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Q4 2019 Genesco Inc Earnings Call

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CORPORATE PARTICIPANTS

Mimi Eckel Vaughn *Genesco Inc. - Senior VP of Finance & CFO*
Robert J. Dennis *Genesco Inc. - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Jonathan Robert Komp *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*
Laurent Andre Vasilescu *Macquarie Research - Consumer Analyst*
Mitchel John Kummetz *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*
Steven Louis Marotta *CL King & Associates, Inc., Research Division - Senior VP of Equity Research & Senior Research Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco Fourth Quarter Fiscal 2019 Conference Call. Just a reminder, today's call is being recorded.

Participants on the call expect to make forward-looking statements. These statements reflect the participants' expectations as of today, but actual results could be different.

Genesco refers you to this morning's earnings release and to the company's SEC filings, including the most recent 10-Q filing for some of the factors that could cause differences from the expectations reflected in the forward-looking statements made during the call today.

Participants also expect to refer to certain adjusted financial measures during the call. All non-GAAP financial measures referred to in the prepared remarks are reconciled to their GAAP counterparts in the attachments to this morning's press release and in schedules available on the company's homepage under Investor Relations in the Quarterly Earnings section.

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

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

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

Fiscal '19 was an incredibly significant and successful year for Genesco. We accomplished a lot with a number of important milestones and a turnaround in the trajectory of our business.

Most notably, we delivered our strongest comp increase in 3 years. We achieved a positive store comp, which, in connection with our cost reduction program, allowed us to leverage our brick-and-mortar expense structure. We drove increases in operating profit and EPS even as we incurred a fair amount of bonus expense versus almost none last year. We generated over $200 million in operating cash flow, including Lids. And then finally, we completed the sale of Lids for $100 million, subject to working capital adjustments and a $28 million tax benefit. And we retained the Lids headquarters building, which leaves us with additional value. The sale provided us with even more cash to potentially accelerate share repurchases and, more importantly, allows us to now sharpen our focus as a footwear company.

We were able to execute all of this because we have great businesses and great people. Our well-positioned businesses remained undisputed leaders in their categories. The strength of our concepts and compelling assortments allowed us to not only grow top line, but the actions we took throughout the course of the year enabled us to flow more to the bottom line.

Now an important note before I go on. Because we completed the sale of Lids on the last day of our fiscal year, according to GAAP, we must treat the division as a discontinued operation and restate our historical financials as if we never owned the business. Therefore, there are numbers in comparisons in our earnings release and on this call that you'll be unfamiliar with.

To facilitate your understanding of our results versus expectations for fiscal '19, we will discuss our consolidated comp and EPS performance, both pre-restatement, including Lids, and post-restatement for continuing operations without Lids and help bridge the differences.

So back to our recent performance. Fiscal '19 adjusted EPS, including Lids, which is what we base our guidance on, was $3.46, up 11% over last year's $3.13 and well above our most recent guidance, which was near the midpoint of our $3.10 to 3.40 range.

To exceed the high end of the range was a great way to finish what was an exceptional year. For the full year, consolidated comps increased 3%. Without Lids, the improvement in our performance was even better. Excluding Lids, adjusted EPS was $3.28 compared to $2.67 last year, an increase of 23%, with a consolidated comp increase of 5%.

In the fourth quarter, and including Lids, on the strength of our U.S. retail footwear business, we achieved a 4% consolidated comparable sales increase, matching the third quarter's strong result. We are especially excited about the solid positive comp posted by stores in the all-important holiday sales quarter. The positive brick-and-mortar gains in each of the last 3 quarters shows the consumers' interest and the store experience. And at the same time, our e-commerce has also continued its strong multiyear run, including a nice increase in Q4.

The strong consolidated comp increase, better gross margins, benefits from our cost-saving initiatives and lower taxes all resulted in record fourth quarter EPS.

Even with a total sales decrease, due primarily to 1 less week in the quarter versus last year and significantly more bonus expense this year versus last, adjusted EPS was nicely above expectations, improving to $2.18 versus $1.85 or up 18%, excluding Lids.

Consolidated comps, excluding Lids, also increased 4%. Looking at the performance of each of our businesses in Q4, and we'll start with Journeys. It was an all-around fantastic quarter, as the strength of both the athletic and the casual product assortments fueled continued top line momentum.

Good sales were the biggest contributor to Journey's Q4 success, but also contributing was the diverse mix of styles, brands and franchises across our casual and fashion athletic offerings.

Retro athletic and classic product continued to drive our business, but the styles that were on top of the leaderboard this year, as usual, were not the same ones that were on the top last year, as Journeys' merchants adeptly manage the fashion rotation that is an inherent part of this business.

Both store and e-commerce comps were nicely positive, which led to a high single-digit total comp gain on top of last year's double-digit comp increase and a significant improvement in year-over-year profitability.

This outstanding comp performance is a real testament to the deep expertise of Journeys' merchant team, making the right product calls, and then the skill and the sales team driving conversion. Journeys' results in fiscal '19 have further cemented its position as the leading destination for fashion footwear for teens.

So congratulations to the entire Journeys team under new leadership of Mario Gallione on an incredible year.

