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GCO - Q3 2016 Genesco Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone. Welcome to the Genesco third-quarter fiscal 2016 conference call. Just a reminder, today's call is being recorded. Participants on the call expect to make forward-looking statements. These statements reflect the participants' expectations as of today, but actual results could be different.

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

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

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

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

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

We delivered solid third-quarter results highlighted by an adjusted EPS increase of 9% to $1.40 versus $1.28 a year ago. Our bottom-line improvement was fueled by healthy top-line growth. Total sales grew 7% and consolidated comparable same-store sales were also up 7%.

Our direct business once again posted strong gains, increasing 25%, while stores were up a solid 6% in the quarter. We are pleased with our overall results relative to last year and our expectations.

The specific initiatives that we've implemented aimed at improving the operating performance at each of our retail concepts continue to gain traction. Journeys performed exceptionally well in the third quarter. The positive momentum coming out of back-to-school continued through the quarter to deliver a 6% comp gain. A narrow and deep assortment of trend-right product benefited sales and margins thanks to strong full-price selling of fashion athletic and casual footwear.

And while we are talking about Journeys, we would like to extend a big congratulations to Jim Estepa, CEO of the Journeys Group, who was inducted this week into the Footwear News Hall of Fame. This very well-deserved honor recognizes Jim's incredible leadership in building Journeys into the exceptional business it is today and is well-timed with Journeys' upcoming 30th anniversary. Congratulations, Jim.

Meanwhile, the Schuh team navigated through a difficult operating environment to post a 2% comp increase while also preserving gross margins. Schuh's reported operating profit was aided by the conclusion of the incentive bonus payment tied to the acquisition, which was expensed last year, but not this year. Excluding this benefit, Schuh deleveraged expenses somewhat given the small comp increase and reported profitability was pressured further by headwinds from the stronger US dollar.

At Lids, a favorable mix of Major League Baseball teams during the first two rounds of the playoffs drove more for price selling than we had expected and helped push third-quarter comp growth to 12%. As expected, we promoted intensely during the quarter and made further strides towards the goal of rightsizing inventory by year-end. The SG&A leverage achieved by the strong comps was (technical difficulty) gross margin pressure, however, and year-over-year profitability declined for Lids.

We have made significant progress positioning the business to deliver improved profitability beginning next year, but we have more work to do in Q4 to be where we want to be at year-end. During the quarter, we were very active buying back our stock, repurchasing 1.7 million shares. Since the start of this fiscal year, we have bought back over 2.1 million shares or almost 9% of our prior year-end outstanding share count. This reduced share count helped third-quarter EPS a little, will benefit fourth-quarter EPS even more and will make an even bigger difference to next year's EPS.

Turning to our November results, the strong sales trends that marked our third-quarter performance started to slow in the last week of October and further decelerated as we moved into November. As many retailers have already discussed, sales prior to the week leading up to Black Friday were sluggish as warm weather in the majority of the US dampened mall traffic and negatively impacted demand for seasonal footwear and apparel.

We then experienced a robust pickup for the final week of November, leading into a strong Black Friday weekend, which we define as Thanksgiving through Tuesday. For the Black Friday weekend, comp sales increased 11% over the same timeframe a year ago. Direct sales were especially strong with over a 30% inbound order increase. We have made a number of operational investments over the past year to improve handling of e-commerce orders and fulfillment during peak periods and as a result, customers will be receiving their orders even faster this year.

We were selectively more promotional in our footwear concepts to address the slow start to the month and the consumer responded very positively on both sides of the Atlantic. So, the fourth quarter to date is a tale of two sales trends -- a slow start to the month and a dramatic pickup at the end during the heaviest selling period. Altogether, through this past Tuesday, quarter-to-date comps were up 6% with stores up 4% and direct sales up 25%.

Schuh had a more difficult weekend than our North American businesses, in line with what seems to have characterized the UK market. UK shoppers were bargain-hunting and gravitated to the Web over stores.

Looking ahead, we feel good about our assortments across each of our divisions and the strong comps we achieved at the end of the month. The recent sales volatility and the consumer focus on promotions, however, make us a bit more cautious for the fourth quarter and the environment may necessitate more selective promotions to achieve top-line targets. And this is especially the case at Schuh given the current UK retail market situation.

We've also said we are committed to taking whatever action is required to right-size inventory at Lids by the end of the year. In fact, we have built into the fourth quarter even more promotional activity than earlier anticipated to accomplish even more aggressive goals. We believe this final markdown activity will position Lids to begin next year with a fresh and compelling assortment that will drive a much greater percentage of full-price selling in the coming year. And additionally, there are some potential team-related headwinds for Lids in Q4 versus last year, which I will discuss later in more detail.

So all of these are major factors in our guidance revision. Mimi will walk through the guidance in detail momentarily, but, in short, we are now forecasting annual EPS in the range of $4.50 to $4.60, a reduction of approximately 4% from our previous outlook of $4.70 to $4.80. And with that, let me turn the call over to Mimi to go over the financials.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Thank you, Bob. Good morning, everyone. As a reminder, we have posted more detailed information online in our CFO commentary, so I will highlight a few key points from our reported results. The 7% increase in total sales for the quarter to $774 million reflected a 7% increase in consolidated comp sales, an increase in non-comp sales of approximately $10 million, including the opening of 33 new stores and an increase of 7% in wholesale sales.

By division, building on our first-half positive results, total comps were up again across the board, up 6% at Journeys, 2% at Schuh, 12% at Lids and 5% at Johnston & Murphy. Consolidated store comps were up a solid 6% and direct comps were up 25%, which pushed direct as a percent of total retail sales to 8% for the quarter compared to 7% a year ago.

Lids' direct comp for the quarter were up a strong 52%. The effect of Lids turning on its Locate system, which gives online access to an additional 50,000 plus SKUs in the stores, has contributed to this improvement, along with the increased promotional sales. In the quarter, Lids turned on an additional 300 stores for locate for a total of over 800 stores. Increases in Journeys and J&M direct comps were double digit as well.

