Genesco Inc.

Third Quarter Fiscal 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good day everyone and welcome to Genesco's Third Quarter Fiscal 2025 Conference Call.

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

Genesco management included in the conference call will be Mimi Vaughn, Board Chair, President and Chief Executive Officer; Sandra Harris, Senior Vice President, Chief Financial Officer; Tom George, Senior Vice President, Principal Accounting Officer, and Darryl MacQuarrie, Senior Director, FP&A.

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

Darryl MacQuarrie

Good morning everyone and thank you for joining us to discuss our third quarter fiscal '25 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 the 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; Tom George, Principal Accounting Officer; and Sandra Harris, Senior Vice President, Finance and Chief Financial Officer.

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

Mimi Vaughn

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

I'd like to begin by welcoming Sandra, who joined Genesco as Chief Financial Officer in October with over 30 years of finance leadership experience, including 10 years at VF Corp. where she was responsible for driving global business and financial strategies across VF's iconic lifestyle brands. Her experience with VF includes serving as Chief Financial Officer for Direct-to-Consumer, Global Supply Chain and Shared Services, including Information Technology. She is a terrific addition to our team as we drive a return to profitable growth, bringing invaluable expertise from numerous multichannel, multi-brand consumer businesses.

I also want to take a moment to thank Tom for his many contributions to Genesco since stepping in as CFO in late 2020. Tom joined our company at a pivotal time of tremendous change in the consumer environment, helping us successfully navigate both record highs and some very unique challenges. After a 40-year career in finance, including 30 years as a public company CFO, we wish you all the best during your well-deserved retirement.

I'll start with a review of the key drivers of our third quarter performance and provide an update on the strategic initiatives to drive growth at Journeys and elsewhere across our company. Tom and Sandra will review our financials in more detail and walk through our raised outlook. Then we'll be happy to answer questions.

But first, we were pleased to deliver third quarter results that exceeded expectations, marking another quarter of year-over-year sales increases and a strong return to positive comps. Our outperformance was driven by Journeys, as the initial phase of our strategic growth plan unfolds, underscoring the outstanding execution of Journeys' near-term initiatives and the resilience of this business, even in the face of continued consumer headwinds.

Journeys comparable sales for the third quarter not only inflected positive, but were up double digits, fueled by continued improvement in the product assortment and the visual reset of our stores, among other actions. Congratulations to Andy Gray and the entire Journeys team for the speed in which they've been able to enhance the consumer experience and deliver an excellent Back-to-School and strong finish to the third quarter. This performance more than offset modest comp declines for both Schuh and Johnston & Murphy, allowing us to deliver total comp growth of 6%. Both store and digital comps were nicely positive with the digital business a standout, up mid-teens with digital penetration reaching over 24% of retail sales.

Overall, sales, gross margins, and expenses as a percentage of sales, all exceeded our expectations in Q3, and our clean inventory exiting the quarter positions us well for the balance of the year.

Ongoing cost reduction and store optimization efforts contributed to adjusted EPS as well, which was also meaningfully above our projection and up versus last year. If you add back the approximately \$0.35 to \$0.40 from the 53rd week calendar shift, including the move of an important Back-to-School week into the second quarter instead of the third quarter this year, EPS would have been up further, highlighting the impact of positive comps driving profitable growth on the platform of reduced costs and lower share count we've been building.

Our number one priority is to improve performance at Journeys. As we have in the past, most recently coming out of COVID with Schuh and J&M, we have demonstrated our ability to evolve our businesses to meet shifts in consumer preferences and changes in purchasing behavior, emerging stronger through challenging cycles. The consumer dynamic and changes over the last few years have required accelerated and unprecedented ongoing evolution on our part to successfully meet our customers' needs. We are excited to accomplish this with Journeys.

As a reminder, step one of our plan centered around efforts to inject the product assortment with more newness and storytelling, and to deliver that to our consumers through enhanced store, digital and social experiences. The double-digit comps in Q3 demonstrate solid progress against that plan.

The Journeys' consumer has become more interested in a broader range of brands and more diversified in the styles they are wearing. For the first time in several quarters, we saw a notable pickup in interest in footwear over Back-to-School, marked by growth in industry traffic this year. This shift plays well into Journeys' proposition as the expert curator of styles across both casual and fashion-athletic brands. Importantly, we're seeing strong consumer response across both categories, reinforcing Journeys' unique position as the footwear destination for the style-led teen, particularly the teen girl. Journeys' traffic, consequently, considerably outpaced the growth in traffic in the industry.

