Genesco Inc.

First Quarter Fiscal 2023 Conference Call

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CORPORATE PARTICIPANTS

Darryl MacQuarrie, *Senior Director, FP&A*

Mimi Vaughn, *Board Chair, President and Chief Executive Officer*

Tom George, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Steve Marotta, *CL King & Associates*

Mitch Kummetz, *Seaport Research*

PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco First Quarter Fiscal 2023 Conference Call.

Just a reminder, today's call is being recorded.

I would now like to turn the call over to Darryl MacQuarrie, Senior Director of FP&A. Please go ahead, sir.

Darryl MacQuarrie

Good morning, everyone, and thank you for joining us to discuss our First Quarter Fiscal '23 results.

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 and 10-Q filings, for some of the factors, including the impact of COVID-19, supply chain issues, and the current economic environment 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 want to remind everyone we have posted a presentation summarizing our results that is accessible on our website.

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With me on the call today is Mimi Vaughn, Board Chair, President and Chief Executive Officer, who will begin our prepared remarks with an overview of the period and the progress we are making on our strategic initiatives to drive the business this fiscal year; and Tom George, Chief Financial Officer, who will review the quarterly financials in more detail and provide guidance for Fiscal '23.

Now I'd like to turn the call over to Mimi.

Mimi Vaughn

Thanks, Darryl.

Good morning, everyone, and thank you for joining us today.

Following record results in Fiscal '22, the new year is off to a very good start. While the year ago period posed a difficult comparison due to government stimulus-fueled consumer spending, we are very pleased with our recent performance and the long-term trajectory of our business as we navigate some near-term turbulence and move past the COVID era fiscal tailwinds.

We continue to experience healthy demand for our merchandise offering which reflects our leadership positions in the teen and young adult footwear space and other segments of the consumer market we serve, the strong connections we have forged with our customers, and our ability to successfully evolve with the ever-changing fashion desires of our consumers. Our footwear-focused strategy has created a more resilient business that is fundamentally stronger than prior to the pandemic, and we are excited about our growth prospects going forward.

These efforts coupled with the dedication and ingenuity of our outstanding people have allowed us to outperform pre-pandemic sales and profitability despite more challenging economic conditions, inventory shortfalls and tax refund delays, which historically have benefited our Q1 performance.

Overall for the first quarter, we exceeded both top and bottom line expectations with notable strength at Schuh and in our branded business, and had we have the inventory to fulfill demand at Journeys, our performance would have been even stronger. These results underscore the progress we have made positioning the Company for profitable growth through our heightened focus on increasing digital penetration, improving the economics of our store channel, and growing our branded sales.

A few key highlights for the quarter include: compared with pre-pandemic Q1 Fiscal '20, revenue up 5% despite having 90 fewer stores and adjusted operating income up 14%; versus pre-pandemic, digital sales up almost 75% now representing 19% of total retail sales versus 11%, while branded wholesale sales increased almost 70% over the same time helped by our Togast acquisition. Gross margins continue to show strength versus last year due to continued full price selling and limited markdown activity which, combined with expense leverage compared with pre-pandemic levels, fueled adjusted EPS of $0.44 and nicely positive operating income which historically has been more challenging in low volume quarters. Additionally, our business accelerated through the quarter with sequential improvement in retail sales in April and May to date versus last year as inventory levels improved and stimulus compares began to ease, and we continue to strengthen our business model with the more efficient use of capital to drive these results.

COVID provided the opening to transform our business at a much more rapid rate. We are taking advantage of the market opportunities the pandemic presented and we continue to strategically align ourselves towards future growth in all our channels. From a channel perspective, we have always known our customers enjoy our differentiated store experience and the exceptional service they receive in person, and like we saw with Journeys throughout last year, the strength of our brands continued to draw

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enthusiastic shoppers back to stores as the U.K. economy opened more fully this quarter and the Johnston & Murphy customer eagerly returned to shopping. It was, however, our ability to meet and serve the consumer with compelling product in all our channels, stores, online, and through our growing wholesale channel, that led to the strength in the quarter versus expectations and has us excited about the opportunities ahead for continued success.

