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<<Jonathan Komp, Analyst, Robert W. Baird & Co.>>

[Call Starts Abruptly] for the company as well. I missed it pretty tough backdrop for the retail landscape. So I’m going to turn it over to the two of you to start off and kick it off and I’ll lay down some questions after.

<<Unidentified Participant>>

Right. We might leave you time for questions. Couple of things, we released earnings on Friday and it was a good quarter for us. First of all, notably, about the quarter, a couple of things that to set the stage. First of all, this is our first quarter without having Lids. So we closed on the sale of the Lids business, essentially the last minute of our fiscal year, last year. And what Mimi and her team have done is, we were required to reclassify Lids is a discontinued operation, which creative restated years, but we also went back and scrubbed quarters and did restated quarters, so that for comparison purposes, you all have something to work with.

And the other thing I want to do is set the stage is just a note that Mimi, who has been the CFO of our business for quite some time now was promoted on May 1 to Chief Operating Officer. So right now, she is holding both titles, but we anticipate very shortly to be bringing in a new CFO, we’ve been public about the fact that we’re searching on the outside to fill that role. And we also said that we believe we’re very close to completing that process, but for the moment, maybe is doing double duty.

So the quarter was a nice one for us. We had a plus five comp. It was driven heavily by Journeys, which continues to have great momentum. As I’m sure, most of you know, Journeys is the premiere retailer of fashion footwear to primarily teenagers and we just got a great streak going with all of our brand partners in servicing that market. The business was a little tougher for our other two major retail brands, shoe in the UK is a little underwater given primarily environment that exists in the UK.

So for those of you that follow any companies with UK presence, know that the apparel and footwear market in particular has been given, has been difficult. And as we look forward on shoe, while I’m on that, we’re a bit cautious given the consist situation with Brexit and the resignation of the prime minister. And so that probably by most analysts reckoning it raises the possibility of a hard Brexit, which would probably be the most difficult scenario for the country. So we’re just being very cautious with our outlook.

And then Johnston & Murphy had a flat comp in the quarter after a really long run and part of that was opposite, some strong compares and also they were most exposed to some of the seasonal – seasonality with the weather that occurred in the north. They were truly set for spring and I did was make goods and then in addition to that, we also disclose on the call that they had a catalog drive. Catalog drives a lot of businesses in China and they have changed their calendar.

And so their most recent drops moved to sales out of the first quarter into the second quarter. From an earnings standpoint, we had really good flow. So we made$0.33 against $0.14 last year, $0.33 was well past our expectations. And so we are very pleased with that. Just a moment also on stock buyback, so we had a very good cash generation year, last year and obviously most of that comes in the fourth quarter for us. And so we had about $200 million of cash generation. That was a combination of good operating performance and we had finished a period of more aggressive CapEx expenditures both on things like cost supply chain and in omni-channel.

And so a lower cash next level also helped us out. So we ended up with a great cash position when you pile Lids on top of that. And we were very active in buying back our stocks since December. So the numbers that are – the round numbers are we bought roughly $3 million – 3 million shares of stock for $150 million, which reduces the stock pool by 17% against last year's average outstanding shares. So a pretty significant move and we still have $70 million remaining on the last authorization from our board.

We guided the year, we didn't change the guidance range, but we did indicate more confidence that we could get to the higher end of our range. It was $3.35 to $3.75. We had them pointing to the midpoint of that range. And so we are looking for a flow through from the first quarter, but we are pretty much sticking to the plan that we've had out there on the subsequent quarters. And we remain a little cautious for three reasons.

One is what I decided about shoe and challenges that are going on the UK right now. The second one is just quite simply the math on compares. So in the back half of the year, we're going against some tough – tougher comps. And then finally, on tariffs with the threat of tariffs on China, Mexico doesn't affect us, but on China that is something that has our attention.

