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GCO - Q4 2016 Genesco Inc Earnings Call

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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Erinn Murphy *Piper Jaffray & Co. - Analyst*

Jay Sole *Morgan Stanley - Analyst*

Scott Krasik *Buckingham Research - Analyst*

Jonathan Komp *Robert W. Baird - Analyst*

Mitch Kummetz *B. Riley & Company - Analyst*

Corinna Freedman *BB&T Capital Markets - Analyst*

Laurent Vasilescu *Macquarie Research - Analyst*

Sam Poser *Sterne, Agee & Leach - Analyst*

Steve Marotta *CL King & Associates - Analyst*

Jillian Nelson *Johnson Rice & Co. - Analyst*

Pam Quintiliano *SunTrust Robinson - Analyst*

Chris Svezia *Susquehanna Financial - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco fourth-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 refer to certain adjusted financial measures during this call. All non-GAAP financial measures referred to in the prepared remarks are reconciled to their GAAP counterparts in the attachment to this morning's press release and in the schedules available on the Company's home page under Investor Relations.

I will now turn the call over to 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'm joined today by our Chief Financial Officer, Mimi Vaughn.

Fiscal 2015 earnings were disappointing and we addressed specific challenges in certain businesses and worked hard to prepare the Company for sustained profitable growth going forward. While overall results were unsatisfactory, we did see strong performance at Journeys and Johnston & Murphy and we believe that we did what was necessary to position the Lids Sports Group for a stronger future starting this year.

Journeys once again delivered record-breaking sales and profit and remains at the top of its game as the unparalleled leader providing fashion footwear to teenagers. This fantastic year followed another record-breaking one and is especially exciting as a lead-in to Journeys' 30th anniversary celebration.

We are also pleased to have completed the acquisition of the Little Burgundy business in Canada during the quarter and would like to welcome their terrific team of leaders to our Company. Congratulations to the Journeys team.

Congratulations also to the Johnston & Murphy team. Johnston & Murphy posted record-breaking revenue and solid bottom-line results with strong comp sale increases. Notably the strength of the brand has allowed J&M to register meaningful market share gains during this impressive run.

Turning to the issues of margins and profitability, many of them were identifiable, fixable and largely isolated to the Lids Sports Group. One of the most important initiatives this year focused on cleaning up Lids' aged and excess inventory to allow us to flow more fresh receipts to our stores and websites going forward.

We took aggressive promotional actions and significant reserves to ensure that inventory was both right sized and fairly valued which impacted the bottom line tremendously and offset gains in other parts of our business.

We set out initially to reduce Lids' retail inventories by as much as 20%. We ended the year with Lids' retail inventories in much better shape than planned, down 25%, as the result of an acceleration of our clearance efforts including a final push at the end of the fourth quarter.

While the decision to clear more product contributed considerably to our full-year EPS coming in at $4.29, just under the low end of our most recent guidance range, we were committed to get this overhang fully behind us before the start of the new year and we believe we have.

Another important accomplishment at Lids was to narrow the group's focus to omni-channel retail which led us to divest the Lids Team Sports business in January. The strategy at Genesco is to operate businesses that are difficult for others to replicate and which have the potential to attain a leadership position in the spaces they occupy.

When it came to Lids Team Sports, a competitor, BSN SPORTS, had already established significantly more scale and we were clearly saying catch up from a number two position. We were pleased to reach a favorable agreement with BSN in January on the sale of Lids Team Sports at a gain.

Importantly, the sale allows us to focus 100% on the core retail business where we believe our most important growth opportunities lie. We were especially pleased to achieve these results in a way that allowed the Lids Team Sports employees to find a home with a promising future at BSN.

In addition to pressure from Lids' promotional activity, Schuh's recent performance weighed on our results. The retail environment in the UK was extremely challenging during the fourth quarter.

This combined with a lack of a fashion driver in footwear led to a low-single-digit comp decline and required an intensive effort in January to right size inventories after the whole slow holiday season. This effort was successful and inventories are in good shape, but resulted in a significant deterioration in product margins for Schuh.

