

Cato Corporation (CATO)

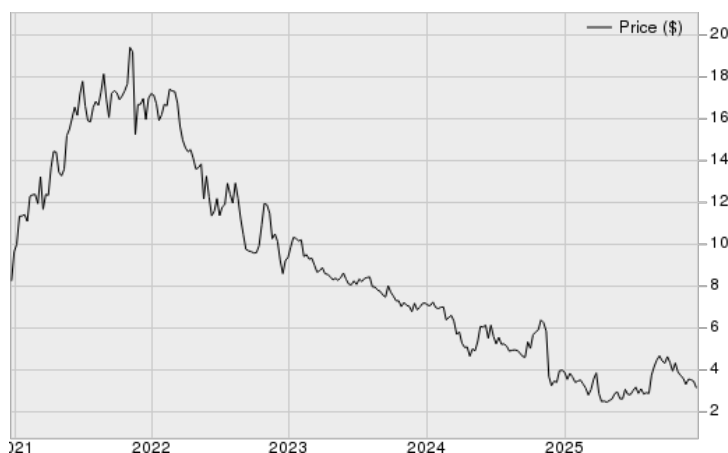
Stock Price: \$3.19 (As of 12/24/2025)

Zacks Recommendation: Neutral
(Since: 04/23/2024)
Prior Recommendation: NA

Summary

Cato has returned to profitability, posting \$5 million in YTD net income vs. a \$4 million loss last year, driven by 6% same-store sales growth and leaner operations. Gross margin improved to 34.5% despite tariff-related cost pressures, aided by lower occupancy and distribution expenses. A stronger balance sheet — with \$58.3 million in working capital and \$79 million in cash/investments — provides ample liquidity. SG&A declined 1.8%, boosting operating leverage. The company remains debt-free with untapped credit, supporting financial flexibility. Operating cash flow turned positive at \$3.2 million. However, headwinds include persistent tariff inflation, store closures (50 expected FY25) and weak digital penetration (<5% of sales). With \$160 million in lease liabilities and no recurring non-op income cushion, earnings volatility remains. Shares trade at just 0.38X P/B vs. 7.5X for peers.

Stock Price History



Source: Zacks Investment Research

Data Overview

52 Wk High-Low	\$4.92 - \$2.19
20-Day Average Volume (Shares)	45,348
20-Day Average Trading Value	\$144.66K
Market Cap	\$63.00M
Year-To-Date Price Change	-18.20%
Beta	0.59
Cash	\$81.64M
Debt	NA
FCF TTM	\$-7.49M

Valuation

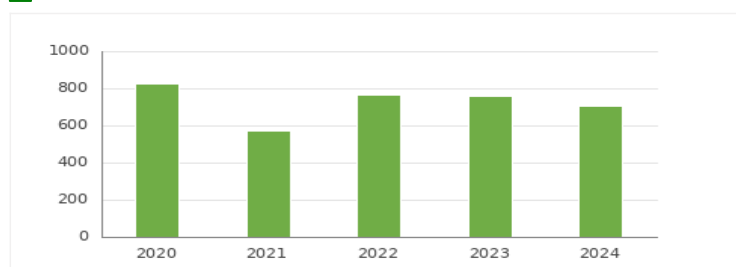
P/E TTM	NA
EV/EBITDA	2.99
EV/SALES	-0.03
P/BV	0.38

Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 21% (50 out of 243)
Expected Report Date	03/19/2026

Last Reported Quarter

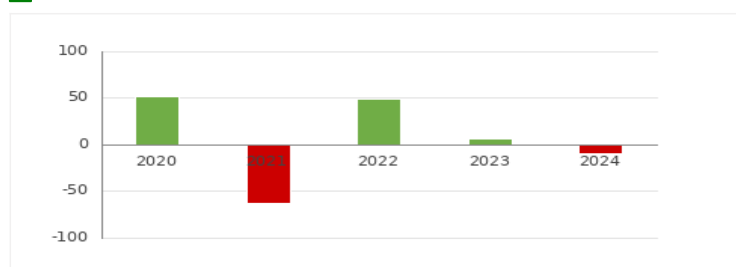
Sales Growth YOY	6.32%
EPS Growth	64.56%
EBITDA Growth	NA
FCF Growth	NA

Sales TTM (millions of \$)