Turning to the fourth quarter, for the total Company, comps through Tuesday, December 1 increased 6% with stores up 4% and direct up 25%. By division, total comps were up for all our US retail businesses, up 8% at Journeys, 8% at Lids, 7% at Johnston & Murphy, but down 3% at Schuh. As Bob mentioned, these comps reflected a significant acceleration in the week leading up to Black Friday, which then continued throughout the weekend.

Gross margin for the quarter decreased 130 basis points from last year to 48.3%. As expected, gross margins in all the Lids Sports Group retail businesses except for the core US headwear stores were down quite a bit. Gross margin for the US headwear stores, which traditionally is the strongest, remained strong and was essentially flat versus last year. The intensity of the promotional activity was most evident in Lids' e-commerce, which has proven especially effective as a channel to clear merchandise and in Locker Room and Locker Room at Macy's where the markdown activity was the most concentrated.

Part of the 490 basis point gross margin decrease at Lids was due to mix of businesses in addition to the heavy markdowns. The Lids decrease was offset in part by an 80 basis point improvement at Journeys due largely to higher initial margins, but also to more full-price selling and fewer markdowns. Gross margin at Schuh was flat and at Johnston & Murphy decreased 140 basis points, primarily due to lower initial margins resulting from product and channel mix shifts.

Total adjusted SG&A expense improved 130 basis points to 41.6%. With strong comps, the Company leveraged rent, central and other expenses on a consolidated basis. In addition, this year's results benefited from the end of the Schuh acquisition incentive put in place when we purchased Schuh four years ago. Last year was the final year of expensing the incentive and there is no P&L expense related to it in the current year.

Selling salary expense in total for the Company was flat as a percent of sales. While both Journeys and Lids have been facing store-level wage pressure driven by minimum wage increases and retail competitor moves, both have made efforts to manage this pressure by substituting lower-cost part-time hours for full-time hours. Lids was able to shift a higher percentage to part-time hours and in fact leverage selling salaries in the quarter. Journeys was not able to fully offset the wage pressure and deleverage selling salaries somewhat.

The stronger US dollar against the pound, euro and Canadian dollar created foreign exchange headwinds in the quarter as well. With higher sales, adjusted operating income for the quarter improved 7% to $52.2 million. While the SG&A improvement for the quarter was meaningful, it was offset by gross margin pressure; thus, operating margin was flat at 6.7%. Third-quarter adjusted EPS was $1.40, up 9% over last year's $1.28.

Turning now to the balance sheet, inventory was up 6% year-over-year with retail square footage up 1% and sales up 7%. Journeys inventory was up 23% on a square footage increase of 1% and sales increase of 6%. This is due to timing. Journeys had planned this increase to be able to maximize anticipated strong holiday sales beginning in the fourth quarter and we expect inventories to be at a normalized level by year-end.

Lids' inventory was down 7% on a square footage decrease of 2% and sales increase of 12%. As we have said, the Lids plan has been to liquidate inventory throughout the year and couple that with a reduced level of (technical difficulty) to reach the year-end target of a 10% to 15% reduction. As such, we have now begun to see decreases over last year's inventory level.

Next, capital expenditures were $32 million and depreciation and amortization was $19 million for the quarter. We ended the quarter with $28 million in cash, $149 million of borrowings under our domestic credit facility and $66 million of UK debt. These levels represent the quarter-end borrowing peak for the year and we anticipate by year-end borrowings under our domestic credit facility will be in the neighborhood of [$88] million, including borrowings (technical difficulty) purchased and we will have less than $50 million of UK debt.

Finally, given our stock's relative valuation and our expected levels of cash generation, we repurchased approximately 1.7 million shares for roughly $101.5 million at an average price of $59.45 per share during the quarter. Without the third-quarter buybacks, our adjusted EPS would have been $1.38, so the lower share count contributed $0.02 to the third quarter's results.

Now turning to guidance, with the uneven start to the fourth quarter and our belief the quarter is likely to be more promotional than originally anticipated for several of our businesses, especially Schuh, coupled with our plans for specific additional promotions at Lids in Q4, we are revising our full-year EPS guidance to a range of $4.50 to $4.60 from $4.70 to $4.80. We expect the share buybacks made in the third quarter will contribute about $0.10 of this amount.

While we have made a lot of progress reducing Lids' inventory, the revised guidance reflects our intent to go deeper and be even more aggressive in order to hit the high end of the 10% to 15% reduction goal and enter the new year clean.

A few reminders from our previous guidance. We anticipate the strong dollar will remain a headwind and weigh down earnings by $0.07 per share for the year assuming exchange rates stay where they are. We also expect that an increased expense from a legacy pension plan will reduce full-year earnings by another $0.04 per share. Finally, we will continue to benefit in the fourth quarter from the end of the Schuh acquisition incentive.

We anticipate total sales will increase 5% to 6% with consolidated comps, including direct, increasing 5% to 6%. We have opened 60 new stores through the end of the third quarter and expect to open 24 more for a total of 84 by the end of the year. We expect gross margins to be down year-over-year for the total Company, more than the last time we reviewed guidance due to the anticipated incremental markdown activity at Lids and elsewhere. This gross margin guidance includes a Lids decline with smaller declines at Schuh and J&M and slightly higher margins at Journeys.

Next, we anticipate SG&A expense as a percent of sales will be down in the range of 20 basis points compared with last year. We will have difficulty leveraging comp to a greater extent due to the expense pressure we have experienced. Continuation of the store-level wage pressure we have felt is included in our guidance. This all results in an operating margin that is down for the year. Finally, our fiscal 2016 tax rate is expected to be 36.8%.

Looking at the balance sheet, we expect inventories at year-end to be flat to up just a little, including up to a 15% reduction at Lids. We are planning capital expenditures in the $110 million to $120 million range. We anticipate spending on e-commerce, omni-channel, distribution centers and other non-store capital to be a sizable portion of these amounts, but in line with last year's levels. Depreciation and amortization is estimated at approximately $76 million.

We are assuming average shares outstanding of 23 million for the year. We've not included any stock buyback in this guidance beyond the buying we did already in the third quarter. However, we do have $21 million remaining on our most recent stock repurchase authorization of $100 million. Now I will turn the call back over to Bob.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Thanks, Mimi. I'm going to touch on a few of the major factors in the performance of our individual businesses and our current outlook for them starting with Journeys. While traffic has been choppy at Journeys, conversion has been up consistently quarter-to-date pointing both to the strength of our merchandise assortments and the success of our initiatives to concentrate our sales staffing in peak traffic periods in order to drive conversion.