Overall for the fourth quarter Genesco's comps came in at a solid 4% on top of a 10% a year ago. We achieved these results despite comps at the end of the fourth quarter and in the first two weeks of the first quarter being much weaker than expected due to a delay in tax refunds by the IRS.

Tax refunds stimulate significant spending by our customers, especially in Journeys and Lids. And for several weeks the IRS was several billion dollars behind year-over-year.

The negative, trend turned strongly positive once the IRS started catching up in mid February and we anticipate that the effect of this delay will mostly be a matter of timing and should ultimately have minimal impact on sales. Comps for the Company in the first quarter to date are up 3% as of Saturday, March 5.

Looking ahead, there are several reasons to be optimistic. We believe Lids is poised for a much better performance and a multiyear recovery. We are in a stronger position to execute our long-term strategic plans than we were a year ago thanks to the hard work done over the past 12 months.

Lids will be a gross margin recovery story and comp sales will be flat to down in the near-term as we anniversary the promotional sales. And we do not anticipate opening a meaningful number of stores in the near-term as we look to further solidify our execution.

At Journeys the compelling assortment and ongoing sales momentum should drive additional market share gains again this year and trends at Johnston & Murphy remain strong. Our enthusiasm is somewhat tempered by uncertainty around the UK market as well as general macroeconomic factors that are clouding visibility more than normal.

But given all of this we are projecting adjusted earnings per share for fiscal 2017 to range between $4.80 and $4.90, representing an increase of 12% to 14% over fiscal 2016. And with that let me turn the call over to Mimi to go over the financials and the guidance in greater detail.

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. Full-year EPS of $4.29 was just under the low end of our guidance range due in part to lower sales at the end of January, but mostly due to lower gross margins than we had expected. This was due to three primary reasons.

First is the delayed tax refunds Bob mentioned. Comps for the Company were very healthy in the first two weeks of January at a positive 10%. And so we were optimistic about the end of the quarter when we spoke at ICR early in January. But comps ended up down 10% in the last two weeks of January mainly due to these refund delays.

Second, Lids did a final push at the very end of January to finish its inventory cleanup which resulted in higher markdowns, more expenses to clear product and a higher level of reserves than we anticipated.

Third, Schuh ended the quarter with clean inventories but had a higher level of markdowns to achieve this, plus a higher level of expenses and we had planned.

Now for the details of the quarter. The 4% increase in total sales to $932 million reflected a 4% increase in consolidated comp sales, an increase in non-comp sales of approximately $11 million, including the opening of 21 new stores and the acquisition of 37 Little Burgundy stores and an increase of 7% in wholesale sales.

By division building on the year's earlier positive results total comps were up 5% at Journeys, up 3% at Lids, up 6% at Johnston & Murphy and down 2% at Schuh. Lids achieved this sales growth despite headwinds in the fourth quarter from the college and NFL playoffs with Ohio State and Seattle out of the running in the final stretch.

Consolidated store comps were up 2% and direct comps were up a stout 21%. This large increase pushed direct in the fourth quarter as a percent of total retail sales to 11% compared to 10% a year ago as we reap the benefits of our omni-channel investment in what is typically a robust e-commerce selling period.

Looking at direct by division, Lids' direct comps were up a strong 39%. The effect of Lids turning on its Locate System, which gave online access to an additional 50,000 plus SKUs from inventory located in stores, contributed to this improvement along with increased promotional sales in connection with the inventory cleanup.

Journeys has done an especially effective job capturing thousands of customer email addresses and using them in compelling marketing campaigns. Journeys' direct comps were up 20% on top of a 40% increase last year helped by this, the drop of a new mini catalog and increased online advertising.

Finally, direct was a bright spot for Schuh with a 10% comp on top of 25% a year ago.

Turning to the first quarter to date for the total Company, comps through Saturday, March 5 increased 3% with stores up 4% and direct down 5% which was due largely to timing. By division total comps were up for all our US retail businesses: up 4% at Journeys, up 1% at Lids and up 13% at Johnston & Murphy but down 1% at Schuh.

As Bob mentioned, sales were off to a slow start at the beginning of the quarter but accelerated significantly as tax refunds began catching up. Gross margin for the fourth quarter decreased 210 basis points from last year to 45.4%. Gross margins in all of the Lids Sports Group businesses were down. The decline in total was 570 basis points for the quarter.

