Genesco Inc.

First Quarter Fiscal 2024 Earnings Conference Call

May 25, 2023

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*

Ryan Lountzis, *Jefferies*

PRESENTATION

Operator

Good day everyone and welcome to the Genesco First Quarter Fiscal 2024 Conference Call.

Just 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 First Quarter Fiscal '24 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

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Thanks Darryl. Good morning everyone. Thank you for joining us.

While this quarter was undoubtedly a challenging one, I'd like to provide context on the factors impacting the current operating environment, including the shifts we've seen in consumer dynamics within our Journeys business, what we've learned from them, and most importantly, the immediate actions we're taking to improve our performance against a difficult macro backdrop across the industry.

Before we get into the details, I'll start by underscoring that despite the near-term turbulence, which we have reflected in our revised outlook for fiscal '24, I am confident in our Footwear Focused strategy and believe in our future prospects. While the first quarter was even tougher than we anticipated for Journeys, both Johnston & Murphy and Schuh exceled, delivering record Q1 sales and demonstrating the benefit of our multi-division, multichannel operating model. In addition, we advanced many of the initiatives underlying this strategy that drive value: we continued to grow our digital business and we further strengthened the connections with our consumer through progress on loyalty and customer insights.

As a company, we have in the past successfully navigated multiple adverse retail cycles with the most recent being the COVID shutdowns in calendar 2020. As the leading destination for fashion footwear for teens, Journeys' track record of performance, including record sales and profits in the year following the shutdowns, demonstrates the resilience of the business, the importance of its value proposition to the consumer, and the ability to rebound from economic headwinds and fashion shifts. I am confident we will come out on the other side of this environment in an even stronger competitive position.

That said, we are not satisfied with our Q1 performance. Following a positive end to the holiday season, our outlook in early March assumed that this year's normalized spring deliveries would have had a more positive impact against the pronounced negative trend that emerged early in the quarter with our teen consumer at Journeys. However, business did not improve as we changed seasons in the latter half of March and into April.

It's clear that given the dramatic change in consumer sentiment in recent months we continue to contend with a bumpy post pandemic reset, with factors such as inflation, lower tax refunds, and competitive discounting, particularly in athletic footwear, disrupting normal seasonal demand and shopping patterns at Journeys. Consumers continue to stretch their wallets and make harder choices on what to buy or not buy, particularly after filling up their closets with our footwear and other offerings earlier in the pandemic. That said, consumers are responding well to newness and seeking more of it, and we and our brands are moving quickly to create more newness after a focus primarily on core product.

Given the pressure Journeys is under, we are taking significant further action to mitigate the near-term environment and consumer shift. We are aggressively working to reposition the product assortment at Journeys as quickly as possible to meet the customer's appetite for newness. In addition, we've now identified more than 100 Journeys stores for closing and up to $40 million in cost savings, adding to the targets we initially laid out. We are also working harder to rationalize our inventory and making good progress against it. Tom will address some of these efforts in more detail.

Despite the challenges in Q1, I'd like to highlight some key accomplishments. We achieved record top line results for both Schuh and J&M, highlighting the in-depth work we did to evolve their customer value propositions, to set the strategy in both the retail and branded sides of our business and execute well to it. We grew our comparable digital sales by 7% over last year, while digital penetration grew to 21% of total retail sales versus 19% last year, and we advanced important strategic initiatives that will help set the stage for longer-term sustainable growth and profitability objectives, which I will discuss further momentarily.

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Now, moving on to our businesses in more detail, and starting with retail. The Journeys consumer, already squeezed by inflation and lower tax refund dollars, did not respond to the change of seasons as we had anticipated as we shifted away from boots into spring merchandise, continuing instead to trade down to lower price points and take advantage of the abundance of discounted athletic product elsewhere in the market. This elevated inventory in the channels continues to suppress demand for other product. Additionally, with closets already full, we saw lower store traffic and demand for a number of key styles this year.

As a result, Journeys did not see the desired sell through in some of its core fashion athletic and casual products. Journeys countered with reduced receipts of core items and increased promotions and markdowns to clear its slower moving non-core goods, taking these actions, along with others like returns to vendors to rationalize inventories. Encouragingly, we saw meaningful strength for newness in Journeys' assortment. However, the demand for that product versus our core styles was greater than we typically see in a given season.

