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GCO - Q2 2019 Genesco Inc Earnings Call

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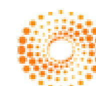

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PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco Second Quarter Fiscal 2019 Conference Call. Just a reminder, today's call is being recorded. Participants on the call expect to make forward-looking statements. These statements reflect the participants' expectations as of today, but actual results could be different. Genesco refers you to this morning's earnings release and to the company's SEC filings, including the most recent 10-Q filing, for some of the factors that could cause differences from the expectations reflected in the forward-looking statements made during today's call. Participants also expect to refer to certain adjusted financial measures during the call. All non-GAAP financial measures referred to in the prepared remarks are reconciled to their GAAP counterparts in the attachments to this morning's press release and in schedules available on the company's homepage under Investor Relations, in the quarterly earnings section.

I'll now turn the call over to Bob Dennis, Genesco's Chairman, President and Chief Executive Officer. Please go ahead, sir.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Good morning, and thank you for being with us. I'm joined today by our Chief Financial Officer, Mimi Vaughn.

In the second quarter, we delivered our strongest quarterly comp gain in over 2 years and a meaningful improvement in profitability compared with last year's second quarter. The strong week of back-to-school sales that moved into the second quarter as a result of last year's 53-week calendar shift help boost this year's quarterly earnings.

Consolidated comparable sales increased 3%, with stores up 2%, which is our first positive store comp in 8 quarters, and e-commerce up 7%, and even better on the positive 2% store comp, we achieved expense leverage in the quarter.

Our top line was driven by ongoing strength at Journeys and Johnston & Murphy, both of which experienced acceleration in sales trends on top of solid Q1 results.

Lids comps remained negative, although they also improved on a sequential basis, and the business is well up from the double-digit declines it posted in the fourth quarter. Similarly, Schuh's comps got meaningfully better versus Q1, but were still negative as several factors in the U.K. combined to create a challenging selling environment.

The significant improvement in our U.S. footwear businesses, especially Journeys, more than offset the headwinds at Lids and across the Atlantic. Second quarter adjusted earnings per share of positive $0.04 exceeded our expectations and compares to an adjusted loss per share of $0.10 last year.

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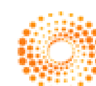

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As we discussed before, our second quarter typically has lower sales volume as our teen customer gets out of school and customers in general turn their attention to summertime activities rather than shopping. At the end of the quarter, we began to get a read on back-to-school, and we're pleased to see comps accelerate further at that time. August was a strong month with all 4 of our retail businesses posting comps that were better than Q2.

Now let's look at the performance of each of our businesses starting with Journeys. Following a good start to the year, comps grew from Q1 levels returning to double-digit territory with demand exceeding our expectations. Despite lapping positive comparisons when Journeys successfully emerged from the fashion shift a year ago, business picked up as consumers responded very favorably to the current product offering, which features a broad range of casual and fashion athletic styles from a number of brands and franchises. Sandal sales were also strong throughout the quarter and have continued selling through nicely right into back-to-school. Journeys Kidz notched especially good results in Q2 as well. Importantly, Journeys momentum has carried into the start of the third quarter and through the heart of the back-to-school season. While comparisons get more difficult in the back half, we are increasing our comp expectations based on the strength of the assortment and multiple initiatives, which have been effective in driving traffic to Journeys stores and websites. Congrats to the entire Journeys team on this outstanding performance.

Johnston & Murphy continued its run of strong retail sales building of a solid Q1 to deliver a high single-digit comp gain. J&M's on-trend casual footwear and apparel offering is resonating strongly with consumers, driving conversion and robust selling in stores and online. Its sports casual assortment with a variety of uppers on athletic-inspired bottoms is experiencing especially strong sell-throughs in men's and women's and is proof of the J&M team's tremendous progress heading from a dress, footwear resource into a lifestyle brand and successfully stretches across multiple categories.

What's most exciting is both new customer acquisition and repeat business are up. The strong retail contribution in the quarter, however, was more than offset by margin headwinds in J&M's wholesale operations, mainly from the clearing of some pockets of slow-moving women's inventory. With the benefit of hindsight, we got a bit too aggressive in our effort to take the women's wholesale business to the next level and had to markdown some inventory to move it out. J&M has maintained its retail momentum through August and Q3 to-date, which will help if more wholesale headwinds arise going forward. But overall, we continue to be excited by the position and prospects for the J&M brand. And so congrats also to the J&M team on this terrific progress.