We went back and so we have both direct sourcing, which was a minor part of our business about 20%, and 80% we source from vendors who then have exposures. So we went back in our direct business, it's about 50-50 between China and other countries of origin. And we have some ability to flex that, but we'll have to be working also with our factory and Asian partners to try and work that should tariffs kick in. And obviously look like everybody else will be aggressively looking at other countries of origin.

And the business where we buy from other goods, obviously the UK portion is not affected. So in the U.S. as we work with our brand partners, we surveyed them and there's not an exact science because they're moving stuff around as well, but we estimate somewhere in the range of 30% to 40% of what we buy from third-party vendors, which is primarily a Journeys is sourced from China, which was a lower number than we expected.

And we've gotten a sense from the vendors that they have been ahead of the curve on this. So there's anybody who has the supply chain flexibility has been looking to do more and more outside of China. The other thing that we've learned is for many of the biggest vendors that they obviously source in many countries, they've diversified their sourcing based on long time ago. And so to some extent, they'll have a flexibility of saying, well, I'll ship to U.S. from Vietnam and I'll ship Europe from China and sort of work the tariff issue where they have that level of flexibility.

So with all that said, which was an [indiscernible] (7:43) slightly good news in terms of the percentages, the exposure still exist. And so we're hopeful that we'll get to a trade resolution, but it isn't clear with President Trump exactly how he's going to play it.

So I'll just conclude and I'll ask Mimi for additional comments in a second, but I'll just conclude. We've gotten out eight quarters of positive comps. And we think eight quarters is a pretty good indicator of the strength of the business, because then you've eliminated all the tricky math, when you get a positive comp in the negative. So we have really strong two years stock comps and went back and looked at, who else in the mall based environment has eight quarters of positive content and it is a very short list. So Mimi and I were very proud of the teams that we've got in place and how well over the last two years they've been executing.

So with that, Mimi, you can add.

<<Mimi Vaughn, Chief Operating and Financial Officer>>

Not much to add to that overview, but we're just talk a little bit about the quarter today. Our forward look was very much based on the conservatism in our forward look was based on the fact that we have fairly difficult stat compares for the Journeys business in particular. But as may unfolded, we've seen the momentum pick up in each consecutive week of the month and during, this is actually going against some fairly difficult compare.

So we were pleased with the first quarter in the sense that it wasn't necessarily, it wasn't a additional stock repurchases that drove the beat to the bottom line. It was strong sales, it was better gross margins and it was the expense savings that we have implemented through the course of the year last year. So all of that added up to a nice formula for the first quarter and then has the most momentum has continued into the second quarter.

<<Jonathan Komp, Analyst, Robert W. Baird & Co.>>

Okay. Maybe that's a good starting point on the macro environment and understanding for what you just said about your own business in May. I think to a certain extent, contrast a little bit with what's in the industry. I mean May was a terrible month for retail stocks and the broad traffic indicators have stayed fairly weak. And I know we were just talking before about how hard it is to extrapolate anything from the month of May. But when you look across the landscape, you're bringing in some of your background from the industry. What do you make sense of kind of the state of your different consumers and the environment and some of the other traffic pressures that are out there beyond Journeys?

<<Unidentified Participant>>

Yes. So I think there's obviously issues, it's still a disrupted industry. And so what's important is that you have devised a strategy that reflects that disruption. And I think in our case and the case of several other real premier retailers, people have done that, building robust supply chain capabilities for fulfilling online orders in whatever way the customer wants it, whether that's ship from store, all of our inventory and all of our stores is available to customers, you'll order something, you won't know where it's coming from. So that makes us very efficient in terms of the use of inventory that helps returns.

And so we've made those investments with positions as well. We're still concerned about the mall. We've been looking at the shopper traffic data both in our stores but then also broadly for the apparel and footwear category. And what was little alarming for to us this morning is that we went through about four straight years of traffic declines in the category of the mall, the mall has been in steady decline. So, but we got to last year, all of a sudden that leveled out. Again, apparel, footwear, the mall continued to track down a little bit.