While sales at Journeys have accelerated, after multiyear positive sales runs, traffic at Schuh and Johnston & Murphy continues to trend lower than last year. Schuh's performance is being hampered by the difficult macroenvironment in the U.K., while in the U.S., softer demand for premium, non-athletic footwear is pressuring J&M's top line. On both sides of the Atlantic, consumer behavior remains needs-based and consumers remain very selective about what to buy. We continue to add newness and freshness into our assortments to satisfy shoppers who are looking for key footwear items and must-have product and passing on everything else.

As we entered the fourth quarter, we have been pleased with our performance to date and in our Black Friday/Cyber Monday results, in the midst of a heavily promotional retail environment. The arrival of more seasonable weather has encouraged sales of fall/winter merchandise.

While we diligently work to deliver a strong holiday and finish to the year building on these positive Q3 results, we're in the very early innings of returning Journeys and the overall company to historical rates of sales and profitability. We're optimistic that these product changes and a sharper focus on the consumer, along with initiatives around brand building and elevating the consumer experience will drive even greater improvement in fiscal 2026 and beyond.

Now, for more color on our individual businesses in Q3, starting with Journeys.

After turning positive in July, comps accelerated as Back-to-School shopping got underway in earnest and remained consistently strong throughout the quarter. Journey's skilled merchant team and new merchant leadership took aggressive and quick action with the order book and our key brand partners at the start of the year to bring in the styles that would resonate during Back-to-School. Significant newness across a number of casual and athletic brands fueled strong full price selling, including post Labor Day, even as the industry saw a pullback in demand when there wasn't as much reason to shop. Journeys' customers transitioned nicely into buying must-have styles in the fall/winter assortment at the end of September, into October, during what is typically a non-peak time before holiday, driving sales gains for the quarter which outpaced the market. With greater depth of the brands and styles teens want, we are well positioned to continue to drive demand through the holiday season.

Journeys stores, with positive traffic and higher ASPs, inflected positive, and Journeys' digital business remained very healthy, posting another quarter of double-digit growth and even sharper acceleration than stores, resulting in digital representing 17% of total sales. This performance is reflective of our recent cycle of investment in digital including All Access loyalty program incentives, CRM campaigns and omnichannel delivery options targeted to entice shoppers to purchase online.

Moving to Schuh, comps improved versus the first half, getting closer to positive territory even as the footwear category continues to face market headwinds in the U.K.

While still challenged, the sequential improvement was driven by better performance in stores as traffic and conversion picked up relative to earlier in the year. At the same time, digital sales remained resilient and were positive at over 40% of the business. The Schuh Kids category remained a bright spot and delivered a solid Back-to-School, continuing its trend of outperformance as well.

During Q3, U.K. consumers were motivated to buy only during key shopping periods and the market overall was more promotionally driven to spur demand. We expect this choppiness to continue in the fourth quarter.

Despite the challenging backdrop, according to Kantar, Schuh held its number 10 position in the U.K. footwear market versus last year, remaining a key destination for the youth shopper.

Looking ahead, the team is focused on a number of initiatives to improve performance. Like Journeys, Schuh is leaning into the opportunity to better serve the female customer and further differentiate Schuh to both consumers and global brand partners. With that positioning, Schuh has achieved success elevating its access to several key athletic and casual brands and important franchises for future coming seasons and is working on others. Schuh is also building awareness and engagement with its new brand agency and marketing campaigns. This work also includes leveraging, in connection with its CRM programs, the growing Schuh Club loyalty program which now stands at almost 3 million members and benefits from greater member purchase frequency.

Now turning to our branded business, starting with Johnston & Murphy.

Like Schuh, J&M's comps improved over the first half, as consumers responded favorably to new product launches and new product innovation and we anniversaried last year's ERP implementation.

While store traffic was down in Q3, both conversion and transaction size were up, demonstrating positive customer reaction to the assortment. Despite an ongoing slowdown in men's non-athletic premium footwear, J&M continues to make inroads driving growth in more casual footwear and non-footwear categories like apparel and accessories, which now represent about half of direct-to-consumer sales. Our strategy of evolving J&M into a more casual, multicategory lifestyle brand, in response to the changing needs of the J&M consumer, has produced significant sales growth over the past four years, as the team works to reimagine and reposition the brand from its legacy dress shoe heritage.