Lids comp was negative, but improved on a sequential basis with Q2 aided by sales of World Cup product and easier comparisons. The mix of teams in the NHL playoffs, especially the Las Vegas Golden Knights run to the Stanley Cup finals provided an additional boost. However, this was more than eclipsed by the Golden State Warriors and the Cleveland Cavaliers repeat in the NBA finals for the fourth consecutive year in a short series, which didn't generate sales equal to last year's levels.

Lids, particularly in the hat business, continues to struggle from a lack of store traffic, but gross margin was up year-over-year. Thanks in part to the enhanced markdown practices we've been implementing. And SG&A deleverage on the negative comp wasn't as pronounced as it would have been without store closings and aggressive efforts to manage costs.

As we've noted before, headwear is currently between trends, which we believe is a major driver of the lower traffic. We also believe Lids as the category leader is positioned for the type of strong rebound that Journeys is now benefiting from once a new fashion driver emerges. We have seen this in the past with snapbacks, with knits, with bucket hats, most recently with the dad hat trend. Our long history with Lids hat stores shows over a decade-and-a-half of store 4-wall profit in the teams during the fashion troughs and in the 20s at the peeks, which demonstrates tremendous ability to cycle through trend successfully. History repoints to a rebound, but we just don't know the exact timing.

As a result of the weaker store traffic, Lids Q2 comp was a little under the level we expected. Thus far in Q3, comps are running somewhat better. However, we just began to lap the steep traffic declines that started in late summer last year and comps have not yet recovered to the extent we anticipated. And so while we believe we should improve on Lids recent performance, we are now more cautious about the timing of the comp rebound until we see a pickup in traffic and get further into the NFL season.

In the meanwhile, we are working diligently with our vendor partners to investigate all opportunities to ignite a new headwear trend, which is what will really drive a meaningful uptick in results. And while we're on the traffic of Lids, the process of exploring a sale is advancing and we have

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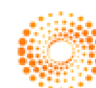

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narrowed our alternatives. As we work toward a conclusion, we won't be giving additional details or take questions about the process on the call today. Thanks to the Lids team for their hard work and perseverance through this process.

Turning to Schuh. The challenging selling environment for footwear and apparel that began in the U.K. during the last holiday season continued through the first half of the year. While U.K. retail sales in general were good this summer in spite of the hot weather and the World Cup distraction, they were concentrated in basics categories like food and drink, while many fashion retailers on the high street struggled. While we were encouraged to see Schuh's comps improve quite a bit from their sharply negative Q1 levels, tepid spending on footwear and apparel has dampened demand for both price product as U.K. shoppers hunt for a bargain and hold off buying unless the specific item she or he would like to buy is available.

In Q2, Schuh's performance was also impacted by certain vendors' decisions to pursue a scarcity model, limiting supply of some top-selling styles in the U.K. As a result of all this, comps for Schuh were down high single-digits, which generated significant expense deleverage in this low-volume quarter. Schuh also needed to take additional markdowns to keep inventory clean, putting additional pressure on margins. In Q3 to-date, Schuh's comps have improved a little with less negative traffic and a back-to-school bump. Looking ahead, the Schuh team has worked hard to increase the assortment of in-demand 90s retro footwear for the fall and holiday seasons. While we are optimistic about improving the comp trend, we are now more cautious about the ability to return to positive comps this year given the consumer environment and vendor supply constraints. In addition, the pound-dollar exchange rate decline will reduce back half profitabilities further if it stays where it is today.

In summary, Q2 performance was characterized by better-than-expected results in our U.S. footwear businesses, which drove strong quarterly comp in some time and a nice improvement in year-over-year profitability.

So with respect to outlook. While August comps overall have picked up from Q2 levels and we are encouraged by the ongoing strength at Journeys and Johnston & Murphy, the lack of visibility into improving trends at Lids and Schuh keeps us cautious about the second half. We reiterate guidance of adjusted earnings per share to range between $3.05 and $3.45. This guidance includes the impact of Lids as if it were owned by us for the entire year. Mimi will talk further about some of the upside and downside potential in this range. Something close to the middle of the range continues to reflect our best current belief of where we might come out for the year.

