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GCO - Q1 2020 Genesco Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco First Quarter Fiscal 2020 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 the company's SEC filings, including the most recent 10-K filing for some of the factors that could cause differences from the expectations reflected in the forward-looking statements made during the call today. 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 will now turn the call over to Mr. Rob 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 Operating and Financial Officer, Mimi Vaughn. Let me take a moment to highlight developments with respect to our senior leadership team. On May 1, Mimi Vaughn, our CFO, was appointed to the additional position of Chief Operating Officer. As you know, we are in the process of hiring a new CFO from the outside, and we are in the closing stages of that process. Until that role is filled, Mimi will hold the dual titles. And the reality is that Mimi has already been bridging both roles as she has been working closely with our various operators on key initiatives such as cost control, real estate management and performance improvement plans. This move formally recognizes her efforts and strengthens the management team as we move forward with a footwear focused strategy. So congratulations, Mimi.

Now following the sale of Lids in early February, fiscal '20 is off to a good start with improved results in every business with Journeys leading the way. And our first quarter, consolidated comparable sales increased 5%, our eighth consecutive quarter of positive consolidated comparable sales for our footwear businesses. Importantly, our overall brick-and-mortar performance remain firmly in positive territory and e-commerce sales accelerated from recent levels continuing its strong multiyear run.

Our overall comp result was fueled by another spectacular quarter at Journeys' as the momentum from the strong Back-to-School and holiday seasons carried into the new year. Schuh's comps showed improvement turning positive in Q1 helped by easier comparisons and increased promotional activity aimed at trying to stimulate demand in what remains a challenging U.K. footwear and apparel market. After a record-setting year, Johnston & Murphy comps were flat as sales for spring merchandise were slow to take off with generally cooler temperatures across much of the U.S. The combination of strong consolidated comps, higher gross margins and the benefits from numerous cost savings initiatives implemented throughout fiscal '19 resulted in first quarter adjusted EPS of $0.33, which was well ahead of our expectations and up meaningfully from last year's $0.14. In general, first quarter results are impacted by tax refunds and with the changes from tax reform and the new withholding tables there was a good amount of uncertainty about the total refunds that would be issued this year. And so we were intentionally conservative in our guidance for the Journeys' business in particular because this business is significantly impacted by refunds. Lower refunds would have certainly translated into lower sales for Journeys', and there were early delays to the government shutdown, but when all was said and done, refunds were at a sufficient level in the first quarter to for Journeys' robust comp resulting in a beat to our expectations.

Continuing with Journeys, the strength of the product assortment drove another quarter of tremendous results. This was achieved across multiple categories, in areas where cold weather persisted into Spring, demand for boots was strong. The same was true for sandals in warmer regions while sale of the latest sought-after retro and casual athletic styles from a diverse mix of brands were robust throughout much of the country. Both store and e-commerce comps were nicely positive, which led to a 7% increase on top of last year's 6% gain and a significant improvement in year-over-year profitability. And great expense control, along with strong sales, allowed for expense leverage across multiple line items, including rent, selling salaries and marketing spend.

Results from our new workforce management system rolled out this year are especially worth calling out. Journeys increased its pay per hour, reduced hours and spent almost $1 million more in store labor, leveraged this expense by achieving higher conversion and better labor productivity by putting hours in the right spots in the workweek. On the other side of the Atlantic, the operating environment remains much more challenging. The prolonged uncertainty around Brexit continues to depress consumer sentiment, which has caused customers to reduce purchases of apparel and footwear and instead focus their spending on basics and must-have items. The net effect is consumer price sensitivity and a bargain-hunting attitude towards anything beyond those must-have items. Against this backdrop, Schuh posted a 2% comp gain, its first positive comp in several quarters. On top of lapping last year's mid-teens decline, the introduction of a mid-season spring sale gave this performance an added boost. While a portion of our top line result came at the cost of gross margin, rigorous expense management helped from foreign exchange and property tax concessions allowed Schuh to beat last year's bottom line. Clearly, there is still much work ahead to improve the profitability of this business after last year's disappointing results.

As we outlined on our last call, we have implemented an aggressive 20-point program taking action to address immediate near-term profitability while executing more medium-term initiatives to enhance Schuh's positioning with the consumer and with the brands itself. Mimi will provide an update on this program later in the call. Meanwhile Johnston & Murphy posted a platform comp on top of last year's high single-digit gain. J&M is now recognized as a casual lifestyle brand and has driven its success with a compelling offering of footwear and apparel for men and woman. Following a solid start to the year, sales trends slowed midway through the quarter due to the later Easter before picking up back in April. A shift in timing of a catalog drop out of the first quarter and into the second also affected results. Overall, sales were softer than expected as unseasonable weather in much of the U.S. stifled demand for spring merchandise. Even with a flat comp, profitability was up nicely thanks to improved gross margins and good expense control. Finally, Licensed Brands delivered a better bottom line performance on lower sales in Q1 as the business benefited from fewer markdowns and less closeouts this year.

