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Earnings Call

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Call Participants

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Presentation

Operator

Welcome to Sleep Number's Q3 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this call is being recorded today, Wednesday, November 5, 2025. This conference call will be available on the company's website, ir.sleepnumber.com. Please refer to today's news release to access the replay.

On today's call, we have Linda Findley, President and CEO; and Bob Ryder, Interim Financial -- Chief Financial Officer of Sleep Number.

Before handing the call over to the company, we will review the safe harbor statement. The primary purpose of this call is to discuss the results of the fiscal period ending on September 27, 2025. Commentary and responses to questions may include certain forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties outlined in the company's earnings news release and discussed in some detail in the annual report on Form 10-K and other periodic filings with the SEC. The company's actual future results may vary materially. In addition, any forward-looking statements represent the company's views only as of today and should not be relied upon as representing its views as of any subsequent date. The company specifically disclaims any obligation to update these statements.

Please also refer to the company's news release and SEC filings for a reconciliation of certain non-GAAP financial measures and supplemental financial information included in the news release or that may be discussed on this call.

I will now turn the call over to Linda Findley, Sleep Number's CEO.

Linda A. Findley

President, CEO & Director

Thank you, Tiffany, and good morning. I have now been on the job for over 6 months. My learnings thus far make me incredibly optimistic about Sleep Number's future and the ability to create significant shareholder value in the coming years. But nobody should be confused. This is a full turnaround of an inherently great company. I came to Sleep Number because I saw huge potential for the company, and I remain excited about what's ahead. As in many situations like this, there were more challenges than I expected, which required us to move extremely fast to fix the business. The pace of our work, along with constraints imposed by our capital structure, has made the first 6 months choppy. We've accomplished a lot, and we're optimistic that the work that we've accomplished positions us to execute the turnaround in 2026.

Importantly, after close collaboration with our banking partners, we have secured an amendment and extension of our bank agreement through 2027. This now provides financial flexibility to focus on sales-driving initiatives and execute our turnaround. Our new agreement, combined with meaningful fixed cost reductions achieved in 2025, will allow us to invest in growth in 2026, but more on these initiatives later.

Q3 operating results were disappointing. I am not pleased, but we're on top of the reasons, and we're moving quickly to stabilize all elements of the company. As we articulated last quarter, we were hopeful that a more efficient marketing strategy could mitigate some of the top line headwinds associated with significantly cutting spend. Our results early in the quarter gave us confidence that this approach would be successful. However, competitive behaviors became even more aggressive than we had expected during the Labor Day period, and we did not have the financial flexibility to counter with our own messaging, which hurt our top line. We believe the new bank agreement and our fixed cost reductions will allow us to go on offense in the future.

I want to take a few moments to explain why I'm confident that we can turn the top line in 2026. First, our new product initiatives will simplify our offering and should attract a broader set of new customers, while building on demand from our repeat buyers. This product evolution will capitalize on Sleep Number's

strong differentiators in adjustable firmness and temperature. While other brands deliver elements of what we do, we deliver it all, and in my opinion, we do it better.

Second, we are refreshing our creative to focus more on product value and benefits to drive greater interest and excitement about the brand. We are deploying our dollars into more efficient, higher-return channels to drive traffic to our stores and digital channels. When our customers arrive, we know they're going to like what they see. Across the organization, we are changing everything from creative to social to customer interaction. We're already seeing notable payback improvement with our new marketing initiatives.

Third, we're taking a fresh look at our distribution strategy. While we continue to see big benefits in our vertically integrated model, we believe there are opportunities to expand distribution into new channels, both physical and digital. We are optimizing our store footprint and leaning into digital to meet customers where they are, while exploring selective partnerships and new routes to market. For example, next week, we will host a show on HSN with an exclusive bet as part of an ongoing testing of channel opportunities. Our vertical model is still our strategic advantage, but we feel strongly that we can build on that model, while retaining its strength.

Finally, our substantial progress on fixed costs and our amendment agreement with our bank group means that the total marketing spend in 2026 will be slightly up compared to 2025, while still reducing our operating expenses. To put that in perspective, media investments in Q2 and Q3 of this year were down by 32%. Together, we are confident these initiatives put us on a path to stabilize our top line in 2026, while meaningfully growing our adjusted EBITDA and free cash flow. We are working with urgency and at breakneck speed. In my 6 months at Sleep Number, there is no part of the company that hasn't been touched.