Meanwhile, Johnston & Murphy concluded a record-breaking year with a record-breaking operating income in the fourth quarter highlighted by a mid-single-digit comp increase. J&M's recent performance has been marked by higher conversion and strong sell-throughs, both in-stores and online, as consumers have responded very favorably to the brand's on-trend casual footwear and apparel offerings.

Achieving all-time highs in sales and operating income in fiscal '19 underscores the team's success in pivoting from a dress footwear resource into a lifestyle brand that spans multiple categories.

This also marks a noteworthy ninth consecutive year of sales increases with the J&M team. So congrats to everyone at J&M on these terrific accomplishments.

And lastly, we have successfully accomplished a seamless leadership transition. Thank you, Jon Caplan, for your invaluable contributions evolving the J&M brand to the business that it is today. You leave a lasting legacy and have positioned J&M well for the future, and you leave it in the capable hands of Denny Ewoldsen and the rest of the J&M team.

Wrapping up our U.S. footwear business, Licensed Brands delivered a much better bottom line performance on lower sales in Q4, as Licensed Brands successfully wound down the Bass business and benefited from actions to rightsize its infrastructure.

Across the Atlantic, our footwear results were significantly more challenged. With the holiday season playing out against the continued backdrop of weak consumer demand for apparel and footwear in the U.K. and even greater uncertainty around Brexit, Schuh delivered a disappointing high-single-digit comp decline.

While we expected the selling environment to be characterized by heavy discounting, participation in the promotional activity didn't translate into sales like we planned until we took even heavier markdowns, since the U.K. shopper wasn't buying unless they felt they were getting a great deal.

Full price footwear purchases seemed polarized, largely reserved for select must-have items and brands. As we analyze recent results, the challenge that Schuh faces go beyond just a weak consumer environment. The U.K. market is currently in a strong athletic cycle, tilting to performance athletic brands, which is not squarely in Schuh's wheelhouse, and Schuh has more limited access to this range of product. On top of this, Schuh's online business was negatively affected by the implementation of the new data privacy requirements in the spring of last year.

Given the decline in operating income, we have implemented a 20-point program taking action to immediately address profitability while working on more medium-term actions to improve Schuh's positioning with the consumer and with the brands it sells. And I will elaborate more on this program later on.

The strong performance of Journeys and Johnston & Murphy this year highlights the powerful footwear platform we've built, that combines both operating footwear retail businesses and owning footwear brands.

As we said at the start of the Lids sale process a year ago, we believe there is great potential in our footwear business, and sharpening our focus will allow us to better realize that potential. We are extremely enthusiastic about this next chapter for Genesco, and I will come back to this topic after Mimi discusses the specifics of our results.

Finally, in its last quarter as part of Genesco, the Lids Sports Group posted a positive low-single-digit comp, as Lids went against last year's very negative results. Lids exceeded our expectations for the business in the quarter.

With respect to our outlook. The new year started slowly in February, with a delay in income tax refunds due to the government shutdown. While our cost for Journeys in particular were affected by these delays, comps have been very quickly catching up as refunds are catching up. And when the catch-up on refunds is complete and we clear the Easter offset, we believe we should be in a position to deliver our sales plan for the quarter.

Importantly, in fiscal '20, we believe our U.S. retail footwear businesses are well positioned to maintain their positive top line momentum based on the strength of their product assortments and the initiatives we are executing to drive traffic to our brands and increase conversion.

In terms of Schuh, the near-term uncertainty around the timing of a rebound due to the unknown impact from Brexit and the precise timing of our turnaround that has caused us to be cautious about the coming year.

Without Lids, we have a small hole to fill on operating income. And while we have a substantial effort underway to eliminate stranded costs, there will be some expense we will need to absorb. We do, however, have EPS upside in this transition year from share buybacks.

By deploying a portion of the large amount of cash we have on hand and taking all of this new account, we are projecting adjusted earnings per share to range between $3.35 and $3.75.

We do regard this guidance as a range, once again, with some upside and some downside potential. Something close to the middle reflects our best current belief of where we might come out for the year, represents an increase in the neighborhood of 8% over fiscal 2019 earnings from continuing operations of $3.28.

And so, with that, let me turn the call over to Mimi to go over the financials and the guidance in greater detail.

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

Thanks, Bob. Good morning, everyone. We've posted more information in a brief presentation summarizing results and guidance and in our CFO commentary that you can access online at our website.

To remind you, as Bob said, because we completed the sale on the last day of our fiscal year, GAAP requires that we include Lids' results in discontinued operations and that we restate our historical financials as if we never owned the business.

This restatement process involve taking certain expenses that were previously shared with and allocated to Lids and respreading them across our remaining businesses. It also involves including on both a historical and a future basis the cost of the Lids headquarters building, which we still own, even though there are no operations associated with it.

The net effect of all of this is that for fiscal '19, operating income is lower by about 20 basis points for most divisions and corporate bears the cost of the building. This reduces profitability for continuing operations versus prior to the restatement, and prior years generally will have a similar effect.