Looking ahead to the balance of the year, we expect and have seen an acceleration in sales of the fall/winter assortment with items like outerwear, as the weather has finally turned colder across the country. In addition, we're in a better inventory position in our stores for the holidays, including more depth in footwear, outerwear and other items and with success relaunching backpacks and other accessories. Looking further ahead, we have several initiatives underway to improve current trends and return J&M to year-over-year growth, the most important of which are efforts to bring more distinctive product to the market built upon our unique brand style, quality and design principles, and to deliver more frequent year-round freshness in our offering. This includes bringing back updated iconic styles for our 175th year brand anniversary next year. Coupled with efforts to increase brand awareness, we look forward to driving this renowned brand to new heights.

Wrapping up the branded discussion, we continue to achieve very good success with the repositioning of Genesco Brands Group. Efforts to simplify the licenses portfolio to emphasize key brands and channels means lower sales in the short term but considerably more profit, which was evident once again in Q3 results.

Now moving back to Journeys' and its strategic growth plan, our broader plan centers on Journeys' unique positioning to address the underserved teen girl in the mall. While this customer is well served with fashion apparel, our in-depth market research revealed Journeys has an even greater opportunity to serve this consumer's fashion footwear needs. To that end, we've been expanding our consumer segmentation and sharpening our brand positioning to reach a wider teen audience with a more intentional focus on the style-led teen, with a sharp point on her with an assortment of even more premium product. This consumer continues to evolve, and today's teens are interested in expressing themselves in different ways from one day to the next and footwear is a key enabler to this.

At the same time, the marketplace is quite segmented among athletic, casual, and fashion with no concept that goes across all footwear categories in the mall for the style-led teen. This is the opportunity, and no one is better positioned than Journeys to win with this customer.

We have built three strategic growth priorities around product, brand and experience to fuel our new positioning and engage and excite more customers. In addition to bringing in a new President, we have also augmented our talented Journeys leadership team this year with highly experienced new chief product and marketing officers who bring tremendous expertise.

Starting with product and diversifying our footwear leadership, our focus here is on expanding our leadership positions across athletic, canvas and casual footwear with both breadth and depth of key leading styles; building more long-term strategic partnership with our best-in-class premium footwear brands and editing and focusing our non-footwear business.

Next is investing in our Journeys brand. These efforts include creating a new brand purpose and platform to differentiate and be a positive, inclusive, connected force for teens and young adults; increasing investment in brand marketing, delivering Journeys' updated brand positioning and tone of voice to drive awareness and consideration of the Journeys brand through digital, social and other media; and, ultimately, building new footwear demand creation capabilities.

And finally, elevating our customer experience: We are introducing an updated store concept, which retains the Journey's energy and DNA in an environment designed for the style-led teen who shops across footwear brands and categories with 10 initial locations opened to date; strengthening our brand positioning and elevating the consumer experience on Journeys.com to enhance the transactional approach we have been delivering; and lastly, evolving our All Access membership program, where we've already signed up over 4 million members in a little over a year, to provide a more personalized experience and increase long-term customer value and retention.

These actions will solidify Journeys' leading market position for the longer term and we look forward to sharing more details of this plan with you going forward.

In closing with our outlook, we're pleased with the upside we delivered in Q3 and the momentum we've carried into Q4. For Journeys, we're optimistic we're in a position to drive solid results over the remainder of the year, while at the same time, based on recent trends, we've adopted a more cautious view for Schuh and Johnston & Murphy. This all results in us modestly raising our view for the year. Sandra will take you through the specifics.

Before passing the call, I'd like to thank our incredible people. Our unmatched ability to reinvent ourselves, evolve and grow over the years with a profound understanding of what our customer wants is our true competitive advantage and real cause for celebration with our 100th anniversary as a company this year. The work you've done has positioned us well for this busy holiday season, and I look forward to continued success as we finish strong in fiscal '25 and build on this momentum to unlock the considerable growth and value in our company in fiscal '26 and beyond.

With that, I'll turn the call over to Tom.

Tom George

Thanks, Mimi.

We were pleased results for the quarter exceeded expectations. Getting back to positive comps at Journeys provides us with great upside to drive earnings per share meaningfully higher year-over-year given the cost reductions and share repurchases we have made and overall leverage in our operating model.

Turning to results, consolidated revenue for Q3 was up 3% to $596 million, which was better than we anticipated and significant, given the calendar which included the shift of a strong Back-to-School week into Q2 last quarter. The shift negatively impacted sales by approximately $17 million or another 3%. In addition, the Journeys stores we closed over the last year, which drove a roughly 4% reduction in the size of our total fleet, resulted in improved overall productivity and had only a 1% net impact on total sales. We continue to drive our digital business, which grew to 24% of direct-to-consumer revenues.