Looking ahead, our focus this year is to execute on the key initiatives we've spoken about to transform our operating model in response to changing consumer behavior and the evolving retail environment. Mimi will cover our work to reduce real estate risk, rent expense and capital spending, as well as our overall cost savings program in her comments.

Let me briefly discuss how our 4 consumer-facing initiatives have been positively affecting the business, focusing today on Journeys, as an outstanding example of how these initiatives are having a definite impact. It goes without saying that these are on top of the merchandise teams, excellent product choices and the selling teams' exceptional execution. Number 1, we're strengthening the equity of our retail brands. On the heels of spring's popular prom promotion with Converse, Journeys celebrated its fifth successful year as presenting sponsor of the Vans Warped Tour this summer. In this 38th Top Cross Country Blitz, Journeys connected several hundred thousand music fans with its local store employees by activating on-site experiences where consumers could hang out and win prices, while having a chance to meet and greet headlining bands. In addition to on-site branding, the presenting sponsorship extended the Journeys brand to millions of people through paid and earned media mentions and Journeys fully integrated the tour sponsorship across all owned, retail and digital media as well. Journeys capped this round of unique marketing events with last month's destination, Santiago, in partnership with adidas. 3,500 lucky fans attended a fully immersive festival centered around the elements that influenced skate culture, art, music and gaming. Through interactive creative offerings, like customizable event shirts, video game stations and a towering art wall and live music performances throughout the night and (inaudible), we're able to create memories and sovereigns that bind the Journeys brand through these experiences. Our recent research tells us this investment is driving results. For example, 74% of teams surveyed indicate, they are aware of Journeys or have shopped or purchased at Journeys before, and their view of Journeys is quite positive overall.

Number 2, enhancing the in-store experience. In terms of Journeys physical presence, we're investing improving the store fleet, especially in high volume, high profit, positive trend locations. The recent research also tells us that nearly 80% of Journeys' core customers are in the mall at least once a month. Underscoring the importance of the stores of the shopping experience from buying in-store to using stores to return online purchases. Therefore, it is imperative that we continue to invest in refreshing our stores. Over the life of this program so far, we've touched approximately 500

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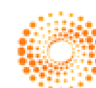

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doors with a focus on upgrading the storefront and using enhanced lighting and display modifications to better showcase our product assortment. We want customers in our stores to be in an inspiring environment and believe the work we've done is paying dividends, contributing to Journeys' improved store results.

Number 3. We're improving the customer experience in and across both the digital and physical worlds to build loyalty and maximize each customer's value. In the fourth quarter, Journeys will begin piloting several programs that will be the building blocks of this multiyear strategy. The initial work has been to introduce new processes and technologies to tackle the sources of friction and major pain points for customers in stores and online. The next phase is to consolidate data from multiple internal and external sources, including transactional, behavioral and demographic information into one location to make it easier to analyze and use -- and to better serve our customers' footwear needs.

And then finally, number 4, we are building out omni-channel and digital capabilities. As you know, we completed the expansion and upgrade of the Journeys distribution center, including a customized module for e-commerce picking. This specialized capability has increased the DC's speed and efficiency to get product out to the customer faster and more cost effectively. And as a result, we are able to better maximize both store and e-commerce shipping simultaneously, driving down cost, reducing the number of customer service contacts in the process and improving the digital shopping experience.

Lastly, we are relaunching the Journeys website in fall for a better front-end experience, including better search and navigation, new payment options, better local store integration, predict assorting and print presentation and new help features. This new platform should have a positive impact as our digital properties led by mobile-first, serve not only our e-commerce customers, but also customers who interact with the brand online before visiting a store.

Our success with this strategy isn't limited to Journeys. We've implemented initiatives across our other businesses, which are having similar impact as well.

And with that, let me turn it over to Mimi to go over the financials and the guidance in more detail.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP of Finance & CFO*

Thank you, Bob. Good morning. We posted more information in our CFO commentary and new brief presentation summarizing results and guidance that you can access online at our website.

Journeys' very robust performance more than offset decreases in some of our other businesses to deliver a strong quarter that returned Q2's positive profitability. This profit increase was helped by a week of strong back-to-school sales that moved into the second quarter as a result of last year's 53-week calendar shift. Licensed Brands also delivered significantly better results, contributing further to these positive results.