Nevertheless, since Lids was both a higher gross margin and a higher SG&A expense business than average, without it, gross margins are lower, SG&A expense is lower and operating margins are higher on a percentage basis for continuing operations on a consolidated basis.

I would like to call out specifically that my portion of the discussion today will address results and outlook for our continuing operations only, which are not including Lids.

The strength of our U.S. footwear businesses drove significant increases in Q4 operating profit and EPS even as we incurred a meaningful amount of bonus expense and had 1 less week of sales.

Adjusted EPS grew 18% to $2.18 from $1.85, propelled by better gross margins, SG&A leverage and lower tax rates. It was expenses, though, both at the operating division and corporate levels, that drove the beat versus expectations.

Q4 consolidated revenue was down 2% to $675 million. Excluding the extra week from last year's 14-week quarter and the impact of lower exchange rates, revenue was up 4%. Consolidated comps were up 4%, with store comps up 3% and direct comps up 10%.

On the strength of this assortment and solid in-store execution, store comps were even more positive for Journeys than for the company overall.

Direct as a percent of total retail sales in Q4 was 14%, up 90 basis points for the quarter and 50 basis points for the year, demonstrating the good progress we continue to make driving e-commerce, which pushed e-commerce to 11% of total retail sales.

With our direct business, we do focus on profitability, especially with regard to our marketing spend. We could grow this business more quickly with higher marketing expense but choose instead to keep a close eye on profits.

Journeys posted an impressive comp increase of 7% on top of an 11% gain last year, marking the seventh consecutive quarter of increases and including strong double-digit e-commerce comps.

Highlights of Q4 store performance included mid-single-digit increases in conversion and higher average ticket size. Average ticket was listed by an increase in footwear ASPs and by add-on apparel sales.

However, the stronger driver of Journeys' improvement, once again, was more fashion athletic and more casual footwear unit sales. Boots were an especially strong contributor.

Better in-store conversion and a higher average ticket also drove J&M's solid store comp. Not only were store sales strong, but J&M's well penetrated digital channel posted nice gains as well for an overall J&M comp of 4% on top of a 4% gain last year.

Footwear units were up, but the real star of the holiday season was apparel, especially the knit business, which tied in well to the sport casual look that has driven J&M's success all year. In total, Q4 apparel sales were up 16%.

Higher fashion athletic and casual footwear ASPs were a bright spot in what otherwise was a difficult quarter for Schuh. Lower traffic and conversion led to negative store comps, which, coupled with soft e-commerce sales, resulted in a negative 8% comp.

Consumers had a propensity to purchase more performance athletic footwear for the holidays, and Schuh experienced weakness across boots, fashion athletics and other casual products as a result.

Q4 consolidated adjusted gross margin increased 60 basis points to 46.7%. Journeys' total gross margin increased 60 basis points due to lower markdowns. Gross margin was up also 60 basis points at Schuh as a result of tighter inventory control and fewer promotional sales versus a year ago.

At J&M, gross margin was down 60 basis points due largely to higher markdowns to clear selected merchandise and higher freight expense from a shipping mix shift.

Finally, more direct-to-consumer shipments drove Licensed Brands' adjusted gross margin improvement of 280 basis points. Total adjusted SG&A as a percent of sales decreased 10 basis points to 38.1%, with strong leverage from rents, selling salaries and other expenses.

We've talked about higher bonuses versus almost none last year. And without this, expense leverage would have been 130 basis points. Expense dollars were down in the quarter, not only because of the impact of our cost-savings initiatives, but also because of 1 less week of expenses in a 13- versus 14-week quarter.

Finally, versus expectations, expenses were lower in every one of our businesses and corporate coming from a variety of areas, including selling salaries, rent, professional fees, medical claims and staff expense, among others.

At the beginning of fiscal '19, we launched a profit enhancement program, including Lids, to reduce annual expenses by $35 million to $40 million. With the year completed, we're very pleased to announce that we identified savings of almost $44 million, blowing away the top end of our target, thanks to the resourcefulness and the creativity of our people attacking costs across our organization.

Adjusting for bonus and the extra week last year, we ended the year flat to last year's expenses on a higher level of sales, which is a tremendous accomplishment taking into account cost inflation.

As part of this program, we continue to have, in partnership with our landlords, very good success with renewals and rent reductions. We negotiated almost 170 renewals and achieved a 15% reduction in cash or 8% on a straight-line basis. This was on top of a 21% cash rent reduction or 13% on a straight-line basis for over 190 renewals the year before. An important aspect of these renewals is the shorter term, which allows us to think about rent increasingly as more variable than fixed and gives us flexibility in our cost structure.

Besides rent, top areas of savings included renegotiation of our freight carrier contract, DC expenses, targeted headcount reductions and credit card fees.

Other savings in stores included bank fees, store network costs and store supplies. Outside of stores, savings were in IT, marketing, T&E and more. We know we must reduce the store cost structure and improve efficiency in e-commerce to combat profit dilution from operating 2 channels and driving traffic to stores. This was the beginning of a multiyear effort to reshape our cost structure and allow for continued investment in stores and digital.