Total company comps were up 6%, with stores up 4% and e-comm up 15%. This was a major sequential acceleration from the negative 5% and negative 2% total comps we reported in Q1 and Q2, respectively.

Overall, gross margin was down 30 basis points compared to last year. By division, Journeys' gross margin was down 80 basis points, due primarily to product mix, as we are selling brands with lower initial margins but higher average selling prices.

Schuh's gross margin decreased 20 basis points and J&M's gross margin was up 170 basis points, due to improved initial margins, lower markdowns and channel mix.

Lastly, Genesco Brands' gross margin was up 330 basis points due to improved initial margins.

Moving down the P&L, SG&A expense was 46.1% of sales, an improvement of 10 basis points compared to last year. The combination of our cost savings initiatives, the closure of unproductive stores, and some improvement in other expenses offset the increased variable expenses to support our direct sales growth, as well as additional selling salaries and marketing expense.

Optimizing our store fleet to reduce occupancy costs and fixed expense levels in the store channel remains one of our key financial objectives. In Q3, we achieved a 4% reduction in straight-line rent expense on 67 lease renewals across the company, with an average term of approximately three years. This brings our year-to-date renewals to 231 with an 8% reduction in straight-line rent expense.

Looking further at cost savings, we continued to gain traction on our plan to reduce costs by $45-$50 million on an annualized basis by the end of fiscal 25, before reinvestment. The initiatives include lowering occupancy costs to improve store profitability, as well as optimizing our inventory, warehouse, freight and logistics costs, and other procurement efficiencies.

In summary, for the third quarter, we incurred a better-than-expected adjusted operating income of $10.3 million, compared to $11 million for Q3 last year. Keep in mind, the 53rd week shift negatively impacted Q3 operating income by approximately $5 million to $6 million or $0.35 to $0.40 per share.

Turning now to capital allocation and the balance sheet, we ended the quarter in a net debt position of approximately $67 million with clean inventories, up 1% from last year. We plan to build up our inventory levels, especially for Journeys, to drive Q4 sales and be well positioned to drive sales in the first half of fiscal year ‘26.

Looking at our financial flexibility, our strong balance sheet and free cash flow generation combined with our revolving line of credit provide us with ample liquidity to pursue all our strategic objectives.

Capital expenditures in Q3 were $13 million, with the investments primarily directed to retail stores and our digital and omnichannel initiatives. After a cycle of investment in digital and omnichannel where we are currently getting the benefits, we are shifting the emphasis to investment in refreshing our store base. We opened 2 stores and closed 14 stores, ending the quarter with 1,302 total stores.

Year to date, we’ve closed 41 Journeys stores. We expect to close up to 10 more Journeys stores this year as part of our program to optimize our store fleet in order to best serve the shopping habits of today’s consumer. We expect these closures to eliminate approximately $14 million of annualized SG&A cost, which is incremental to the roughly $25 million of annualized savings we realized from the stores we closed last year and the $45 million to $50 million of run-rate savings we are targeting for this year. These actions to reshape our cost structure are designed to strengthen the economics of our store channel and enable investment in our strategic initiatives to drive top line growth.

Lastly, during the quarter we repurchased almost 18,000 shares for $0.4 million, for an average cost of $24.50 per share. We have $42.3 million remaining on our current authorization. Over the past six years we have repurchased nearly 50% of our outstanding shares.

Let me now turn it over to Sandra for our guidance.

Sandra Harris

Thanks, Tom.

With third quarter results coming in ahead of expectations, we are raising our full year EPS guidance to $0.80 to $1.00, up from our prior range of $0.60 to $1.00. We now expect higher sales in total, driven by Journeys, partially offset by a more cautious view for Schuh and Johnston & Murphy for the balance of the year. We also expect some additional expenses.

For Journeys, the fourth quarter has started well thanks to the consumer-focused investments we have made in our brand combined with the positive adjustments to the product assortment, and we expect Q4 comps to be positive, although not at the level we saw in the third quarter.

We now expect sales at Schuh to be somewhat more muted than our prior expectations, given the weak market demand in the U.K., and we expect the ongoing weakness in the premium men’s footwear category to put more pressure on Johnston & Murphy.