Results across all our U.S. businesses met or beat expectations, dampened to some extent by greater challenges at Schuh. Overall, strong sales, positive store comps and the impact of our cost reduction efforts allowed us to leverage SG&A expense even in this low-volume second quarter. And in spite of lower gross margins, improved adjusted EPS to positive $0.04.

Q2 consolidated revenue was up 6% to $654 million, including the additional BTS week, which had around $21 million was in line with our expectations. Consolidated comps were up 3%, with store comps up 2% and direct comps up 7%. Store comps were nicely positive for Journeys and J&M, and overall swung from negative 2% last quarter to positive 2% this quarter. Direct as a percent of total retail sales in Q2 was 10%, up 50 basis points year-to-date, demonstrating again the progress we've made driving e-commerce.

Journeys posted significantly improved results. Comps were positive 10%, marking the fifth consecutive quarter of increases. The business performed well across multiple dimensions, highlighted by mid-single digit growth in store traffic, higher conversion and improved average ticket size. Average ticket was boosted by higher priced apparel and a small increase in footwear ASPs, but the strongest driver of Journeys improvement was more unit sales of fashion athletic footwear and sandals.

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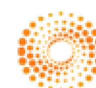

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Considerably stronger store conversion and a higher average ticket size plus strong digital sales generated Johnston & Murphy's positive 8% comp. Sales of both footwear and non-footwear were up driven by J&M's casual assortment, especially sports casual offering. Both ASPs and units were up in the quarter, but like Journeys more units was the strongest driver of J&M's increase.

For Schuh, while both traffic and conversion were negative, they were much improved from Q1 levels. Strong sales of lower price size and seasonal product as a bigger part of the mix drove slightly lower ASPs. Both store and direct comps were negative highlighting the degree of the challenge relating to consumer demand and yielding a negative 7% comp in total, which nonetheless was a big improvement from Q1's negative 13%.

Lids' store traffic continued to be challenged in Q2, but conversion was much improved and transaction size was higher. We track that negatively affected sales across all leagues and the branded business, with the exception of the NHL and the World Cup soccer. Q2 comps were negative 5%, an improvement over Q1's negative 7% and Q2's negative -- and Q4's negative 14%.

Q2 consolidated gross margin decreased 50 basis points to 49.2%. Journeys' gross margin decreased 90 basis points with the biggest factor being higher markdowns in part because of the 53-week timing shift and 1-week later quarter-end. IMO was a little lower due to mix. At J&M, gross margin was down a 170 basis points, while retail gross margin was up a little, wholesale gross margin was down 800 basis points as J&M took action to clear the women's wholesale inventory that Bob discussed. Gross margin was down a 110 basis points at Schuh due to less full-price selling and additional markdowns to clear slower moving product and keep inventories clean. At Lids, gross margin was up 60 basis points due to better freight expense and fewer markdowns. Finally, considerably higher IMOs and fewer margin reductions drove Licensed Brands' gross margin improvement of 440 basis points.

Total SG&A expense as a percent of sales decreased 120 basis points to 48.8%, with leverage from rents and selling salaries also across many other expense areas. While we're very pleased with the growth of our e-commerce sales and the returns that we're seeing from our digital investments, positive store comp significantly helped our overall profitability. Store comps at the 2% level, coupled with our rent and other expense reduction actions, provided positive leverage that in the recent past has been elusive for us given the largely fixed expense base in our store channel.

SG&A would have leveraged another 90 basis points without higher expense from bonus in our better performing businesses and the higher catalog costs due to the shift in timing from the new revenue recognition standards. Without this, higher bonus and catalog expense, total expense dollars would have increased by only 1%.

Q2's net result was adjusted operating income of $2.4 million versus an adjusted operating loss of $1.6 million last year. Adjusted operating margin increased 70 basis points to 0.4% for the quarter. Journeys and Licensed Brands' OI was up, other businesses were down.

Turning now to the balance sheet. Inventory is in very good shape as we drive to improve by 1/10 of a turn this year. Q2 total inventory was down 9% on a sales increase of 6%, not adjusting for foreign exchange. Journeys inventory was down 11% on a sales increase of 18%. J&M's inventory was up 6% on a sales increase of 6%. Lids' inventory was down 14% on a sales decrease of 7%. Finally, Schuh's inventory is up 5% on a sales decrease of 2% on a constant-currency basis. Much of Schuh's seasonal product was cleared in a summer sale and go-forward inventory is largely year-round product.