Before I turn the call to Bob, I wanted to take a moment to thank all Sleep Number team members. Their continued dedication is exemplary. They are urgently pacing, prioritizing and executing on the things we know [we're] going to bring the biggest value. I'm proud to stand shoulder to shoulder with them as we continue to forge ahead to bring Sleep Number back to growth.

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

Robert P. Ryder

Interim Chief Financial Officer

Thanks, Linda, and good morning, everyone. Third quarter results are certainly not where we want them to be. Profits and cash flow were well below expectations due to disappointing sales. I'll get into the details of the third quarter results in just a moment.

As we shared 90 days ago, we're in the midst of a business turnaround that's comprehensive and will impact almost every aspect of the business. I want to highlight 3 important elements of our turnaround from a financial perspective. First, costs. We've made considerable progress on costs in 2025. Following 2 years of significant cost actions, we further reduced operating expenses, excluding restructuring and nonrecurring costs, by \$115 million since the beginning of the year and now expect to exceed our \$130 million cost-out target. These reductions have come from all dimensions of the business, headcount reductions, streamlining the organization, research and development costs, selling expenses and marketing.

The goal was to reduce costs aggressively, while minimizing any negative business impact. The significant reductions in Q2 and Q3 media spend, however, did have a negative impact on the top line. And as aggressive as our fixed cost reductions were, they were not enough to offset the impact of reduced sales on our high-gross margin product. As such, we have reduced our full year net sales, adjusted EBITDA and free cash flow expectations. We're certainly not done reducing costs. There will be additional fixed cost reductions in Q4 and 2026 to further align our cost to our new lower sales base.

Second, financing. We successfully executed an amendment and extension of our bank agreement, extending maturity to the end of 2027. The revised covenants and terms align with our planned turnaround trajectory and provide the flexibility to invest in specific parts of the business with strong

returns. This agreement reflects lender alignment with our strategic reset and supports both near-term stability and long-term growth.

Third, our commercial strategies. The greatest shareholder value will be created by implementing our commercial strategies. We have a strongly recognized brand and a highly differentiated product, but we do have room to improve. In 2026, we will be repositioning our product lineup to better resonate with a larger consumer base, execute a more efficient and effective marketing approach, and expand channels of distribution, including website improvements, to drive better conversion. We've been working on this commercial reset throughout 2025, and we will see the results of these initiatives in 2026. And importantly, our amended covenants provide us the flexibility to execute our plan.

Now, let me walk through our Q3 results. Net sales of \$343 million were down 19.6% year-over-year. This decline reflects the opportunity within our product portfolio and the impact of our significant marketing and media investment reductions. Marketing efficiency continues to improve as we saw cost per acquisition decline 6% versus the prior year. However, we need to drive more traffic into both our stores and our website. We expect our marketing efforts to begin to do that in the fourth quarter.

Gross profit margin was 59.9%, down 93 basis points versus last year, but up 82 basis points from Q2. The year-over-year decline was driven primarily by unit volume deleverage, partially offset by favorable product mix and lower promotional activity.

Operating expenses, excluding restructuring and other nonrecurring costs, were \$204 million, an 18% decline from 2024. This reflects the continued cost-outs we've been implementing across the organization to align with our sales reduction. We recorded \$41 million in restructuring and other nonrecurring costs in the quarter related to these ongoing transformation initiatives. These included severance and employee-related benefits, contract termination costs, and asset impairment charges. Approximately \$30 million of these charges were noncash and are attributable to sunsetting technology assets and closing several underperforming retail locations.

Adjusted EBITDA was \$13.3 million, down \$14.4 million from last year. The decline was driven by lower net sales and gross profit margin compression, partially offset by lower media, fixed operating expenses and variable selling expenses.

In addition to reducing costs, we are also actively managing working capital with net year-to-date changes in inventory, accounts payable, receivables and prepayments being a \$20 million source of cash. We have also reduced year-to-date capital expenditures by approximately \$5 million compared to the prior year.

We acknowledge current performance is not where we expected it or where we want it to be. However, we remain confident that actions we are taking will result in a turnaround of demand trends. As we are resetting the business and executing elements of our own plan, we are also realistic about the timing of the impact of our actions.

We now expect net sales for the year to be approximately \$1.4 billion and gross profit margin of approximately 60%. The incremental cost reductions, excluding restructuring and other nonrecurring items, are expected to result in a full year operating expenses of \$825 million, or \$135 million less than 2024. The resulting adjusted EBITDA is now expected to be approximately \$70 million with negative free cash flow of approximately \$50 million. With these anticipated outcomes, we expect to be in compliance with our new debt covenants.

