7 months open in the 2 new stores and the new types of locations. And we want to make sure that we are proving out some unit economics before we open stores go forward. And the expectation is that will be a measured opening as opposed to 10 to 15 stores a year.

Heena K. Agrawal
Interim Chief Accounting Officer, Senior VP & CFO

Yes. I'll add a couple of things. In the model, specifically, we have not assumed any new stores in '26 and '27, and it picks back up in '28 with a couple of stores, nothing on a large scale. The other thing I would say in addition to looking at the profitability of the store itself, we also look at how it impacts the market there. So including digital sales and store sales, what is the market -- the priority markets that we've established. What does the sales look like in that omni market area.

Chris Steffes

We'll also take questions from the webcast after in-person question end.

Unknown Analyst

I'd love to hear a little bit more about the product and innovation strategies. So for example, on today's call, you talked about pulling back from some categories like swim, some categories like lower margin outerwear. Obviously, a lot of the focus today is also in the presentation on the core products.

But if we think about the history of the business, right? A lot of it has grown through innovation. So we were kind of early to market with Buck Naked right? And then obviously, some copy cats have kind of come into the market, that's not as innovative a category, I guess, as it used to be. But then there have been -- there have certainly been areas like swim, maybe that have done so well, but there have been areas like gardening that have kind of been home runs, right?

And then particularly, Stephanie, like you were talking about with the women's business growing and bringing innovative product in there. So how does a big heritage part of Duluth is that innovative product development. So I'd just love to hear more about how you think about that in the context of having a narrower more focused SKU count and focusing more on the core products.

Stephanie L. Pugliese
President, CEO & Director

Sure. So first and foremost, at the end of the day, innovation is a partnership, if you will, between our customers and our innovation team and we have a super talented group of product developers, designers and merchants. That is their hyper focus. Now how did they do that? And why is the SKU rationalization important? And how do you make room for like the really big innovations.

So first and foremost, the SKU rationalization was to do two things. Number one was to allow our customers to understand and focus on what we stand for because that kind of plethora of choices did not adequately share our message when you walk into a store, go to the website, et cetera. The second piece of it and just as important, quite frankly, was to allow us to refocus our resources.

Some of that is actually, as I mentioned earlier, some of that is marketing dollars, right? And we know what we're going to spend on and be in market more consistently with the products that resonate and a lot of it is our innovation and product development resources. So if we have a -- and PS that also balances SG&A, right? So if we have the time, if we have a team that's focused on 10 products instead of 15 or 20 products. They can put that much more effort into each of those 10 products.

We've reinvigorated being out in the market talking to our customers, our team just a few weeks ago, did deep dives with what we call our trades panel. They are experts users of our products and people like landscape architects or general contractors, et cetera, that are using our product every day and putting it to the test talking more directly to them, but also not just getting from our customers because kind of our contract with the customers is we're thinking ahead.

So they are using insights that they have in the marketplace, whether that is other pieces of the market like outdoor active fabric shows, trade shows, et cetera, that inform new developments that are coming into the market. So you can kind of blend market information with customer need and create an interesting and innovative solution, and that's what we're doing. We just launched our No Quit Utility Shirt, which has a ton of flexibility, all of the Duluth DNA with underarm gussets and pockets and flexible fabric. That's an example of how we think about innovating product.

Chris Steffes

Great. Thank you, Stephanie and Heena. I'd like to take time now to go over our webcast questions. So the first question is, why wouldn't Duluth continue to own inventory when it is sold on Amazon. What benefit is there to selling wholesale to Amazon versus retaining ownership of the inventory while selling on Amazon?

Heena K. Agrawal
Interim Chief Accounting Officer, Senior VP & CFO

So we've tried the model before where we owned the inventory. I think the reason some of our customers are going to Amazon is for some of the access Amazon provides and some of the conveniences of prime shipping, free returns and all of those things that they have built the infrastructure over. So the best way for us to leverage their expertise and our product is to use the benefit that come with being an Amazon customer versus doing that hard work ourselves. So that it gives us more free time to to service our own online channel and our stores.

So we are trying to use the best of both, best of what Amazon offers and best of what we offer in that partnership.

Chris Steffes

Thank you. And as a follow-up to that question, is the SKU selection for Amazon mostly underwear and T-shirts or do you see Amazon as a customer acquisition channel to drive traffic to the higher-priced items available exclusively from Duluth's website and stores.

Heena K. Agrawal
Interim Chief Accounting Officer, Senior VP & CFO

Absolutely, the second one. So I think like Stephanie mentioned earlier, we will have a full assortment of our core products available on Amazon. It won't be just 1 or 2 products. And then the goal is that, that will be the entry point of trial for a lot of customers who already shop there, and then they discover Duluth and then come to our website for an even more expanded assortment around new prints, new innovation and so on.

Chris Steffes

Any other questions?

Stephanie L. Pugliese
President, CEO & Director

I guess I'll jump back or we have one last, late breaking.

Chris Steffes

Yes. One last question. How far along this SKU rationalization process? How far along is the SKU rationalization process? And when do you anticipate this process will be optimized.

Stephanie L. Pugliese
President, CEO & Director

I would say that the SKU rationalization process will be ongoing forever in that we're always going to be looking at maximizing our SKU productivity and effectiveness. Now in terms of 20% reductions season-over-season, year-over-year, we've gotten ourselves into a much better place than we were even a year ago. And we will see naturally that level of reduction start to taper. But that said, ultimately, our goal as product developers as merchants bringing great product to our customers is to also always validate that what we're bringing to market is what our customers value most, and we'll continue to do that ongoing.

Chris Steffes

There are no more further questions.

Stephanie L. Pugliese
President, CEO & Director
Well, I just want to say thank you again to all of you, everyone on our webcast. It's been an absolute pleasure being able to stand here and chat with you today. Thanks.