Capital expenditures were $12 million and depreciation and amortization was $19 million, as we took the step this year to bring the two in line. We did not repurchase shares in the quarter and have $24 million remaining under the current $100 million repurchase authorization. Total debt at the end of the second quarter was down 56% or $108 million versus a year ago.

Moving now to guidance for fiscal '19. We reiterate adjusted earnings per share to range from $3.05 to $3.45. While our guidance range remains the same, the biggest change in the underlying assumptions is for better results from Journeys and J&M that offset challenges at Schuh and Lids, which is consistent with what we have been seeing so far this year. This is a wide range because of a few potential variables. And I remind you that, while we're at the midpoint of the year, all of the earnings we project will come in the back half with higher back-to-school and holiday sale.

The first variable is whether the strength in store comps will continue and if this will be at the pace we've been seeing recently. Store comps underlying our guidance now range from roughly flat to up 2%. The second is how the back half unfolds for Lids with the MLB playoffs and NFL

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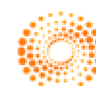

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season ahead of us. Finally, we have talked about the U.K. environment and more limited visibility into Schuh's trajectory. While something close to the middle of the guidance range continues to reflect where we believe we would come out for the year, we have to inject caution at the top end. Achieving the top end will depend on some combination of a strong boot season for our footwear companies and a good line up in the MLB playoffs, and major market World Series winner and solid NFL season, all of which would give Lids a boost.

For the year, we continue to expect consolidated sales will range from down 1% to up 1% on the basis of 53 weeks last year versus 52 this year, with consolidated comps, including direct now ranging from up 1% to up 3%.

One important word of caution. While we are raising comp guidance a little for the back half, projected sales levels are just a little under our previous guidance in total because of the expected impact of the lower exchange rate in the U.K. We plan to open in the neighborhood of 45 new stores, not including new Macy's locations and including 7 stores we're reopening in Puerto Rico after last year's hurricane. Just under half of these new stores are for Journeys and Journeys Kidz. New stores for Journeys and Lids will be largely opportunistic fill-in locations in strong malls with the right rent deal, which are now available where they haven't been before and have proven to generate very attractive returns on invested capital for us.

We plan to close over 100 stores for a square footage decrease for the second year in a row. We don't believe that we transfer a significant amount of sales to other stores when we close the store, so if we can get the right rent deal with a shortened up lease life to eliminate more risk, we will keep a store open, which may change this number as a result.

We expect gross margin to be up in the neighborhood of 30 basis points overall, remaining relatively flat or improving in most divisions. We still expect SG&A expense will delever in the 40 to 60 basis point range. Another word of caution. While we expect store comps to be higher in this round of guidance, we are expecting just a little bit more deleverage than before in the back half because the divisions that are higher are accruing bonus, which increase leveraging. While those that are lower, deleverage significantly. This is counterintuitive to what we would typically expect to happen, but with the cost savings I will discuss is still a meaningful improvement over last year. This all results in an operating margin percent at or a few tenth below last year's last level, and EPS that ranges from down a little to up double digits.

Our fiscal '19 tax rate is estimated at approximately 27.5%, inclusive of the benefit of tax reform, the details of which are still being refined. This rate is higher than we projected last time due to lower earnings in places with lower tax rates like the U.K. and higher earnings in places of higher tax rates like Puerto Rico. We now expect foreign exchange will hurt earnings by about $0.04 per share, assuming exchange rate stay where they currently are. But given the uncertainty with Brexit, this could become more of a headwind.

A final important reminder about guidance is the shift in the calendar from last year's 53rd week, while this impacts all quarters, we benefited from the large-volume BTS week moving into Q2, which will be at the expense of Q3. Because of this and the other factors that I mentioned, Q3's earnings are expected to be a fair amount below last year's level. All of the upside in the rest of the year for us will be in the fourth quarter.