So, but it gave you the sense that, maybe we have found the bottom, but for the first four or five months of this year, when you adjust for the Easter offset, it's gone a little negative again. So that's gotten our attention, fortunately, we're well positioned with our omni-channel capabilities. So we're serving the customer well, however they want to do it, but because our stores, as we recounted over and over our stores are a fixed cost machine.

It's important that we wait for economics to have reasonably good comps in the store, which – despite that traffic pattern more broadly we achieved. So we add a plus 4 comp in our stores in the first quarter, which was a very strong number for us. So we're getting the traffic, but we're looking at a broader pattern that's still has a sort of a flashing yellow light for us. The other thing I'd point to and it's really hard to quantify this, is, we continue to see what I call the attending of the herd.

So as other retailers are challenged, your findings the survivors that are going to just continue to see more opportunity to grow their share as the more challenged retailers are sort of slipping and in some cases going away. Anything you want to add to that?

<<Mimi Vaughn, Chief Operating and Financial Officer>>

Yes. I think that the point I would highlight is that we have been very successful at driving conversion and that was the key across all of the companies that we operate in this last quarter and really over the last eight quarters, because traffic isn't increasing. And so we are focused on making the most traffic, part of the decline in traffic is because consumers and customers are so much more educated when they come into your stores. The intent to buy is higher because they're educated and they've done their research and that prevents multiple trips to the mall to have to do the research. But we have implemented a lot of technology to help us in those efforts, we've also spent a lot of time training our sales people and really focusing on driving conversion. So we implemented traffic counting a number of years ago and what's really helpful about traffic counting and lots of folks think that what is good about traffic counting is that you can take away labor.

Well, our intent isn't to take away labor it's to move it into the right times of the day. So that when traffic is crossing your leased line you can have enough people on the floor to be able to convert. And those efforts were very successful. We built on top of that a workforce management system that we piloted across our Journey stores last year and found really great success in automating what was more manual scheduling, in really being rigorous about some of the offsets and figuring out when to add more store labor.

And so in this last quarter in particular, Journeys conversion increased in the high-single digits, which is a phenomenal amount of increase. And if you can convert customers who are walking across your lease line, we have a good flow of customers walking across the lease line that's been part of the big benefit we've seen. And we ought to have the benefits for the balance of the year as we rolled it into across our entire store fleet in the first part of the year.

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And maybe Jonathan, just to get on because you mentioned the current trends and we talked outside, I think the main numbers are head fake a little bit, I hope that's right. We disclosed, we go make the cycle, so we had pretty full visibility on our bay when we released every week in May got a little bit better. So, I think the market might have got a little spooked by the fact that the first movers in terms of releasing their results, we're looking at pretty tough numbers in the first two weeks, but at least in our experience it got better every month. And so we'll see where everybody eventually comes out there. And again, that goes to the smallest one out there. So don't put too much into it.

<<Jonathan Komp, Analyst, Robert W. Baird & Co.>>

Yes. And maybe sticking there with journeys as you look ahead, I think the other than conversion speaks to is the assortment strength and the degree of that products also maybe with the consumer. You just did a 7% comp for Journeys and you're projecting slightly positive going forward, so how do you balance conservatives versus realism now that you're coming up against a couple of good back-to-school, couple of good-boots season , how do you get confidence with the trend and what did you see?

<<Unidentified Participant>>

Well, so the financial plan is conservative as you noted. Journeys, the relationship they have with all the vendors in total is shaped such that they can be a little more aggressive with their buy plan. So we're able to set up a little bit of upside against the financial plan. And the reason is, if one or another brand is not performing as well, we usually get the flexibility to push out some receipts on non-seasonal stuff, some cancellations, we get some help, but our guys have proven that when – even when they make commitments north of what the financial plan and if comps come in with financial plan is, they're pretty within a reasonable range, they're able to adjust. And so that's how we play it, because we are very confident about the assortment.