In summary, Q4's net result was adjusted operating income of $58.5 million versus $54.4 million a year ago. Adjusted operating margin increased 80 basis points to 8.7%. Journeys, J&M and Licensed Brands total OI was up. Schuh was down.

Turning now to the balance sheet. Inventory is in excellent shape as we achieved our objective of improving by 0.1 of a turn this year. Q4 total inventory was down by 5% on a sales increase of 4%, adjusting for a comparable 13-week period and for foreign exchange.

Journeys' inventory was down 3% on a sales increase of 7%. J&M's inventory was up 5% on a sales increase of 4%, and Schuh's inventory was down 7% on a sales decrease of 6% on a constant-currency basis, as Schuh successfully managed down inventory in spite of its sales challenges.

Capital expenditures were $8 million, well below last year's level of $18 million and depreciation and amortization was $13 million. Another of our key initiatives for fiscal '19 was to reduce capital spending. And we successfully brought spending down to $42 million from $99 million the year before, which included the Journeys' DC expansion.

As of last Friday, March 8, we had repurchased almost 1.6 million shares during the fourth and the first quarters for $72 million at an average cost per share of $46.56.

We had $53 million remaining under our refreshed $125 million repurchase authorization. We ended the year with no U.S. borrowings versus $18 million a year ago and $167 million in cash, not including Lids sales proceeds. This demonstrated very strong cash flow generation as we carefully managed down capital spending and working capital throughout the year.

So turning now to guidance for fiscal '20. We estimate adjusted earnings per share to range from $3.35 to $3.75. As Bob said, we regard this guidance truly as a range, with both upside and downside potential and something close to the middle as our current view of where we may come out.

This will be a transition year for us. We closed and collected the cash from the Lids sale and are presently operating under a transition services agreement with the buyer to unplug Lids from shared services and systems.

And while at Lids was the least integrated of our U.S. businesses, and we have a detailed plan to eliminate stranded costs, there will be some shared expense we have to absorb.

Therefore, in addition to comps, the top and bottom of the guidance range are driven by 2 factors. The first is whether we complete additional buybacks of shares with the cash we have on hand. The midpoint of our range assumes buybacks at the level we have already completed. The top end assumes we buy back more shares.

The second is the degree of success we achieve eliminating stranded costs. The midpoint of our range assumes we achieve the plan we have laid out. The low end assumes we are not as successful as we intend to be in this fiscal year.

For the year, we expect consolidated sales will range from flat to down 1%, with consolidated comps, including direct, ranging from up 1% to up 2%. We expect total sales to be up for Journeys and J&M, offset by exchange rate headwinds and potentially negative comps at Schuh and lower revenues from Licensed Brands.

Store comps underlying our guidance range from roughly flat to up 1%. We plan to open around 30 new stores, 20 in total for Journeys, with an emphasis on Journeys Kidz. The balance of the Journeys stores will be mostly fill-in locations in strong malls, where we haven't previously been able to get the right rent deal.

Our recent analysis of store openings suggests we are earning on average above our cost of capital. The new stores we opened last year had about twice the sales volume of stores we closed, so we will continue to pursue these openings selectively.

We plan to close around 40 stores for a square footage decrease for the third year in a row. However, we will keep a store open with a short lease term if the rent deal is attractive, so this number may change.

We expect gross margin to be up 10 to 20 basis points in total, with the improvement coming from the branded business, namely J&M and Licensed Brands.

With the lower store comp, we expect SG&A expense will delever in the 10 to 30 basis point range. The lower end of this range would mean also we did not eliminate all the stranded costs that we planned. We are launching another round of profit enhancement, cost reduction as a key initiative in fiscal '20, with a target of close to another $20 million, which is not yet fully reflected in these numbers. If we hit the top end of our comp range and realize more cost savings, we should be in a position to leverage expenses.

This all results in an operating margin percent within a few tenths of last year's level and EPS that ranges from up low single digits to up in the mid-teens, due largely to the impact of share buybacks. We estimate the fiscal '20 tax rate at 27%.

An important call-out for modeling is that the shape of our quarterly guidance changes without Lids since Lids was less profitable than the rest of the company during the first half of the year.

All 4 quarters should now be profitable, but very modestly so in Q1 and Q2, since it's still tough to earn money in these 2 very low-volume quarters.

Capital expenditures will be around $45 million, a little above last year's level, as we plan to spend more dollars on digital and omnichannel investments while still investing to refresh our store fleet. We estimate depreciation and amortization at $52 million.

Lastly, we're assuming an average of 18.3 million shares outstanding, assuming no stock buybacks beyond what we have made to date, but we can use repurchase availability opportunistically going forward.

Now I'll turn the call back to Bob to comment on our footwear-focused strategy and the other key initiatives we're working on.

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

Thanks, Mimi. With the sale of Lids finalized, I'd like to revisit the strategic rationale we laid out when we made the decision to be a footwear-focused company.

That decision came out of an in-depth strategic review that management and the board conduct with the assistance of outside advisers on an annual basis.

On top of that, we have spent much of the last year going through an exhaustive process to evaluate each of the businesses in our portfolio and the connections -- their connections to one another, and have validated that they are better together than they are apart.