It's worth noting we generated over $200 million of operating cash flow last year, and we added significantly to that cash position with the sale of the Lids business. Consistent with our practice of not sitting on cash, we've been actively buying back stock and returning capital to shareholders. Across 2 repurchase authorizations implemented in recent months, we began buybacks in December, and as of last Friday, have repurchased over 3 million shares for a total of approximately $150 million, which represents a 17% reduction to average shares outstanding last year.

We are very pleased with our start to the year. In addition to the strong Q1 results, we sold the Lids business allowing us to turn our attention to being a footwear-focused company, both operating footwear retail businesses and owning our Licensing Brands. Based on our better-than-expected Q1 performance, coupled with the repurchase of more shares than originally planned, we now view the higher end of our initial EPS range of $3.35 to $3.75 as our likely outcome for the year compared with our previous deal of something close to the middle.

Overall comps continue to be positive in May and have strengthen through the course of the month. Journeys once again is leading the way, even with meaningfully higher stacked comparisons for the last couple of years in Q2. Comps for J&M and Schuh are more lackluster than we would like them to be in this low-volume month that begins this second quarter. The year-to-date performances of these 2 businesses, plus the potential for more stranded cost this year related to selling Lids, makes us now a little more conservative about the outlook for the remainder of the year. We are also mindful of the looming possibility of tariff increases on additional Chinese imports and no visibility into the resolution of Brexit in the U.K. anytime soon.

For these reasons, we decided to hold our current range versus increasing it, despite our favorable beginning to fiscal '20.

Before Mimi goes over financials and guidance in greater detail, I'd like to share our thoughts on the potential for tariff increases if footwear imported from China is in the proposed fourth tranche aimed at the balance of Chinese imports and how this would directly and indirectly impact our business.

In terms of direct exposure, we've developed and directly sourced merchandise for Johnson & Murphy and License Brands, which together accounted for a little less than 20% of total sales in fiscal '19. Of those goods, approximately 50% come from China with a heavier waiting to Licensed Brands. Therefore, our direct sourcing from China is only for merchandise representing less than 10% of total sales.

The balance of our merchandise is imported by our third-party vendors. With respect to the Journeys business, which accounted for 65% of total sales last year, we estimate that approximately 30% to 40% of the product we buy from third-party vendors is sourced from China. The remainder of our business, which is based in the U.K. and the Republic of Ireland, would not be affected. So in total, only about 1/3 of our merchandise potentially would be affected in some way by these tariffs.

So with this next round of proposed tariff schedules for a public hearing in mid-June followed by a public comment period, this is an evolving situation. It is important to know, however, we have not incorporated the impact of increased tariffs into our guidance for fiscal '20. While we are hopeful for a successful resolution of these trade negotiations with China, in the event tariffs are implemented with the respect to our direct sourcing, we would work with our supply chains and look to exercise a variety of options to mitigate the effect. These options include moving production out of China and into other countries, working with our vendors, agents and factories to observe a portion of these additional tariffs, and looking for further efficiencies in the supply chain. We would expect our third-party vendors to undertake similar actions. And obviously currency movements could further mitigate the impact. So with all the moving parts and pieces, it's too early to quantify the full impact, which under any circumstances won't be a factor until the back part of the year. And in the meantime, we are pulling forward for all products for earlier receipt and expediting delivery in advance of tariff rulings wherever we are able. And so with that, let me turn the call over to Mimi to give more specifics on the financial and our guidance.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & CFO*

Thanks, Bob. Good morning, everyone. I've got a couple of things to call out first. We posted more information in a brief presentation summarizing results and guidance you can access online at our website. We've combined the content of our CFO commentary into these materials and our press release making them more accessible and are no longer publishing a CFO commentary.

In addition, part of the 8-K we filed this morning contains non-GAAP fiscal '19 results by quarter for last year, restated to reflect the sale of Lids Sports Group. You can find this on our website as well. As a reminder, since we completed the sale on the last day of the fiscal year, GAAP required that we include Lids' results in discontinued operations and that we restate our historical financials as if we never owned the business. This restatement process involves taking certain expenses that were previously shared with and allocated to Lids and respreading them across our remaining divisions. It also involves, including on both a historical and future basis, the cost of the Lids headquarters building, which we still own even though there are no operations associated with it. We plan to eventually sell the building, but in the meanwhile, we absorb its costs. The net effect of all this for fiscal '19 operating income is lower by about 20 basis points for most divisions, and corporate bears the cost of the building. Overall, this reduces profitability for the remaining operations versus prior to the restatement.

Nevertheless, Lids has both a higher gross margin and a higher SG&A expense business than average. Without it, gross margins are lower, SG&A expense is lower and operating margins are higher on a percentage basis for continuing operations. We published restated GAAP numbers at the end of the fiscal year, but thought it would be helpful to give the information for the non-GAAP results by quarter for last year as well.

So as Bob said, we were very pleased with our first quarter performance. Results at every one of our business were improved year-over-year with Journeys driving the largest increase in operating profit. Adjusted EPS grew considerably to $0.33 from $0.14, propelled strong comps, better gross margins and higher SG&A leverage from ongoing cost savings initiative, even as we incurred a meaningful amount of additional bonus expense.

