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Genesco Inc.

Fourth Quarter Fiscal 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

Darryl MacQuarrie, *Senior Director, FP&A and Investor Relations*

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

Tom George, *Senior Vice President, Finance and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Mitch Kummetz, *Seaport Research*

PRESENTATION

Operator

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

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

I will now 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 Fourth Quarter and Full Year Fiscal '23 Results.

Participants on the call expect to make forward-looking statements reflecting our 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 its most recent 10-K and 10-Q filings, for some of the factors that could cause differences from the expectations reflected in the forward-looking statements made today.

Participants also expect to refer to certain adjusted financial measures during the call. All non-GAAP financial measures are reconciled to their GAAP counterparts in the attachments to this morning's press release and in schedules available on the Company's website in the Quarterly Results section. We have also posted a presentation summarizing our results here, as well.

With me on the call today is Mimi Vaughn, Board Chair, President and Chief Executive Officer, and Tom George, Chief Financial Officer.

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.

Many areas of our business shined in Fiscal ’23, even as new headwinds emerged with a rapidly changing consumer environment. Coming off a strong Fiscal ’22, our footwear-focused strategy allowed us to effectively navigate these more challenging conditions this past year. Record top line results at both Schuh and Johnston & Murphy helped mitigate some of the pressures that weighed on both Genesco Brands Group and, in particular, Journeys, following its record year in Fiscal ’22. While we expected Journeys to give back some of its stimulus-fueled gains, the business was tested more than we anticipated.

The effect of decades-high inflation on the consumer and the elevated footwear channel inventories are the two factors that impacted us the most. Nevertheless, our performance in Fiscal ’23 demonstrated resiliency, enabled by our differentiated strategic positioning, the benefits of our multi-division, multi-channel operating model and our experienced team’s ability to execute and navigate the market turbulence.

In addition to the strong showing from Schuh and J&M, other highlights from the year we just finished include:

- Total comps improved sequentially through the year, culminating in a 5% comp gain in the fourth quarter with both positive store and positive e-commerce comps.

- Digital penetration accounted for 20% of direct-to-consumer sales, up from 13% in pre-pandemic Fiscal ’20, growing almost 70%.

- We returned over $70 million to shareholders through share repurchases totaling 10% of our outstanding shares.

- We delivered adjusted EPS of $5.59, an increase of more than 20%, compared with pre-pandemic Fiscal ’20.

We also made meaningful progress against several key strategic imperatives to drive growth in the years ahead. They include:

- Proving our brand-building capabilities and growing Genesco’s branded platform with successful reimagining and repositioning of Johnston & Murphy.

- Returning to e-commerce growth after absorbing the pandemic gains early in the year, notching a 21% Q4 digital comp, and creating the baseline for future growth.

- Building deeper and stronger connections with our core consumers, powered by our loyalty initiatives at Schuh and J&M, which we will expand to Journeys this year with the launch of its new loyalty program, Journeys All Access.

- Making continued major investments in marketing and consumer insights to drive sales, build awareness and elevate our brands.

- We also made significant advancements in our IT transformation with new capacity and capabilities to support omnichannel, e-commerce, consumer analytics and loyalty.

- Finally, we're pleased with our ESG progress this past year, including our first global carbon assessment and the issuance of our inaugural ESG report. We continue to build the strategic roadmap for additional ESG priorities and look forward to more progress.

Now, I'll briefly discuss Q4 results by business, before handing the call to Tom to take you through the financials and our outlook, and after that, I'll outline the key actions and initiatives we're executing in Fiscal '24 to improve performance and address the challenges that emerged this year.

Beginning with our retail platform and Schuh, let me start by congratulating the team on a successful holiday on top of last year's successful season and a record finish to a record sales year. On a constant currency basis, sales increased well into the double-digits, underscoring its growing strength in the U.K. market, as Schuh continues to out-execute competition and gain market share. Elevated brand relationships and improved access to higher-tier product assortments, combined with effective consumer marketing, put Schuh in a great position to capitalize on holiday demand, despite the high inflation and economic headwinds facing U.K. consumers. Demand was strong for both casual and fashion athletic footwear, and Schuh enjoyed increased boot sales and higher selling prices. Shoppers chose increasingly to return to Schuh's physical locations to take advantage of its best-in-class customer service, rewarding Schuh with positive store traffic. Schuh's progress in Fiscal '23 is especially notable, as profitability was up considerably, excluding the substantial one-time rent and other COVID credits Schuh received in Fiscal '22.