Capital expenditures will range from $60 million to $65 million, the lowest level in more than 5 years and down from our original estimates because of fewer new stores and less expensive remodels due to shorter lease life. We plan to spend about 40% of this capital on digital, IT and other projects, while investing the balance in refreshing our store fleet and opening new stores. We estimate depreciation and amortization of $77 million, the tenth of a turn improvement in inventory should help this year's cash flow as well.

Lastly, we assume 19.5 million average shares outstanding. This guidance assumes no stock buybacks, so we can use repurchase availability opportunistically going forward. We've talked about our success managing down capital spending and will finish up by updating on our high-priority initiative to decrease costs. We know we must reduce the store cost structure and improve efficiency in e-commerce to combat profit dilution from the expense of operating 2 channels and driving traffic to stores.

Earlier this year, we launched a profit enhancement program to take out $35 million to $40 million of annual expenses. We're seeing the payoff from the significant effort we've expanded here and have been impressed by the resourcefulness and the creativity of our people in attacking costs. We're pleased to announce we've identified initiatives that exceed the top end of our target of $40 million and expect the timing of realizing the full benefit to be the back half of this year and the first half of next.

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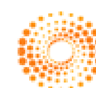

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As part of this, we continue to have very good success with renewals and rent reductions. We've negotiated over 180 renewals so far this year and achieved in total a 21% reduction in cash rent or 16% on a straight-line basis. With over 150 renewals left, we should be able to add to our saving.

Building on second quarter success, we project full year rent expense below last year's level, both in terms of dollars and as a percent of sales. Another important aspect of these renewals is the shorter term, which allows us to start thinking about rent increasingly as more variables and fixed and give flexibility. This year's renewals have an average term of 2 years with C-malls down to a little over a year.

While this is a broad reaching program spanning many initiatives, besides rent, top areas of saving include renegotiation of our freight carrier contract, DC and warehouse expense, targeted headcount reductions already made and credit card fees. Other opportunities in stores include maintenance expense, bank fees, store network costs and store supplies, outside of stores or opportunities in income taxes benefits IT, marketing, T&E, professional fees and more.

For closed stores, we're counting only the losses and not the entire cost base in the savings. This is the beginning of a multiyear effort to reshape our cost structure and allow for continued investment in stores and digital.

I'll now turn the call back over to Bob.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Thank you, Mimi. To conclude, I want to express my thanks to the good work of all of our employees throughout the company. Your talent and dedication are evident in the positive results in the second quarter. They're key to our success in the second half and beyond. And I also want to give some special thanks to our employees in Hawaii. We got our stores there back up and running quickly in the aftermath of Hurricane Lane. We know it takes a special level of commitment to continue to perform your jobs well in the middle of personally challenging circumstances. And we are always proud of our employees who go above and beyond in situations like that.

And with that said, operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Mitch Kummetz with Pivotal Research.

Mitchel John Kummetz - *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*

I'll see how I can ask one really long question. So I guess, it will be a question about the outlook. Mimi, you talked about Q3 earnings being down a fair amount. Hoping you give us a definition of what down a fair amount means? And then also on the third quarter, you comprehended a 2% to 5% comp, midpoint is 3.5%, that's a little bit better than what you guys just did in Q2. I'm wondering if you think you can leverage the SG&A in Q3 and kind of what sort of store comp is embedded in that 2% to 5% range? I don't know if you said that already.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Mitch, we'll count that as one question. And I will lead off with just one comment. We, as a company, are not inclined to give quarterly guidance. So with that said, Mimi, help him out.

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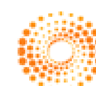

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Mimi Eckel Vaughn - *Genesco Inc. - Senior VP of Finance & CFO*

So Mitch, there are a couple of things that we just call out around the third quarter. One is that, remember that the really important back-to-school week shifted out of the third quarter and into the second. So we ticked up from that and we're going to give that back in the third quarter. So that's one thing to remember. Second thing is that the dynamic of our bonus expense is that we didn't have bonuses last year. Last year was a tough year for us. And therefore, we're accumulating bonus this year. And so because of that and because we accrue most of our bonus in the back half of the year, we end up deleveraging this year over last in spite of the positive comps. The last thing that I would mention is that, even with the tick up in comp and the tick up in store comps, the places that we're actually adding comp 2 are in our stronger performing division where we continue to add positively, but not at the rate we would otherwise, if we were not accumulating bonus. So we're adding contribution for positively performing businesses. We're taking away contribution at a bigger rate for those that are not performing as well. And so the net result of that only brings us back to about the same place that we were prior to the tick up in the comps.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes. Simply put, Mitch, when we have stores that are at low volumes and they go more negative than we expected, the hit there is hard. And so it doesn't necessarily sum up the way, it's a little -- as Mimi said in her prepared remarks, it's a little counterintuitive, but it doesn't sum up the way you might simply believe it would.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP of Finance & CFO*

Yes. So can we leverage SG&A in Q3? We're actually not expecting to leverage SG&A in Q3 as a result of all that.