Combining all these factors, we now expect full year total sales to be flat to a decrease of 1% versus our prior expectations of down 1% to 2%. Excluding the 53rd week impact, which we estimated to be approximately $25 million of sales and a small negative effect on earnings per share, we expect sales to be flat to slightly up year-over-year with the back half accelerating meaningfully over the front half.

By division, total year-end sales compared to last year are expected to be a low-single digit increase for Journeys; for Schuh, we now expect sales to be relatively flat; and for Johnston & Murphy, we expect to be down mid-single digits including the impact from Johnston & Murphy store closings.

Shifting to gross margin, we do expect to be somewhat more promotional in some of our businesses in Q4 but had a pickup in gross margin in Q3. Although we still expect gross margin to be impacted by the shift in consumer demand to lower-margin athletic footwear, our cost savings initiatives should help offset this pressure. Therefore, we will still expect overall gross margin to be down 10 to 20 basis points versus last year.

We now expect adjusted SG&A as a percentage of sales to be in a range of flat to 10 basis point of leverage compared to our prior guidance of flat to 20 basis points of leverage. This is largely the result of higher incentive compensation that was triggered by our stronger performance.

Our guidance assumes no additional share repurchases, which results in fiscal 25 average shares outstanding of approximately 11 million, and we expect the tax rate to be approximately 27%.

To close, we are streamlining our operations and adapting swiftly to the changing consumer demands. These strategic changes will create a more efficient company that better serves our customers, enhances profitability and creates greater value for our shareholders.

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

Operator

Thank you. At this time we'll be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants that are using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

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

Mitch Kummetz

Thanks for taking my questions. I guess first off I want to thank Tom again for all the help he's provided over the years. And Sandra, welcome. I look forward to working with you.

As far as Mimi, you talked about early innings. I'm curious. I want to start with the assortment. You made a lot of progress there, but where is it relative to where you'd like it to be? How much opportunity is there for better access, better allocations still changing some of the brand mix? To what extent are the brands taking notice and looking at the strong Back-to-School results and how does that help you going forward in terms of improving your access and allocations?

Mimi Vaughn

Mitch, thanks for that nice tribute to Tom and your welcome to Sandra, and for your question.

As far as the Journeys' change in the assortment, we talk a lot about the fact that consumers have gone through a large cycle of purchasing coming out of the pandemic and really had their closets full and were looking for newness in the assortment and really looking for innovation. We went through a very long cycle as well of our customer wanting canvas products—we call it vulcanized product as well—and had a lot of success with that. Today, we see that our customer is much more diversified in what they are interested in wearing. Teens are embracing more wearing occasions. Journeys is well positioned to take advantage of this. This means a greater number of brands for us. The Back-to-School success was not one or two brands, it was seven or eight brands really driving the business. There is a fashion shift away, as I said, from where we've been, and consumers are moving into more seasonless assortments as well.

I'd say that we have a strong merchant team. We've bolstered that merchant team at Journeys, bringing in (inaudible) bringing in Andy Gray. We are typically the number one or two partner for brands on the casual side and they helped us to increase our relationships on the athletic side and our teens want both. I'd say that our brand partnerships are strong; they're getting stronger.

Our brands are taking notice of our strong Back-to-School results. I certainly hope so. It is not just one action of saying, "Hey, we'd like more allocation." It is the partnership that is a holistic approach to serving that teen customer, particularly that teen girl. Our brands want access to that girl. We have made a commitment to them to provide an excellent store environment. We have terrific people who serve our customers within the stores.

As we said, we're in the early innings of where we believe we will go in terms of restoring the Journeys brand to historically the sales and levels of profitability, and we look to build on where we are today.

Mitch Kummetz

Then, Mimi, on the stores—really two parts to this question because you're closing some stores and then you also have this new store design. First of all, I'm curious to know, as you close stores and continue to close stores, what are you seeing in terms of the productivity of stores that remain open in those markets where stores are closing? It sounds like you're not seeing much of a sales hit in general a little bit, so I would imagine that some of those stores will see a productivity lift when they're in a market where there might be other stores of yours closing. Maybe if you could just kind of go through that.

Then also on the new store design, it sounds like you've had 10 stores open there. I don't know if there are any early results that you could speak to. But I guess moreso, could you talk about what you see as being the rollout there and kind of the potential for that longer term?

Mimi Vaughn

Sure. The way we're thinking about it, Mitch, is we're not necessarily calling it closing stores. We're calling it optimizing our footprint. There have been lots of changes in terms of consumer shopping patterns, as you know and there is just really a need to serve customers differently. So we have some terrific store analytics that help us to really understand demographics and other patterns and are able to make decisions about store closings based on that.