Turning now to discuss each business in more detail, beginning with Journeys. Overall the Journeys team delivered a commendable quarter while navigating ongoing inventory challenges. I've been describing the current fashion cycle as shifting away from fashion athletics more into casual, which plays into Journeys' strength, positioning Journeys well among its athletic competition to deliver this assortment. Casual continued its climb as a larger percentage of the business in Q1, showcasing the current diversity of teen fashion trends with particular strength in some of the newer brands in the Journeys assortment. Both average selling price and average transaction size benefited from year-over-year growth, and price increase actions and strong full price selling upheld last year's healthy gross margin gains.

The lack of inventory held back Journeys performance as we didn't have enough winter product to fill late season demand in February and spring styles were slow in arriving due to supply chain disruption. Case in point, we received 40% of our Q1 inventory in April with much of that coming towards the latter part of the month. While it was an uneven quarter in terms of monthly performance compared to both last year and pre-pandemic due to the combination of this, the stimulus offset and tax refund timing, the good news is that each of these headwinds lessened as the quarter progressed and sales were strongest in April, enabling Journeys to meet our profitability expectations for the quarter with momentum nicely picking up further in May. Importantly, Journeys is now in a considerably improved inventory position.

Turning now to Schuh, we're extremely pleased with the continued progress the team is making capturing marketing opportunity in the U.K. and strengthening the business' foundation for growth. Q1 was highlighted by record first quarter revenues up 35% on a constant currency basis compared to last year and up 14% over pre-pandemic levels. Driving this outstanding performance was a better inventory position that included increased access to higher tiered styles from several key vendors coupled with pent-up demand as the U.K. economy further reopened and young people resumed going out and other activities. Schuh's sought-after product offering, strong inventory position, and increased marketing continued to drive consumers to its brand, illustrated by significantly improved store traffic levels.

Stores which were open for the entire quarter this year versus about 20% of the time last year were a big contributor to Schuh's success; however, this was not at the expense of online, as Schuh's advanced digital capabilities allowed it to hold onto more than 60% of last year's outsized gains to drive digital sales up over 110% compared to pre-pandemic levels. Like Journeys, Schuh's strength is in its ability to deliver the fashion brands desired by its youth consumer, and Schuh similarly is capitalizing on the shift to casual which is driving a larger portion of its sales.

A big highlight of the spring selling season has been strong consumer appetite for sandals ever since the weather turned warmer, and it was another quarter of strong full price selling which, along with lower promotional activity, fueled nice gross margin gains over the last two years. In addition, Schuh's operating income gain this year was even more notable factoring in last year's significant COVID relief.

Shifting now to our branded business, we are more and more excited about the potential of Johnston & Murphy as we reposition the brand for growth. Our plan to reimagine J&M for a more casual, more comfortable post-pandemic environment continues to produce very positive results. Strength across digital, retail and wholesale fueled top line revenue up more than 45% year-over-year, well above expectations with sales almost on part with Q1 Fiscal '20 despite inventory levels ending roughly 30% below the comparable period and averaging even lower than that during the quarter.

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The brand is expanding its focus from not just the footwear consumers need for work but for footwear and apparel they desire for everyday life with compelling technology as an integral part of the offering providing comfort and other performance features. Q1's healthy growth in casual athletic and casual propelled these categories to almost 80% of footwear sales. Strong growth in apparel and other non-footwear categories, now at about 40% of the total mix, validate J&M's positioning as a footwear-first multi-category lifestyle brand. What's most exciting is our success attracting younger customers to the brand with the under-35 customer base growing over 30% in the quarter.

In summary, J&M continues its trajectory to meet and exceed pre-pandemic sales and profits at a faster pace than expected. Had it not been for significant additional air freight costs in the quarter, operating income would have been much closer to pre-pandemic levels.

Rounding out our divisional discussion, licensed brands posted an excellent quarter with sales surpassing expectations and operating margins increasing more than 200 basis points over last year. The licensed brands team has completely remade this division since the start of the pandemic by adding attractive licenses and more robust product and sourcing capabilities through an acquisition we completed in late Fiscal '20. Q1 results demonstrate the increased strength of our licensed portfolio and the team's ability to capitalize on white space opportunities in the market.