Despite the recent comp volatility, the Journeys team continues to be optimistic that the quarter will come in close to where we planned. In addition to the recent pickup in boot sales, we are in a better inventory position with key brands versus a year ago when we ran out of many popular items during the holiday season. On top of all this, we believe incremental investments in additional catalogs and e-commerce marketing will drive upside in our direct business. Finally, Journeys has a long history of reacting to sales shortfalls versus plan if needed, so we don't anticipate inventory will be an issue.

We really look forward to the acquisition of the 37 store Little Burgundy retail footwear chain in Canada, which we announced last month and anticipate will close as early as next week. Little Burgundy serves a fashion-oriented 18 to 34-year-old customer looking for on-trend branded footwear and accessories. Little Burgundy will be run as a separate concept and will be complementary as a retail chain to Journeys in Canada. We are excited about welcoming the Little Burgundy team to Genesco and we feel very fortunate to have retained their terrific group of operators. This team will continue to operate out of Canada as part of the Journeys Group.

At Schuh, warm weather and a lack of a major fashion driver have combined to create a more promotional operating environment than we'd prefer. While sales of boots have been soft and some retail competition have broken ranks on price, the Schuh team has tightly managed its inventories and is well-prepared to do what it takes to end the year with inventory in good shape.

Over Black Friday weekend, Schuh opened a second store in Germany following the launch of its first store, which opened outside Dusseldorf in March of this year. It is still very early and we will continue to approach expansion in Continental Europe conservatively, but we are encouraged by the initial results.

Moving to Lids, the third quarter was highlighted by a double-digit comp improvement, which included strong sales for key teams participating in the Major League Baseball playoffs led by the Mets, Cubs, Blue Jays and Dodgers. The margin declined from inventory rightsizing was offset a little by this increased full-price selling.

In Locker Room for Q4, Ohio State likely represents a headwind this year versus last year given they will probably miss the playoffs and the Seattle Seahawks could be another headwind if they too do not make it into the playoffs. And finally, the week later Super Bowl will shift some of the sales running up to the championship out of the fourth quarter and into next year.

Regardless, we feel good about our current position and future outlook for Lids for many reasons, seven of which I am going to cite here. First, Lids' inventories are much cleaner than at any point in the past 24 months and are going to be cleaner still by year-end. Two, we have been implementing a new merchandise practice, including earlier and deeper markdowns to clear inventories on a more regular cadence going forward.

Three, we will be making progress towards a healthier store base by closing stores or renegotiating rents for approximately 50 underperforming locations over the next three years through lease expirations and kickouts. Four, we are launching a new and improved front end for Lids.com that will improve navigation and we assume conversion significantly on our websites. We anticipate implementation of this new front end in the first quarter of next year.

Five, there are more benefits to reap from technology-oriented initiatives such as Locate, the system to access inventory in the stores from online and AutoStore, a robotic system to expedite picking in the warehouse and to add efficiency. Six, our partnership with Macy's offers upside potential.

As we said last quarter, Macy's has been a great partner in forging the path to make it a success and has worked with us on a number of improvements that should boost the profitability of this business going forward. And comps in excess of 30% in the third quarter are a good sign of potential. And seven, we have strengthened the Lids leadership team by bringing in a new CFO this year and new talent in the merchandising organization.

At Johnston & Murphy, it was a good quarter for the brand. Retail comps were up 5% and our wholesale business was even stronger. As we've noted before, J&M's past performance has been heavily influenced by volatility in the stock market. The fact that this wasn't the case during this third quarter speaks to the strength of the current merchandise offerings, particularly men's casual footwear.

While we are feeling the impact from lower tourism levels in several J&M outlets as the result of the stronger dollar, full-line stores are performing nicely. And then finally, license brands performed well in the quarter and our team here is enthusiastic about the initial launch of Bass footwear this coming spring. With its authentic brand heritage, we are bullish on the long-term potential of this opportunity.

So in closing, I would really like to thank all of our teams for their great work in delivering strong third-quarter results and once again, we owe a successful Thanksgiving weekend to the stellar efforts and dedication of all of our retail management teams and store associates and all of those who support them. Our employees executed this critical holiday in challenging conditions, which once again included a large number of our stores that opened on Thanksgiving Day. And now, operator, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jay Sole, Morgan Stanley.

Jay Sole - *Morgan Stanley - Analyst*

Good morning. So Bob, it sounds like the inventory at Lids is actually getting already pretty clean, pretty close to in line with sales. And you plan on it being down by 15% by the end of the year. Can you talk about -- that sounds like it will be extremely clean. Why 15% is the right number? And can you also explain what the difference was in the promotions because with a lot of full-price selling that seemed to be helped by Major League Baseball playoffs, why was the gross margin what it was? Was there a difference between some of the maybe aged inventory that you had to do more to clean? Or if you could maybe just explain that, it would be super helpful.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Sure. So first, in terms of the target, Jay, the target for where we want to get is derived based on a target turn. And so we believe that the inventory in this space needs to turn in the 2s and so that is the way we backed into a target that sets us up to be at that turn level next year and obviously that will also -- the turn will also be helped by flow. And flow gets helped by a cadence on markdowns that is faster driven by deeper earlier markdowns and so that merchandising commitment is in place.

So in terms of getting there, it's a combination of having to work through just too much inventory and then, secondly, as you just noted, there was some inventory that's aged and a little more distressed. And this is both over the fan business and the headwear business where we've been slow to clear and so we've just had to take some medicine in order to accelerate sales to hit the number that we need to make.

What we've done most recently is taken a really hard look, very granular, at what is left to be done and we've always said 10% to 15% reduction is the target and we see the opportunity to push it closer to the 15% because we've got all this traffic at Christmas and we believe we will just be better off getting the business as clean as possible. And so that's the commitment we've made. Mimi, anything you would add to that?