Operator

We will now move to Jonathan Komp with Baird.

Jonathan Robert Komp - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Just want to kind of gauge your overall broader confidence and the trends you're seeing, obviously, especially on Journeys, you took up the comps expectation a little bit into the fourth quarter. And I'm curious to hear a little bit more of the thinking behind that? You called out some of the assortment that you're seeing. And just broadly, kind of your overall confidence in as you look to the fourth quarter and later in the year, and being able to drive all of your earnings growth after clearly some moving parts between the quarters, between Q2 and Q3 here. Just trying to get a broader sense of your confidence in those views.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

I'll start with just sort of a macro comment and then hand it to Mimi. One of the things that we've seen that's interesting in the dynamics in the mall right now is traffic patterns. We've gone through, I think, 4 years where traffic into footwear and apparel store has declined significantly, and all of a sudden, we've reached a year where it's flattened out a little bit not for all of retail, but for footwear and apparel as a category. And so we're seeing -- for reasons that we can't completely understand, we're seeing a flattening out of that. And so that's giving us, from a macro standpoint, an opportunity to do better. But then obviously, Journeys is doing a lot of terrific things within their world. I'll hand it to Mimi for that.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP of Finance & CFO*

Yes. So Jon, we had guided to a 4% to 5% comp for Journeys in the second quarter and they delivered a 10%. And that's meaningful because we began to comp against the positive uptick that Journeys experienced coming out of the fashion rotation last year. And so that was a really good sign. And that momentum of positive on top of positive is what led us to look to the third quarter and through the heart of back-to-school, as Bob

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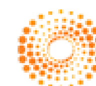

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said, Journeys continue to perform well. And so August is largely in the books, September and October will be a continuation of those trends. And then the mix shift into boots. We expect that we'll continue to sell athletic product, but the range -- we got a fairly wide range on comp for Journeys in the fourth quarter. We're comping against the really strong number from last year. We had a good boot season for Journeys last year. I think the upside in our comp guidance is really dependent on how the winter turns out, what the weather is like for the winter and the strength of boot sales overall.

Operator

(Operator Instructions) And our next question will come from Laurent Vasilescu with Macquarie.

Werlson Hwang

This is Werlson Hwang on behalf of Laurent. The gross margin guide for the year was inched up slightly last quarter and today's gross margin guide of 30 bps, that implied about 80 bps of GM expansion in the second half. How should we think about it between the third and fourth quarters?

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP of Finance & CFO*

Okay. So between the third and the fourth quarter, so we gave up, we had a little bit more markdowns than we had expected for the second quarter. But in the third and fourth, we actually project a tick up of about the same level.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

I call you back to the inventory situation that we have really gotten the inventories very clean. Inventories were down more than sales across most of our businesses. And so that helps our positioning for our gross margin in the back half. Next question?

Operator

And our next question will come from Steve Marotta with CL King & Associates.

Steven Louis Marotta - *CL King & Associates, Inc., Research Division - Senior VP of Equity Research & Senior Research Analyst*

I'll try to squeeze in 2 questions and just apologize upfront. The first is, Mimi, if it's possible if you could quantify the amount of Q3 -- well, the amount of sales that spilled into Q3 from Q2? I know that you mentioned it was some, but I don't think that you put a number on it that was the impact of the calendar shift specifically. And also may be address just your anticipation of the NFL season was problematic last year for a host of reasons, viewership certainly notwithstanding. And if you could just talk a little bit about if you see stabilization in that category sort of independent of what the playoff show just overall consumer view of the NFL and the impact on the product in the third and fourth quarters?