Our strong strategic positioning, close connection with our customers and enduring leadership positions are what make each of our footwear businesses distinctive on their own, and what they share as sources of synergies makes them stronger together.

With greater focus, we believe we are now in a better position to unlock the full potential of our businesses and utilize the platforms we have for future growth.

We also believe that a company focused solely on footwear is easier for investors to understand and, therefore, easier for the market to value appropriately.

Journeys is the leading omnichannel retailer of branded fashion footwear to teens in North America, a position it has held for 2-plus decades. As its strong performance through fiscal '19, once again, demonstrates Journeys' understanding of teens and unrivaled access to merchandise this customer wants, the equipment's uniquely well served this fickle customer and to navigate the fashion shifts that are inherently part of life in this market segment, and to create and maintain strong competitive advantage.

Likewise, Schuh, despite its recent struggles, occupies a similar leadership position selling fashion footwear, not only to teens, but also to young adult shoppers in the U.K.

What further differentiates Schuh and engenders allegiance from its customer are its advanced omnichannel capabilities and equally passionate focus on customer service.

Meanwhile, J&M's leadership position is founded on brand equity that has taken more than 165 years and 30 presidents to build. This heritage and its ability to interpret its customers' ever-evolving fashion needs into a product offering that resonates season-after-season is what maintains Johnston & Murphy's preeminent positioning.

Johnston & Murphy also provides a footwear-focused Genesco with one of its most promising platforms for future growth. This platform allows direct sales to its customers through both brick-and-mortar and e-commerce, complemented by a vibrant wholesale business, offering the opportunity to add additional vertical brands that can plug into this infrastructure and control their own destinies in today's retail landscape, where brands increasingly go direct to consumers.

Together, the footwear businesses are even more compelling. Since Journeys and Schuh enjoy significant overlap in their vendor base, their combined scale allows for a stronger relationship with vendors that it's demonstrated in activities such as top-to-top global summits, held jointly to set marketing and product direction. Their combined scale allows for leverage and merchandise costs and purchase terms and an access to both hot and unique products, such as special makeups of certain franchises carried only in Journeys and Schuh.

Additionally, the sharing of best practices between these 2 related business provides great benefits in both directions, as their functional heads pair up to compare KPIs and exchange what is working best within their respective businesses.

Finally, these businesses provide the platform and infrastructure to plug in other branded businesses in North America and potentially in Europe.

We've said before that one of the areas of most significant benefit across all of our footwear concepts is the ability to detect and interpret fashion trends that start in one area of our business and then spread to others.

Whether trends start in Europe and then come to the America or vice versa or emerge in the young adult market and spread to teens, the ability of our merchant and product groups to go to market together and to share information and insights is the store's real advantage.

Finally, while Journeys and Johnston & Murphy may look separate and distinct from the outside, they share almost all of their retail systems and services, providing significant cost synergies.

From point of sale to merchandising systems, loss prevention to help desk, the retail infrastructure of these 2 concepts is completely integrated. Likewise, the wholesale infrastructures of the Johnston & Murphy Group and the Licensed Brands Group are completely integrated as well. Focusing further on these synergies is an important step in delivering enhanced value.

Shifting gears. We've talked about our overarching objectives to give our customers an outstanding experience however they choose to shop with us, and to keep our concepts relevant in the minds of our target consumers delivering on the high expectations in today's shopping environment.

Realizing we've taken a good amount of time to discuss what the company looks like without Lids, I'm going to do a light touch this time around and provide 1 or 2 examples of our fiscal '20 initiatives relating to each objective. And as a reminder, those objectives are: one, improve the customer experience and build a single view of the customer; two, enhance the in-store experience and drive sales in our brick-and-mortar locations; third, build out omnichannel and digital capabilities; and finally, strengthen the equity of our retail brands.

So starting with improving the customer experience and building a single view of the customer. After a successful pilot program, we're rolling out a new CRM platform at Journeys that gathers transactional, behavioral and demographic information, such as past purchases, shipping preferences, social preferences and promotional history that reside in our various systems and consolidating it into a unified view with the customer.

This capability will be hugely beneficial to our customer service reps, who currently don't have an efficient way to access complete customer data, and it will enhance their ability to timely respond to inquiries, fix problems and provide greater overall service.

The system will also be powered by artificial intelligence that will generate insights and recommendations for our customer service team to aid in their selling efforts.

Moving onto enhancing the in-store experience in driving sales in our brick-and-mortar locations. We are rolling out workforce management to Journeys' stores. This initiative builds on our shopper traffic accounting technology and takes the analytics and automation of store staffing several steps further to improve conversion and drive sales.

The idea is to keep adding labor to peak traffic times and to never miss a sale, but also reduce staffing during non-busy shopping periods.

Following a successful test for Back-to-School, we expanded the pilot to more stores and regions for the holiday season. The results were very encouraging with conversion and pilot stores exceeding the overall company, in addition to better control of payroll and pilot districs versus planned.

For Johnston & Murphy, we're exploring, selectively expanding its store base with a focus on A malls, of which there are over 200 in the U.S. that J&M currently is not operating in.