The core differentiator of the Journeys model is its ability to rotate its assortment quicker than competitors, given our unparalleled vendor relationships, and the team is working diligently to make those adjustments. This will take some time to execute but should begin to be evident by the back half of the year.

While our store traffic remains challenged, our digital business was a bright spot. Having digested the outsized digital growth from the pandemic, we have inflected to growth again.

Although consumer behavior remains unpredictable in the near term, we are taking extensive efforts to bolster our Journeys business while we weather the current environment. These include working with our brand partners in a bigger way to test new brands and styles, tell additional unique brand and product stories, and garner even more allocated and exclusive products; conducting a much deeper dive on consumer and market insights to better understand current purchase intent and inform our future actions; strengthening Journeys' presence in key marketing channels to drive awareness, traffic and sales, such as boosting paid search & paid social media investments, and refining our in-store selling approach, using input from recently completed time and activity studies, such as adjusting selling tactics, promoting use of new technology and tools in stores, and incentivizing our store employees to focus further on engaging with customers and driving conversion.

Moving now to Schuh, the business delivered another quarter of strong double-digit comp growth driven by solid increases in both stores and digital, with store traffic and average selling prices up. Schuh continues to benefit from a resilient consumer despite a challenging U.K. economy. Operating income improved nicely over last year, driven by stronger gross margins, market share gains and, at roughly 40% of sales, a digital platform that leads our overall company.

Efforts to improve access to the top brands and styles and reinvigorate its relationship with its customer through marketing and loyalty initiatives has resulted in the business operating much more effectively. These successful efforts inform the playbook for what we're now executing at Journeys.

Touching on loyalty, in its first year, total Schuh Club members now stand at 1.6 million and accounted for 27% of total sales in Q1, well surpassing expectations. Continuing to capitalize on loyalty remains key to driving market share gains and repeat customer purchases going forward. Congratulations to the Schuh team for driving the business to even greater heights.

Switching to our branded platform, Johnston & Murphy remained a bright spot, delivering its ninth consecutive quarter of double-digit top line growth, as well as the strongest gross margin and operating income gain among our businesses. This record start to the year was driven by strength across all

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channels—digital, retail and wholesale—as the business continued to capitalize on the long tail of the post-pandemic workplace casualization trend.

J&M's more affluent consumer is proving resilient against the challenging macro backdrop, but most importantly, J&M's assortment continues to resonate, led by casual, and the Upton and Amherst franchises in particular, as well as major strength in apparel which grew 35%.

Finally, we are very encouraged by the traction of J&M Insiders affinity program, which is now approaching 800,000 members. Not only is it driving stronger customer engagement and higher average transaction size with our existing customers, but nearly two-thirds of new customers are joining the program which should result in better retention and customer value.

I couldn't be more pleased with J&M's success. The team's effort to fundamentally reposition and reimagine the business as a more lifestyle-oriented brand in the face of a sea change in wear-to-work trends is driving outstanding and sustainable results, and there's lots of runway ahead of us. With the product foundation in place, we are now focused on expanding our marketing reach to tell a bigger story and increase J&M's awareness as we invest for the next leg of growth.

Finishing out the divisional recap, Genesco Brands Group surpassed our expectations in the quarter, despite going up against large sell-ins to accounts that were replenishing from supply chain disruption in Q1 last year. Results were driven by strengthening performance in the value channel, and improved gross margins as freight costs eased, contributing to breakeven operating income. While there's more work to be done, Q1 was an encouraging start to the year that we believe should progress further as headwinds subside over the course of fiscal '24.

Now I'd like to touch on our outlook. Given our Q1 results and the lack of visibility into consumer demand, we are taking a much more conservative view for the remainder of the year.

The second quarter is off to a similar start as Q1 for Journeys, and looking forward, even with shopping catalysts like Back-to-School and Holiday, we are not planning for a change in the trend. We anticipate consumers will continue to primarily shop when there's a reason, which will be at a time when our product assortment will also better reflect the newness our customer is craving, and we expect some benefit here. Beyond this, we are not factoring in a shift in consumer patterns or economic improvement.