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.

Given its higher level of markdowns gross margin at Schuh was down 220 basis points in the quarter as well. Journeys' gross margin was down 20 basis points, reversing the trend of improvement we had been seeing earlier in the year due to higher markdowns concentrated in specific brands. Gross margin at Johnston & Murphy was up 30 basis points.

Total adjusted SG&A expense improved 20 basis points to 37.4% in the quarter. The Company leveraged rent, central and bonus expense. Selling salary expense in total however de-leveraged by 10 basis points.

While both Journeys and Lids have been facing store level-wage pressure this year 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 has had more opportunity to shift a higher percentage to part-time hours and in fact leveraged selling salaries in the quarter. Journeys de-leveraged selling salaries given the need for a greater number of hours versus last year to handle the large volume in this peak selling season.

In addition, fourth-quarter results benefited from the end of the Schuh acquisition incentive put in place when we purchased Schuh five years ago. Fiscal 2015 was the final year of expensing the incentive and there was no P&L expense related to it in fiscal 2016. Without this pickup the Company would not have leveraged expenses in total for the quarter.

The stronger US dollar against the pound, euro and Canadian dollar created foreign-exchange headwinds as well at a cost of a penny in the quarter. Despite higher sales adjusted operating income decreased to $74.4 million from [$88.8] million largely as a result of the gross margin decrease. Operating margin declined to 8% from 9.9%. Fourth-quarter adjusted EPS was $2.11 versus last year's $2.30.

Turning now to the balance sheet, inventory was down 11% year-over-year with retail square footage up 4% and sales up 6%. Journeys' inventory was up 12% on a square footage increase of 5% and sales increase of 6%, but below planned levels for year end.

With a 16% comp in the fourth quarter last year Journeys ended last year at a low level of inventory. The 12% increase brought inventory to more normalized levels at the end of this year.

Schuh ended the year with inventory up 1% on flat sales and a square footage increase of 15%, thanks to the considerable effort to right size inventory in January that we mentioned earlier.

Lids' inventory was down 38% on a sales increase of 8%. Part of this decrease was a result of the sale of Lids Team Sports. However, inventory for the remaining Lids retail business was down 25% on a square footage decrease of 2%.

Next capital expenditures were $23 million and depreciation and amortization was $21 million for the quarter. We ended the year with $133 million in cash, including proceeds from the Lids Team Sports sale, $58 million of borrowings under our domestic credit facility and $54 million of UK debt.

There were no US dollar borrowings under our domestic credit facility. The borrowings were under our Canadian dollar and UK pound sub-limits to finance the Little Burgundy purchase and Schuh purchase payments respectively.

Finally, given our stock's relative valuation and our expected levels of cash generation, we were active repurchasers of our stock in the back half of the year. In all we repurchased approximately 2.4 million shares for roughly $145 million during the year, including 251,000 shares at an average price of $63.24 per share during the fourth quarter.

Now turning to guidance for fiscal 2017, as Bob previewed, we believe Lids is positioned for meaningfully better performance and that Journeys and Johnston & Murphy will continue the solid trends they are on.

Our optimism is mitigated by uncertainty not only in the UK market which affects Schuh, but also by macroeconomic factors in the US and Canada. Thus we have made conservative assumptions relating to comps in the low-single-digits for most of our businesses.

The Lids outlook is different however as primarily a gross margin recovery opportunity. Comp sales will be flat to down as we anniversary the promotional sales from last year. Lids also faces headwinds against sales pickups from favorable NHL, NBA and MLB seasons in fiscal 2016.

We anticipate total sales for the Company will decrease 1% to 2% including the reduction in top line from the sale of Lids Team Sports, with consolidated comps including direct increasing 1% to 2%. We are planning on opening 130 new stores heavily concentrated in the Journeys Group.

We expect gross margins to be up between 130 and 150 basis points in total. This includes a gross margin improvement at Lids of more than 450 basis points, some of which is a change in mix resulting from the Lids Team Sports sale, the rest is a pickup given the lower level of promotions. This guidance also includes higher margins at Schuh and small decreases in our other businesses.