<<Mimi Vaughn, Chief Operating and Financial Officer>>

Yes. And John, I think you're exactly right. That's the strength of the product assortment number one that has been driving Journeys strong comps in. It's just a profound understanding that our merchants have around our consumer and what our consumer wants and what they're interested in buying. And what was particularly encouraging for us was the strength across the assortment. So we sold full suite into the cycle, there was colder weather than normal. And those places were still cold, we had booths and that really drove our sales in places where it was warm.

Our sandal assortment which is a great bellwether for the season to come, sold through very nicely. We've got a diversified set of brands that we're selling across sandals and of course our core athletic products. So, some of that diversification and the fact that across every one of those categories we saw nice movement and nice strong sell-throughs that makes us encouraged for the back part, for the summer season, for the back-to-school season and then of course for the back part of the year because each of those categories represent sales in each of those seasons.

<<Jonathan Komp, Analyst, Robert W. Baird & Co.>>

Maybe, maybe zooming out a little bit from the organizational standpoint, got a strong first quarter, if anything, I would say probably not a lot of benefit from the more focused approach on footwear since you just gotten past the Lids transaction probably was a distraction of anything still, but as you look forward, what benefits do you see being more focused squarely on footwear and apparels business and how should we see about like there?

<<Unidentified Participant>>

So – and we went into this in pretty great detail on the calls. I'm not going to cover it all, but we see a lot of overlap between our footwear businesses more so than with the sports business. And so we were comfortable investing in the sports business, both because of that and then also because of the challenges in that industry category. As you know, – some of know we had an activist in our stock and so we formed a strategic committee in order to review our current portfolio of businesses and in that work, and we've done it every year, but we just went a layer deeper, really to address some of the concerns of the activist.

We came away ever more convinced that a portfolio approach in the footwear business makes a lot of sense. And we're not the only one out there doing it. And there are some good successes you can point to. In our world, I'll just give you some examples, Journeys and Schuh share 70% of their vendors and we’re able particularly on the strength of Journeys to bring a top approach and our relationship with those vendors, there is a special makeup line coming out from one of our major vendors. I think is still embargoed. So I can’t tell you what it is. But our arrangement with that vendor is that that we are going to have that exclusively available in Journeys and then in the UK, it’s going to be available to Schuh. Schuh never would have gotten that exclusive without the relationship with Journeys, it was just – this is as an example of the kind of things we can do.

On the systems front, Johnston & Murphy and Journeys share systems, retail systems across the board. There’s no way Johnston & Murphy is a $300 million brand, could afford to have the kinds of systems they have in the stores without sharing it with Journeys. And so they pay – we waited by sales and they pay 20% of the cost to get 100% of the benefit. In sourcing, which is always a very big for other portfolio companies and big part of it, as an example, our Licensed Brands Group, which is a more moderate priced with the line of shoes has been producing some product for Johnston & Murphy’s factory stores where we’re doing brand consistent, but more value-driven product.

And you can create that in the factories with home Licensed Brands, that’s the relationships. And so we just pass it off to them. And the list of things like that goes on and on. And so on the call, we outlined seven areas of what we think are major synergies that would apply both to the existing businesses that we own and also to potential additions to the portfolio that we might choose to make over time.

<<Mimi Vaughn, Chief Operating and Financial Officer>>

Yeah. And I would just like to highlight the strength of our direct-to-consumer platform. And I think that across all of our businesses, that’s what makes our Company’s grade is that we really know how to sell product to the consumer. And in this day and age, it takes just a lot more investment, a lot more investment in technology in order to accomplish that, to be a small brand and to try to go to direct-to-consumer is a fairly daunting task.

And so we’ve got that infrastructure that we have in place across our bricks and mortar channel, across our e-commerce platform that we can utilize to plug additional opportunities. And then I think that the one area of synergy that’s the least intuitive across our business is that shared platform between Journeys and Johnston & Murphy.

But the fact that we’ve got such a robust platform means that we can take a brand like Johnston & Murphy and deliver lots of value by going direct-to-consumers. So Johnston

& Murphy back in the day was a wholesale brand. The depth of our direct-to-consumer capabilities allowed us to really capitalize on opportunity that went well beyond the wholesale relationships.