Looking ahead to 2026, we are approaching our plan process with 3 key objectives. First and most importantly, stabilize sales and return to growth after we revamp our product offering with more emphasis on serving the consumers' priorities of comfort, durability and total value. To support that endeavor, we will continue to modernize our marketing approach, improve our website and expand distribution into new channels. Second, continue to take fixed costs out of the business, including continued consolidation of our real estate footprint. And finally, as stated before, generate free cash flow to pay down debt. With that, I'll turn it back to the operator for questions.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Bobby Griffin with Raymond James.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

I guess, 2 questions here. One, just on more modeling, but can you tell us what is the cash part of the restructuring for all of '25 and the noncash part of the restructuring for all of '25? And then, what level of cash restructuring charges will carry over into '26? I'm just trying to get a cleaner view on just the cash flow generation capabilities as we stand here at today's revenue base.

And then, my second question is, just the comments on the commercial strategies. I think you called out an expanded website, but any comments on wholesale? Just what is the expansion that you guys have been working on for the commercial strategies?

Robert P. Ryder

Interim Chief Financial Officer

Sure. I'll take the first half, right, and then I'll let Linda talk the second half. So the first half, look, of the cash restructuring charges, I'd say the cash charges are kind of the normal ones you see, contract termination costs and employee severance costs. And we're not giving guidance on what they will be in 2026, and there might be some more in Q4. But they are included in the \$50 million negative free cash flow guidance that we provided -- I'm sorry, for 2025. And the noncash costs were primarily write-offs for stores that we've stopped operating. It was a big piece of it. You can see this in the free cash flow statement. And the second part was a write-off of some intellectual property assets that we had that we just don't think are worth as much as they -- we thought they had been historically. And the total noncash was about \$30 million.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Bob, that's for the year or for the quarter? I guess, I probably didn't ask it. Sorry.

Robert P. Ryder

Interim Chief Financial Officer

That's year-to-date.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Okay. I was just trying to get a sense of the cash restructuring for all of '25, what it's expected to be. And then, what cash restructuring could carry over into '26, if you have any guidance? Just because when we look at free cash flow and cash flow from ops, we should kind of keep both of those in mind as we try to think about the level of what this business is doing today as hopefully, the cash restructuring won't be repeating at the same level in '26.

Robert P. Ryder

Interim Chief Financial Officer

Sure. And so, the -- for '25, the numbers I provided were year-to-date, right? You'll see them pop right off the GAAP cash flow statement. That's year-to-date '25, right? The negative \$50 million, that would include all the cash -- well, it's just cash, all the cash charges that we expect for '25. And '26, we're not giving guidance on, but what you'll see when the debt agreement is filed on the 8-K and it might already be out there, there are some covenants around restructuring charges, right? So you can model a max at least.

Linda A. Findley

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President, CEO & Director

Yes. But I will say, just jumping in on that to sort of finish up before I jump into the commercial side of it, we did take most of those this year. Like that's the focus. That's why we went so aggressively on some of these cost reductions this year. So, that is our intention is to really drive most of those into 2025.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Okay. Perfect. And then, just the commercial strategies and larger consumer base you called out, things like that.

Linda A. Findley

President, CEO & Director

Yes, of course. So looking at the commercial strategies, a big part of this is what we talked about with sort of refining our product offering in order to drive to a much larger audience. We already have a significantly larger audience coming to look at our brand on our website, coming to check out the product. But we mainly convert a certain subset of that product today. And so, by expanding our website and actually expanding the product offering and simplifying the product offering, we are confident we're going to be able to appeal to that larger customer base that's already looking to us and already knows our brand and aspires to our brand [but] create more product value fit for them starting in 2026 to increase conversion for that group. So that's sort of the website and product part of it.

That goes hand-in-hand with the distribution piece of it. So we just mentioned that we're doing our first test on HSN. There are several other wholesaler and other channel tests that we'll be announcing probably in the coming weeks and months. That will give you an idea of how we think we can expand while maintaining the strength of that vertical footprint, but actually supplementing it -- not cannibalizing it, but supplementing it with additional channels that reach some of those different expanded audience segments. So that's really how we're approaching this. We think that a lot of those aren't necessarily traditional wholesalers from a mattress industry perspective, but rather broader value-add channels that we can lean into that will add to the distribution and create additional brand awareness of the business. So again, look in the coming weeks and months for some more announcements on what some of those are, but that is a big part of our strategy going forward is how can we supplement with distribution.