Back in the U.S., Journeys remained under pressure in Q4, as the consumer headwinds and excess footwear inventory weighed on demand. During back-to-school, consumers shopped when there was a reason to buy and retreated to conserve cash during the in-between periods, and we expected the same for holiday. This was a big change from the strong selling environment the prior year, when teens bought anything in stock and available. The fourth quarter started slowly with warmer weather in November, and while there was a pickup in December, it was not at the level we saw during back-to-school, as the consumer, pressured by inflation, shopped less and made harder choices on where to spend money. While footwear units were up a little in the quarter, benefitting from a stronger January, overall sales, including boots, were down due to price-sensitive customers trading down to more accessibly priced footwear and a significant drop-off in add-on purchases, like socks. Against the backdrop of heightened industry-wide discounting in response to the over-inventoried footwear marketplace, while markdowns normalized compared to the prior year, additional discounting did not move enough incremental volume to make it worthwhile. As a result, Journeys adhered largely to full-price selling, and we achieved gross margins above pre-pandemic levels.

While both gross margins and sales were at or above pre-pandemic levels, Journeys, like our other retail businesses, has since this time absorbed additional marketing and other expenses to support the growth of e-commerce, and has also experienced major selling salary and other cost pressures. Our strategic effort to grow e-commerce is achieving success, demonstrated by comps well into the double-digits for Journeys in Q4. However, we must double-down on actions to right-size rent expense and reduce our store cost to better overcome challenging store economics. Tom will discuss this in greater detail, but these cost right-sizing efforts are critical during a time when expense growth is outpacing sales growth. That said, well positioned as the leading destination for fashion footwear for teens, Journeys has a proven track-record of powering through economic cycles and emerging strong with growth and profit opportunities on the other side.

Now, to our brands. We're excited about the potential of Johnston & Murphy and very pleased with the progress as we reposition the brand for accelerated growth. Our plan to reimagine J&M as a more comfortable, more casual brand, with products well-suited for today's lifestyle, is proving out. A strong fourth quarter culminated in a record sales year, with total sales up 17% and 24%, respectively, and while store traffic and sales were up considerably, e-commerce was an even bigger highlight. J&M's Product and Design Team did an exceptional job matching current trends with fresh, compelling product, differentiated with technical features. Casual and casual athletic were again the primary drivers of sales, with strong apparel demand contributing to the positive results. J&M's product-story marketing campaigns proved effective in attracting a broader and younger consumer to the brand, while building on our premium positioning and price points. Congratulations to the entire J&M team on a successful holiday season and a fantastic year. The plan is working and the future for the business has never been brighter.

Finishing our brand review, I'm pleased to announce that Genesco Licensed Brands is now Genesco Brands Group. This name change reinforces Genesco's strategic commitment to expansion of the Company's branded portfolio and Genesco Brands Group as a platform for growth.

Our stated strategy to elevate the Levi's business to higher tiers of distribution expectedly put pressure on our top line this year. In addition, the inflated inventories in the channels, combined with much higher freight costs that hit this business especially hard given its price points, made for a very challenging Q4 and Fiscal '23. We believe these issues will subside as Fiscal '24 progresses, which, coupled with more distinctive product design, will allow the business to drive improved profitability in the coming year and longer term.

Now, turning the calendar to this Fiscal '24 year, we continue to experience a consumer holding back on discretionary purchases and elevated footwear industry inventories. As such, we're taking a cautious view on overall sales and planning the back half, with back-to-school and holiday opportunities, to be stronger than the front, relying on initiatives and actions we're taking to drive sales, rather than a consumer rebound. Q1 will be especially challenging, with the top line impacted by lackluster boot and other sales, as well as smaller retailer order books. Nevertheless, while the consumer environment remains difficult to predict, I am confident in the actions we're taking and our team's ability to execute.

We're really proud of the strides we've made driving our footwear-focused strategy forward, and all this starts and ends with our amazing, talented people. I'd like to thank you for your tremendous efforts and dedication, which pave the way for great success ahead.

Now, I'll turn it over to Tom.

Tom George

Thanks, Mimi.