With the shift to a more inclusive product assortment from the significant growth in casual footwear and apparel, we believe the brand is much more commercially attractive to a wider consumer audience compared to its days as primarily addressed to resource.

What has been encouraging through this exercise is that landlords are being more open to creative lease terms, including a more variable rent structure to help mitigate long-term risk for this desirable category-leading brand. And what we know is when we open stores in a new market, we also see e-commerce sales increase there, too.

Now turning to building out omnichannel and digital capabilities. Among several initiatives, we are designing johnstonandmurphy.com with a focus on a better mobile experience, featuring larger product images, along with improved filters and navigation. The goal is to increase mobile conversion rates after the new site launches this fall.

And at the same time, we recently updated the journeys.com platform, which brought it -- with it a host of enhanced features, including in particular for mobile devices. They include a cleaner look and feel with simpler navigation and easier checkout, and then, coming soon, additional alternative payment methods like Apple Pay and Google Pay.

Finally, strengthening the equity in our retail brands. The objective here is for Journeys to lead in partnership with the most relevant team brands, the creation of memorable moments that resonate with our core consumer.

Building on the success of several events last year, Journeys is joining forces with Converse to offer a one-of-a-kind experience that celebrates self-expression and helps teens build confidence as they get ready to go off to prom this spring.

Hundreds of lucky high school students will have the opportunity to visit the YouTube space in New York City, where they will receive a free pair of shoes to customize on-site, learn the latest dance moves and receive mini makeovers through beauty tips from several of their favorite YouTubers. The event is being promoted through digital, social catalog and in-store promotions.

With respect to Schuh, we are executing on a detailed 20-point program to immediately address the deterioration in profitability. Our most significant goal is to attack the negative comp trend that emerged 4 quarters ago. Some selected actions include testing new categories like socks and apparel to fuel increased paydown sales, investing in made-to-order product offering to fill customers' footwear needs outside of the branded offering and rapidly replenishing the database of contact information that was greatly diminished with the implementation of the new data privacy requirements by collecting customer information, both at point-of-sale in-stores and online. We're also attacking Schuh's cost structure by doubling down on rent reduction and store rationalization efforts and continuing with the cost reduction efforts that successfully bound over $3.5 million of savings in fiscal '19.

Beyond these immediate actions, we're taking steps over the medium term to improve the position of the brand and with its consumer and with the brand Schuh sells. This starts with a refocused effort to strengthen the connections with our primary youth consumer through more effective digital campaigns and brand awareness programs.

Like Journeys, we will be investing in a new CRM system to enable a single view of the Schuh customer, so we can better understand each customer's path and the different ways they interact with the brand, both in the digital and physical worlds.

We're also testing a new store prototype in a handful of locations designed to enhance the in-store shopping experience and better showcase Schuh's powerful branded product offering.

Along the same line, we're working hard to strengthen our relationship with existing brands by leveraging both local and more global relationships in connection with Journeys to provide for broader access to popular styles and more exclusive offerings.

By continuing to improve the Schuh customer experience, we believe we will build even stronger loyalty and allegiance to shopping at Schuh.

So in closing, I believe the future for Genesco is very bright. We are a significantly stronger company than we were a year ago with a really healthy balance sheet that gives us extraordinary flexibility to invest for growth in our current businesses, pursue new and inorganic growth opportunities and opportunistically to return cash to our shareholders.

A year ago, I said we have a lot of hard work ahead of us. But I was confident that with continued focus, ingenuity and perseverance, and given the tremendous potential in our businesses and the ordinary strength of our people behind them, that we would meet the test retail was presenting and look back a year later with pride in what we accomplished together.

Thanks to the talented and dedicated people we have. I am pleased to say we accomplished that, what we set out to do and more. We have a lot to celebrate, and I'd like to extend a heartfelt thanks to all of our employees across all of our organizations for their hard work and success.

And finally, I would also like to extend a word of thanks to our long-term Lids colleagues and wish them the best of luck.

And with that, operator, we will take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Jonathan Komp of Baird.

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

First question I have is just the non-GAAP earnings including Lids for the year was $3.46, obviously exceeded the high end of your guidance, and I was wondering if you could differentiate a little bit some of the drivers of the upside that you saw during the quarter.

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

Sure. It was driven, first and foremost, by a great comp result. And so as often the case for us, the main driver is sales, but I'll ask Mimi to put a little more color on that.

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

Yes. I mean, the main driver absolutely was sales. I think that we had expected that in January, just given the great holiday season that we have had that we would give back a little bit in January, and that actually did not come to fruition. We maintained the momentum through January. And then right at the end of the year, I think that the impact of our cost-savings initiatives really paid off. I mean, the beat to expectations to our own expectations really came from cost savings across every one of our businesses. And so we saw savings in rents and in selling salaries, and we saw it -- and those are ones that should be recurring savings. We had one-time pickups as well in places like medical expenses. So all in all, we ended stronger on both the sales side and on the expense savings side than we expected.

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

And the other thing I would just point out, Mimi mentioned it, but I think it's worth emphasizing again, is that result, which exceeded our guidance, which we're very pleased with, also included a significant bonus being paid out across the company versus virtually no bonus last year.