Operator

Our next question comes from the line of Daniel Silverstein with UBS.

Daniel Arnold Silverstein

UBS Investment Bank, Research Division

Maybe just to start, just to level set, what are the biggest strategic changes that Sleep Number can make to improve the sales trajectory in the near term? I guess, if the competitive environment remains aggressive like it was in the third quarter, how can Sleep Number drive that improved traffic that Bob mentioned with kind of the marketing budget it has today?

Linda A. Findley

President, CEO & Director

Sure. Well, I think that's actually an important part of it is, it isn't just about the marketing budget we have today. So first of all, I do think the competitive environment will remain intense and it should remain intense. That's actually part of what makes this industry what it is. So we are anticipating that, that intensity will continue, the difference being that we took about a 32% year-over-year cut in our marketing -- sorry, media spend specifically in Q2 and Q3 because we needed to move aggressively while we were negotiating with the banks. That reduction is very, very impactful on our ability to scale the business. Now, at the same time, that reduction also helped us reset our marketing stack to be more efficient in the future and to lean into more channels more effectively. So we are seeing those efficiency improvements already play out. But we were capping our spend not just in an overall year-over-year reduction, but

it's important to note that we were looking at marketing spend that would only pay back in the quarter previously because we were managing to our bank debt.

With the new covenants that we've put in place and with the negotiations with the bank, we've allowed ourselves the room not only to reinvest back into marketing, so we will be putting more dollars back and have already started putting more dollars back into marketing into Q4 based on efficient return on spend. So we're not -- we aren't going inefficient on any spend because we've been leaving money on the table in the past, while we are constraining spend. And that spend will not only benefit us in Q4 but again will benefit us in Q1 going forward because when you're rolling into marketing spend, you not only want to spend for where you are now, but you want to continue to build the pipeline for future quarters, and we couldn't afford to do that before.

So with the way that we both created more efficiency in marketing and been able to get leeway on our covenants to be able to lean in not just to spend that benefit this quarter, but spend that builds the pipeline for future quarters. That's how you restart that flywheel, and that's the process that we're in right now. So it's all of those things together. But I want to be really, really clear that there are multiple aspects that we are looking at in the business here. It isn't just about that marketing efficiency. It is also about this product reset. And we do still see continued cost reduction opportunities in the fixed costs that were built and are not necessarily contributing to the longer-term profitability of the business. So, as Bob said in his section of the script, we are really focusing now on how can we take those fixed costs out of the business strategically and over time without actually incurring additional expenses to take those costs out of the business. And that's mostly going to be on the real estate front as we consolidate our sales into our highest-performing stores.

Daniel Arnold Silverstein

UBS Investment Bank, Research Division

Very helpful and a good segue into our next question. As you're thinking about the larger scale strategic initiatives you laid out for 2026, is it fair to assume that rationalizing the store fleet is kind of the most tangible piece of that today? Any update on kind of the rank order of those things you mentioned would be really helpful.

Linda A. Findley

President, CEO & Director

Sure. So just to give a little bit of context, as you know, we've gone very aggressively on cost savings. And as a little bit of just mental background and level setting, our headcount is currently now back at 2017 levels. So we went very aggressively on our headcount moves, and that is really, really impactful to the bottom line once we start to scale again. So we've been able to move quite a bit on creating, again, not only cost efficiency in some of our corporate costs, but also be able to create that scale and that speed of operations within the business. So yes, real estate and store footprint would be the next level of what we can look at. We have very, very high transfer rates when we're strategic about the stores that we actually shift and close down, and we've done several of those so far this year. But I think very specifically, it's important that we look at our strategic benefit of where we can actually have the most productive stores and make each one of those stores more efficient and drive more sales to the leaders in each of those stores so they can create that volume on top of a lighter fixed base from what we've had in the past.

Operator

Our next question comes from the line of Brad Thomas, KeyBanc Capital Markets.

Bradley Bingham Thomas

KeyBanc Capital Markets Inc., Research Division

Linda, I was hoping to follow up just on your thoughts on product and product evolution. We've talked in the past about an opportunity to bring in lower price point items. Could you just give us an update on your thinking and perhaps the timing of refreshed assortment?