Looking at the longer term horizon, fundamental to our success and capitalizing on the opportunities ahead of us is executing on the six pillars of our Footwear Focused strategy, the right strategy for moving our business forward. We've made progress in several areas, and while it's still early in the year, I'd like to briefly update you on a few of the strategic initiatives we are implementing.

Beginning with Journeys' loyalty program, part of the third pillar of our strategy—deepening consumer connections and insights—we soft launched Journeys All Access earlier this month. Starting in June, you'll see us fully launch the program to consumers as we gear up for Back-to-School. We couldn't be more excited about how this will amplify our connection with our consumer, as loyalty has done with our other brands. This platform provides fun and creative ways to connect with our teen customer base and incentivizes them to consolidate their branded purchases with Journeys as they achieve higher tiers.

With Journeys All Access rolling out, we are also better leveraging our investments in data analytics and personalization to increase consumer retention rates and drive size and frequency of purchases.

Next, as we work to accelerate our digital business, the first pillar in our strategy, we continue to ramp up a variety of initiatives at Journeys to fuel digital growth back to the double-digit rates we saw both before and during the pandemic. One example of the steps we are taking to drive growth is increasing the number of

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styles available to online consumers. Year to date we are up more than 10% versus the same time last year and up 50% versus two years ago, and we are better highlighting the availability of new product releases and launches of product exclusive to Journeys.

Following Journeys' loyalty rollout, we also look forward to the launch of buy-online-pick-up-in-store at Journeys and J&M later this year, which aligns with our second pillar of maximizing the relationship between our physical and digital channels. Rolling out our new point-of-sale hardware and software, including new mobile devices, was a foundational step toward enabling BOPIS functionality. We expect to complete the U.S. rollout in a few weeks and the Canadian rollout in July. BOPIS represents as much as 20% of Schuh's online sales, and we expect Journeys and J&M to see benefits like this over time.

Earlier this month, we also completed our receiving automation project at our largest distribution center, which not only reduces labor costs, but also accelerates how quickly we can make new product available to consumers for purchase, both in-store and online.

In addition, we continue to make progress on moving Journeys' footprint off-mall. We are testing and learning in places such as power centers across multiple markets. Supported by ramped up marketing campaigns to build awareness, we have so far opened 13 off-mall locations out of the 25 pilot stores we currently have planned. We still have work to do, but we are so far encouraged by the early reads and believe this initiative will represent a key element in Journeys growth moving forward.

In closing now, before handing the call over to Tom, I would like to thank all of our people. The incredible dedication of each one of you drives our business forward and is especially inspiring during challenging times. Although we face some near-term turbulence, I believe in our ability to successfully navigate these dynamics and come out ahead, as we leverage our uniquely positioned retail and branded businesses, our commitment to innovation with our Footwear Focused strategy, and leadership position with Journeys in teen fashion footwear.

With that, I'll pass it to you, Tom.

Tom George

Thanks, Mimi.

The headwinds facing Journeys had a greater impact on our Q1 financial performance than we anticipated and we are taking more aggressive steps to course correct and manage our P&L as we move forward. In the meantime, we remain very pleased with the strength at J&M and Schuh, and were encouraged by the better-than-expected results at Genesco Brands Group.

Turning to our results for the quarter, consolidated revenue was $483 million, down 7% compared to last year and down 6% on a constant currency basis. Our total comps were down 5%, as strong double-digit gains for Schuh and J&M were offset by the negative comp at Journeys. By channel, total store comps were down 8%, while direct comps were up 7%. By business, Schuh total comps increased 13%, J&M total comps increased 18%, and Journeys total comps were down 14%.

Gross margins were down 100 basis points as compared to last year. The main driver of the year-over-year change, as expected, was the return to a more normalized promotional environment at Journeys compared to essentially none last year, and the decrease beyond expectations was due to the markdowns we took to clear slower moving product given the pressure on Journeys' top line. All other businesses improved year over year and exceeded our expectations.

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By business, Journeys' gross margin was down 360 basis points. Schuh's gross margin was up 230 basis points as efforts to improve gross margin and strengthen relationships with key brands continue to gain traction. J&M's gross margin was up 300 basis points as we lapped the air freight headwinds we experienced a year ago. Finally, Genesco Brands Group gross margin was up 220 basis points as pressure from freight and logistics costs began to ease, and due to mix.