All 3 of these factors contributed to the beat versus expectations. Q1 consolidated revenue was up 2% to $496 million. Excluding the effect of lower exchange rates, revenue was up 3%. Consolidated comps were up 5%, with store comps up 4% and direct comps up 15%.

Positive comps were offset to some extent by lower wholesale sales and closed stores. Direct as a percent of total retail sales was 11% in Q1, up 90 basis points, demonstrating the good progress we continue to make driving e-commerce.

Importantly, we are driving profitable growth. We could grow e-com even more rapidly with higher marketing expense but choose instead to keep an emphasis on profit. Journeys posted a noteworthy comp increase of 7% on top of the 6% gain last year marking the eighth consecutive quarter as increases and including strong double-digit e-commerce growth. Highlights of Q1 school performance included high single-digit increases in conversion, which increased unit sales and drove the higher comp in spite of less store traffic. Growth was nicely diversified across boots, branded and fashion sandals and athletic footwear. With flat traffic, higher conversion also drove Schuh's store comp and offset lower ASPs. Robust double-digit e-commerce comps were a real bright spot and contributed to an overall Q1 comp increase of positive 2% versus the negative 13% a year ago, a nice turnaround after last year's successive negative quarterly results. Schuh ran a first-time, mid-season sale in April and the lead up to the Easter holiday to be competitive with the promotional posture of other retailers in the market. This sale effectively stimulated purchases and contributed positively even with the give up in gross margin.

Consumers brand choices continue to be polarized with strong preferences only for certain athletic, retro athletic and casual brands. Better in-store conversion for J&M was not enough to offset a lower transaction size and less traffic, which was caused in part by a later catalog drop that moved some sales into the second quarter. J&M's digital channel posted positive gains for an overall flat J&M comp versus the 7% gain last year.

Sales in general were challenged as colder weather impeded the sales of spring merchandise. Nevertheless, casual footwear, particularly hybrid shoes with athletic inspired bottoms, continues to be an outstanding performer in the assortment.

Q1 consolidated gross margin increased 40 basis points to 49.4%. Journeys' gross margin increased 20 basis points due to lower markdowns. Gross margin was down 70 basis points at Schuh as a result of the promotional activity. At J&M, gross margin was up 10 basis points due largely to a higher mix of retail business. And finally, more direct-to-consumer shipments, fewer markdowns and less closed-out product drove the Licensed Brands' gross margin improvement of 390 basis points.

Total adjusted SG&A expense decreased 30 basis points to 47.7% with strong leverage from rent, and contributions from selling salaries and several other items. In addition, we had a small pickup from the transition services income and rent from Lids that we are using to fund the cost of providing those services. Offsetting this leverage is higher bonus expense given the strong performance in the quarter. Without higher bonuses expense dollars would've been down thanks to cost savings actions.

As a reminder, at the beginning of fiscal '19, we launched a profit enhancement program to reduce annual expenses in which we successfully identified savings that exceeded our targeted goal. These savings totaled $32 million, not including Lids. We know we must reduce the store cost structure and improve efficiency in e-commerce to combat profit dilution from operating 2 channels and driving traffic to stores. Top areas of savings included rent, renegotiation of our freight carrier contracts, DC expenses and targeted headcount reductions. We continue to have in partnership with our landlords very good success with renewals and rent reductions. We have negotiated 64 renewals year-to-date and achieved a 10% reduction in cash rent or a 5% on a straight-line basis. This was on top of a 15% cash rent reduction or 8% on a straight-line basis for almost 170 renewals last year. An important aspect of these renewals is the shorter term, which allows us to think about rent increasingly as more variables than fixed and gives flexibility in our cost structure.

We've continued targeted profit enhancement program activities into this fiscal year, and added to them an effort to eliminate shared and standard costs as a result of the Lids' divestiture. In total, we allocated our share at somewhere between $12 million and $15 million of expense with Lids, primarily in areas like finance, IT, HR and the call center. We haven't placed a focused initiative to reduce these costs as well as unallocated corporate expenses as possible, given our now smaller revenue base.

So in summary, Q1's adjusted operating income was $8.4 million versus $4.8 million a year ago. Adjusted operating margin increased 70 basis points to 1.7%. (inaudible) dollars increase for every division offset somewhat by higher bonus accruals at corporate.

Turning now to the balance sheet, inventory is in very good shape. Q1 total inventory was down 4% on a quarterly sales increase of 2%. Journeys' inventory was down 2% on a sales increase of 6%. J&M's inventory was up 2% on a sales decrease of 1%, and Schuh's inventory was down 8% on a sales increase of 3% on a constant currency basis as Schuh's successfully managed down inventory to be better positioned in a tough U.K. environment. Capital expenditures were $7 million and depreciation and amortization was $13 million.

As Bob pointed out, we've been aggressively returning capital to shareholders. We exhausted $125 million repurchase authorization and our Board approved an additional $100 million authorization in Q1.