Linda A. Findley*President, CEO & Director*

So I will give you as much detail as I can, given we are still under wraps, so to speak. But we are still looking at early 2026 in timing, just as we had mentioned before. And it's important to note that it's partially about price point and it's partially about value at that price point. So this is really a radical focus on the consumer and what the consumer is looking for. So you will see price point moderation, but it's not necessarily going low end. I want to be super clear about that. We are a premium product, and we have a very, very loyal and excited customer base that loves the products that we have. What we're looking to do with the new product assortment, which will include simplification of our product assortment, is how do we actually bring more value to a broader audience of people. So, that means driving value into price points that are more accessible to a broader amount of people still in the premium space. So, that's where we see the fact that we have strong differentiators in adjustability. We have strong differentiators in creating better sleep night after night. We have some of the best differentiators when it comes to temperature and adjustability. How can we bring that to a broader audience by creating that value alongside comfort and durability that we're known for into a broader audience? So I can't give you much more detail than that, but it isn't just about price point. It's about driving value deeper into our lower price points.

Bradley Bingham Thomas*KeyBanc Capital Markets Inc., Research Division*

That's very helpful. And if I could follow up on sales. Could we just touch a little bit on what the trajectory was through the quarter, what you're seeing more recently? And then, what the sort of underlying assumptions are in terms of the new revenue guide and what you're expecting for 4Q here?

Linda A. Findley*President, CEO & Director*

Sure. So I'll start on that, and then Bob, feel free to jump in and add anything you would like. But what we saw is, we actually saw a strong start to the quarter, and we saw pretty good performance in the beginning of the summer. And then, we saw it get very, very choppy. And what I mean by that is, we saw a lot of spikes and phases of demand as you got closer to the Labor Day cycle. And then, as I mentioned, for us, we were managing our cash very carefully. We were managing our cash probably more than I would normally want to manage on a marketing program. And we were not as able to lean into the highly competitive Labor Day cycle as maybe others would have been able to do so from a marketing spend. So, that impacted our demand towards the end of the quarter. So the quarter started off quite positively. And then, sort of our biggest challenges came around the Labor Day, highly competitive cycle just because of our constraints that we had put into place in order to negotiate our debt.

Robert P. Ryder*Interim Chief Financial Officer*

Yes. I'll just follow up on that, Linda. So for Q4, we are expecting some improving trends, certainly not where we want it to be long term. But our Q4 media spend will be a little less than Q4 last year, but not the down 30% or so we saw in Q2, Q3. So we think that should help us some additional media focused on the things that we think have returns. Also last year's Q4 was a pretty down quarter. So I think the overlap helps us a little bit. But it will all get a little bit confusing because remember, the fourth quarter has that dreaded 53rd week, which just confuses everybody. But we do expect slightly better sales in Q4, but not where we expect them to be in '25.

Linda A. Findley*President, CEO & Director*

Yes. And I think one other important...

Robert P. Ryder*Interim Chief Financial Officer*

[indiscernible] '26.

Linda A. Findley*President, CEO & Director*

One other point I want to make about that, and then happy to take another follow-up, Brad, if you need it. But the spend that we're leaning into in Q4, as I mentioned in my previous comments, not only will benefit us in Q4, but it will also benefit us in Q1. So we are now back in a cycle of doing what you would normally do in a business, which is invest not just for that quarter, but be able to invest and start to set up the next quarter as well. So that's a factor there. You also asked a little bit about some of the trends that we're seeing so far in Q4. The most I can give you on that is, we just completed this renegotiation with our banks, and we just gave guidance, and we are in line with both of those models that we have put in place to date as far as performance.

Bradley Bingham Thomas*KeyBanc Capital Markets Inc., Research Division*

Great. If I could just ask 2 quick clarifying questions. So for the fourth quarter, is it fair to assume that you all are thinking about the underlying sales trends improving slightly? And then, on a reported basis, we also get the lift of the 53rd week. Is that the way to think about it?

Linda A. Findley*President, CEO & Director*

Yes. That's the way to think about it.

Bradley Bingham Thomas*KeyBanc Capital Markets Inc., Research Division*

Great. And then to be clear, when we think about the marketing underlying run rate, Linda, have we passed the kind of most conservative point you've been at and are now at a point where you can test and start to lean in a little bit more because you've got this new bank loan? Is that the way to think about the marketing opportunity ahead?