Switching gears, we are enthusiastic about the progress we're making on our ESG initiatives. We recently completed an inaugural North American carbon footprint assessment, and our third carbon assessment in the U.K. is in process. We look forward to sharing these results, which serve as a foundation for our future environmental efforts along with other updates when we publish a comprehensive ESG report in the coming weeks.

Turning now to the current quarter, May is off to a good start as the monthly sequential improvement we saw through the first quarter has continued. Historically, the second quarter is another lower volume quarter for the Company as consumers turn their attention to summer activities before returning for the start of back-to-school shopping in late July.

Looking further at Fiscal '23, we continue to feel positive about delivering top line growth on top of a very strong Fiscal '22. We don't anticipate the factors that led to such a strong full price selling environment to continue at the same level, especially in light of current economic conditions, and we are working hard to overcome the cost pressures that are prevalent today and in certain areas increasing. We are planning the back half to be stronger than the first half as the stimulus comparisons wane, inventory levels improve, logistics cost pressure comparisons ease, and continued price actions help offset higher costs. Notably, Fiscal '23 will be an investment year for J&M as we advance the work on the brand's repositioning.

Based on our favorable Q1 results and current outlook with some additional pressures, we are reaffirming our Fiscal '23 full year guidance for adjusted earnings per share to be between $7 and $7.75. We still believe somewhere close to the middle of the range is where the year will land.

Our better-than-expected first quarter results are further evidence that our footwear-focused strategy is advancing our business even as the operating environment has become increasingly more challenging. Driving this strategy are six strategic pillars that emphasize continued investment in digital and omnichannel, deepening our consumer insights, driving product innovation, reshaping our cost base, and pursuing synergistic acquisitions, all to transform and meaningfully grow our business.

You have heard how several initiatives positively impacted first quarter results, and before I turn this call over to Tom, I would like to highlight a few others.

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Starting with pillar one, accelerate digital to grow the direct-to-consumer channel, I have talked about how our online business generates nicely positive operating margins well into the double digits due to our focus on full price selling, marketing spend to drive positive returns, and shipping and return policies to reinforce profitability. Not only have we greatly increased our IT investments and resources to grow digital, but we also added to our investment in digital marketing to drive traffic and attract new customers. Our marketing spend in Q1 increased 60% versus pre-pandemic amounts, in large part driven by digital marketing to continue driving profitable digital growth.

Our second pillar, maximize the relationship between physical and digital channels. Journeys' consumer research told us that a third of its target consumers visit local non-mall shopping centers two to three times per month and enjoy the convenience of shopping closer to home combined with enhanced omnichannel services like easier curbside pickup. We've piloted a number of these off-mall sites which are larger than our mall stores and can carry a full assortment of adult and kids product. Pleased with the sales and four-wall results, we have signed more than 25 additional locations we will open this year and early next. Tools like our new real estate analytics platform are allowing us to optimize site selection as we build out this footprint, and we are excited about the potential and the number of locations this new format could have for us.

Finally under pillar three, build deeper consumer insights to strengthen customer relationships and brand equity. Schuh has rolled out its first ever loyalty program, the Schuh Club, which fully launched at the end of Q1. This program ties online and store purchases back to customer records, which allows Schuh to deliver increased personalization and an enhanced customer experience. This program has seen greater success with more sign-ups than initially expected, with Schuh Club members making purchases at an average order value 12% higher than non-members. Despite launching less than one month ago, Schuh Club purchases are currently accounting for one-third of sales, and we believe this program has great potential going forward.

Schuh also opened an Irish distribution center in Q1 to support operations there post-Brexit, which will not only save on duties but will also allow for additional offerings such as same day delivery, which Schuh already rolled out to 55 U.K. stores.

To close, I would like to thank each of our employees for an excellent start to Fiscal '23. Your drive and determination enable us to consistently execute through dynamic and challenging environments, and this quarter was no exception. I'm proud to work with such an inspiring group of people, and I look forward to continued success with you this year.

I will now turn the call over to Tom.

Tom George

Thanks, Mimi.