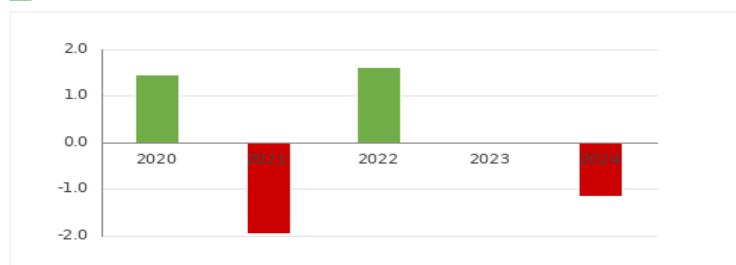
Source: Zacks Investment Research

EBITDA TTM (millions of \$)



Source: Zacks Investment Research

EPS TTM (\$/share)



Source: Zacks Investment Research

The charts and tables reflect data as of 12/24/2025, while the textual content of the report is as of 12/16/2025

Overview

Cato Corporation, headquartered in Charlotte, NC, was founded in 1946 and operates as a fashion specialty retailer. The company runs 1,117 stores across 31 states, primarily in the southeastern United States, under various brand names including "Cato," "Cato Fashions," "Cato Plus," "It's Fashion," "It's Fashion Metro," and "Versona." Cato focuses on providing quality fashion apparel and accessories at competitive prices, catering to a diverse customer base.

Cato operates through two reportable segments: Retail and Credit. In fiscal 2024, total revenues amounted to \$649.8 million, reflecting a decline of 8.2% from \$708.1 million in fiscal 2023. Retail sales are the primary revenue driver, while credit revenues, which include finance charges and late fees, contributed approximately 0.4% of total revenues, amounting to \$2.7 million.

The company's retail segment is characterized by a wide assortment of on-trend apparel and accessories, with a focus on customer service and value pricing.

In terms of store development, Cato opened five new stores and closed 66 during fiscal 2024. The company has a strategy of relocating underperforming stores to more desirable locations while also expanding into new markets. Cato's merchandise is primarily sourced from around 100 vendors, with a significant portion purchased directly from manufacturers in Southeast Asia.

Cato's financial structure includes an unsecured revolving credit agreement with a borrowing capacity of up to \$35 million, which was terminated in March 2025 in favor of a new asset-backed revolving line of credit. As of March 31, 2025, there were no borrowings under this facility, and availability was \$30 million.

The competitive landscape for Cato includes various retail chains operating women's apparel specialty stores, mass merchandise chains, and Internet-based retailers. The company faces competition from well-established national and regional chains, which may have greater financial resources. Cato's focus on differentiating its offerings through merchandise assortment, pricing, and customer service is critical to its strategy in this highly competitive market.

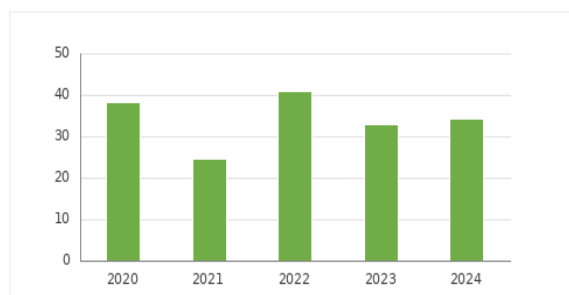
The data and facts mentioned in this section are as of 02/01/2025.

FCF TTM (millions of \$)