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

Great. And I'd like to follow up there, more of a question on the outlook. And when you look at some of the G&A drivers, incremental cost reductions, presumably a lot lower bonuses and then some of the rent savings, I'm surprised that you might not be assuming or you're assuming deleverage on relatively modest comps. But it seemed like you might have a year where you could have better performance in that, given some of those savings. So any more color on the size of the stranded costs you're embedding or the other areas of inflation that are offsetting some of the benefits you might see?

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

Jonathan, I'll start. As I said just before, it's all about sales. And so with the low level of comp that we're constructing for our guidance, it still gets a little tough to leverage. Even with all the cost savings improvements we have, we have 2 things. Mimi will talk about the stranded costs in a minute, and then we still have upward pressure on wages. We think we can mitigate some of that with the workforce management program we're putting in place, but there is continued upward pressure on wages.

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

Yes. So I'll first -- I'll talk first about just comps and the comps in our guidance. We feel really good about the momentum we have in Journeys and in Johnston & Murphy. But we're coming off of a year where we had an 8% comp in the Journeys for the year on top of a 4% comp the year before. So we think it's appropriate to be conservative in our outlook despite this momentum that we're seeing. And then in Johnston & Murphy, we finished the year with a 7% comp, and so have also, we think, appropriately moderated the overall outlook for J&M. And there are headwinds over in the U.K. And so we're expecting, even in spite of a pretty negative year last year, flat to perhaps even negative comps for Schuh. So that doesn't really give us a lot of top line to be able to leverage the expenses. To talk specifically about stranded costs, Lids was the least integrated of our business. We've got a program in place where we are going to stamp out as much of the stranded costs and reorganize internally to eliminate that. So it's a few millions, Jon. But with the level of comps that we are projecting, it does become challenging to leverage. To the extent that we hit the higher end of our comp guidance and we get some more cost savings, which we haven't fully baked into our plan, we will be in a position to leverage. I think our leverage point at this point is below the 2% comp range. And so if we are successful in exceeding that, then we ought to be in good shape.

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

Okay, great. And last one for me, just on Journeys, I don't know if you're willing to give a little more color on the trends you're seeing within the first quarter and kind of the shape that's needed to hit the guidance of 0 to 1% on the comps. And then the fact that you're projecting 1% to 2% for the balance of the year, just curious, your thinking on why you won't expect it to be higher, given what seems to be still a good merchandising environment there?

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

Yes. Jon, we're not going to give a lot more color. I thought we were pretty more generous than normal in terms of describing what was driving the business. And it's really more the same. We're not seeing necessarily new trends, but what we're seeing is nice freshness coming in from the brands that matter the most. And so as we highlighted in the fourth quarter, for example, the top sellers, when you get down to style, were different from a year ago, even though some of the brands were the same. And we're seeing just continued efforts on behalf -- on our behalf by our vendors to continue to be fresh. And so that's what we're looking at. The guidance we have is against some very strong results that Journeys just delivered. So we think, in the case of Journeys, based on their past performance, it's prudent to be conservative. And then most obviously with Schuh, we're going to continue to be conservative about comps there, given the very uncertainty -- high uncertainty of Brexit in that country right now.

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

Yes. And just one comment around the first quarter result. So for Journeys, in particular, given all of the puts and takes with tax refunds this year, we thought it would be prudent to be even more conservative in the first quarter. The government was running at the widest gap, about a $39 billion gap in the level of refunds. We're still about $10 billion behind. Journeys' business is especially sensitive to that. We saw in the third quarter or in the third week or so of February a slowdown in those refunds. But once those refunds started to pick up, we were -- we saw really the momentum pick right back up. And so we think we can successfully come out on the other side once these refunds catch up.

Operator

We will now take our next question from Steve Marotta of CL King & Associates.

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

Mimi, you just mentioned that a more conservative in Q1 for Journeys. Does the Journeys comp estimate for Q1 differ materially from the annual plan? When you say conservative, do you mean that your internal plans for Journeys comp in the first quarter is below the annual plan?

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

It's a little bit below, Steve, not materially. I think it's just more in terms of a point of emphasis that we thought it was prudent to be a little bit more cautious just because of the uncertainty. There were so many changes in terms of income taxes in the last year and income tax refunds, lots of speculation about whether refunds would be at the same level or not. And so we built in a little bit more conservatism to accommodate any of those unknowns.

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

Okay. And you mentioned that the stranded costs are a few million dollars. Do you mind putting a finer point on that?

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

The stranded costs, if you look back, it's in the probably $2 million to $3 million range, and that is assuming that we can stamp out most of the stranded costs that we have. And so that's what we're working to do this year.

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

Also, and I may have misheard of this, I thought I heard Bob or Mimi mention that there were $20 million of targeted SG&A costs for -- was that savings this year? Did I mishear that? Can you talk a little bit about where you are on the cost savings program that you have identified and what you anticipate executing this year and next?