As of last Friday, May 24, we had repurchased 535,000 shares under the new authorization for approximately $24 million at an average cost per share of $44.33. Altogether, we have repurchased 3.3 million shares since December for $149 million at an average cost of $45.17 per share. We have $76 million remaining under this new $100 million authorization. We ended the quarter with $157 million in cash and no U.S. borrowing versus $22 million a year ago.

So touching now on Schuh's 20-point, we've implemented an aggressive set of actions aimed at immediately addressing near-term profitability. At the same time, we're executing initiatives to enhance Schuh's standing with the consumer and the brands itself to better position Schuh over the more medium term. The Schuh team, with a great sense of urgency, is making solid headway on both fronts, and I will highlight selected progress.

The most critical goal is reversing the negative comp trend that began 4 quarters ago. To that end, Schuh is adding new categories like socks and apparel to fuel add-on sales, investing in its made-to-order business to strengthen this product offering, testing new selling techniques and incentives to drive in-store conversion, rolling out targeted promotional activity like its recent mid-season spring event, and rapidly replenishing its database of contact information that shrunk due to the new U.K. data privacy requirements. Notably, we just anniversaried the GDPR implementation date and have been replenishing lost names by collecting customer information in stores and online in a newly compliant way that grows the database each month. We're attacking Schuh's cost structure by doubling down on rent reduction and store rationalization efforts and continuing with the cost reduction efforts that successfully identified over $3.5 million of savings in fiscal '19. In addition, we've decided to exit the German market where we had 3 stores to focus attention on our 4 operations in the U.K. and Ireland.

Speed initiatives to improve Schuh's positioning with its consumer and its key brands include a focused effort to strengthen connections with its youth consumer through more effective digital campaigns and brand awareness programs. The call to arms campaigns launched in London and Manchester this spring is just one example of these efforts. The first new store prototype designed to enhance the in-store shopping experience and to better showcase Schuh's compelling branded product offering opened in Livingston last month, followed by Bristol this month with Manchester next. Along the same line, we're working hard to strengthen relationships with existing brands, leveraging both local and more global relationships with Journeys' to gain broader access to popular styles and more exclusive product offerings.

Finally, work is well underway on a new CRM system so we can better understand the different ways customers interact with Schuh in both the digital and physical worlds. With multiple actions on multiple fronts, we believe we are working on the right set of actions and efforts to turn shoes' business around.

Moving on now to guidance for fiscal '20. With our better-than-expected Q1 performance coupled with the repurchase of more shares than originally planned, we now view the higher end of our initial EPS range of $3.35 to $3.75 as the likely outcome for the year compared with our previous view of something closer to the middle. We had from the beginning been conservative in our comp guidance for the year's remaining quarters due to more difficult stacked comparisons, for Journeys', especially. The prospect of tariff increases on imported Chinese footwear and even more turmoil associated with Brexit in the U.K. makes us more cautious about the remainder of the year, although, we have not built in anything explicitly relating to further disruption from either of these factors. We are, however, projecting somewhat more conservative comps for J&M and Schuh given their performance to date.

Another change to guidance is the potential for more stranded costs and this transition year after the Lids sale. We're presently operating under a transition services agreement with the buyer and Lids has been unplugging from shared services and systems faster than expected. As a result, while we have a thorough plan to eliminate stranded costs, we have more potential exposure for this year due to this timing.

In the high end of our guidance range, we eliminate more costs, in the lower end, less. This guidance also does not anticipate repurchases of shares beyond the buybacks we have already completed. For the year we now expect consolidated sales will range from down 1.2% to up 1% with consolidated commerce, including direct, ranging from up 1% to up 2%. Store comps underlying guidance still range from roughly flat to up 1%, and we still plan to open around 30 new stores, mostly Journeys and Journeys Kidz. We plan to close around 40 stores for square-footage decrease for the third year in a row. However, we will keep a store open with short-lease term if the rent deal is right, so this number may change. We still expect gross margin to be up 10 to 20 basis points in total with the improvement coming from the Branded business, namely J&M and Licensed Brands. But with the low store comp and potential for more stranded costs, we now expect and will delever in the 40 to 60 basis point range. This all results in an operating margin percent within a few tenths of last year's level, an EPS that ranges from up low single digits to up in the mid-teens due largely to the impact of share buybacks.

We estimate the fiscal '20 tax rate at 27%. An important callout for modeling is that with the revised comps, unless we hit the top end of the guidance comp range, EPS for Q2 is likely to be negative since it is easy to deleverage and tough to earn money in this quarter with low top line volume. As you can see from the restated quarterly fiscal '19 non-GAAP numbers we filed today, while both Q1 and Q2 are low-volume, Q2 was the quarter in which we earned the least profit.

Capital expenditures will be around $45 million as we plan to spend a few more dollars on digital and omnichannel investments while still investing to reflect -- refresh our store fleet. We estimate depreciation and amortization as $52 million. Lastly, we are assuming an average of approximately 16.9 million shares outstanding assuming no stock buybacks beyond what we have made to date, but we can use repurchase availability opportunistically going forward. Now I'll turn the call back to Bob to elaborate on our footwear-focused strategy.