As I review the results, you'll see we're having success driving digital, turning around Schuh and capitalizing on Johnston & Murphy's growth, while also focusing our efforts now on improving Genesco Brands Group and Journeys' store channel profitability.

Turning to results for the quarter, consolidated revenue in Q4 was $725 million, essentially flat to last year, but up 2% on a constant currency basis. On a comp basis, the strong performance from both Schuh and J&M led to total comps of positive 5% for the quarter, the third straight quarter of sequential growth. Total store comps were up 1%, while direct comps were up 21%. By business, Schuh total comps increased 20%, J&M total comps increased 23%, and Journeys total comps were down 1%. Finally, Genesco Brands Group sales declined $16 million.

We ended the quarter with 15 fewer stores versus a year ago, as we continue to optimize our store footprint and drive productivity in our existing store estate. Digital sales were up almost 60% versus pre-pandemic levels, with digital sales accounting for 25% of total retail sales, up from 22% last year and 17% in Fiscal Year '20.

Gross margins were down 250 basis points from last year. The main driver of the year-over-year change was the return to a more normalized promotional environment, compared to essentially none last year, in addition to excess freight and warehouse costs.

By business, Journeys' gross margin was down 300 basis points and Schuh's gross margin was down 120 basis points, given the return to a more normalized promotional environment, but both were still better than pre-pandemic levels. J&M's gross margin was down 350 basis points, driven by an unfavorable inventory reserve reversal comparison, normalized promotions and higher warehouse costs, and Genesco Brands Group's gross margin was down 640 basis points, pressured by incremental freight and logistics costs.

Adjusted SG&A expense was 39.4%, 40 basis points better than last year. Without last year's one-time COVID rent credits and government relief of $5.2 million, total SG&A leveraged 110 basis points. The leverage was driven mainly by lower performance-based compensation and occupancy expenses, which offset increased marketing expenses and higher compensation costs. Although we were able to control selling salaries to a modest increase, the competitive environment and legislated increases in minimum and living wages continue to pressure our store selling salaries. Moreover, the competitive environment for talent, in general, is increasing our other compensation costs, especially for IT talent to drive our initiatives.

Rent credits aside, we continue to achieve good success driving occupancy costs lower. Across the Company, for Fiscal '23, we negotiated 237 lease renewals and achieved a 13% reduction in straight-line rent expense with an average term of roughly 2.8 years. This is on top of 192 renewals with a 17% rent reduction last year. With over 50% of our fleet coming up for renewal in the next couple of years, this continues to remain a key opportunity and priority. Additionally, for Journeys, we plan on closing up to 60 stores and are evaluating more stores for potential closure. We believe we will recover a good amount of the lost sales and profits through our online business and nearby stores, while at the same time reducing our store fixed cost base.

In summary, fourth quarter adjusted operating income was $51 million, a 7% operating margin, compared to $66.4 million, or 9.1% last year and 8.8% pre-pandemic. The return to a normalized markdown environment and corresponding decrease in gross margin had the biggest impact versus last year, while increased expenses had the biggest impact versus pre-pandemic results.

For the quarter, our adjusted non-GAAP tax rate was 25.2%, which compares to 25.3% last year.

This all resulted in adjusted diluted earnings per share of $3.06 for the quarter, which compares to $3.48 last year.

Turning now to capital allocation and the balance sheet, we carried strong cash balances into the year of about $300 million, which enabled us not only to reinvest in our business, but also accomplish the formidable task of re-inventorying and at the same time return significant capital to shareholders. In terms of specifics, we purchased roughly $195 million of net inventory and completed $73 million of share repurchases in Fiscal '23.

While net inventories are up considerably year-over-year, we believe it's more meaningful to compare this year's inventory to pre-pandemic levels, since supply chain limitations resulted in unusually low inventories last year. Inventories were 25% higher than Fiscal Year '20 on a quarterly sales increase of 7%. These inventory levels are still higher than we would like relative to sales, but substantially all of the higher inventory can be attributed to solid core product for both Journeys and J&M, and we have adjusted by trimming first half receipts approximately 30% from last year, and will adjust future buys accordingly. Thus, we do not believe we will be required to take incremental markdowns to right-size inventory levels.

Selling through this inventory, along with the normal cash generation we expect for Fiscal Year '24, will add to our cash balances and leave us with a balance sheet that remains a strategic asset.