As Mimi discussed, we were pleased with our performance during the quarter, particularly compared to expectations, and we continue to feel confident in the ability of our footwear-focused strategy to drive strong results.

Turning now to the specifics for the quarter, in light of a number of store closures last year during Q1, in particular, the U.K. and Canada, and our policy of removing any store closed for seven consecutive days from comparable sales, we believe that overall sales is a more meaningful reflection of our total business in Q1.

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Consolidated revenue was $521 million, down 3% to last year as we anniversaried the significant stimulus distributed a year ago. Journeys, which was the biggest beneficiary of that stimulus last year and was impacted by inventory delays this year, was down 16%, partially offset by Schuh up 28%, J&M up 46%, and licensed brands up 5%. From a channel perspective, we drove increases in both the store and wholesale channels, with the store channel buoyed by Schuh having its stores fully open this year versus open just 19% of the quarter last year, and consumers having more appetite to return to stores as they resume more normal activities. We ended the quarter with 30 fewer stores versus a year ago as we optimize our store footprint and drive productivity in our existing store estate.

Digital sales, as expected, were down versus last year; however, direct still held onto 70% of its gains and was up roughly 75% over pre-pandemic. Ecommerce sales accounted for 19% of total retail sales, down from 25% last year, but up from 11% in Fiscal Year ’20. Total wholesale sales increased driven by increases at both J&M and licensed brands. J&M’s strong increase was driven by the positive reaction to its assortment, the reopening of the economy, as well as growth at its higher end retail partners.

We were again pleased with gross margins, which were up 50 basis points to last year. Strong full price selling and price increases plus reduced shipping costs from lower ecomm penetration offset the channel mix impact of increased wholesale sales and increased freight and logistics costs. Increased freight and logistics costs put approximately 120 basis points or $6 million of pressure on Q1 gross margin and were the greatest drag in our branded businesses. Journeys’ gross margins were up 40 basis points due to lower ecomm penetration and continued low markdowns. Schuh’s gross margin was up 790 basis points, driven by much lower ecomm penetration and more full price selling. This was offset by a reduction in J&M of 210 basis points due to incremental air freight charges. Licensed brands gross margin increased 70 basis points as increased freight and logistics costs were more than offset by stronger ASPs and business mix.

Adjusted SG&A expense was 46.5%, which was 220 basis points more than last year. It is worth noting that last year we received significant one-time COVID rent credits and U.K. property tax relief during the quarter, which made this quarter a difficult comparison. Without last year’s one-time credit comparison, total SG&A and occupancy expenses leveraged by 30 basis points and 10 basis points, respectively. The other major driver of de-leverage was in selling salaries, as many states in the U.S. and the U.K. have legislated statutory increases in minimum wage and living wages as we have been increasing wages to remain competitive in the retail space. In summary, de-leverage in occupancy, selling salaries, and other expenses more than offset leverage from lower incentive-based compensation and other pick-ups.

Nevertheless, we continue to work to drive occupancy costs lower. During the quarter, we negotiated permanent reductions to 49 renewals, which achieved a 15% reduction in rent expense in North America on a straight-line basis. This was on top of a 16% reduction or 181 renewals during Fiscal ’22. These renewals continue to be for shorter terms, averaging approximately 2.5 years compared to the three-year average we have seen in recent years. With 45% of our fleet coming up for renewal in the next couple years, this continues to remain a key priority.

Last year, we reported that we had identified the full amount of our $25 million to $30 million cost savings target. A good part of these savings is from current future reductions in store occupancy. We will continue to focus our multi-year cost saving efforts on store channel profitability, including further efforts on reducing occupancy costs, gaining more efficiencies with selling salaries to mitigate the effects of wage pressures, and continually look for ways to further drive efficiencies given the changing cost structure of the business. In summary, first quarter adjusted operating income was $9 million, a 2% operating margin compared to $19 million or 3% last year, and 2% pre-pandemic.

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For the quarter, our adjusted non-GAAP tax rate was 35%, which compares to 36% last year. This resulted in adjusted diluted earnings per share of $0.44 for the quarter, which compares to $0.79 last year and $0.33 in Fiscal ’20.