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

Thanks, Mimi. The in-depth strategic review we undertook over the course of last year after the decision to sell Lids reaffirmed just how much benefit we get across the collection of footwear businesses in our portfolio in a similar way to other successful portfolio retail and branded companies. Our strong strategic positioning, close connection with our customers and enduring leadership positions are what make each of our footwear businesses distinctive on their own. And then what they share as sources of synergies makes them stronger and better together than they are apart. There are 7 areas of major synergy I'd like to highlight and share a few examples of where these synergies have benefited us in the past and also allow us to build platforms that can give benefit in the future to new parts of the portfolio.

The first one is product and vendor synergies. Since Journeys' new Schuh enjoys significant overlap in their vendor base, their combined scales allows for stronger brand relationships underscored by activities like top global summits held jointly to set product and marketing direction. This dynamic provides benefits and negotiating product cost and purchase terms as well as access to hot and unique merchandise such as special product makeups carried only in Journeys and Schuh. This product overlap also extends to the Little Burgundy business we acquired in Canada a few years ago.

Second, strategic initiatives. Journeys' and Schuh have also benefited from exchanging ideas and sharing strategic initiatives, and so for example, this sharing led the kid towers and Schuh stores in the development of standalone Schuh Kids locations, a very productive part of the Schuh portfolio, borrowing from Journeys' know-how and success in kids footwear.

Third, wholesale trade relationships. We use the excellent relationships and reputation we have across multiple tiers of retail distribution to open up accounts for new opportunity. So for example, our developing Trask brand is sold at Nordstrom and Dillard's today, helped by access through strong Johnston & Murphy wholesale buyer relationships. Genesco's strong financial backing and our footwear brand's well-established reputation for product quality, dependable delivery and integrity carry over to new brands in our portfolio. This helps not only with retail distribution but also in getting the right factories to be willing to make product for us, even at low volumes.

Fourth, footwear sourcing platforms. This is a very common synergy among many portfolio companies and is true for us as well. And so for example, one of the top sellers in J&M's factory stores today is a huge source by Licensed Brands, which has greater capability to hit more moderate price points. This footwear sourcing platform could provide even greater benefit with more size and scale as we consider new branded footwear additions to our portfolio in the future.

Fifth, operational best practices. Following its acquisitions, we saw the effectiveness of using traffic counting data in the Schuh business, which helped inform the return on investment potential for investing in these capabilities elsewhere. And so today, traffic counting is a key ingredient in driving conversion and managing stacking levels in every one of our retail businesses.

Sixth, North American shared services. And we have a shared services platform across our North American operations that encompasses logistics, human resources, IT, legal, financial services and one benefit among many we could highlight is the shared North American FedEx contract, in which we leverage volume across all our companies.

And then seventh and lastly, technology platforms and investments. This is an important area of synergy to highlight in a little more detail, particularly in an omnichannel world where ongoing investment is necessary to be competitive and small businesses can't afford what is required. We have said before, Journeys' and Johnston & Murphy share most of their retail systems and services, providing a great amount of cost and capability synergies. And likewise, the wholesale infrastructures of the Johnston & Murphy group and the License Brands group are integrated as well. So as an example, we're in the midst of implementing new bespoke retail point-of-sale software in Journeys', J&M and Little Burgundy stores. While there are multiple benefits to this upgrade, one of the biggest difference is between this touch screen system and our current version is the simple fact that it is much easier to use. This allows us to bring new store associates up to speed more quickly and give them improved tools for executing important tasks faster and more efficiently such as checking out, searching for inventory, dispatching product and processing returns. We also have better visibility into customer purchase history through nationwide customer lookup for all stores. The new system will be important to further build out our omnichannel capabilities and enhance the customer experience by offering critical services such as buy online, pickup in store and mobile check out. It is also a foundational system in our customer relationship management efforts.

So looking ahead, our focus is on further unlocking the full potential of our businesses and utilizing this rich set of synergies and platforms we have for future growth. We have deep direct-to-consumer expertise leading to success across both branded and retail formats that can add value to new parts of the portfolio in the future.

Finally, I'd like to close with a big thanks to all our teams for their massive efforts to get the year off to a fantastic start. We have well-positioned businesses that are undisputed leaders in their categories, and we have great people behind them working to maximize their potential. I'd like to once again salute the talent and hard work of our capable and dedicated people across all our companies. And with that said, operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Mitch Kummetz of Pivotal Research.

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

I guess I've got a few. One, on the -- on Q1, could you give us the comp by month? I don't know if you made that available.

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

We do not make it available, Mitch, but it was a tough February, and then you will have to add together March and April because of the April offset and add it together. That performed, obviously, well.

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Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & CFO*

Yes. Basically, what happened is that Bob talked about the delay in tax refunds, so that shifted some sales out of February into March is offset the fact that Easter moved out of March and then sales and then strengthened in April. So through the course of the 3 months, sales got progressively stronger.