Over the last year, we repurchased 1.4 million, or 10% of the outstanding shares, at an average price of $52.66. We did not repurchase any shares in the fourth quarter. Over the past four fiscal years, we have repurchased almost 40% of our outstanding shares and have $34 million remaining on our current authorization, which we can use opportunistically.

Capital expenditures in Q4 were $20 million and depreciation and amortization was $11 million. We opened 17 stores, which were primarily off-mall, and closed 11 during the fourth quarter, to end the quarter with 1,410 total stores. For Fiscal Year '23, total capital expenditures and depreciation and amortization were $50 million and $41 million, respectively, not including $8 million of net capital and related depreciation for our new corporate headquarters.

Now, turning to the coming year, a pillar of our footwear-focused strategy is "reshape the cost base to reinvest for future growth," and as Mimi emphasized, we must double-down on reducing the store cost structure and manage the labor and other cost pressure prevalent today. We are taking immediate action and have implemented a cost program for Fiscal Year '24 aimed at reducing expenses by $20 million to $25 million. Areas we have targeted include selling salaries, rent expense and credit card fees, among others, with a large portion of the savings hitting the Journeys' P&L. We will benefit from projects to increase efficiencies, like receiving automation in our main distribution center for much of this fiscal year, but we also anticipate future efficiencies from store labor time studies being conducted at Journeys and Schuh. This cost program is intended to reduce the rate of expense growth, while at the same time we are conducting a more holistic review of our cost structure and evaluating additional areas of savings.

Moving to guidance, given several unique challenging factors that are combining to make for a first quarter that is very different than our typical first quarter, I am going to start by touching on Q1 and providing more specific quarterly guidance than we usually do.

Starting with the top line, Journeys is being impacted on multiple fronts, including a tough comparison to last year, when the business benefitted from pent-up consumer demand for purchases of late-arriving holiday boot and other inventory. Warmer weather has meaningfully dampened demand for boots in this fiscal year, and the trade-down in price points continues to weigh on average selling prices and sales. At the same time, Genesco Brands Group is anniversarying large sell-ins to accounts that were replenishing from supply chain disruption last year. As I discussed, this year, retailers have materially cut back on orders as they work to clear excess product. With this, we expect Q1 sales to be down high-single-digits versus last year.

Regarding Q1 gross margins, we expect normalized markdowns at Journeys will result in an overall gross margin decrease of 40 to 50 basis points. Comparisons to the unusually low levels of promotional activity we experienced through the pandemic supply chain constraints should taper off in the second quarter, alleviating some pressure on Journeys' margins. However, the sales decline in what is traditionally one of our lowest volume quarters will result in roughly 400 to 500 basis points of SG&A deleverage, given our high fixed cost base, resulting in a Q1 earnings per share loss, including roughly $1.5 million of interest expense and a basic share count of around 11.9 million shares. We expect year-over-year comparisons in subsequent quarters to improve considerably, as we move away from winter assortments and spring merchandise sell-ins.

Now, to the full year. Based on the macroeconomic uncertainty and nearer-term headwinds facing Journeys and Genesco Brands I just mentioned, we are taking a conservative approach and planning our business accordingly. For Schuh and J&M, we're excited about continued momentum, and J&M should especially benefit from being in a better inventory position through the year, but we are not expecting the same level of growth we've most recently experienced. We are assuming the Journeys consumer will continue feeling the effects of inflation and, therefore, prioritize back-to-school and holiday when there is a reason to shop and limit spending during the other parts of the year, adding to our view that the back half will be better than the front half.

Taking all this into account, we expect Fiscal Year '24 sales to range from flat to up 2%, or down 1% to up 1% excluding the 53rd week, and adjusted earnings per share to range from $5.10 to $5.90 per share, with our best current expectation for sales and earnings per share near the midpoint of the range, or roughly flat to last year. Note that the 53rd week adds approximately $25 million of sales and has a small negative effect on earnings per share.

Some color on sales by business. For Journeys, we expect first half sales to be down, driven mainly by a decline in the first quarter. We expect modest growth in the back half as our strategic initiatives kick in, resulting in roughly flat sales for the year. For Schuh, we expect growth at about the same rate as last year, for Johnston & Murphy, at a more moderate pace than last year's recovery year, and for Genesco Brands, a challenging first half and modest growth in the back half.