Turning now to the balance sheet, more specifically to inventories, we believe it’s more meaningful to compare this year’s inventory levels to the pre-pandemic Q1 Fiscal Year ’20. This is because outsized stimulus demand and supply chain limitations resulted in extremely low inventories last year. With significant receipts right at the end of Q1 this year, inventories were $401 million or 9% higher than Fiscal Year ’20, including some increase in average cost. The largest increase was at Journeys, where we elected to receive and carry over some winter product which was late in arriving, as it consists of core in line styles that would give us a head start on back-to-school and holiday sales. We are pleased with the quality and level of our inventory except for J&M’s, which is still about 30% below pre-pandemic levels. We continue to work through supply chain challenges to improve those levels so that we can continue to build off the strong momentum that J&M is experiencing.

Our net cash position of $186 million, a decrease of $28 million versus last year, was driven in part by the continued replenishment of inventory and significant share repurchases during the back half of last year. More specifically, for the first quarter this year, we repurchased $6.5 million of stock. Capital expenditures excluding the new headquarters building were $11 million, and depreciation and amortization was $11 million. We opened four stores and closed 15 during the first quarter to end the quarter with 1,414 total stores.

Regarding capital allocation strategy, we will continue to re-inventory, especially at J&M, and support upcoming seasonal working capital requirements, invest in our digital business, refreshing stores in Journeys’ off-mall strategy, and ultimately continue to return cash to shareholders through opportunistic share repurchases.

Now turning to guidance and more specifics as to how we are thinking about the business. For Journeys we expect first half sales to be below comparable FY ‘22 levels, since Journeys benefited considerably from stimulus last year. We then expect growth in the back half as we assume better inventories versus the back half of last year. For Schuh, we expect constant currency growth for the year driven by growth in store volume, but we will be impacted by a stronger dollar and lower exchange rate. For J&M, we expect to return to pre-pandemic sales levels, and we expect growth for licensed brands as well.

Regarding supply chain, although we are seeing improvements in deliveries, freight and logistics costs for our branded business are expected to remain elevated over the remainder of the year, beyond what we had in our forecasts. In light of the current economic environment and its potential impact on consumer demand, we also believe it is prudent to assume the environment is likely to be more promotional than originally expected; therefore, as we think about the remainder of the year, we have incorporated the impact of the stronger dollar, elevated costs, and a more promotional environment into our outlook. With these additional headwinds combined with Q1 outperformance, we are reaffirming our guidance of adjusted earnings per share of $7 to $7.75 per share, with our best current expectation is that we will be near the midpoint of the range.

The guidance now assumes sales to grow 1% to 3%, which is down from previous guidance of 2% to 4% in large part due to the lower U.K. exchange rate. We expect gross margins to come down versus last year by 60 to 80 basis points due mainly to increased markdown activity in the quarters in which markdowns occur as compared to essentially no markdown activity last year. This is a little more than previous guidance due to the increased freight and logistics costs and promotional activity I mentioned.

In terms of expenses, we now expect adjusted SG&A as a percentage of sales to range from leveraging 10 basis points to deleveraging 10 basis points. This is driven by leverage from reduced incentive-based

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compensation being offset by anniversarying significant one-time COVID credits and selling salary wage pressure, with improvement from our previous guidance reflecting the SG&A pick-up in Q1. This all results in expected operating margin below FY '22, which in large part is due to our belief the factors that led to such a strong full price selling environment will not be sustained. Our guidance assumes no additional share repurchases for the fiscal year, which results in Fiscal '23 average shares outstanding of approximately 13.4 million, but we can repurchase opportunistically with availability under our recent $100 million authorization. Furthermore, we expect the tax rate to be approximately 27%.

While we don't typically provide quarterly guidance, I want to provide some perspective on Q2. We expect the Q2 sales decrease to be a little less than Q1's decrease as reductions in Journeys due to the continued stimulus comparisons and Schuh due to the strengthening of the dollar are somewhat offset by strength in other businesses. Regarding gross margins, we expect lower gross margins compared to last year with a more normalized promotional cadence in addition to higher freight and logistics costs. We expect there will be some SG&A deleverage to last year, driven by lower sales and last year's one-time COVID relief.