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Yes, I would say that where we experienced the greatest gross margin pressure were the areas that we highlighted. So in the e-commerce channel, there are bargain hunters out there looking for great deals on the Web and so we took the greatest hit in our e-commerce channel. And in addition to that in Locker Room and in Macy's. So we are making progress in those channels and we anticipate that we have a little more to go.

Jay Sole - *Morgan Stanley - Analyst*

Okay. And then maybe one more on Lids. The comp at Macy's is -- 30% is a big number. Can you talk a little bit about Locker Room? What you see for the outlook next year for stores and where that business is positioned right now?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Are you talking Macy's Locker Room or our regular Locker Room stores?

Jay Sole - *Morgan Stanley - Analyst*

The regular Locker Room stores.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes, they are going to be cleaner and so the inventory and the merchandising that we just discussed is going to play a big role there. And then the other big thing, Jay, and this will happen over several years, is when we got really aggressive to open as opposed to acquire Locker Room stores, many of those stores, not all of them, but many of them were a bust. The rents are too high. We were not just getting the productivity. We think we probably missed on how much competitive activity already existed in the mall. That's our thesis.

But, nonetheless, we have fortunately the real estate team on the large, large majority of those stores executed leases with kickouts. And so over the next three years, the worst of those stores, and that's concentrated in those 50 we called out in the remarks, are stores that we can address and we'll either close them or we'll rightsize the rents to make them work. It will be a one-by-one conversation that we need.

The merchandising will help drive sales margins. The store opportunity helps correct on rents. All in, we think it all adds up to a nice forward-looking improvement opportunity for the business.

Jay Sole - *Morgan Stanley - Analyst*

Understood. Okay, thanks so much.

Operator

Steve Marotta, CL King & Associates.

Steve Marotta - *CL King & Associates - Analyst*

A year ago, there was an international competitor within the market competing with the Lids Group. Can you talk a little bit about where their pricing might be right now compared to yours and how you are feeling about that competitor versus 12 months ago?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Well, all of our businesses have competitors, so we compete in every one of our businesses. In the case of the Lids Locker Room business, we have what we believe is a terrific operating model, which is omni-channel and so we have the ability to give the fans out there the choice to either shop in stores or to shop online and what we've seen is a very well-defined demarcation being that displaced fans, so those people who live outside the market where the competitor sits, where their team sets, if they are somewhere else, they tend to go online. In fact, they really don't even have a choice because only the most national teams are merchandised nationwide.

The local fans show a strong bias to shop in stores and in fact, they show a strong bias to shop on the days before the team is playing and so there's a need-it-now opportunity. So our belief is we are very well-positioned to have, particularly with the Locate system in place, to have our inventory focused on both segments of which the local fan is the bigger segment. I would love to be focused on the bigger segment.

With respect to competing online within that specific area, it has been somewhat promotional and it's promotional both in the form of fairly consistent storewide sales, as well as free shipping that gets pulsed out and quite honestly we are just going to match that and we are going to pursue share and we are going to continue to grow our business because we think it's a very important component of our strategy. And so we will see how it all goes and we are hopeful that both the vendors and the marketplace become a little more normalized, but we are going to compete.

Steve Marotta - *CL King & Associates - Analyst*

Okay, that's helpful. I know you've been reticent in the past to talk about -- I think you have any way -- the percent of sales related to Macy's Locker Room compared to the Lids Sports Group. Can you give any guidance there, as well as what margin targets are for next year for Macy's Locker Room again? I know that being specific is -- probably some reticence around that, but maybe some guidance there at all?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

We are not going to start breaking out Macy's down at that level. It actually gets kind of tricky because of the way we might choose to either liquidate there or liquidate elsewhere. So when you take the fan business and you break it apart, it can actually get a little misleading because we have been -- as Mimi noted, we've chosen to do a lot of the clearing online, which changes the economics of the stores. So you really have to look at it as a whole, which is the way we are going to continue to talk about it.

The good thing about Macy's is we've adjusted the staffing model in some of the departments, the lower volume departments, to reduce selling costs. We've worked with individual Macy's stores to move underperforming departments to what we now know are better locations within those boxes. We've learned -- use what we've learned on merchandising to improve performance; hence, you see a very strong comp. And overall, I just want to say Macy's has been just a very collaborative and very helpful partner. We have to keep remind everyone this is a startup. So last quarter, the last of the stores went comp. So we are still on a steep learning curve and we are really excited by what we are achieving there.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

And Steve, we have 187 Macy's departments now and they are a little bit less than 1000 square feet. So you can think about just a sales per square foot number on that. But what's exciting is that we have been comping up. As Bob mentioned, it was 30% in last quarter. We are the exclusive -- we have the exclusive right to sell licensed product within Macy's and not only are we able to serve the market through our 187 locations, but when we have special events like the Super Bowl or the All-Star Game, we are able to do stackouts in different Macy's locations.

So in addition to all of the improvement activities Bob mentioned, driving top-line sales and really being able to maximize the opportunity of the Macy's traffic is what we are focused on.

Steve Marotta - *CL King & Associates - Analyst*

That's helpful. I actually have one more question. With the exception of the Seahawks, is there any other teams directionally that could benefit you during this quarter from an NFL standpoint? Thank you.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes, on the NFL -- it's funny, you have to split it between our headwear chain and then where we have Locker Room focus. In the headwear chains, we love the big national teams, so the Steelers, the Giants, the Packers, the Patriots. Those are our go-to guys. Where we have -- when we are in the Locker Room space, it swings a little more on where we have store concentration. And so a lot of people would be surprised that we like the Panthers and we like the Bengals, but we just happen to have stores in Ohio and Carolina, we overindex in those markets.

And then just while we are on it, if you are in the college football business, Ohio State is not technically eliminated, but we will know a lot more by Monday or by Sunday. The team in there that we'd probably want of the favorites would be to make it in would be Oklahoma because we run some stores focused on the Oklahoma market and then in the headwear business, it's probably Bama that we'd want, but we lost the teams we would really love.

Steve Marotta - *CL King & Associates - Analyst*

That's helpful. Thank you again.

Operator

Erinn Murphy, Piper Jaffray.