Moving down the P&L, adjusted SG&A expense was 52% of sales, an increase of 550 basis points over last year. The deleverage is mainly due to the lower sales volumes on what is already typically one of our lower volume quarters, given that we are at minimum levels of expenses at this time of year, making it difficult to drive them lower. The increased expenses relative to guidance are largely attributable to variable expenses associated with a higher mix of digital sales, as well as some one-time expenses in Schuh.

On the flip side, occupancy costs declined, given our initiatives to lower rent expense and close underperforming stores. Meanwhile, selling salaries, the second largest bucket in operating expenses, were only up modestly as our efforts to improve productivity and reduced hours has helped to mitigate the legislated increases in minimum wages.

Lowering and making occupancy costs more variable in the store channel remains a key priority and we continue to make good progress. In Q1, we achieved a 15% reduction in straight-line rent expense on 37 lease renewals across the Company, with an average term of approximately three years. This is in addition to the 237 renewals and 13% rent reduction we achieved in fiscal '23. With over 50% of our fleet coming up for renewal in the next couple of years, we have a lot of runway ahead of us to capture more savings.

In light of current traffic and sales trends and general consumer uncertainty, we have identified over 40 more Journeys stores for closure in addition to the roughly 60 we announced earlier this year. These are largely mall-based locations. With more sophisticated consumer information and tools, we believe we can recapture lost sales and profits through our online business and nearby stores, while at the same time reducing our store fixed cost base.

In summary, for the first quarter, we incurred an adjusted operating loss of $22.7 million compared to adjusted operating income of $9.5 million for Q1 last year. This all resulted in an adjusted diluted loss per share of $1.59, which compared to earnings per share of $0.44 last year. Increased borrowings and interest rates, a lower tax rate, and a reduced share count also contributed to the decline in earnings per share.

Turning now to capital allocation and the balance sheet, after a year of re-inventorying and repurchasing another 10% of our outstanding shares, we ended the quarter as planned in a net borrowing position and we are pleased inventories came in lower than expected. Despite the pressure on our Journeys business, we were able to adjust receipts and ended the quarter with inventories flat to last year and better positioned to invest in the newness trends we need in the assortment. The overall increase in inventories was driven by J&M and Schuh, to support the higher levels of demand in their businesses. We continue to work with our brand partners to adjust our inventory levels and product assortments, and believe inventories will be more in line with last year as we get into the back half. We expect to end the year with lower inventories than last year.

Capital expenditures in Q1 were $17 million with the investments primarily directed to our digital and omnichannel initiatives and new stores. Given current trends, we are lowering our full year CapEx by roughly 10% to $50 million to $55 million. We opened 12 stores, which were primarily off-mall and in outlets, and closed 26 to end the quarter with 1,396 total stores.

Finally, we repurchased 255,000 shares during the quarter, or 2% of total outstanding shares, for $9.2 million, leaving $25 million on our current authorization.

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As we've said, we are also doing a holistic review of our cost structure in connection with our fifth strategic pillar to reshape our cost base. To that end, we have identified an incremental $15 million of cost savings on top of the $20 million to $25 million reduction we outlined earlier this year with a large portion of the savings hitting the Journeys P&L. We can achieve SG&A savings through further occupancy reductions, implementing our time study findings to drive selling salary efficiencies by capitalizing on new technology initiatives to drive productivity, and procurement efficiencies on overhead.

Finally, as I mentioned, we are working hard to variablize our cost structure further to provide more flexibility to fluctuations in revenue. We expect to realize approximately $20 million of the savings in fiscal '24 and achieve an annualized run rate for the total of up to $40 million in fiscal '25.

Now turning to guidance, given the lack of visibility in the consumer environment we believe it's prudent to adopt a much more cautious view and extrapolate current trends through the balance of the year.

Our outlook for Journeys assumes consumer demand will remain muted as it has thus far year to date, improving only somewhat as we inject more newness into the assortment in the back half, particularly in Q4. While this will drive better results in the back half versus the front, our expectation on the magnitude of improvement is substantially more conservative than when we last spoke in March. We expect Schuh and J&M to perform well, however this will not be enough to offset the pressure at Journeys.