We expect gross margin rates to be up 35 to 45 basis points, as we benefit from lower freight and logistics costs and continued margin improvement at Schuh. Container and other freight costs have come down significantly and we expect we will see this benefit in the back half, once we have sold through the inventory that currently carries these higher costs.

We expect adjusted SG&A as a percentage of sales to deleverage 40 to 70 basis points, with the $20 million to $25 million cost reduction program and other actions working to offset cost pressure.

In summary, we expect an operating margin similar to Fiscal Year '23, with the macro and industry challenges offsetting our near-term strategic margin expansion efforts.

Our guidance assumes no additional share repurchases, which results in Fiscal '24 average shares outstanding of approximately 12.2 million shares, and we expect the tax rate to be approximately 26%.

Now, I would like to turn the call back over to Mimi.

Mimi Vaughn

Thank you, Tom.

We're excited about the actions we're taking to drive our business forward in the coming year. Fundamental to our footwear-focused strategy are six strategic pillars that emphasize continued investment in digital and omnichannel, deepening our consumer insights, driving product innovation and reshaping our cost base. This strategy leverages our team's exceptional direct-to-consumer expertise and the synergies between our retail and branded platforms.

Given our expectation that Journeys consumers will continue making hard choices about how to spend their dollars this year, Journeys' talented merchants are expending even greater effort to elevate brand partnerships, secure access to higher tiered product, gain higher allocations of must-have product, and place more focus on SMUs and products unique to Journeys. These efforts also entail shifting the mix further to more accessible price-point product.

Another key area of focus is consumer engagement and loyalty, part of our third strategic pillar, building deeper consumer insights to strengthen customer relationships. We're looking forward to the launch of the Journeys loyalty program before back-to-school. This program will not only give shoppers a reason to buy, but will also incentivize teens to concentrate their branded footwear purchases with Journeys. It will elevate Journeys' brand awareness, promote the Journeys brand and let our teams interact with customers on a more frequent basis. Last year's launch of the Schuh loyalty program well surpassed our expectations, with 1.4 million signups in about nine months and a 6% increase in repeat purchase frequency for members versus non-members. The J&M Insiders program, with over 700,000 new members in its first year, has led to improved average transaction size. We're expecting the same kind of impact with the Journeys program, and paired with key marketing campaigns around the loyalty launch and a larger overall customer base, we'll be targeting signups in excess of those achieved in our other programs. Following their promising launches, we're anticipating further gains from the Schuh and J&M programs, as well. With these loyalty initiatives underway and access to even more first-party data, we're investing in our data and analytics talent and leveraging CRM tools to dial into more targeted digital advertising, reducing inefficient spend and driving higher impact for the dollars spent.

Another initiative to drive growth, and relating to our second pillar, maximizing the relationship between physical and digital, will be the much anticipated launch of buy-online-pick-up-in-store, or BOPIS, at Journeys and J&M. This program will not only give the consumer more choice of when and how to receive their purchases, but will also give greater ability to see availability of product online. Rollout of BOPIS follows a multi-year series of projects, including updated inventory accuracy, investment to improve our order management and inventory tracking capabilities and rollout of new point-of-sale software and hardware which integrates BOPIS functionality for a streamlined store experience. We expect BOPIS will launch following Journeys loyalty later this year.

BOPIS will be a key driver of digital sales, as part of our first strategic pillar, accelerating digital to grow direct-to-consumer, and represents as much as 20% of Schuh's online sales. Loyalty, CRM efforts, site enhancements, added investment in digital marketing and increased web-only inventory will also contribute. Our goal, after absorbing the pandemic gains, is to reaccelerate digital growth back to double-digit levels. At 20% of our retail business currently and with double-digit levels of profitability, this will be a meaningful contributor. In addition, we're building on our partnership with Journeys' brand ambassador Karl Jacobs with his 28 million social media followers and the 100-plus influencer partnerships and brand seedings from this past year.

Completion of the rollout of new point-of-sale software and hardware in North America will not only streamline BOPIS functionality, but will also unlock additional store technology capabilities and efficiencies. This new configuration incorporates iPads used for selling at the seat, processing e-commerce orders, and mobile checkout, which is especially beneficial for line busting during peak selling days. Onboarding, training and store operational activities, like visual merchandising changes, are delivered more efficiently through this new system.