Source: Zacks Investment Research

Gross Margin % TTM



Source: Zacks Investment Research

Reasons To Buy

- ▲ **Return to Profitability Driven by Same-Store Sales Growth:** Cato reported net income of \$5 million for the nine months ended Nov. 1, 2025, marking a strong turnaround from a \$4 million net loss in the prior-year period. Retail sales rose to \$496.8 million, up from \$486.8 million, supported by a 6% increase in same-store sales, which offset the impact of store closures. This performance was driven by stronger in-store execution, better merchandise planning, and improved customer engagement. The profit swing demonstrates a successful realignment of operations toward profitability in a challenging retail environment.
- ▲ **Improved Gross Margin Despite Tariff Headwinds:** Gross profit increased 5.7% year over year, reaching \$171.5 million in the nine-month period, up from \$162.3 million in 2024. Gross margin as a percentage of retail sales improved to 34.5%, aided by reduced distribution and occupancy costs. This margin growth occurred despite rising input costs from tariffs, which were especially impactful in Q3. Notably, China's tariff rate was reduced from 30% to 20% in November 2025, potentially easing cost pressures ahead. The margin resilience illustrates effective sourcing and pricing discipline in a volatile cost environment.
- ▲ **Strengthened Balance Sheet and Working Capital Position:** As of Nov. 1, 2025, Cato's working capital improved to \$58.3 million, compared to \$34.9 million at the start of the fiscal year. This increase was driven by higher cash balances and reductions in payables and lease liabilities. Inventories were trimmed to \$94.1 million, down from \$110.7 million, improving inventory turnover and lowering markdown risk. Cash and equivalents totaled \$22.8 million, while short-term investments stood at \$56.2 million, providing substantial liquidity. The strengthened balance sheet equips Cato with the flexibility to manage macroeconomic risks and reinvest as opportunities arise.
- ▲ **Leaner Operations Leading to Reduced SG&A Costs:** For the nine months ended Nov. 1, 2025, SG&A expenses were \$169.7 million, down from \$172.8 million in the prior year. This brought SG&A as a percentage of retail sales to 34.2% compared to 35.5% in 2024. Reductions were driven by streamlined payroll, lower insurance expenses, and other administrative savings. These improvements demonstrate a meaningful structural cost reset. With the top line stabilizing and expenses contained, Cato has improved its operating leverage, allowing future sales gains to contribute more directly to profitability.
- ▲ **Debt-Free Status with Untapped Credit Facility:** Cato ended the period with no outstanding borrowings under its \$35 million asset-based credit facility, which is committed through May 2027. Availability under the facility stood at \$27 million after a \$3 million letter of credit. The absence of debt and interest expense gives the company added resilience, especially during economic uncertainty. This credit line, secured by inventory and receivables, provides ample capacity to fund seasonal needs or growth initiatives. The low-leverage position reinforces financial stability and supports conservative cash management practices.
- ▲ **Operating Cash Flow Turnaround:** Cato generated \$3.2 million in cash from operations during the nine months ended Nov. 1, 2025, a sharp improvement from a \$13.3 million outflow last year. The rebound was driven by profitability gains, leaner inventory, and disciplined working capital management. In contrast, the 2024 period included large cash outflows tied to net losses and excess inventory build-up. The current period's positive cash generation indicates a sustainable improvement in core operations and positions Cato to self-fund strategic initiatives without relying on external capital.

Cato rebounds to profitability with higher same-store sales, improved margins despite tariffs, a stronger balance sheet, lean operations, no debt, and positive operating cash flow.

Reasons To Sell

- ▼ **Tariff-Driven Cost Inflation:** Cato's exposure to Section 301 tariffs and reciprocal duties on goods from China, India, and Southeast Asia is materially impacting its cost structure. In Q3 FY2025, tariffs on Chinese imports remained at 30% before reducing to 20% in November, while India's surged from 10% to 50%. As many product categories, like footwear and handbags, are heavily sourced from these regions, the company faces continued margin pressure unless offset by higher retail prices or vendor concessions. These cost increases are expected to affect product acquisition costs for the rest of FY2025 and into 2026, potentially compressing profitability if not mitigated.
- ▼ **Shrinking Store Footprint With Limited Digital Offset:** The company closed 16 stores in the first nine months of FY2025 and expects to close around 50 for the full year. This reduction, despite a 10% Q3 same-store sales increase, signals underlying weakness in brick-and-mortar performance. Additionally, Cato's e-commerce sales accounted for less than 5% of revenue and lack a clear expansion strategy. With digital underdevelopment and store closures ongoing, revenue growth could stagnate or decline. The diminishing footprint raises concerns about long-term scalability and customer reach, especially amid evolving retail consumption patterns favoring online channels.
- ▼ **Declining Non-Operating Income Removes Safety Net:** Interest and other income fell to \$4.8 million for the nine months ended Nov. 1, 2025, down from \$10.2 million the prior year. FY2024 benefited from one-time events such as an \$8.6 million gain from an insurance settlement and asset sales, including the company's corporate jet. With fewer such windfalls in FY2025, Cato's earnings are now more dependent on core retail operations, which face pressure from tariffs and store closures. The loss of these non-recurring boosts introduces greater earnings volatility and eliminates a buffer that previously supported the bottom line.
- ▼ **High Lease Liabilities Amid Footprint Reduction:** Cato has \$160 million in lease liabilities, with \$62 million due in FY2026 alone. The weighted-average remaining lease term stands at 2.5 years. Despite ongoing store closures, these long-term commitments persist, limiting financial flexibility. With YTD net income at \$5 million and cash from operations at just \$3.2 million, lease obligations could constrain capital allocation toward growth, buybacks, or dividends. In a weaker retail environment, this fixed burden may cause negative operating leverage, pressuring margins and heightening the importance of store-level profitability improvements.
- ▼ **Stagnant Credit Segment With Rising Loss Provisions:** The Credit segment contributed only \$2 million in revenues YTD, flat year over year and less than 0.4% of total revenues. While proprietary credit card sales totaled \$16.4 million, unchanged from last year, loss provisions increased from \$0.5 million to \$0.7 million. This trend suggests softening credit quality among customers and limited revenue growth from financial services. With rising provisioning and no meaningful expansion, the credit business offers neither earnings upside nor margin resilience. Its stagnation limits diversification, leaving the core retail business to shoulder performance risk alone.