In the end, from a basis point perspective we expect the pressure on gross margin to slightly outweigh deleverage and SG&A. With all of this, we expect operating income close to pre-pandemic FY '20 Q2 levels. Finally, our tax rate for Q2 will be similar to the full year tax rate, and the share count will be similar to Q1.

To close, while we are very pleased with the quarter we just completed, we're even more excited about driving our footwear-focused strategy forward to deliver additional growth and shareholder value.

Operator, we are now ready to open the call to questions.

Operator

Thank you. Our first question today is from Steve Marotta of CL King & Associates. Please proceed with your question.

Steve Marotta

Good morning, Mimi and Tom. Congrats also on a terrific first quarter and start to the year.

Tom George

Thanks, Steve.

Steve Marotta

Sure. At Journeys and Schuh, you mentioned a shift towards casual styles versus fashion athletic. Can you talk a little bit about if there's any differential in gross margin there? Also, in the carryover styles from winter that might be sold in the third quarter during the back-to-school season, is there any delta in those gross margins versus your normal third quarter gross margin? Thanks.

Mimi Vaughn

Steve, with the shift to casual versus fashion athletic, we have been really pleased. I think we've been talking about that we typically go through fashion cycles with Journeys, which allows us to refresh our overall product mix, and our merchants are just excellent at being able to discern what our teens want. Coming out of the pandemic, we have seen a real shift into casual away from retro athletic, fashion

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athletic as we call that, and it's actually a positive for gross margins. Many of the casual brands that we carry have a better margin profile than some of the athletic brands that we do carry.

Then also, we saw an opportunity with some of the late arrivals from winter that we went ahead and took the receipt of that product. It's really great core product, and we were able to get it at last year's prices, and as you can imagine, this year's prices are not going to be as favorable as last year's prices, and so we have booked that inventory. It is, as I said, core product, and we expect that we can have a very positive margin profile with those as well.

Steve Marotta

That's helpful. You also spoke about the acceleration in May at Journeys. Did you feel similar tailwinds to the other concepts as well in the quarter-to-date period?

Mimi Vaughn

In Journeys, we were very hampered by the lack of inventory as we went into this quarter. I think we can remind you that we were down about 20% in Journeys and we were missing some of the core winter styles that ended up arriving late, and then spring arrivals were also late as well. As a result of that, we have seen really nice sequential improvement in our Journeys business in every month that has gone by.

In Johnston & Murphy, we have also seen just very positive results. As you can imagine, if you think about a year ago, believe it or not, we were just getting vaccinated and the Johnston & Murphy customer was just coming back to life, so we saw a very strong first quarter. We've seen continued strength in the second quarter.

For Schuh, we've got continued strength in our business; however, last year if you looked at Schuh's business, stores were closed between basically Christmas to Easter, so it's a little bit hard to tell exactly where Schuh is shaking out just because we're anniversarying the reopening of stores, and so we're going against very, very strong numbers from last year and continue to perform nicely.

Steve Marotta

Super helpful. I'll take the balance offline. Thanks.

Mimi Vaughn

Thanks, Steve.

Tom George

Thanks, Steve.

Operator

The next question is from Mitch Kummetz of Seaport Research. Please proceed with your question.

Mitch Kummetz

Yes, thanks. Let me add my congratulations as well.

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Tom, on the guide for Q2, you're saying sales down less than Q1. I'm just kind of penciling that out a little bit. Q1 on a three-year basis, sales were up 5%. I think what you're saying on Q2 kind of implies that on a three-year basis Q2 is up maybe low double digits, so that is pretty good acceleration over Q1 on a three-year. Is that kind of what you're seeing through the early part of the quarter based on the acceleration that you guys referenced?

Tom George

Regarding the Q2 guide, Mitch, what we're thinking about there for the Q2 guide is more high single-digits growth on a two-year basis, to sort of clear that up—

Mitch Kummetz

What about on a three-year basis, since we're going back to 2020?

Tom George

Yes, I was referring to our Fiscal Year-end '20, our second quarter then.