Taking this into account, we now expect fiscal year '24 total sales to decrease 4% to 5%, or down 5% to 6% excluding the 53rd week, versus our initial guidance for flat to up 2% for the year. The takedown in sales over the remainder of the year is due primarily to lower expectations for Journeys.

With regard to earnings per share, we now expect adjusted earnings per share in the range of $2.00 to $2.50 compared to our prior range of $5.10 to $5.90. Using the midpoint on our prior range, more than half of the reduction is driven by our Q1 actual results versus prior guidance and our assumptions for another earnings per share loss in Q2, which I'll outline in a moment. We continue to expect the 53rd week to add approximately $25 million of sales and have a small negative effect on earnings per share.

While the takedown in sales dollars in the back half is greater than the front half, as I mentioned earlier, difficult sales periods like the one we're facing are significantly tougher on our P&L earlier in the year given our largely fixed expense base. However, the flowthrough on higher sales volumes in the back half will allow us to better leverage our fixed costs and generate solid profitability.

Finally, our cost reductions and efforts to reflect newness in our assortment largely benefit Q4 this year. As such, that's where we expect to see the most positive impact to the bottom line and still expect to generate year over year earnings per share growth.

Some color on sales by business compared to last year: for Journeys we expect a low double-digit sales decline; for Schuh, we expect growth in the high-single digit range; for J&M a double-digit rate; and for Genesco Brands, modest growth through the remainder of the year.

We now expect gross margin rates to be down 30 to 40 basis points compared to our prior view for fiscal year '24 gross margins to be up 35 to 45 basis points. The change in our guidance is being driven by increased markdowns at Journeys offsetting the benefit from lower freight and logistics costs and continued margin improvement at Schuh and J&M.

We now expect adjusted SG&A as a percentage of sales to deleverage 170 to 200 basis points compared to our initial expectation of 40 to 70 basis points of deleverage, with the cost reduction efforts I described earlier and other actions working to partially offset deleverage on fixed expenses.

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In summary, we expect operating margin to decline versus fiscal '23, as the macro and industry challenges will offset our near-term strategic margin expansion and cost savings efforts.

Our guidance assumes no additional share repurchases with results in fiscal '24 average shares outstanding of approximately 12 million shares, and we expect the tax rate to be approximately 25%.

I'd like to now provide some specifics around Q2 to help you with your modeling. Starting with the to -line, we expect Q2 sales to be down in a similar range as the first quarter. Regarding Q2 gross margins, we expect an overall gross margin decrease of 40 to 50 basis points, given additional markdowns we have built in at Journeys to clear inventory. As Q2 is also one of our lower volume quarters, the sales decline will result in roughly 460 to 490 basis points of SG&A deleverage, resulting in an earnings per share loss for the quarter of approximately $1.25 at the midpoint.

In closing, we are taking appropriate actions to weather the near-term environment, and we remain confident that our Footwear Focused strategy will position us to deliver solid longer-term growth and shareholder value.

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

Operator

At this time, we will be conducting a question and answer session. (Operator instructions).

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 have several, so I hope you will indulge me.

Starting with Journeys. I guess my first question, just big picture, what's kind of the biggest piece that changed? It kind of feels like you were originally thinking, boots were a drag because of weather and pricing and once you kind of got through that maybe once you got through the negative impact of tax refunds that things would get better. Now it looks like that's not the case. Has the consumer taken another step down from kind of where they were? Is that kind of the biggest piece? Or maybe you can just elaborate on why the big change on the Journeys side?

Mimi Vaughn

Mitch, thanks for your question. Thanks for joining us this morning. That's exactly what we've seen. We are in a very unusual time and first, I want to say is that we have a really good track record of successfully navigating times like this, multiple adverse economic cycles and fashion shifts within Journeys. The most recent one was during the COVID pandemic, and Journeys took a hit and came out much stronger on the other side with record profits and sales and so we anticipate that we will navigate this as well.

But specifically, you're exactly right. As we were in the first quarter, we saw a pretty dramatic drop-off in store traffic and comps after we completed a successful Holiday season. We believe that the trend would improve in March, for a couple of reasons. One is that we got further away from boots. and we talked about the consumer trading down in boots, and also just really holding back on overall purchases. We thought that the switch into spring and a reason to re-wardrobe and to buy spring fashion would also bring the consumer in, but we frankly didn't see the improvement in store traffic. The consumer just seems to be

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sitting on the sidelines. It's such a unique time right now because of so many factors at play: the economic headwinds that are out there with inflation. Tax refunds were certainly a part of it.