Linda A. Findley*President, CEO & Director*

Correct. Yes. Correct. So the 32% down on media spend, and that's -- again, we called out 32% down on media spend. There is obviously some broader marketing spend on top of that. But the 32% down on media spend only applied to Q2 and Q3. Q4 will only be slightly down, as Bob said, on media spend year-over-year, and we do not anticipate any of that baseline for 2026. Now, I want to be also very clear that we are seeing efficiencies, and we don't ever expect to get to the spend levels that we were at before because we think that we are building a more efficient marketing program that, with the right level of investment, will continue to pay off.

Operator

Our next question comes from the line of Peter Keith with Piper Sandler.

Peter Jacob Keith*Piper Sandler & Co., Research Division*

Following up on one of Brad's questions regarding the new products. Could you give us a sense of timing when we might start to see some of the newness in 2026?

Linda A. Findley*President, CEO & Director*

Again, all we've said publicly is early 2026, and so we're staying with that. But I will tell you this team is working at lightning speed on everything that we're doing. So I can't give you much more detail than that, unfortunately.

Peter Jacob Keith

Piper Sandler & Co., Research Division

Okay. Fair enough. And then, I guess, going back 3 months, a lot of the theme from the Q2 call was the improved conversion rates that you were seeing in late Q2 and July. And I guess, what happened there? Was it -- did the conversion rates go down or did the competitive advertising kind of [drain] you out? Just help me understand what changed so much.

Linda A. Findley

President, CEO & Director

Sure. Well, again, the conversion rates did not go down. As a matter of fact, we continue to see improved efficiency. This is the reminder that a 32% decrease in media spend, even with conversion improvements, resulted in a 19-ish percent down on revenue. So we are actually continuing to see those conversion improvements. We mentioned a 6% lift in -- or improvement in overall cost of acquisition. So we're continuing to see that cycle pay back faster and faster. We are also shortening our payback times as part of that. So all of that is actually going really well. We just simply had to limit the number of actual dollars that we can put out that would apply in the quarter. And particularly in Q3, when you have the Labor Day [MSC], which is the most competitive of all the [MSCs], cost of media goes up because everyone is pushing into the same channels. And so, we were not able to lean into that spend based on restrictions from our current negotiations. So that's really what I mean by that. We're still seeing all of those efficiencies, and we're seeing even more so. And we continue to see improvement as we run into new channels. It's just that previously, we were restricted on the actual dollars we could put against that.

Peter Jacob Keith

Piper Sandler & Co., Research Division

Okay. Fair enough. And then, I guess, I was kind of curious if you're doing anything different at the store level. Certainly, you have a lot of employees that are commission-based. And with the big cut in advertising, it's probably making them harder to get paid. So how do you resolve that issue? Are you seeing more turnover at the store level? Or can you, I guess, recompensate people next year?

Linda A. Findley

President, CEO & Director

So we continue to actually look at our compensation structures to think about the right way to generate the best environment for our employees. So we're currently about 50-50 on commission and fixed. And we continue to actually look at it and we continue to evolve those programs as we go forward. We have actually simplified the selling process as well. So we just went through a big process where we created new sort of simplified selling paths for our employees so they could actually drive more conversion. And we did see decent conversion lift in store same-day sales during not just Labor Day, but during the entire quarter. So we're confident that we're making the right moves to improve our actual in-store sales process. But yes, a big part of the initiatives that we're doing are focused on getting that funnel bigger into the stores so that we can drive more traffic into the stores and drive more traffic via the website into the stores in order to increase the volume that we can actually convert off of.

Peter Jacob Keith

Piper Sandler & Co., Research Division

Okay. All right. Great. One last question then I had for Bob. Just on the new -- the debt structure. So the press release notes a 5.25 debt covenant limit. Is that -- does that scale up or down like the previous debt agreement? And then, what's the new interest rate?

Robert P. Ryder

Interim Chief Financial Officer

It does scale up and down. Q4, Q1 and Q2 are all a little bit different. And then, the covenants get tighter in Q3, Q4, right? I think you'll see that in the in the 8-K. And yes, all the fees and interest rates also changed, which you'll also see in that 8-K release.

Operator

As we have no further questions, ladies and gentlemen, this will conclude today's question-and-answer session. I'd like to turn the conference call back over to Linda for any closing comments.

Linda A. Findley

President, CEO & Director

Thanks, everyone, for your time today. Our teams remain focused on the work ahead, and I look forward to updating you on progress in the coming months and quarters. Should you have any further questions, please contact us directly. Thank you.

Operator

This concludes today's call. Thank you all for joining. You may now disconnect.

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