Erinn Murphy - *Piper Jaffray - Analyst*

Thanks. Good morning. You guys have been selectively more promotional at Journeys. Can you just talk about how you are planning the promotional activities in the upcoming weeks into Christmas and then how do you think about in January following that? I guess the reason I am asking, I am just curious if the cost of doing business right now in the mall being more promotional is just part of that process and we will see that level continue into the new year?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Sure, Erinn. The mall has been promotional for several years. Our sense is it runs the risk of being even more promotional this year because of that real slow start in November, which teed up a lot of people to move into a more promotional position. And as we noted, Journeys had a very strong Black Friday weekend. Really that whole week was very strong and they did get slightly more promotional on seasonal given the slow start.

Their approach, as you know, to promoting is to focus on slow movers and so their promotional plan to some extent -- actually to a large extent beyond what they would be doing normally -- is going to be reactive to what is going on on the sales trends. So the team will be watching their sales by week, by day and so they are right now planning to do a promotional plan that is more along the lines of what you have seen in the past, but naturally if the sales don't develop, we will have to do more.

Erinn Murphy - *Piper Jaffray - Analyst*

Okay. Thanks. And then I guess in the UK market, obviously, that's been a market, particularly the last couple of Black Fridays, where they've really started to adopt that. Can you just talk a little bit more about just overall Schuh business? I know it was a little bit more promotional again this quarter. How did the comp cadence vary throughout the quarter and how are you thinking about that business in the UK and any other potential new markets into next year?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

The business in November was very slow leading up to Black Friday. Last year, you might remember, Schuh had an enormous bump in Black Friday and that holiday had really just sort of caught fire. And this year, we held serve on that and we had a positive, but it wasn't anywhere near as robust as it was last year. Now, again, remember, it's on top of a huge bump last year, but the promotional environment in the UK market is what really has our attention because year-over-year it looks to be more intense. And so we are going to have to do what we need to do to drive our sales, our top line and our inventory liquidation.

And so given where we sit right now, we would anticipate, unless something dramatically changes on its own, we would assume that we will have to do more in the promotional category in order to meet our year-end goal. Mimi, anything to add to that?

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

I would just say, to be specific about it, that Schuh experienced almost a 50% comp. Black Friday was just a huge event in the consumer marketplace in the UK last year and the initial anticipation this year, Erinn, was for that momentum to build and that just simply didn't happen. I think that consumers decided that Black Friday was an event that they would leave in the States and that they would choose instead to go online because again people are not -- they don't have the day off.

And so we saw foot traffic in our stores go down and a lot of the activity move to online and a lot of it was very promotionally oriented. And so that was a pretty big difference than what we experienced in our Journeys store where foot traffic was down no more than what we had experienced earlier in the year, but conversion was very strong within the Journeys Group and average ticket was up as well. So there was a market contrast between each side of the Atlantic.

Erinn Murphy - *Piper Jaffray - Analyst*

Got it. Thanks for all the color and best of luck.

Operator

Sam Poser, Sterne Agee CRT.

Sam Poser - *Sterne Agee CRT - Analyst*

Good morning. Thanks for taking my questions. First of all, in the fourth quarter at Journeys, you had a nice increase improvement in the gross margin. How are you thinking about that gross margin improvement? You said it was going to be up. Are you expecting it to be up as much as it was in Q3?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

We are not expecting a big gross margin improvement in the fourth quarter for Journeys. It's a modest improvement.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Yes, the up was the comment for the year, Sam. For the fourth quarter, we expect that Journeys will be more promotional on a year-over-year basis. We are actually going to be down -- we anticipate being down in gross margin for Journeys.

Sam Poser - *Sterne Agee CRT - Analyst*

Okay, so my question there is is that -- given how good it was in the third quarter, is that what you are seeing now, or is that sort of discretion being the better part of valor looking forward?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Well, looking forward, Sam, you must have a better crystal ball than we do. We are not sure what's going to happen. So when we are planning, we are looking at a very difficult first three weeks in November, which left us significantly behind. And so naturally when you plan, you assume that you may not make all of that up and that contributes to an assumption that we are going to have to be a little more promotional. (multiple speakers)

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

We actually built in some additional promotional activity that we had in November that we actually experienced and as Bob said, we extrapolated that out through the balance of the quarter. So the result of that is that sales are strong at Journeys. We were trending at an 8% comp fourth quarter to date and so those promotions drove a lot of sales and so we will experience a pickup in sales and we'll give up some margin to accomplish that.

Sam Poser - *Sterne Agee CRT - Analyst*

And was Thanksgiving weekend as promotional as you expected, or was that less promotional than you expected at Journeys?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

We were a little more promotional than we were last year --

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

On selective items.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

-- on selective items. We weren't -- as you know, we don't go storewide. So we were taking slow movers. As you know, one of our major vendors took a few items off of map pricing. We followed their lead on that and so all in, we were a little more promotional over that weekend and again, it's mostly related to the slow start in November. You had to start the thinking about rightsizing the seasonal category.

Sam Poser - *Sterne Agee CRT - Analyst*

Okay. And then on the Lids, total Lids world, once you get through Q4 and inventory is where you want it to be, would we expect looking into next year and first quarter and so on to see a significant improvement starting in the gross margins in the Lids Group?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes.

Sam Poser - *Sterne Agee CRT - Analyst*

Okay. And then when you are looking into spring, are you seeing any changes at Journeys in the trends, vis-a-vis canvas or anything looking like it's going to be better or worse than last year?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes.

Sam Poser - *Sterne Agee CRT - Analyst*

Would you like to tell us what that is?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

No.

Sam Poser - *Sterne Agee CRT - Analyst*

Thank you. Have a happy holiday. Thanks for taking my questions.

Operator

Jill Nelson, Johnson Rice.

Jill Nelson - *Johnson Rice & Company - Analyst*

Good morning. I'm just trying to understand the additional caution headed into fourth quarter. Maybe you could parse out the reduction in your outlook, kind of how much is weighted to the Lids higher promotions versus some of the other promotional activity you are seeing out of the division?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Let me recap the big themes. So we saw a lot of comp volatility coming in November. Obviously, the first three weeks soft and then a pretty good burst on the one holiday week, but that leaves us concerned that we will go into December with another round of weakness that will trigger promotions not necessarily by our teams, but within the marketplace. And so it's both a -- it becomes both a sales and margin story and then obviously in Schuh in the UK, we already recognize that that's almost a fail to complete at this point.