When we are closing stores, and as you said, they are in less productive places because of the shift of traffic patterns or the shift to different shopping venues, we've got more sophisticated capabilities to drive that traffic to other stores that are nearby or online, and we've got more sophisticated information about the consumer that lets us do that. We are really optimizing the store footprint in response to the changes that we've been seeing. As you said, certainly, the productivity in these locations are less.

But our overall strategy is to drive productivity in our best locations to make our best locations even more productive than they are. That is partially the assortment and some of what we've been doing with the assortment, but it also necessitates really a visible change and we are really excited about this element of the plan. With our new positioning and with the product assortment, we need a more aspirational environment that showcases this more premium product. It's designed for a style-led teen who shops across footwear brands and categories. We can showcase the brands. It's a cleaner environment. We'd love you to see it. We've got it set up in our showroom here and a couple of stores here in Nashville. I think the closest store to you is maybe in Utah. But it is a cleaner environment. It's a more neutral aesthetic. We can create brand statements, as I said, but it retains the Journeys' energy and its DNA and attitude and personalization for the location. It's a really open shopping environment.

It's early days. We opened our first store in October. We've been quite pleased with the results that we have seen and are going to be tracking this carefully.

Mitch Kummetz

Just again to follow up, can you say what the rollout plan is as you go into next year?

Mimi Vaughn

Yes, sure. So 10 opened so far; it will be about 15 for the year. We have at least that number designated for next year, but we do want to see some results, Mitch. We can pull forward. In fact, we have been really working with our real estate. We've been working with our landlord partners who are quite excited about this as well. We can pull forward, and we typically are doing this with lease renewal. But if the results really warrant it—which we anticipate they very well could—we can pull forward some of these remodels. And so we are planning on a wave of growth for this that these stores will create comps in excess of the comps that we're driving with our other initiatives. So, 15 so far, at least that many for next year and the open opportunity to pull forward.

Mitch Kummetz

Okay. Then maybe just a couple of last of things. One, just in terms of Journeys' comp, you've obviously bumped up the comp guide for the full year. I think for the fourth quarter, Sandra, you mentioned positive but not as strong as 3Q. That's a pretty wide range. I'm wondering if you get a little bit more specific? Are you looking low-single? Mid-single? High-single for Journeys in the quarter? Also, were is the business quarter-to-date, if you can say? Is quarter-to-date kind of in line with what you're thinking for the quarter as a whole? Then I guess I have one last one.

Mimi Vaughn

Great. So in terms of Journeys' comp, absolutely. Journeys is an outlier in the market. I think as you've seen others report over the earnings cycle that most had a good Back-to-School, but we anticipated and most people saw that in the end of September and October and during non-peak periods, the consumers demonstrated that they're just sitting it out and waiting until there is a reason to buy. We did not see that in Journeys. We saw rolling right out of Back-to-School into winter that our consumers started buying the winter assortment, and the fall assortment and really didn't miss a beat. So we are positive for Q4. As Sandra said, not at the level—I mean, Journeys had an 11% comp—not at the level that we saw in Q3 because we don't know whether or not there was a pull forward of the winter purchasing, right? I think that's the thing to really focus on.

Where is the business quarter to date? I'll talk a little bit about Black Friday and November and the calendar offsets. This (inaudible), we are spending a lot of time looking at that. But I think we are comparable for Black Friday and November and we're pleased with the results. We saw that Journeys was not promotional. The rest of footwear, particularly athletic footwear was quite promotional. The strength of our assortment carried the business. We did not need to match the promotional activity. We had a lot of full-price selling.

We're well positioned in inventory for the fourth quarter and we are going to drive the business to the full extent that we can.

Mitch Kummetz

I guess last question, Mimi, as one of your priorities for Journeys, you talked about creating some new demand creation opportunities. I was just hoping you could elaborate on that. Are you looking to do any more digital advertising? Are you looking to apply some analytics to these 4 million loyalty members and being more targeted in the marketing? What exactly, when you say new demand creation opportunities,, what might those be?

Mimi Vaughn

Sure. It is all of those things that you talked about and more. We have been driving our digital business. As you saw, we've more than doubled our digital business since the pandemic. We've also put in place this loyalty club. We've been seeing really positive things in loyalty across all of our businesses. The ability to serve our customer even better because we know who they are is something that is at our disposal right now between loyalty and CRM.