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

That's a good lead into my second was because Bob, it sounds like in you're prepared remarks you talked about Journeys' and there was some caution on the comp guide for Q1 around tax refunds, and it sounds like those didn't come in as bad as you had feared. And I'm just wondering, how much of the beat relative to your plan on Journeys' was that there was less tax refund impact versus other things? And then if you could maybe kind of address some of those other things in terms of exceeding your guidance on Journeys?

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

Well, now -- so the uncertainty on tax refunds, Mitch, was on 2 things. It was timing and then total level. And the total level of tax refunds that came out was actually a little lower than previous year. So the Journeys' performance was driven by a lot more than just sort of the fuel that came from tax. We were just being cautioned because we didn't know if the tax gap was going to be small or medium or bigger, it was very hard to figure that out. So it ends up that tax ended up probably in the neighborhood of where we had expected it to be. So the real upside performance came from all the other things that drive the business, just great merchandising and great performance in our stores and online.

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

Go it. And a little confused on your views, your updated views on Johnston & Murphy because it sounds like some of the Q1 miss might have been due to the late catalog drop that kind of shifted from Q1 to Q2. Seems like that would benefit Q2, but you've taken your Q2 guide down. It sounds like some of that -- it sounds like the view then is due to maybe just the trends outside of that catalog, particularly, on the seasonal side, but I don't see how that might impact the back half. So I'm just -- could you just provide a little bit more color around that?

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

Well, in general, they came off a very, very good year and that's when they had strong comps, and we saw a flat comp in the first quarter and maybe part of that is weather. But the other thing we know about Johnston & Murphy, historically, not every time but often they get challenged a little bit when the stock market, the financial markets and everything get a little disrupted. And that hasn't happened every time, but historically, it more often than not has been a problem. So you point to that and you see what's going on in the marketplace and you get a little cautioned. Mimi, you want to add along to that?

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & CFO*

No. I think that it's just a slight amount of additional caution, Mitch. We took comps down by 1%, part of what we noted in the first quarter is that traffic was down considerably and our -- what we know from other retail concepts is that mall traffic was down in the first quarter, we were able to make that up by very strong conversion increases in Journeys, in particular, and conversion increases elsewhere, but it's really the traffic that has caused us to be somewhat more cautious about J&M going forward.

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

And that's worth -- just plan it with -- a little more, to give you a perspective. We've been looking at the general shopper traffic data, and it's a peculiar pattern right now, which we don't completely understand because for several years, as you well know, total traffic into the apparel and accessories category declined until we got to the last year, fiscal '19, and all of a sudden it leveled out year-over-year. And so we finally got the benefit of traffic not being the headwind in the mall in general that it had been. It obviously varies a lot within our businesses from business to business, but there was a general trend. And what's concerning us now is in fiscal '20, it has gotten back into that decline more again, which kind of surprised us because we were hoping, obviously, that may be the overall trend of traffic had found its bottom. And so as Mimi noted, the traffic patterns are changing again, and we're seeing it in Johnston & Murphy, we're seeing it a little less in Journeys, but even Journeys is more benefiting and conversion than they are on traffic right now in terms of driving their comps.

Operator

On next question comes from Laurent Vasilescu of Macquarie.

Laurent Andre Vasilescu - *Macquarie Research - Consumer Analyst*

I wanted to follow up on the Journeys commentary. Obviously, 1Q, you've guided flattish and then delivered an impressive 7%. And you did talk about the cadence. Maybe you can talk a little bit more about 2Q guidance up 1% or 2%. Are you seeing a drop off in traffic? Just -- I know you talked about leveling off, but have you seen a drop off in traffic right now at Journeys? Or is there a drop off in particular category at Journeys' right now?

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

Well, we're not going to comment really on -- I mean you can comment on traffic related to categories, people come into the store so. So traffic has been, as I just said, a little more of an issue than we had expected, and obviously, we're doing very well with conversion. In Journeys, again, as we look forward, we see stack comps, which were very strong, and so that causes us to be cautious. Overall, in May, as we disclosed, we had a positive result from a comp standpoint in May, and it got progressively better over the course of the month. So I think it's really just looking at the compares.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & CFO*

Now I would just echo that. And I think our conservatism in the first quarter was, as Bob said, largely related to tax refunds and uncertainty there. But our conservatism for the balance of the year is related to 2 years stacked comp. And so our 2-year stack just because Journeys' has had a really terrific run the past couple of years, so our 2 years stacks are plus 11, plus 13 and plus 18. And so we think it's prudent to be conservative going forward, it's not that we are seeing anything in our product trends, product trends were strong across boots, cross casual footwear, including sandals, across athletic. And when that happens, there's a lot of opportunity to drive the business. And so it's not product specific. It's much more related to overall stark comparisons.

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

Last comment on that is, as we've said for years, Journeys' buying strategy is most often to buy a little north of that financial plan because they manage to find lots of flexibility and adjusting if necessary. So some upside to that comp guidance is possible.