We have a desire -- the second thing is a desire to take advantage of all the traffic having done the more granular analysis of the Lids inventory and to attach that to get it to an even lower level to give a cleaner start to next year.

And then the other new news on the guidance is, as we look at the layout of the teams in college and NFL, it has gone a notch more negative than what we were hoping for. So those are some of the factors and I will ask Mimi to (multiple speakers).

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

I think that's right. I think just in the normal course of business, we particularly see some headwinds at Schuh because of the state of the UK market and currently how promotional that environment is. So we anticipate more promotions there for sure. We've discussed additional Journeys promotions. Beyond normal course of business, as Bob mentioned, we are really focused on the rightsizing aspect of the Lids inventory, which isn't necessarily a reaction to the current environment and so that (technical difficulty) built in quite a bit of promotional activity just to complete that.

We like what we've seen. We've gotten very positive results in our stores from having easier to shop, cleaned-up stores. Our comps have been driven by being able to bring in fresh merchandise and given the progress that we've made, we are just, as Bob said, we are going to take the medicine and complete this year and end up with next year in a much better position.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

The big swing factor when you run the numbers is margin because margin flows through and so you can do the sensitivity test yourself and do a 50 and 100 basis point margin hit because the market gets more promotional. We are just more alert to that possibility given what's going on in the marketplace now than when we had previously provided guidance.

Jill Nelson - *Johnson Rice & Company - Analyst*

Got you. Thank you. And just last one, I think you mentioned the merchant changes at the Lids team. If maybe you could just talk about that kind of percentage of turnover you've seen there and if it's concentrated in any of the Lids divisions. Thank you.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes, we've got some -- what we are really doing organizationally is strengthening what would be the merchandising and planning side of the business. So we've had (technical difficulty) organization where we've had buyers and the buying structure is responsible for both the buying and the planning and allocation and markdown cadence. And what we are doing now is separating that out and we've brought in some terrific leadership to provide more expertise on the planning allocation and markdown cadence side of the business.

Jill Nelson - *Johnson Rice & Company - Analyst*

Thank you.

Operator

Eddie Plank, Jefferies.

Eddie Plank - *Jefferies & Co. - Analyst*

Good morning, guys. Thanks for taking the question. I guess just to ask it a little differently with the guidance, I guess where did the inventories stand at the end of third quarter for Lids relative to your expectations? Because I'm just trying to reconcile where you guys getting clean by the end of the year, I thought that was kind of baked in initially. Is it just that you are now targeting the high end of that reduction or is it more just because your expectation of incremental promotions overall in the business?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

A little of both. So we are definitely targeting a lower level of inventory for year-end, taking advantage of the traffic to do that and there were certain categories of merchandise where it was taking a little bit of a deeper mark to get that done than we had expected. So those two things together add up to a little more margin hit in order to completely get to where we would like to be.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

We were pleased with what we were able to accomplish in the third quarter, Eddie. The 490 basis point decrease at Lids in gross margin was absolutely in large part a result of the promotional activity and the fact that we were able to drive a 12% comp on 7% less inventory just gave us the confidence that let's continue to clear and continue to rightsize. So we are tracking well to our plan, but we would like to go ahead and complete that plan in this year.

Eddie Plank - *Jefferies & Co. - Analyst*

Okay. That's helpful. And I guess, Bob, can you talk a little bit more about the store rationalization initiative at Lids and why you think 50 is the right number right now? Is that something that could be higher?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Hopefully, it won't be higher because it's simply drawing a line on the stores that have the most negative EBITDA and saying these are the problem childs that we need to address one way or the other. They are not all in Locker Room; there's a few headwear stores, but it's heavily Locker Room and so we can put a circle around the 50 worst ones and say this is the highest priority. There's not much to do until you get to the kickout. Landlords are very inflexible nowadays on any other form of exit and so we have to manage those businesses as best we can until we get to the point where we can take action.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Yes, these are actually the 50 that we are talking about. They actually have -- they are actionable, so they have kickout or lease expirations that we can act on.

Eddie Plank - *Jefferies & Co. - Analyst*

Okay, great. Thanks a lot for the color and best of luck for the holidays.

Operator

Scott Krasik, Buckingham Research Group.

Scott Krasik - *Buckingham Research Group - Analyst*

Thanks for taking my questions. First one on footwear and then a couple on Lids. Bob, I think you talked about last year in 4Q Schuh had one boot brand and one athletic brand that diverged from Journeys. I don't know if you said it surprised you, but it was clearly weaker. And I'm just wondering if you've seen that improve or change or are you still seeing that disparity?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Well, when we saw, and that's something that really went into the first half of this year as well, I don't remember calling out two specific brands, but there were some brands where we didn't have the same kind of consumer reaction in the UK that we did here. Obviously, what the merchants have done over time is remerchandised around what's working and so their inventories are aligned where they need to be.

The UK isn't as much of a problem on any specific brand that's a big issue. Seasonal is a bit of an issue. There's no brand where you say there's the problem right there. It is a traffic and demand and promotional problem across the board.

Scott Krasik - *Buckingham Research Group - Analyst*

Is it rare though that you have major brands that work in the US and don't work in the UK? We think of the UK as just sort of an extension of here.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

No, it's not rare, but we usually have the visibility on it. We usually know there's a couple of brands that have more traction in the UK and some brands that have more traction here and they don't cross over as well. But what we had called out nine months ago, 12 months ago were some brands that had previously been good in both markets, stayed strong here, but went into a period of decline over there and needed some rightsizing on the inventory and that was surprising. We didn't see that coming at the time, but now we are rightsized in our inventory mix, so that's not the issue.