But in terms of creating demand, it really is creating the brand purpose around Journeys, articulating that to the consumer in a better way, having Journeys be even more top-of-mind as far as the decision for teens to shop. Part of our strategy—and this isn't just bring Journeys back to where it was; this is take Journeys to new levels.

We talked about widening the aperture. More teens, appealing to a broader group of teams who may not consider our Journeys today. We're surprised at the opportunity for awareness. We think that all teens know about Journeys, but we know there is an opportunity to build the brand awareness. We put in a new Head of Marketing. She's terrific. She came from Levi's, really very well versed in the teen consumer, and we're working hard on increasing our social presence on platforms; TikTok is a very important one. We've got exciting things in store here of really being able to articulate the brand positioning across store, across online. We have a new creative agency on board to help with that, and we're just going to increase the investment in brand marketing and talk about that updated positioning.

So it's all of those things. It's in increasing our presence, increasing our marketing dollars, reaching out in stores, reaching out on social, reaching out on digital.

Mitch Kummetz

Great, thanks. Good luck.

Tom George

Thanks, Mitch.

Operator

Thank you. Our next question comes from the line of Mantero Moreno-Cheek with Jefferies. Please proceed with your questions.

Mantero Moreno-Cheek

Hello. Thanks for taking the question. I guess I want to start and touch on Journeys. Last quarter, you discussed how Journeys had improved assortment and you talked about it a lot today. Then you had the holiday period (inaudible) you mentioned Black Friday was pretty event and pretty encouraging results so far. I guess just anything else you want to add on how we should think about the rest of the holiday season with the fewer shopping days. Then you called out strength in footwear and outerwear, maybe it wasn't working as well? What levers do you have to pull at Journeys to make those underperforming pockets perform a little better?

Mimi Vaughn

Sure. So, as I said, we are quite pleased with the assortment that we have in place. The assortment between Back-to-School and holiday shift. There is more opportunity to be able to sell what's typically known as more cold weather product. But having said that, we have observed that our teen customer is pursuing just really seasonless fashion. They are wearing sandals and clogs in the winter. We have a great assortment of clogs which is driving our business. We expect during holiday, we brought in significantly more product aligned with the brands that we believe will drive our business at specific items.

The footwear market right now is very focused on must-have product. We work on a model of scarce allocated product and we create the demand in partnership with our brands to say that you need to buy it now because if you don't, it's going to be sold out and you can't find what we sell everywhere. The allocation model means that there is going to be more demand than there is supply in the market. We believe we're well assorted and what the consumer is looking for, thanks to the changes in our assortment, and that we have those key items that will support the demand for the holiday.

In terms of strength in footwear, I would say that we've talked a bit about boots. Boots are typically something that sell this time of year. The last at least couple of years, the demand on the part of the consumer for boots has not been as strong, so I'll talk about that for a minute and just say that we are not necessarily planning boots up. But we have seen and we're leaning into the trend for shorter or mini boots. A lot of moccasins are out there. As we go into the season this year, whether the category—it's going to be very focused on specific items and specific brands.

Mantero Moreno-Cheek

Black Friday, you also mentioned there's a more promotional operating environment and then also product mix is just driving a lower gross margin. Any early reason how we should think about margins for next year?

Mimi Vaughn

Yes. We have talked about the promotional environment, and then we've talked about product mix, so I'm going to take both of those separately.

We are not more promotional in Journeys. In fact, we are significantly less promotional. We were significantly less promotional in the third quarter than we were last year. It's not more markdowns or more promotional activity that is affecting our gross margin. It really is mix. What's affecting our mix is that we're moving from canvas and vulcanized product, which tends to be at a higher initial margin, and selling a broader assortment of both casual and athletic brands that start with lower initial margins. But the good news and the positive news is that it's higher average selling prices, so we're able to really make that formula work.

In terms of gross margin for next year, we will anniversary some of that in the back part of the year, but we may see some puts and takes on gross margin in the front part of the year as we shift our assortment. We have been anniversarying the canvas sales and those margins for some period of time and so that should normalize over time.

Mantero Moreno-Cheek

Perfect. Just one more for me. We discussed how e-comm performed well across the board and then also performed well at Journeys. I just wanted to ask, is there anything else to add about how the opportunity that exists for Journeys at e-comm? Anything else you want to add to how you're thinking about your e-comm going forward?