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Hey, Steve, I'll take on the NFL, first. It's very important part of our fourth quarter. And as you remember, our NFL business was off significantly last season as it really was for the whole industry. This year, we're not expecting to pick much of that back up, but we're going to expect to pick up some of it. And it's just been a little early to get a good read. Part of what was going on last year, we think was a number of high-profile injured players, which obviously hit jersey business directly, but probably indirectly hurt a little bit of the fan focus as we lost that. There were also some high-profile teams that did not live up with the expectations, which meant it's our expectations or everybody else's since they left our inventory a little out of whack to where would have liked it to be. In terms of the rest of the dynamics of the NFL, we're not going to comment on any of that.

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It is what it is. And so right now, we're in wait-and-see mode. But as I said, we gave up a lot last year and we're not -- in our budgeting, not expecting to get a ton of that back this year.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP of Finance & CFO*

So Steve, in the second quarter, we picked up about $21 million worth of sales, from that came out of Q3 and moved into Q2. That Q3 has less sales as a result, not quite to that level because the week that ends up shifting in is a stronger week for Q3. So we don't quite give up $21 million, it's under $20 million that we give up in the third quarter. And then I'll just remind you in the fourth quarter, we give up in the neighborhood of $45-or-so million worth of sales, and these are all based on numbers from last year that if we just shifted to calendar last year what the impact have been. The important think about the fourth quarter is that we got 1 less week of sales. For us, last year, that was a week of dilutive sales. We thought that the dilution to EPS was in the neighborhood of $0.05 because of the really weak week in February that we picked up, that really wasn't a positive contributor. So that's the general cadence of how we see sales unfolding based on last year's numbers.

Operator

And our next question will come from Christian Yonkoski with Piper Jaffray.

Christian Michael Yonkoski - *Piper Jaffray Companies, Research Division - Research Analyst*

This is Christian on for Erinn this morning. We know you guys mentioned some factors in the U.K. driving weakness in the overall environment. We were wondering if you can maybe parse out those factors and speak to how the domestic consumer looks in the U.K. versus tourist?

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes. So, this is Bob, I'll start with some macro stuff and then let, again, Mimi get a little more specific. What's going on in the U.K. is just a little funky at the moment. If you look at their overall GDP, the growth has been slow. It's 1.2, 1.3, not expected to improve a lot this year. And yet, on top of that, you've got consumer confidence that's running pretty high. And so spending at retail sales in the Q2 was running at around 3%. But if you look underneath that number, a lot of the spending in the U.K. is focused on basics, and the apparel and footwear category is actually not doing well, and the High Street metrics that you can look at tell you that the High Street is struggling despite that dynamic. So it's really kind of a mixed picture. If you go specifically into the summer what was going on, you had the World Cup which were the English team went pretty far and that's a distraction. And then really above-average temperatures. It was such a incredibly unusual summer in the U.K. that everyone believes that, that depressed shopping and so that sort of a short-term factor that went into it. Obviously, the country is facing a very challenging situation with the Brexit and the issues that remain unresolved there. And so we're not thinking that, that's going to all get better quickly. And so that's driving our thinking about how to extend Schuh's trend forward.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP of Finance & CFO*

Yes. And I think that, that based on that, we looked at Schuh and looked at the performance of Schuh, we delivered a performance that was at the low end of our comp range for the second quarter. And as a result, we look to the back part of the year and against positive comps for Schuh last year, we thought that there would be some headwinds and that it would be prudent to take Schuh's comps to a more negative level for this year. Now the one area of opportunity I would highlight is really again boots. In the fourth quarter last year, the boot season for Schuh was not a very strong one. The softness in footwear and apparel started in the fourth quarter. And therefore, we had to -- our sell-through was not at the level that we would have like to see and we ended up clearing a lot of product at the end of the fourth quarter. So even in spite of that, given the challenges that we've seen in footwear, we continue to be conservative. But if there's going to be upside, it's really going to be in boot and it's going to be dependent on the winter weather.

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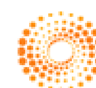

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Operator

And that concludes our question-and-answer session. I'd now like to turn the call back to Bob Dennis for any additional closing remarks.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Well, thank you all for joining us, and we look forward to having another chat with you in 3 months. Thank you all.

Operator

And that does conclude our call for today. Thank you for your participation. You may now disconnect.

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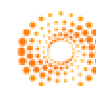

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