Another omnichannel initiative we're making good progress on is the advancement of Journeys' off-mall strategy. We view stores as strategic assets offering consumers immersive experiences very different from what can be achieved online. Success with a number of early off-mall locations that delivered attractive four-wall results encouraged us to develop an expanded pilot to open up to 25 additional off-mall stores in places like power centers, and our test-and-learn approach is designed to help refine the product mix, determine optimal co-tenants and accelerate the maturation curve. With these stores comes more marketing investment to drive awareness, but a much more favorable rent structure, thereby reducing our store fixed cost base and putting us in a position to diversify away from malls. We're enthusiastic about this growth opportunity. It gives us the potential of several hundred additional locations we can roll out quickly once we have refined the approach.

Finally, our fourth strategic pillar is intensifying product innovation and trend insight efforts. A prime example of the success we're having is the work J&M has done to transition the business from a dress shoe resource to 80% to 90% of its footwear sales now under the casual and casual athletic categories, featuring hybrid product boasting technical features customers can wear to work or wear to play. McGuffey, Amherst and Upton are some of the franchises driving these positive results. For this upcoming year, J&M is planning to launch four new hybrid casual and five new boot constructions, plus J&M's first ever true walking/running shoe. Further expansion into J&M Collection, a higher-tiered offering, golf, boys and women's will drive incremental growth. In addition, new XC4 collections of wovens, knits, blazers and outerwear, as well as new fit sizes, will build on apparel sales that now constitute roughly 40% of J&M's DTC revenue.

To close, while the environment has posed many novel challenges, we remain very optimistic about the future of our business and excited to advance our footwear-focused strategy to deliver growth and value creation.

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

Operator

Thank you. Our first question comes from the line of Mitch Kummetz with Seaport Research. Please proceed with your question.

Mitch Kummetz

Yes, thanks for taking my questions. I've got a handful. I'm just going to go one at a time, I hope that's okay.

My first question—and I do appreciate all the color on Q1. It sounds like the pressure there is going to be Journeys and the Brands Group. Could you just add more color to that? I mean, is there any way you can kind of give us sort of a comp range on Journeys? It sounds like the Brands Group is going to be down? Are we talking kind of down double-digits? Anything more there would be helpful.

Mimi Vaughn

Mitch, thanks for the question. We are calling Q1 out, in particular, because there's a big swing from last year to this year, and there are several unique factors for this year making it a different first quarter. It's mostly around sales and gross margin.

Journeys' comps were quite favorable last year, and what we are not seeing this year is boot sales. Boot sales were down quite a bit. There's been unusually warm weather that's affected much of the country. As we mentioned, our non-footwear sales are down, as well, because the consumer is holding back and just really budgeting what they're spending and not spending anything beyond that. Last year, we had a really good receipt month and we were able to get new product out into the system to feed robust demand.

We also expect tax refunds to be lower this year in the aggregate. So far, they've get pace with last year. But, all in all, the COVID tax credits are doing to be down a little bit versus a year ago.

Genesco Brands, as you said, last year, we had great sell-ins due to supply chain disruption, and this year, we're not in anniversarying that.

Then, the final thing I'd point out is gross margins. We have been anniversarying the big pickups that we had due to just, essentially, no markdowns during robust demand times, and this is the final quarter that we are going to be anniversarying that and returning to more normalized markdowns, and that impacts us, as well.

Mitch Kummetz

Okay, and then, maybe moving on, you talked about $20 million to $25 million savings, I believe, from the cost program. Is there way you can kind of provide some cadence around that? I don't know how quickly that kicks in. Then, you mentioned selling salaries as a component of that. I am kind of curious, how much of the cost improvement is going to be driven by that, and how much ability do you have there to really kind of cut?

Mimi Vaughn

I'll give a bit of color and then turn it over to Tom.

We have a very targeted cost program, and that $20 million to $25 million is what we are expecting to get from this year, and selling salaries are going to be a big component of that. Our two big expense drivers are rent and selling salaries. We've had a lot of success in driving down rent expense.

But, let me turn it over to Tom for some more specifics.

Tom George

Yes, Mitch, we feel really good about our progress there and we do expect to achieve $20 million of that in this fiscal year, most of it in the back half, and within the back half, most of it in the fourth quarter. So, really pleased about that.

To your point on selling salaries, we've really been digging in there to get a good understanding of what it takes, from an hour perspective, within the stores to not only, obviously, in-store customers, but deliver and fulfill on our e-commerce business.