Mitch Kummetz

Okay.

Mimi Vaughn

On a three-year basis, it is—

Tom George

It's more like low teens.

Mimi Vaughn

—low into the double digits.

Tom George

Yes, low teens on a three-year.

Mitch Kummetz

Yes, and is that kind of what you guys are seeing through the early part of May, based on the acceleration that you talked about?

Mimi Vaughn

We are seeing double-digit gains in May so far.

Tom George

Yes, so far.

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Mitch Kummetz

Okay.

Mimi Vaughn

We've also—

Mitch Kummetz

And then on—go ahead?

Mimi Vaughn

Just also to remind you, we also added a number of licenses in our licensed brand business, and so that adds to growth as well; so even beyond what we're seeing with growth on the retail side, it's a good step up because of the increased volume from that part of the business.

Mitch Kummetz

As a follow-up to that, Mimi, can you say on the full year guide that you've provided, sales guide, how much incremental volume you're bringing in from those new licenses? Do you have any sense of that?

Mimi Vaughn

Yes, you know, I think that you can get a pretty good measure when you look to last year's growth. I think if you look at our licensed brands business, we added over $100 million of sales. We expect this is a year for us to digest that growth and really work on profitability. Since we grew so significantly, we've been very pleased with the performance of our Levi's license, and this is the year that we're just digesting. We've added a Starter and an Etonic license which are just getting out of the gate as well, and so I wouldn't look for the great growth that we had last year, but this is the digest and improve the bottom line.

Mitch Kummetz

Okay, and then just a last question on the margins, Tom, you're now looking for gross margin to be down 60 to 80 basis points from last year. It sounds like you're expecting the promo environment to normalize. I guess I'm wondering, are you starting to see that already, or is that just a conservative assumption given how you sort of view the balance of the year, and also within that kind of 60 to 80 basis points, how much of that is product margins being down? Is it, like, 50, or can you maybe just help me out a little bit there?

Mimi Vaughn

Why don't I start by just talking about the promotional environment so far. You know, last year, Mitch, was just incredible. I think that what we all saw is essentially no markdowns, and this year we are factoring in some markdowns. So basically consumers would come into the store, they would buy whatever we had, and therefore, and because inventory levels were so low, we basically could clear out any product that we had. Part of the change this year is inserting a more normalized level of markdowns. We haven't yet seen that. You saw the pickup in Q1 on gross margin, but what we are anticipating because we're seeing a little bit of a consumer coming and not being as willing to just take whatever's there, they are becoming a bit more selective this year, and I think it is with the ability to be in a better inventory position.

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Then certainly when you look at this environment, we serve a customer that, you know, is relatively a more fluent customer, they are not super price sensitive, they're really out to look for fashion that they would like, and therefore we are able to typically have a very full price selling model, which we anticipate will continue.

We do, though, however, as we think about going through the year, it's certainly hard to be a consumer and not look at food prices and gas prices, so we think that there may be a mindset shift on the part of the consumer, and so as we think about reintroducing some promotional activity, we basically give offers to our best customers and really think about how do we induce them to come back for repeat purchases, and we think that that will likely be appropriate as we go through the year. We haven't seen a whole lot of that just yet, but we're just being prudent in thinking that that will happen.

Mitch Kummetz

Okay, great. Thanks, guys.

Operator

The next question is a follow-up question from Steve Marotta of CL King & Associates. Please proceed with your question.

Steve Marotta

Hello, again.

Mimi, I wanted to ask you about your ability to capture a younger customer at Johnston & Murphy. You mentioned in the prepared remarks that that customer count is up. Can you talk a little bit about tactically what you're doing—first of all, how are you defining a younger customer, and secondly, tactically what you're doing there and what you'll continue to do to attract a broader audience?

Mimi Vaughn

Sure. A younger customer, as I defined on the call, is under 35, and when you think about the Johnston & Murphy customer, the Johnston & Murphy customer is just in a very good place. Customers overall have gotten much more used to comfort, and once you experience comfort, as you know, Steve, you just don't want to go back, so we have done really—our J&M team has done an extraordinary job through the course of the pandemic, taking advantage of the opportunity to pivot harder into more casual, more comfortable product. It's just really terrific product with special technical features. We've got proprietary chassis systems, they're just very—our comfort technology is fantastic. We've got foam for comfort, we've got a flexible outsole. Technology is revolutionizing our offering, and I think that's really resonating with our young consumers.