I want to underscore how much the excess inventory and the athletic discounting is a factor in the market because that coupled with the price increases that we and our brands have taken across the assortment, have just pivoted the consumer to taking part in what usually isn't marked down and taking part in some of that product. Bottom line there is that we did not see the pickup in consumer traffic and purchases and we think it is prudent to just reflect that in our guidance.

Mitch Kummetz

I guess a few follow-ups. Maybe I'll ask them together and feel free to have me repeat.

You mentioned the athletic discounting and the drag there. When do you think that you'll see that end? You also talked about the trade down. I know that, that was an issue with boots in particular, consumers buying $100ish UGG minis versus $200 classic talls. How did that manifest itself now that you've transitioned to spring? Do you think maybe you're losing customers to lower tiers of distribution in the trade down? Then lastly, just in terms of kind of the change of season, is that having a big impact on sandals? Do you think there's some weather component to that, that could potentially get better as we get further into in the summer? So really three follow-ups: one on the athletic discounting, one on the trade down and one on the seasonal.

Mimi Vaughn

Okay. Great. Let me start with the athletic discounting.

I think as much as everyone in the industry was anticipating that the athletic discounting would subside by the time we hit midyear, before back-to-school, we've actually had a number of others within the industry who have announced recently who have said that that discounting will continue through the balance of the year and they have actually built their markdowns in to be able to effect that clearance. These are really dramatic discounts, and it's on good product, and it's on products that normally isn't discounted, and that's why we think it attracts a lot of attention.

I am going to answer your question around boots and the change of season by just talking about just the fashion cycle that we are in. Boots become much less of our assortment as we travel through the first quarter. They are more than 30% of our mix in February and they go down to about 10% in April, so they certainly become less of a factor.

What we are really seeing is that our consumer is sitting on the sidelines. When we asked our consumer on our most recent research at the end of the year, about how they feel about Journeys, we are still at the top of the league tables and consideration for where teens shop. We outscore others on being welcoming and cool and fun and having helpful employees, and so I think that it's really just sitting on the sidelines right now.

One of the things that I called out is that our consumer is looking for newness. We and our brands gravitated to core product. In recent times, it made a lot of sense because it was a safer way to play it when there were so many ups and downs in the consumer cycles, and quite frankly that's what we didn't have when we had supply chain shortages and we actually saw the demand for this core product. But there is a greater appetite for newness. Our merchants, our Journeys merchants have really hustled. They have moved heaven and earth to chase into some of this newness, and there are some examples of exclusive products for Journeys that we brought in that sold out, that is just newness and freshness. We are chasing into products that we were testing and we had good reads on. We are shortening the cycle of being able to

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bring in product. We are buying into styles that we saw working last winter. We are clearing out whatever we need to, but we are testing a lot of things and bringing in a lot of things. We think our chance to be able to effect this newness is going to be a little bit during back-to-school, but certainly within the Holiday season.

Sandal sales, I'll talk about that for a minute is that we have been talking about fashion shifting into casual, and in the fourth quarter it was the first time in a long time when athletic grew more than casual, and we saw that again in the first quarter. But one thing I would call out on the casual side is that there is a real interest in product that's comfortable, it's more structured, that you can slip into. Part of what we are seeing is this real trend in clogs and we are seeing the trend in clogs across lots of different brands. It's early for the sandal season; it's not really taken off so far but I think that there is a lot of trading into this clog product and into some specific brands. We have had a lot of success with collaborations, and we are seeing that shift through the course of the spring.

Mitch Kummetz

Okay. Then one final question. On the store closings, it looks like you now expect 45 fewer Journeys stores at the end of the year. Could you kind of walk us through kind of what the schedule of getting to that number looks like and its impact on the P&L? I know that you sounds like you are hoping to kind of maybe pick up lost sales online, but does that have—how much of a sales impact do you think that has, and what does that do to the SG&A in particular?

Mimi Vaughn

Sure, Mitch. I will start, and then I will hand it over to Tom.