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

Yes. So Steve, we have made really good progress on our cost savings programs. I talked about a program in the fiscal year we just ended of -- with a target of $35 million to $40 million, which included Lids, and we exceeded the top end of that range. We actually identified opportunities equal to $44 million. The $20 million that I referenced is really for this upcoming fiscal year. And those savings, we've not yet identified. We haven't yet rolled all those savings into our plan. We're going to adopt the same posture that we did last year, where we set a target at the beginning of the year and we worked really hard to identify those initiatives throughout the year. And we'll update you as we make progress to that end.

Operator

We will now take our next question from Mitch Kummetz of Pivotal Research Group.

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

I guess, I've got a couple of housekeeping on the guidance, and then a third. So Mimi, on the share count for the year, so in the press release, in the footnotes, it looks like the low end of the range is built on 18.3 million, and the high end is 17.7 million. So that's a 7 -- or, I'm sorry, a 600,000 share difference. But you've got like $53 million left on the authorization. It seems like you've got capacity to buy over another million of shares. How should we think about that relative to the guide? It looks like the share count could be less than the 17.7 million based on where you are with the authorization.

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

Yes. Mitch, I think that what we had put into just the range was the shares that we have bought back to date, which is what represents the 18.3 million shares. And then we picked a number that said that if we were to be more aggressive about share buybacks, where would it be? And that would be within the $125 million authorization that we have. I think that the most important point I would make here is that we are opportunistic about how we think about share buybacks. We tend to buy back more when our stock price goes down and less when it goes up. And so we will be opportunistic to try to maximize the buybacks rather than just doing a forced match to -- forced march to buy back at any cost.

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

We did the math on that. Obviously, how many shares you can buy back depends on the price of the stock. And so we may have taken a bit of a conservative approach on what the price might be in terms of what's available to us for further buybacks.

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

Got it. And then -- okay. And then maybe on the SG&A side, you've talked about the -- how large the Journeys bonuses were in fiscal '19. Could you give us that number? And can you say what is embedded in the plan for 2020? I'm guessing you would expect it to be down. I mean, it looks like you would think Journeys would have a more normal year in 2020 versus '19 just at least based on the comp outlook. Can you say kind of how much you expect the Journeys bonuses to be down year-over-year in terms of what's in the guide?

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

Sure. So the bonuses were good for Journeys that we also had higher bonuses across other places in our organization in J&M and in corporate versus last year. And so the higher level of bonus expense really is across the organization. So we said it was in the neighborhood of $20 million, and it actually ended up just a little bit above $20 million, $21 million. And we've also said that a more normalized bonus is in about half that level, and about half that level is what we have in the plan for next year.

Operator

We will now take our final question from Laurent Vasilescu from Macquarie.

Laurent Andre Vasilescu ***Macquarie Research - Consumer Analyst***

I wanted to follow up on the earnings flow-through for this coming year. I think in past years, about 70% of your earnings came from the back half. And then in the last 2 years, all your earnings came from the back half. Just curious to know how we should think about this coming fiscal year.

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

Yes. So Laurent, I think that, as I said, Lids was a bigger loss -- had bigger losses in the first half of the year than the rest of our businesses. So we expect to have -- to be positive, which we weren't last year in the first quarter. We weren't positive. We expect to be positive in the first and second quarters this year, but just marginally so because, as I said, it's still tough to make money in these low-volume quarters for the rest of our businesses. I would expect that if you just look at the sort of relationship between third and fourth quarters last year of earnings that you'd be pretty close to where we're going to be for this year.

Laurent Andre Vasilescu ***Macquarie Research - Consumer Analyst***

Okay, very helpful. And I think you called out that gross margin should expand about 10 to 20 bps for the year. Just curious in how we should think about 1H and 2H. And then I think in the CFO commentary, you talked about J&M gross margin pressure for the fourth quarter. Just curious to know if that continues into the first half of the year at J&M.

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

So I would say that the gross margin pickup is going to be really more so in the second and third quarters than in the first and the fourth quarters, but just marginally so. I mean, we're talking about a small pickup. And then J&M's gross margin pressure from Q4 hasn't carried into the first part of fiscal '20. We actually expect that we are going to see a little bit of relief in J&M in the first part of this year.

Laurent Andre Vasilescu ***Macquarie Research - Consumer Analyst***

Okay, great. And then my last question. I think it was mentioned that you need a 2% comp to leverage expenses for the overall company. Curious to know if that 2% comp is applicable to Journeys or do you need a little bit higher threshold to leverage expenses within that brand?

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

Yes. No, I think that 2% is really under a 2% level at this point, and it's for Journeys in particular. I mean, I think the way that you have to think about that is what's the -- how are costs increasing or not increasing? One of the comments that I made today is that our expenses on a year-over-year basis were flat in fiscal year '19, and that was a result of successful cost reduction efforts. The first wave of cost reduction tends to be a little bit easier than the subsequent waves. But to the extent that we can keep costs in -- growing in the 1% to 2% range, then we ought to be able to leverage at those levels.

Operator

That concludes today's question-and-answer session. Mr. Dennis, at this time, I'll turn the conference back to you for any additional or closing remarks.

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

Well, just simply, thank you, everybody, for your interest in Genesco, and we look forward to talking to you again in 3 months.

Operator

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

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