Laurent Andre Vasilescu - *Macquarie Research - Consumer Analyst*

Okay. And then I want to follow up on the performer numbers. Thank you very much for them this morning. It really does help. I think you mentioned that 2Q EPS will likely be negative driven given by the -- just the conservatives around the comp guide. Should we assume that the gross margin is up in the second quarter? Or maybe how much -- how much stranded cost should we assume for the second quarter? And then I'd love to ask a follow-up on tariffs if I may.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & CFO*

Sure. So in terms of the second quarter, I said that unless we hit the high end of our comp guidance that Q2 EPS would likely be negative. So what we're saying is that, we'd be hovering around 0. And so depending where comps come out will either be north of flat or south of flat. Secondly, we do expect some EPS -- sorry, some gross margin benefit, really, in each of the subsequent quarters for the rest of the year. We had a nice pickup in the first quarter. It won't be as strong as the first quarter, but we expect a little bit of a boost in each of the subsequent quarters. And then finally, on stranded cost, that really becomes more of an issue for the back half of the year. And so the way to think about that is that we've had costs that we have been sharing with Lids. We've continued to carry those costs in order to provide services. But if Lids unplugs from the services sooner than we expected, it may take us a little bit more time to be able to reduce those costs. And so that is a pressure for the back half of the year, not necessarily the second quarter.

Laurent Andre Vasilescu - *Macquarie Research - Consumer Analyst*

Okay, very helpful. And then lastly, on tariffs. I think you mentioned that 30% to 40% of Journey comes from China through the vendors. Assuming currencies remain the same, and if there is a 25% increase in tariffs, how much should be solved by the end consumer? Should we assume half of it? And then the retailers such as yourself, the vendors and the manufacturers in China who want to keep capacity, should we assume that the remaining half is spread -- burdened across the 3 players?

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

I don't think I quite understood what you meant by that.

Laurent Andre Vasilescu - *Macquarie Research - Consumer Analyst*

So if there is a increase in tariffs by 25%, I'm just curious to know how much of it is felt across the ecosystem? Whether it's the end consumer, the retailer, the vendor and then the manufacturer who wants to keep in capacity in China?

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

I'm reluctant to generalize about that. It's going to be different by business. We're direct in some businesses. We're working third-party vendors and other situations. There is going to be currency movement presumably that is in play as part of this evolves. We were surprised when we pulled a number of our third-party vendors to see how much action they have already taken in terms of diverting production, U.S.-oriented production to other factories, now most of these are global brands. So they get a certain level of flexibility of saying, well, I'm going to take this country and ship the U.S., I'm going to use China to ship other countries but that aren't as challenged on tariffs. So there are just way too many moving parts for us to make it worth speculating on how much of of a split it's going to be between consumer and the supply chain, and we don't even know what the percentage will be when and if this all comes about.

Operator

Our next question comes from Jonathan Komp of Baird.

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

Maybe, Bob, just to start back on the discussion about traffic that the industry is seeing currently. I think there is a lot of struggle. Just trying to understand what are some of the unique factors, you mentioned the tax refund that -- oh, and weather and some of the delay in the seasonal pattern versus any kind of underlying shifts in the health of the consumer. And I'm just wondering, when you look across geographies or across your lines of businesses if there is any additional color that would fall in either of those camps that you could share with us?

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

Well, I can share a lot, Jonathan, but -- it's heavily speculative. So take it for what it's worth. The one data point that we have, which we already shared is the fact that broadly traffic to footwear and apparel stores has gone back into a bit of a decline on a percentage basis. The other thing that we've noticed is that the only -- the other fact I can throw at you is that if you look at tax returns by month, when we got to the end of the quarter, the end of April, the gap between how much tax got returned last year and how much got returned this year, forgot what the number was but it was X, there was left money that got out there. And then for reasons we have no idea of why, in May, that actually widened. And so I think by our estimate, I think the number was something like an additional $4 billion gap. So that's -- in a low-spending month, when you take $4 billion out of the pockets of the consumers year-over-year, that might help explain why there has been softeners for a lot of people in the space or at least a contributor to it. Beyond that, we see a lot of differences in that general traffic pattern between our stores and it usually is a matter of the assortment and how well positioned the business is. And so Journeys', obviously, is very well positioned right now with the assortment and then the conversion that we've been getting, which is the real measure of the assortment has been very good. So the consumer spend patterns are choppy right now. Consumer confidence has been reasonably strong. So it's a little hard to figure out what was going on in May overall. We just know that we continue to post some good results.

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

Okay. I guess the -- we'll continue to try to figure things out. Maybe a bigger picture question then just on the profitability, maybe more for Mimi. But I think this year you're guiding flattish revenue on slightly positive comps and flattish margin with the buyback driving the EPS. Just curious when you look at the ability to peel off those stranded costs, even now maybe be bonus, which is -- maybe is a multiyear tailwind at some point, maybe not. But just wondering -- kind of thinking out loudly the opportunity to get back to growing the underlying profitability of the business going forward if you can drive that slightly positive same-store sales?