First of all, the product is right, and the product is something that is appealing to that younger customer, and then we have ramped up our overall spending on marketing, and much of the marketing we're doing is really very much around product stories and telling these product stories, and much of the marketing we're doing also is through digital marketing, so we're finding these channels that we can get positive reactions from this younger consumer base and have had great success of bringing younger customers into the fold.

I think, in the past, Johnston & Murphy has always been a great aspirational brand for successful people, and I think we continue to excel at dress footwear, and we think that that is more pent-up demand than a trend, but it's our casual and our casual athletic product coupled with our apparel offering, which has

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grown as well, and that gives the younger customer an access point into the brand that they have enjoyed.

Steve Marotta

That's helpful, and more broadly, how does your marketing budget this year across brands compare to last year?

Mimi Vaughn

Yes, so this year overall, I know that over the last—since pre-pandemic, really, and we're kind of measuring it over that period of time, our overall marketing budget is up 60%, and we have been certainly driving our digital marketing to be able to grow our ecommerce sales, but we have also embarked on more investment in our overall brand marketing, not just for our Johnston & Murphy brand, but also for our retail brands. I think that if you think about Journeys and Schuh as a brand, in the past we have opened retail stores, and that's been a lot of our marketing to create the presence for the customer. But we do know that Journeys and Schuh are the destinations for fashion footwear for our teens, and no matter what's popular, no matter what's in fashion, we validate their choices for fashion, and so it's really appropriate as we think about our marketing efforts to also invest in brand marketing for our retail concepts.

Steve Marotta

Got it, super helpful. Thank you.

Operator

The next question is a follow-up from Mitch Kummetz of Seaport Research. Please proceed with your question.

Mitch Kummetz

Yes, thanks for taking my follow-up.

Mimi, you talked about better access at Schuh. I was hoping you could just elaborate on that. Does that mean you're now getting access to brands you didn't have access to before, or is it just better allocations of existing brands? Then also, the Schuh business on the sales side continue to run up double digits versus pre-pandemic, and I'm just curious to know how much of that is just the strength of that marketplace versus share gain that you're seeing, and if it's share gain, maybe you could talk a little about the share gain too.

Mimi Vaughn

Sure, so Schuh is a key player in the retail space, a top 10 footwear retailer. The business has performed so well in the pandemic. We have advanced digital capabilities which helped a lot when stores were closed. We were almost able to replace our closed store sales with our digital sales, because Schuh was such a solid performer, but then when stores were opening and closing, which they did much more frequently in the U.K. than they did in the U.S., our team at Schuh executed quite well.

The market, as you have indicated, has been hit hard by COVID, and the retail landscape has really changed pretty profoundly. There have been lots of administrations, lots of retail square footage that has closed, and so when I talk about better access at Schuh, I'm really talking for the most part about better

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access within the brands that we currently sell. We are also introducing some new brands that it is moving up tiers within the brands that we sell because of that strong performance. We've invested a lot in our purpose pillars and our marketing efforts and in driving digital and really speaking to our teen consumer, and that messaging has resonated with our brands. They've seen how we can connect with that customer. They like our Schuh Club program that allows us to learn even more about our customer, and so it is increased access and moving up tiers.

Many brands took the opportunity during the pandemic to tighten up distribution to eliminate tertiary distribution, and so we are benefiting quite well from the fact that there's less product out there in the marketplace and that not only do we still have access to what we had access to before, but our access is gaining.

Mitch Kummetz

Okay, thanks again. Good luck.

Mimi Vaughn

Thanks, Mitch.

Tom George

All right, thanks.

Operator

There are no further questions at this time. I'd like to turn the floor back to Mimi Vaughn for closing comments.

Mimi Vaughn

Thank you for joining us today. Have a great Memorial Day weekend, and we look forward to speaking with you on our next call.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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