Cato faces tariff impacts, store closures, digital lag, dropping non-operating income, high leases, and stagnant credit revenues, threatening profitability and growth.

■ Last Earnings Report

Cato's Q3 Loss Narrows Year Over Year as Same-Store Sales Drive Growth

For the third quarter of 2025, Cato incurred a net loss of 28 cents per share, significantly narrower than the net loss of 79 cents per share in the year-ago period.

Retail sales rose 6% year over year to \$153.7 million from \$144.6 million in the third quarter of 2024, driven by a 10% increase in same-store sales. Total revenues, which also include finance, late fees and layaway charges, were \$155.4 million compared to \$146.2 million a year earlier.

Cato incurred a net loss of \$5.2 million, sharply narrower than the net loss of \$15.1 million in the year-ago period.

Operational Metrics Show Efficiency Gains

Cato achieved notable improvements in both gross margin and operating efficiency. The gross margin increased to 32% from 28.8% during the quarter, which was primarily due to reductions in freight, distribution, buying and occupancy costs. However, these gains were partially offset by higher markdowns, reflecting continued price sensitivity among consumers.

Selling, general and administrative (SG&A) expenses decreased both in dollar terms and as a percentage of sales. Quarterly SG&A expenses fell to \$57 million from \$57.9 million a year ago, or 37.1% of sales compared to 40%. Cost savings came primarily from reduced payroll, professional fees, and insurance costs.

Depreciation expenses dropped slightly to \$2.4 million from \$2.7 million, and interest and other income totaled \$2.2 million, a decrease from \$2.6 million a year earlier.

Management Commentary and Outlook

John Cato, chairman, president, and CEO, attributed the revenue uptick partly to a weak comparable base from 2024, which had been disrupted by three hurricanes and supply chain issues that delayed merchandise deliveries. He noted that while the sales trend from the second quarter had continued, the company expects the fourth quarter to be challenging, citing a slowdown in employment growth and lower expected economic growth. Management plans to continue managing expenses and inventory tightly while aiming to maintain sales momentum.

Factors Influencing Headline Numbers

A year-over-year reduction in net loss was achieved despite a still-negative bottom line. This was supported by a more favorable cost structure and operational improvements. The company benefited from a \$1.2 million tax benefit in the quarter compared to a \$0.3 million tax expense last year. The change stemmed from a reduction in foreign income taxes and an increased roll-off of reserves for uncertain tax positions.

Other Developments

Cato continued rationalizing its store footprint in 2025. On a year-to-date basis, the company closed 16 stores. As of Nov. 1, 2025, it operated 1,101 stores across 31 states, down from 1,167 stores a year earlier. The closures reflect ongoing efforts to optimize physical retail operations amid a shifting consumer landscape.

■ Valuation Discussion

Cato's shares are up 4.8% in the past six months but down 18.6% over the past year. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 20.9% and 6.1% in the past six months, respectively. Over the past year, the Zacks sub-industry has decreased 2%, while the sector has increased 1.8%.

The S&P 500 Index is up 16.5% in the past six months and up 14.6% in the past year.