Scott Krasik - *Buckingham Research Group - Analyst*

Okay. That's helpful. Thank you. And then just on Lids, to the extent that you've had full-price selling, it's really been driven by teams that are in the playoffs. Even when the inventory is at appropriate levels at Lids, what evidence do you have that you will be able to get full-price selling day in and day out?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Well, because if you look at our -- Scott, it's not as if we are not doing some full-price selling in our business. Indeed, if you could take -- snap your fingers and take the Lids business and eliminate -- you are not going to eliminate markdowns altogether, but if you eliminated the excessive amount of markdowns that we are taking at the moment, which is related to excess inventory and sort of extrapolate into a time when you only have a normal [price] level of markdowns, the business looks pretty good.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

I think it would be important to call out the Lids headwear stores. The Lids headwear stores were ones that we were able to get cleaned up earlier than others and as a result, on a year-over-year basis, we are doing a lot of full-price selling in Lids headwear and our margins are about the same place where they were last year. And so the hit that we've taken and the promotional activity has been deliberate in the e-commerce and Locker Room channels. And coupled with that, we continue to see good full-price selling and a good portion of our comps relate to that full-price selling.

Scott Krasik - *Buckingham Research Group - Analyst*

Okay. And then what percentage of Lids sales is done online at this point?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Sneaking up to (technical difficulty).

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Over 10%, yes. We've been comping so strongly, it'll be over 10% for the year.

Scott Krasik - *Buckingham Research Group - Analyst*

And then what types of operating margin combined are you targeting between Macy's and Locker Room and hats altogether? When the inventory is clean, how should we think about the profitability?

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Profitability for this year?

Scott Krasik - *Buckingham Research Group - Analyst*

No, no, when it's -- on an ongoing basis.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes, longer term, this should get back into higher single digits. It's not a double-digit business. The headwear business alone has been a double-digit business. This should be a high single digit business.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Yes, we have taken a really big hit in gross margin for the year. We've come down -- we anticipate we will be in the neighborhood of being down about 300 basis points in the Lids business largely because of the promotional activity. So we ought to be in a position certainly next year and the year after to recapture that.

Scott Krasik - *Buckingham Research Group - Analyst*

Okay, awesome. Thanks very much. Good luck.

Operator

Jonathan Komp, Robert W. Baird.

Jonathan Komp - *Robert W. Baird - Analyst*

Thanks. Maybe first more of a two-part question on the guidance beyond 2016 for the business overall. And I think at this time last year, Jim gave some initial targets for the year ahead and I am wondering if there was any thought to continuing that practice this year or if you had any color on some high-level expectations for next year.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

You are right. Last year and for many years, we've given some indication about next year at this point. As you know, this is a pretty unusual year for us in many ways and so between the rightsizing that we are doing on Lids and then just the fourth-quarter visibility feeling more limited than normal, we want to see how the holiday season finishes up before we finalize our outlook for next year.

We will probably be in a better position to give some directional guidance in conjunction with the ICR event in January when we are down there. We will tell you, as we said earlier on the call, that we expect some very meaningful improvement in gross margins and overall performance at Lids. And so that will be part of the story, but with the rest of our businesses, we just want to (inaudible) the heavy selling periods of fourth quarter before we get into talking about next year.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

So John, there are some consensus EPS numbers out there for us for fiscal 2017 and we have looked at those and we think that there's probably some upside as a result of anniversarying the intense Lids promotion. We are going to determine exactly how much upside there is as we finish writing our plan for next year. But, in addition, and I really want to call this out that it's important to factor in the share buyback because I think that that number -- we bought back 1.7 million shares, a very large number of shares this quarter and we anticipate that that in itself is going to give us a lift of 6% next year. And so not only is the underlying business going to improve, but (technical difficulty) and EPS.

Jonathan Komp - *Robert W. Baird - Analyst*

Great. That's helpful and we will look for more color at ICR I guess. But, Bob, as a follow-up really on the longer-term plans, it sounded like last quarter relating to the broader five-year plans, you might be willing to share some insights after presenting the plan to the Board. So I am just wondering if you have any follow-up and any perspective on the longer range plans as you see them today.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes, same answer. We are in a very tough environment right now, we think, in the fourth quarter. So rather than get into putting a five-year plan out there that was built off of a stronger assumption for this year, we are just going to hold off on that for the moment. We think it maybe confuses more than enlightens and so again check in with us in January. We should have more visibility at that point.

Jonathan Komp - *Robert W. Baird - Analyst*

Got it, got it. Understood. And then last one, if I could, just on the approach to share buybacks. Obviously, the leverage has gone up slightly or you used a little bit more debt than in the past for the most recent round of repurchases. It sounds like that will work down a little bit seasonally, but should we be viewing the pace of the buybacks more as a one-time event or have you shifted your thinking overall about the capital structure going forward?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

No, this is not a shift in our view of capital structure and if you take a look at our debt structure, including capitalized leases, we are very lease-intense even relative to most retailers. So no, we are not in a process of significantly levering up the Company.

That said, be mindful of the fact that we generate all our cash in the next six weeks, and Mimi had reported what our balance sheet looks like at the end of this year and we don't believe that we are in a heavy period of leverage. We are going to end up with debt that we essentially -- we address most of it with cash flow next year.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Yes, I think that's right. I think the way we approach the debt buyback this year was we were sitting with cash on our balance sheet when we ended last fiscal year and if you add that, plus the cash that we generated this year, the balances that I called out that we expect for the end of the year in large part are in connection with our purchase of Little Burgundy. And so the philosophy around the share buyback was to use what we had on our balance sheet and what we generated this year and to really take advantage of the fact that our stock price and our valuation was at levels -- was at relatively low levels in the market.

Jonathan Komp - *Robert W. Baird - Analyst*

All right. Thank you. And best of luck the next few weeks.

Operator

Taposh Bari, Goldman Sachs.

Taposh Bari - *Goldman Sachs - Analyst*

Good morning. Bob, I wanted to clarify what's happening at Journeys because it's a little confusing to me. So it sounds like the third quarter was good; November started off weak; but then accelerated through Black Friday and it sounds to me like that was a function of increased promotions. Is that a fair assessment?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

No, I think it is fair to say that, at Journeys, the trigger event for improved performance late in November we think was more weather and the two things, Taposh, that point to that is first if you look inside the categories for the shortfall in the first three weeks in November, it was almost all weighted to seasonal.