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & CFO*

Yes. So John, I think that the real driver, particularly in the back part of the year is the flattish to slightly up store comp. I think we've talked to you before about the fact that we need store comps to be positive in order to just cover some of the increasing costs. So I think the conservatism is really around this transition year for Lids and being able to flush some of the incremental cost out of our system. We have made very good progress on our cost reduction efforts. We are able to leverage below the 2% positive store comp threshold. It's -- I would say, it's even creeping down to the 1% level because of the cost reductions that we have in place. So this year is the transition year. I think that the top line growth we've had coupled with the cost reduction efforts will allow us to grow the bottom line.

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

I try to summarize it with 4 things. You've got a bonus pattern. As you know, we're very -- our bonus structure is very, very much driven by performance. And so when we up bonus, that's leaving some potential for improvement in the following years if we don't repeat. But right now, it represents a little bit of a headwind to the total bottom line. We continue to drive rents, and so we're looking at a lot of cost items, but it is in aggregate a very big item for us and so we keep on hitting on that. The stranded cost issue is something we need to sort of get after this year, and it's a tricky thing because the timing of the Lids exit from the TSA effects of things. But the last thing I'll highlight, and this is just retail 101, to really drive profit improvement on the bottom line, we need comp sales. And so the guide right now on comp sales gives us sort of margin leverage, and if we can get back into that 3% to 4% comp range for a year then the flow-through is dramatic.

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

And -- just very helpful. And maybe just last one for me on the share repurchase. Just given -- I know you repurchased effectively 12% of the shares in the last few months, really. And I know part of that is use of the Lids' proceeds, but how should we think about the pace going forward relative to what it's been in the recent periods here?

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

So we buy opportunistically, as you know. We still have open an to buy so to speak on the authorization, but it will depend -- what we do going forward will depend on a lot of different things, including share price, what other opportunities we are seeing to deploy that cash productively for our shareholders. What we're not doing in any -- we're not committing to any rate of purchase and a go-forward basis.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & CFO*

Yes. As Bob said, we buy stock on an opportunistic basis, and we think there has been some good opportunity in the recent past to repurchase shares.

Operator

Our next question comes from Sam Poser of Susquehanna.

Samuel Marc Poser - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

I'm just wondering, with the money you're spending on the buybacks and (inaudible) buybacks if the opportunities come and the remaining authorization, what are other ways to spend the money, let's say, on enhancing the stores, especially? [So] what kind of money are you spending against Schuh right now and so on that -- to really give that business going? I think that's a follow-up to the other question to sort of just drive the EBIT margins and so on.

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

Well, Sam, we disclosed what the overall CapEx was for this year, and then we outlined some of the initiatives that we're taking on in Schuh, including a refit of stores to a significantly -- what we think is a significantly improved presentation to our customers and also a store fit out that accommodates what our brands would like to see, our brand partners. So that's rolling along what we do going forward at Schuh with respect to that, I'm using this is an example, depends upon how the customer reacts to the first 3 stores that we did. We've got a plan to make investments in each of our businesses. For example, at Johnston & Murphy, we think, we have some whitespace to actually open stores, which makes us a bit of an outlier in the industry. So our plan already has in it a lot of the investments we think are the prudent investments to make. So there aren't too many opportunities very near term within our existing businesses because we are funding them at the levels that we think are appropriate. So then beyond that, what you look at is potential for us to make acquisitions. And so in the prepared remarks, we outlined in pretty good detail, where we think the strength of the basis for an acquisition exists around the 7 categories of synergies. Beyond that, again, we need to be opportunistic for having the right business to fit and that timing in many ways is a little bit out of our hands. So that's a dependency of what we choose to do there. We're not going to exit from the discipline we've shown in the past of being good fiduciary stewards of the shareholder money. So if we do, do a deal, it's because we really believe we can create a lot of shareholder value off of it. So on that one, it's sort of a little bit of stay tuned, but we can't really predict where we're headed there. And then what we don't do is we don't sit on cash. And others will create sort of a hoard of -- a war chest, we're not a war chest company. And so what we're doing is, given that velocity, as our last alternative, we've been buying back.

Samuel Marc Poser - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

I just want to follow up on Schuh. You talked about the weakness because of a lot of the macro and I think mainly you mentioned the consumer really wants the key items. So I guess the question is that, you're making the new stores when I saw it online look very nice. But I guess the question is from a mix perspective, what are you doing to get some of those key items in your stores and so on there? I mean clearly, you have the key items here in the U.S. at Journeys', what is it? Or do you have access to those items that those consumers really want there for you in a separate category right now in general from where that consumer is?

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

Sam, you have seen the Schuh stores. We have accessed -- it's pretty much all the brands that we think matter for our target consumer. The work you need to do with your brand partners is always a negotiation to say where we're positioned in your matrix, and so that's an ongoing and never-ending conversation. We are trying to continue to make sure Schuh is a go-to place for consumers, and at the same time, a great brand at home for the key brands. And so we're working on that. To get into the detail of it, you have to go brand by brand, which for obvious reasons, we're not going to do here.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. I would like to hand the call back to Mr. Bob Dennis for any additional or closing remarks.

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

Well, I just -- we thank you all for joining us, and we look forward to having another conversation with you in 3 months. Have a great day.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.