So, about half of it is selling salaries and a significant portion of the remaining half is reductions in rent, and then there are some other variable store expenses we've been looking at, that we think we have opportunities to reduce there, including credit cards, and some of the inter-store kind of freight activity, we think there's opportunities there.

I think just the only other thing to point out, the savings in the fourth quarter there, that we're going to achieve, is somewhat muted by—this is where the 53rd week plays in, and that's somewhat muting some of that savings in the fourth quarter.

Mitch Kummetz

Okay. Then, you mentioned 60 store closures at Journeys. It looks like 33 of those are happening this year. Again, can you just kind of help us with the cadence of this year's store closings? Then, also, assuming that the bulk of those sales transfer to other stores or online, how much op margin can you pick up in the process of closing those 60 stores?

Mimi Vaughn

As we've been looking at stores and overall levels of volume, why we have targeted—and we're, actually, targeting 64 for this year, Mitch, and that is based on whether stores are contributing at the levels that warrant keeping them operating, given some rising costs. When you think about it, it doesn't take a lot of transfer in order to have the economics come out about where they are if the store isn't particularly productive, and so there can be a relatively small amount of transfer to another store, leveraging that fixed expense base and eliminating the fixed expense base from the store that's being closed.

In addition to that, we have dialed in a lot more, specifically, exactly how much we can transfer to online. We've got great first-party data, our customers trust us, they give us the information, and we have increased abilities to be able to direct that customer either to another store or to online.

Mitch Kummetz

Then, Mimi, you talked about elevated footwear channel inventory. Do you have any sense as to when you think that might normalize, and how much of this is issues with kind of the vendor community and their direct discounting versus maybe what you're seeing with some of your kind of retailer competitors?

Mimi Vaughan

Really, Mitch, it's both. We had come out of the best full-price selling environment we've ever seen, everybody was excited about the consumer demand at the time, and with the backup in the supply chain, everything, it was the perfect storm, everything landed at once, where a lot of great inventory landed and consumers pulled back at the same time. So, we've been seeing brands really working on getting their inventory levels down, and we've also seen retail partners doing that, as well, and what that translated into is just much more promotional activity, a lot more markdowns. We're a full-price seller. As I said, we tried more promotions, but it, quite frankly, didn't move the needle against the backdrop of such a vigorous promotional environment.

The outlook right now—I mean, we've been following this and we were optimistic that we'd be in a better place right now, but we really are thinking that it's going to be by the second half, once inventories have continued to sell off. In the meantime, we continue to have our margins hold up quite well, we're above pre-pandemic levels for both Journeys and Schuh, and we'll just continue to manage our overall inventory until we get to a point where our inventory is right-sized.

Mitch Kummetz

Okay, and then last question on the order book. I think, Tom, in your comments around the full year, you talked about the Brands Group being difficult in the first half. Again, I assume that's a function of a challenging spring order book, but I would guess that retailers are being pretty conservative ordering fall, as well, are you seeing that, and does that put pressure on the Brands Group in the back half, also?

Mimi Vaughn

It's less pressure that we're seeing in the back half right now, we have absorbed a lot of the spring order book, and we are seeing some bright spots and some green shoots with several retailers turning back on orders. There is definitely more robust appetite in the value channel. We're seeing consumers shift down into—you know, trying to look for value, quite frankly. So, there are differences in terms of the channels that are being served.

Tom might add something to that, as well.

Tom George

Yes, I think that's sort of our take on it. I think there's just a little bit of a general dynamic change this year, especially for those accounts. They want the brands, so to speak—in this case, our licensed Brands Group—to be able to take more of that inventory risk. At the same time—how these conversations go—at the same time, they want us to be able to fulfill in-season. We believe, consistent with earlier discussion on when the inventories in those channels normalize, we believe they will get more normalized by mid-year, and then we'll be ready for the back half of the year to be able to fulfill in-season orders.

Mimi Vaughn

Yes, and we do think there will be upside there, because we will be anniversarying the promotional activity that happened in the back part of the year last year.

Tom George

That's right.

Mitch Kummetz

All right. Well, thanks for taking all my questions, and best of luck.

Mimi Vaughn

Thank you, Mitch.

Tom George

Thanks you.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Vaughn for any final comments.

Mimi Vaughn

Thank you for joining us today, and we look forward to talking with you when we report first quarter earnings.

Operator

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