In response to this, as you said we are closing over 100 underperforming Journeys stores at this time, and we have added to our cost reduction. We really do believe that we are going to position the business well to set us up for profitability to improve very quickly and materially when sales rebound. But we have identified these stores that we intend to close. And we are, with more sophisticated analytics and our real estate tools and our customer information can drive the sales in these other businesses to our other locations, and certainly to online where we are having a lot of success. Here, we think that it doesn't take a lot, when you remove the fixed expenses, to replace the profitability that we would lose in these stores and will eliminate a lot of fixed expenses, so we think that's going to be a real positive for the business.

I will hand it over to Tom to talk about when we think that will impact sales and overall profitability.

Tom George

Mitch, just to level set here, with the information we posted, we are going to be down a net 78 stores for Journeys over the course of the year, just to level set on that number.

The ones that we are opening are mainly—they are not mall locations. They are off-mall locations, plus some premium outlets and we've done very well with premium outlets. Most of those will be open in time for the back half of the year. The closures, you can see, we are making big headway on those early and a lot of those will be closed for the back half. They have a bigger impact in the back half of the year, both the third quarter and the fourth quarter; some impact in the second quarter, but the bigger impact on closures is in the third quarter and the fourth quarter. Bigger impact on sales, big impact on SG&A, especially in the fourth quarter, minimal impact, if any, on profitability.

Mimi Vaughn

These stores that we are closing, on average, have lower sales volumes, so they are…

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Tom George

Significantly lower.

Mimi Vaughn

Yes. So, they have less of an impact …

Tom George

Right.

Mimi Vaughn

… than an average store closure would have.

Operator

Our next question comes from the line of Ryan Lountzis with Jefferies. Please proceed with your questions.

Ryan Lountzis

Thank you. This is Ryan on for Corey. I was just curious, as it relates to the store closing update, can you just provide any color around the trends you are seeing in off-mall versus in-mall locations? What's the current mix between off-mall and on-mall locations and how are you thinking about that moving forward? Thanks.

Mimi Vaughn

Thanks for joining us this morning, Ryan. I will talk a bit about our off-mall strategies.

We are primarily located within mall locations right now for Journeys. We have got a number of street locations for Schuh, a number of airport locations for Johnston & Murphy. In general, in the Journeys portfolio, we also have a lot of outlets. We don't really consider that to be off-mall. We consider off-mall to be more of those power centers and locations that are anchored by a different mix of tenant, a lot by some of the value channel folks, a lot of the larger box off-mall locations. This is really a newer initiative for us. We, in our market research with our consumers, have gotten the feedback that our customers go to off-mall locations multiple times per month and it's part of the places that they go. They enjoy the convenience of shopping closer to home and combined with some of the omnichannel services that we can offer like curbside pickup. We have had success with a number of early off-mall locations that delivered attractive four-wall, and that encouraged us to test more. So we have opened 13 of what we expect to open to be 25 off-mall stores. These are with a larger footprint and ability to carry the full assortment of kids and adults.

What we have seen so far is that they are significantly lower rent expense, which is great for our economics. We have got to double up early on with our marketing spend so that we can drive traffic and build awareness to know that we are there, but we see that there is a nice amount of conversion within these locations, and it puts us in a position to diversify away from malls.

We are really enthusiastic about this growth opportunity, and it just gives us the potential of really a number of growth locations for Journeys. There are a lot of our peers that are out there. There are some formats that appeal to teens and to tweens, and we would be looking to co-locate with them as well.

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Ryan Lountzis

Okay. Great. Could you just provide some additional information around the loyalty programs at Journeys, Schuh and Johnston & Murphy? Any sort of stats you could provide around the typical demographic? How member retention or transactions sizes differ from non-members?

Mimi Vaughn

Sure. We are really excited about the soft launch of our Journeys All Access program which took place earlier this month. We will be rolling that out in time for back-to-school, which we think will do a lot to drive repeat purchases and also do a lot to drive average transaction size.

We launched the Johnston & Murphy Insiders program a couple of years ago and I talked today on our call about having 800,000 members. What we are seeing is that new customers are really joining at a very, very high rate, and we are seeing higher average transaction size within their purchases.