And then, secondly, if you looked at the parts of the country that are not exposed to seasonal, like the Southwest and California, we were actually performing fine. So we think it was as much a weather-related event. But, that said, you get to the end of November and you have not sold through your seasonal. So when we went through the Black Friday weekend knowing what our inventory was, the team decided to get selectively promotional with a weighting towards seasonal where we were heavy in order to help rightsize inventories and to drive the business along.

But I would say that when you look at the results and you do a back look, it was as much driven by in improved appetite for a seasonal period helped along a little bit by some of the promotion. Does that make sense?

Taposh Bari - *Goldman Sachs - Analyst*

It does. And I guess a follow-up to that, as you think about inventory management at Journeys in light of the comments that you made, and the seasonality and the weather, how are you managing inventories? Do you feel like you are adequately armed in light of your promotional ability or are you canceling orders of seasonal product?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes and yes. The Journeys team has lots of levers at their disposal. I think that's related to their strong relationship with the brands and their size, and so it's a combination of everything that's available to them -- canceling, return to vendor, being selectively promotional.

Let's not be -- we are not setting an expectation that Journeys is going to have a very difficult holiday. We still feel that Journeys is in pretty good shape. You just look at the promotional environment and that softness in the beginning of November and you want to be mindful of the fact that it could be soft, but we are still planning on a good year for Journeys.

Taposh Bari - *Goldman Sachs - Analyst*

Great. And then just last one on Journeys, higher-level question here. As we walk through the mall, historically, there's been a pretty strong delineation between what Journeys does and what Journeys' biggest competitors do. And from our perspective, it seems like the lines are getting more blurred. Now the trend is clearly in Journeys' wheelhouse, but it seems like a lot of other retailers are trying to emulate that trend. So I'm curious to get your perspective on Journeys' competitive advantage as the management there thinks about how unique Journeys is within the mall kind of over the longer term how you are thinking about that.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Taposh, we think that Journeys' competitive advantage is as strong as it's been in the sense that they are the only national retailer with the kind of assortment that gets presented. There's a few regional guys. And then everybody else kind of picks at the sides of the assortment, but we would argue with you and say we think Journeys continues to be unique. Our customer research supports that. If you look at the customer base who shops Journeys, the research suggests that they see Journeys as indeed a very unique resource for buying footwear in the teen space.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

The underlying comps have been strong throughout the year. When you look to see, Journeys comp was 5% in the fourth quarter, 4% in the second, 6% in the third and we were 8% fourth quarter to date. And so we just feel like we continue to hold our marketshare and continue to work with our vendors to get the exclusive products to differentiate ourselves from others.

Taposh Bari - *Goldman Sachs - Analyst*

Got it. It seems like the business has been phenomenal, so all the best this holiday. See you at ICR.

Operator

Chris Svezia, Susquehanna.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Thanks for taking my questions. Just one I guess specifically just on Lids for one second. Can you maybe just help us understand -- when you talk about full-price sales and the comp, I'm just trying to maybe disaggregate between how we can think about the 12% comp increase discounting verse full price. If you take discounting out of the equation, how do you think about the Lids overall comp? You mentioned the headwear business not being as promotional. Can you maybe tell us what the comp was just for the headware business so we can kind of get comfortable with where normalize comps would be if you weren't as promotional as you were?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes. The thing we are trying to call out, Chris, is not as much how much was full-price versus how much was promotion and promotion was obviously elevated. We are always going to have a more normalized level of promotion. What was unusual in the third quarter was hot teams. What we do, and we have recounted this for you guys before, is we will look at all the teams that were in the playoffs a year ago and the teams that are in the playoffs this year, we take all of those teams out and we say how is the baseline business doing and then how much better or worse was the total comp.

And in this case, we got a huge amount of help, so 4 to 5 points of comp came from the Major League Baseball lineup that was far better for us than it was a year ago. We run the Mets, so we have a Mets store that was just crazy good in the city and then the team that really surprised us was Toronto because we have such a strong presence in Canada and not just Toronto went crazy for the Blue Jays, the whole country went crazy. And so we were able to opportunistically benefit from that.

So we were in a situation where we got a lot of help and obviously, when you have a hot team, it's heavily weighted to full-price selling. So what we were trying to call out is how much the hot team favorable lineup was giving us a boost.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. All right. I see. And so let me ask a question, so when we go into the fourth quarter talking about a 3% to 4% comp for Lids, are you still expecting to be as promotional as you were that would negatively impact the gross margin as much as it did in the third quarter as you will be in the fourth quarter, or does that abate to some degree in the fourth quarter?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

So in the fourth quarter, the benefit you get obviously is a lot of full-price selling just from the traffic that's coming in buying gifts that is layered on top of whatever liquidation you are trying to do. Your liquidation gets a little bit diluted. So -- but we want to take advantage of that traffic to also get a fairly high liquidation level and what we called out, and one of the things that hit our guidance, was unlike the third quarter where we had a very favorable lineup of teams, we think we have some headwinds on teams possibly and of course, we have to wait to see how the college playoffs end up and how the NFL playoffs line up, but we don't think -- they don't look to be swinging in our favor.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Yes, Chris, I think that the third quarter to be down 490 basis points was a lot. We don't anticipate being down nearly at those levels, but we are going to take advantage of the after-Christmas clearance opportunities and drive promotions and drive rightsizing that way. And so we were down 300 basis points in the first quarter, down 200 in the second, down almost 500 in the third. We probably are going to be more in the range of how much we were down in the second quarter. I would say that we are just putting a tail on the clearance activity for the year.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. Thank you. And then just a final thing here, just does Kobe help you at all or is it immaterial?

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

No, Kobe will be helpful. Obviously, it's sort of a -- it's to the NBA a little bit of what Jeter was to baseball and Jeter was huge and Kobe, as he does his last laps through all of the arenas, it will be a big deal. It will help.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. Thank you. All the best and happy holiday.

Operator

And there are no further questions at this time, so I would like to turn it back over to our speakers for any additional or closing remarks.

Bob Dennis - *Genesco Inc. - Chairman, President & CEO*

Thank you all for joining us and we look forward to visiting with many of you down at ICR in January. Happy holidays to all.

Mimi Vaughn - *Genesco Inc. - SVP, Finance & CFO*

Happy holidays.

Operator

And that does conclude today's conference. We thank everyone again for their participation.