<<Jonathan Komp, Analyst, Robert W. Baird & Co.>>

And maybe sticking on the omni-channel topic really a little different angle about the investment needed to keep up and really to thrive. How do you think about your ability to stay relevant in that channel while balancing the legacy fixed cost nature of your retail business and ultimately growing the bottom line throughout all of that?

<<Unidentified Participant>>

Well, John, I would argue with that, and say it's not despite having the fixed nature of retail stores. I think the retail stores give us an advantage in a lot of different ways. I mean one thing that just a given and every retailer calls us out is when you have a store in a marketplace, the sale online in those zip codes go up online. So just the marketing power of having stores is huge. The omni-channel, the idea of being able to buy online and pickup in store matters a lot to consumers. The idea that, if you look at a lot of online players, what are they – the pure play guys, where are they doing there? They're running to open stores, because all of these advantages are evident to them.

We're past the point where we think of our stores as being an economic burden. And the reason for that is over the last five, six, seven years, we have been shortening lease life. And the net effect of shortening lease life is to variabilize the rent costs and give you optionality on your stores. So most of the stores in our portfolio, we now have every two or three years and in some cases every year, we have the ability to go back and revisit that store and say, well, it's only staying open, if it's a positive contributor, net of all of its expenses including capital.

And so what has been happening as we reported, as we always are closing fewer stores than we thought we would close in a given year, because the landlord says, please don't go, what will it take? And so the old expression that crap flows downhill and at the bottom of the hill are the landlords and the B&C malls. Yeah guys. If you're listening again, I get it. You still have a lot of power. But for the B&C malls, we have just an incredible amount of leverage in order to keep our economics right sized. And at the same time be a great omni-channel player. And if you don't have that, I think you're disadvantaged.

<<Mimi Vaughn, Chief Operating and Financial Officer>>

Yeah. So the net result of that is that we just have a handful of unprofitable stores, because upon lease renewal, rent expenses, our number one expense outside of costume goods. We're able to get some nice rent reductions, which has been helping our bottom line over the course of the last many years. And the variable nature we're under four years in terms of our average lease life. And so it's a matter of time until you either have additional leverage or we have the opportunity to close a location that's underperforming.

<<Jonathan Komp, Analyst, Robert W. Baird & Co.>>

Great. Maybe one more on the balance sheet and the cash usage given how clean the balance sheet is, financially, I know, we don't see the leases capitalized, but from a debt versus cash standpoint, lots of capacity, which you obviously put to use. And I'm just curious one interpretation of it being so aggressive in buying stock is not a lot of other uses or other concepts that that would be a better investment. So how do you view of going forward repurchasing your own stock versus other returns or even other concepts that they might look at?

<<Unidentified Participant>>

Well, the order of preference for us is the first fund our operations to the level that gives them the best advantage. And so that box is checked. So we've been able to fund the existing businesses with that initiative. The next debt for us is to acquire businesses that could fit into our portfolio well. We spent a lot of time over the last 10 years looking at a lot of businesses. So there has been a lot of assets traded in our space, you know them all.

We've been looking at most of them. And in many cases, we think they could be a good fit with our business. In many cases, we just didn't like the pricing. And so we have a level of discipline that we adhere to. We think that might be turning a little bit and that the opportunities for us to make some acquisitions might improve and as the view of retail is actually toughened up and there's been some correction in that.

So and then if we can't find good opportunities, we aren't – we don't hoard cash on our balance sheet. And so we have our bonus structure, maybe an IR charged for all of our assets in our formulas that determine our bonus. So we have a disincentive to sit on cash. We also don't think it's the right thing to do. So our final step in considering what to do with cache is, need to give it back to shareholders.

<<Jonathan Komp, Analyst, Robert W. Baird & Co.>>

Yeah, great. We are about at our time, so everyone could join me in thanking the team for joining us today. And a management will be available for a brief while after, and then various presentations will continue, so thank you.