On the Schuh side, we have just anniversaried the Schuh Club, which launched a year ago, and we have 1.8 million members–sorry, 1.6 million members that we have added pretty quickly. The size of the UK is a fifth of the size of the U.S. so we are pretty pleased by how many we have added. We have seen more purchase frequency within the Schuh Club as well.

We think that overall our loyalty efforts, coupled with all of our efforts on CRM and on personalization, are going to drive the ability for us to increase the number of pairs of shoes that our customers buy every year. We've got lots of teams across our organization working on these initiatives and they are excited about the results that we are seeing, and also excited about the potential for Journeys.

Ryan Lountzis

Great. Thank you.

Mimi Vaughn

Thank you.

Operator

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

Mitch Kummetz

Yes. Thank you. I have three follow-ups. First, Tom, on the guide I got the impression from your comments earlier that maybe 3Q is another loss as far as earnings. Is that what you are essentially guiding to?

Tom George

No. No, I'm not. No, not at all. We expect Q3 we are going to see some growth in earnings. As we talked about the store closures, we will have some of the cost savings in Q3 as well. Journeys will have much lower operating expenses in Q3 as well. We expect, relative to the prior year, we expect Q3 from the sales perspective, we do expect Q3 to be down some overall. That's really driven by Journeys. The rest of the businesses are going to be up. We do expect to take down relative to the prior guidance Journeys' gross

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margins some more to reflect the current environment, what we may need to do there, they will have some lower operating expenses, but we expect Q3 operating income to be fairly comparable to last year's Q3 operating income.

Mitch Kummetz

Okay. On the Genesco Brands Group, I believe you said modest growth over the balance of the year. I know that Q1 was hurt by the spring order books based on how retailers were ordering products. How is the fall order book there setting up? Are you still optimistic about that?

Tom George

We feel good where that order book is heading. Still, the general market dynamics are less of an order book relative to the prior year, but with the traction we saw in the first quarter, we expect going forward we will be able to have some modest growth, more of that being for fall product, more in the third quarter and the fourth quarter.

Mimi Vaughn

The biggest headwinds we were facing were in the first quarter, Mitch, with the sell-ins that we were anniversarying from last year.

Mitch Kummetz

Got it. Lastly, just on the inventory, it sounds like you are a bit heavy on the Journeys side. You mentioned pressure on gross margins, not only just lapping the lack of promotions last year but then also clearing through slow-moving product. When do you think you can have, I guess the overall inventory kind of in the right shape, but particularly the Journeys inventory where you won't have excess product to move through anymore?

Tom George

Yes. Let me echo Mimi's comments on the job the Journeys team has done in terms of working the inventory and changing the assortment, and kudos to them. We have great relationships with all the key brands that I am sure you are all familiar with; kudos to them, being able to get their hands around the Journeys inventory.

As we move through the back half of the year, we do expect some improvement in Journeys' inventory and we certainly expect it to be below last year. When you look at it relative to pre-pandemic levels, there will be some elevation, but in the scheme of things fairly small when you consider the cost increases in that inventory relative to pre-pandemic levels.

I feel really good about what the team has done. They have got a good history of getting their hands around inventory and rightsizing according to the sales trend. So, we feel good. We are going to end the year with lower inventories than last year and that certainly will help us generate good cash flow for the year.

Mimi Vaughn

We are a full-price retailer, Mitch. We are not going on a promotional run here. The comments around first quarter, it was the last quarter that we are having to anniversary essentially no markdowns from last year, and so we think that the pressure on gross margins going forward will be less as we go through the year. In addition to that, what we are adding in terms of additional markdowns for Journeys is really just to clear

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the slow-moving product in response to the consumer environment for core products. Our intent isn't to mark down the core product; it's just to manage the receipts going forward so the pressure on gross margins should ease up.

Operator

We have reached the end of the question-and-answer session. I will now turn the call back over to Board Chair, President, and CEO Mimi Vaughn for closing remarks.

Mimi Vaughn

Thank you for joining us today. We just want to point out again we have got a great record of successfully navigating challenges like this and we are taking the right action to respond to the consumer environment, and also to take the appropriate action to be able to drive profitability as we move forward and sales improve.

Thank you for your time today, and I look forward to speaking with you on our next earnings call.

Operator

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

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