Mimi Vaughn

Sure. Our Journeys team drove really tremendous e-comm performance over this last quarter. Certainly, it was a good product, but it's also lots of the actions that they have been taking. We have gone through an investment cycle in digital and in technology over the last several years with everything from improving our real-time inventory to new order management systems to new front-end upgrading as well.

When we think about the opportunity for e-comm for Journeys, Schuh is really very much the same business over in the U.K. And while the U.K. market is more advanced for digital, our Schuh penetration is at 40%. We talked today about how Journeys is less than 20%. Perhaps we don't get to 40% with Journeys, but we still think that there is quite a lot more opportunity to be able to drive digital sales. It is an important part of our plan going forward, is really being able to elevate the consumer experience online to use our CRM and our data analytics capabilities that we have been working very hard to build. Ee believe that's going to drive the next wave of growth for us in e-comm.

Mantero Moreno-Cheek

Thank you.

Mimi Vaughn

Thank you.

Operator

Thank you. Our next question is a follow-up from the line of Mitch Kummetz with Seaport Research. Please proceed with your questions.

Mitch Kummetz

I guess I've got a couple of follow-ups. One, maybe on Journeys. If I remember correctly, last year in the fourth quarter you talked about how it was very key item-driven, and you just didn't have enough of it. Historically, at Journeys you were always able to do a good job if you ran out of things to kind of steer the consumer towards other things and that wasn't happening a year ago. I'm curious. As you look at the business today and when you think about 4Q at Journeys, is it really that you just now have a lot more of these key items and you're not assuming that as you potentially run out that you're going to have a better ability to steer consumers to other things this year. Is that the right way to think about it?

Mimi Vaughn

Mitch, you have a good memory. I would say that's exactly right, that last year we talked a lot about how it was a key item-driven order. In fact, it's remained a key item-driven business for the large part for this year, and we expect a quite key item-driven business for this fourth quarter.

The customer isn't steerable. It used to be that if you didn't have what they wanted, you could get them to buy something else, but in fact the customer wants what they want. A really positive aspect of this for us is that they're stretching up to much higher average prices for us and that we are able to serve that customer.

For this year, what's different is that—what's the same is that they'll continue to be key item-focused. What's different is that we have greater depth in some of the key items that we are excited about. But there is also more breadth in key items across more brands. As I said, it wasn't one or two brands that drove our business, but it was seven or eight brands that drove our business. Breadth and depth will, we anticipate, be a better formula for this year.

Mitch Kummetz

Then, I guess lastly, you mentioned in your prepared remarks on Schuh that going forward you're hoping to have better access to key brands. I think you said getting better access for future seasons. Can you just, again, maybe kind of walk us through that? Are you going to be leaning on the new Journeys team to help drive that, or is this all just about the Schuh team, kind of leverage off of one another? When might this happen? Do you expect improvement as early as spring, or is this going to be more in the back half of next year?

Mimi Vaughn

Mitch, the Journeys and the Schuh business are very much the same business on both sides of the Atlantic. Eight of the top 10 brands overlap with Journeys and with Schuh, and so there's really great synergy across our brand partnerships with these businesses. There's a lot of good back and forth of sharing knowledge and sharing trends and sharing experiences across the teams. We certainly lean on each other for exclusives. We carry some of the same exclusives in Journeys that we carry in Schuh and vice versa.

In terms of the Schuh business, that business has performed remarkably well post pandemic in the face of some pretty big headwinds. The consumer environment has been worse than the U.S. and inflation was worse. The consumer confidence hasn't been good, and Schuh's been able to drive and build market share. We've moved up three places in market share with some of the same aspects of the playbook that we have rolled out for Journeys. Schuh has benefited from better access and has benefited from the positioning and the marketing and the brand purpose pillars that we have rolled out.

It is a neverending quest for access to brands. What brands really like is their ability to showcase their brands in a physical format. Journeys and Schuh allow that to happen. They like sitting and testing the reaction of the consumer when they're sitting on our shelves up against other brands. We talk over the longer term about sharing customer information we have and about how we are going to increase the business that we're doing with customers that our brands are very interested in, particularly that teen girl.

So, we've got line of sight into access to some better product, for sure. We have access to some brands that are coming in in spring. We will keep working at it. We do expect to see some improvement in this business because of the access, but the consumer headwinds will continue to be a challenge.

Operator

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

Mimi Vaughn

Thank you for joining us today. We look forward to speaking with you all when we report our year-end results and holiday performance. Have a great holiday.

Operator

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