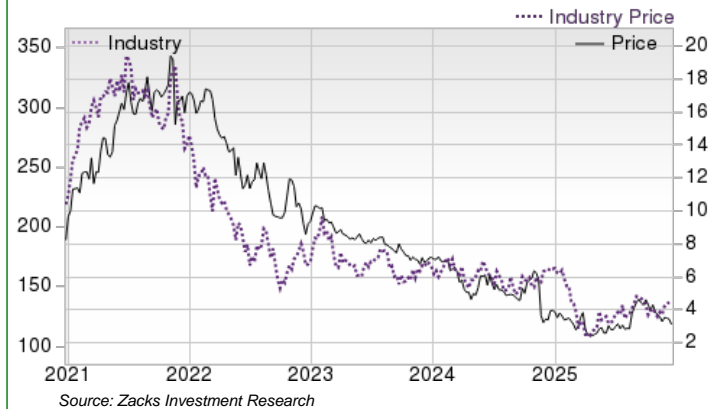
The stock is currently trading at 0.38X trailing 12-month price/book value, which compares to 7.5X for the Zacks sub-industry, 4.93X for the Zacks sector and 8.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.61X and as low as 0.27X, with a five-year median of 0.74X.

Our Neutral recommendation indicates that the stock will perform in line with the market.

Industry Analysis

Zacks Industry Rank: Top 21% (50 out of 243)



Top Peers

Company (Ticker)	Recommendation
American Eagle Outfitters (AEO)	Outperform
Boot Barn Holdings, Inc. (BOOT)	Outperform
Allbirds, Inc. (BIRD)	Neutral
Hennes & Mauritz AB (HNNMY)	Neutral
Industria de Diseno Textil SA (IDEXY)	Neutral
Next PLC (NXGPY)	Neutral
Kering SA (PPRUY)	Neutral
Tapestry, Inc. (TPR)	Neutral

Industry Comparison

Industry: Retail - Apparel And Shoes

	CATO	X Industry	S&P 500	Industry Peers		
				HNNMY	IDEXY	PPRUY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Market Cap	\$63.00M	\$491.38M	\$39.09B	\$27.99B	\$205.95B	\$0.00M
Dividend Yield	0.00%	0.00%	1.4%	2.16%	1.78%	1.53%
Value Metrics						
Cash/Price	1.34	0.14	0.04	0.08	0.06	NA
EV/EBITDA	2.99	6.36	14.63	7.95	16.64	NA
Price/Book	0.38	2.56	3.33	6.83	9.38	2.45
Price/Cash Flow	NA	9.00	15.32	8.74	21.08	11.73
Price/Sales	0.10	0.62	3.13	1.24	4.68	NA
Earnings Yield	NA	4.22%	5.03%	4.28%	6.23%	1.93%
Debt/Equity	0.00	0.10	0.56	1.16	0.00	0.69
Cash Flow (\$/share)	-0.41	0.86	8.98	0.45	0.78	3.00
Growth Metrics						
Hist. EPS Growth (3-5 yrs)	NA	1.96%	8.16%	22.75%	27.08%	NA
Curr. Cash Flow Growth	-41.44%	-1.17%	6.86%	7.10%	7.14%	-29.92%
Hist. Cash Flow Growth (3-5 yrs)	NA	7.62%	7.48%	4.39%	6.19%	-6.18%
Current Ratio	1.38	1.42	1.18	1.00	1.30	1.32
Debt/Capital	0.00%	14.89%	38.01%	53.68%	0.00%	40.78%
Net Margin	-1.38%	2.02%	12.78%	4.80%	15.40%	NA
Return on Equity	-5.46%	3.42%	17.00%	26.34%	32.94%	NA
Sales/Assets	1.48	1.32	0.53	1.32	1.12	NA
Momentum Metrics						
Daily Price Chg	-2.74%	-0.92%	0.46%	1.28%	0.00%	-1.59%
1 Week Price Chg	-9.41%	0.00%	1.61%	1.56%	-0.67%	1.75%
4 Week Price Chg	-7.80%	2.11%	2.13%	10.90%	19.88%	1.73%
12 Week Price Chg	-24.23%	7.59%	3.31%	7.59%	19.62%	5.83%
52 Week Price Chg	-18.62%	4.39%	14.40%	47.58%	28.56%	43.14%
20 Day Average Volume	45,348	336,598	2,805,434	60,523	416,477	180,945
20-Day Average Trading Value	\$144.66K	NA	NA	\$240.76K	\$6.89M	\$6.46M

Source: Zacks Investment Research

Zacks Microcap Rating System and Research Methodology

The Zacks Microcap Research effort is focused on small companies that have no coverage from sell-side research analysts.

Empirical research shows that the “size effect” (i.e. outperformance by smaller companies) can be strengthened if qualitative factors are applied in screening a universe of stocks. Our favored qualitative metric is the Marx ratio, defined as Gross Profit/Total Assets. The legacy Zacks rating system, predicated upon empirical research on the predictive value of EPS estimate revisions, is not applicable to this universe of stocks as they don’t have earnings estimates.

Why Gross Profit? First recall that Gross Profit is defined as Revenue minus Cost of Goods Sold (COGS). Gross Profit is distinct from other profitability metrics (e.g., EPS, Operating income, etc.) for two important reasons. Firstly, revenue contains the “selling price” of the goods and/or services provided. The selling price is market driven; consumers and businesses can accept or reject the given price. Secondly, in the COGS line, these direct expenses e.g., direct labor, raw materials are also predominantly market driven, unlike expense items in SG&A which can be more discretionary, like levels of salary compensation and advertising spend. In our opinion, Gross Profit is the purest profitability metric with the least risk of financial engineering which can distort market valuation.

But the balance sheet also needs to be factored in, hence Total Assets in the denominator. We defer to academic research that prefers the use of Total Assets vs. for instance, Net Assets or Tangible Assets, as the best proxy for the financial state of the business.

The Zacks process starts with a universe of about 2000 companies that have market capitalization of under one billion dollars and have no sell-side research coverage. We eliminate companies headquartered outside of the U.S. or with insufficient trading liquidity. Pre-revenue companies are excluded as well, they have no Gross Profit and an undefined Marx ratio. This results in a “quantitatively” derived list of eligible stocks for rating.

A team of analysts then applies a “qualitative” screening process to assess if specific companies may have a distortedly high ranking because of temporal, anomalous factors like commodity price deflation, market supply shortage induced pricing power, etc.-factors that are unsustainable and not a true reflection of the state of the business. Analysts also perform trend analysis to determine if the business is gaining operational momentum and is on the cusp of more pronounced leverage and scalability. Cash flow, debt usage, valuation, and dilution risk are also considered within a holistic assessment.

A rating of Outperform, Neutral, or Underperform is then assigned. The proportion of the universe assigned Outperform and Underperform ratings is typically comparable, with ratings updated quarterly.

Outperform rankings are based on a number of positive, compelling catalysts. Conversely, Underperforms are based on several negative catalysts. Neutral ratings are generally based on a lack of several convincing catalysts, either to the upside or downside, a kind of indifferent conclusion. A change in rating will be a function of an improvement or deterioration in specific industry conditions, lack of or better than expected business execution, or the macro environment.

A research report is then generated utilizing an AI utility under the guidance of an analyst. The prompt questions have been engineered and standardized in an effort to present information that the analyst believes is highly relevant to the investment thesis and importantly saves the reader time in retrieving. This activity is more along the lines of “vertical thinking”, whereby the AI utility is summarizing and synthesizing information. We have found AI to be quite adept at this function. This frees up the analyst to engage in “deeper” thinking, or contemplation of the factors influencing the rating as well as additional research like industry research.

The “source material” for the AI utility are company filings such as 10K’s, 10Q’s, press releases, earnings call transcripts, and investor presentations. Subsequent updates of the report will also make use of the previously published versions of the Zacks Microcap Research report as a source material. Our research shows that this enclosed ecosystem, which excludes accessing the world wide web, is necessary to prevent possible AI ‘hallucinations’. Thus far we have found little evidence of ‘hallucinations’ because of this contained ecosystem. We have also found only rare instances of hyperbole. All reports are reviewed by a human editor to further safeguard against these conditions and to ensure readability.

The research reports will incorporate key financial data e.g. Sales, EBITDA, FCF, etc. derived from our proprietary database over a five-year period. We believe the presentation of this expansive data will save investors valuable due diligence time and effort. We believe the valuation data for the past five years is especially helpful and valuable.

Lastly, we have deliberately refrained from price targets and financial models. Choosing a valuation method and specific multiple is an inherently subjective practice. We therefore provide multiple valuation metrics including where the stock is currently trading based on historical terms. In time, AI may become adept at financial modeling. Our rating, however, implies some back of the envelope calculations and valuation prognostication.

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