Next we anticipate SG&A expense will de-leverage a little over 100 basis points as a result of the bonus I mentioned, but also because of de-leverage of rent, selling salaries and other expenses with the flat to negative comps at Lids. We do not expect Schuh to leverage expenses due to low comps as well.

Finally, we do not expect Journeys to leverage selling salaries due to continued wage pressure.

One important note relating to guidance is we are coming off a year in which no bonuses were paid in Lids and corporate. And therefore bonuses related to improved profitability and the sale of the Lids Team Sports result in de-leverage for the Company.

In addition, we anticipate the strong dollar will remain a headwind and weigh earnings down by $0.06 per share for the year assuming exchange rates stay where they currently are. We expect positive impact from a legacy pension plan could offset much of this pressure.

Lastly, the Schuh acquisition incentive payments will no longer be a factor this year. This all results in an operating margin that is up for the year. Finally, our fiscal 2017 tax rate is expected to be 36.9%.

Taking all this into consideration, as Bob said, our expectations for earnings per share for the full year is a range of $4.80 to $4.90, which represents an increase of 12% to 14%. Share buybacks made last year and this year to date through March 4 will contribute to this improvement.

Something important to note, last year we earned over 80% of our earnings in the back half of the year and we expect it to be even more heavily weighted to the back half this year as the gross margin recovery will be greatest for Lids in the second half and comp sales will be somewhat stronger.

In addition, while we don't give guidance by quarter, we expect earnings in the first and second quarters to be down year-over-year especially in the first quarter. With Lids' comp at close to zero or negative levels Q1 and Q2, the smaller earnings quarters, are hurt the most given higher fixed expenses. This plus gross margin and expense headwinds unique to Journeys in Q1 will cause a decrease in Q1 in particular.

We are planning capital expenditures in the $125 million to $135 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 and up over last year's level given a planned expansion of the Journeys distribution center. Depreciation and amortization is expected at approximately $80 million.

We are assuming for the year average shares outstanding of 21 million. This includes buybacks made in the first quarter to date of 480,500 shares as of March 4 at an average price per share of $64.40.

We have not included any stock buybacks in this guidance beyond what had been completed as of this day. However, we have approximately 53 million remaining under 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 initiatives that will drive growth in each of our businesses in fiscal 2017 starting with Journeys.

Journeys delivered a terrific top-line performance last year building on strong performance the year before. We believe we will maintain this sales momentum in fiscal 2017 led by the strength of Journeys' merchandise offering. Both the casual and the fashion athletic side of the business are resonating with customers and sales are being driven by a number of brands that are performing well.

Journeys will continue to work closely with its brand partners to create assortments that are trend right and that differentiate Journeys from its competition. Furthermore, we believe the trends that have been driving the business continue to show solid momentum and will carry the business going forward.

In addition, Journeys is expanding in-store initiatives aimed at increasing conversion, building on the success of the ShopperTrak initiative. These initiatives include higher staffing levels during peak traffic periods to drive conversion and higher average ticket sales and testing a mobile POS system in the highest volume and space constrained stores.

Outside the store we see a major opportunity to grow Journeys' direct business, which comped up high teens last year, but has room to grow to become an even larger part of the total retail business.

In the coming year Journeys will benefit from recent and ongoing omni-channel investments including core systems like its order management system as well as investments in the distribution center that will help get product to customers faster. Journeys will add more Web only and vendor direct product to its website and continue investments in catalog and direct marketing to drive sales.

Another exciting initiative is to grow the Journeys Kidz business by opening 45 new doors. The Kidz business has delivered a remarkable 13 years of consecutive annual comp store gains as Journeys has built the business and taken market share. And not only is the Kidz business a strong contributor in its own right, but it is also an important vehicle to introduce children at a younger age to the Journeys brand.

Finally, the acquisition in December of little burgundy, a 37-store concept which serves a fashion oriented 18- to 34-year-old looking for on trend branded footwear and accessories, provides several benefits including: a vendor base with large overlap with Journeys; increased scale to support Journeys' Canadian infrastructure; and the addition of an outstanding leadership team to our Company.

Little Burgundy will be run as a separate concept with its own unique product assortment targeting a slightly older customer as a complementary retail chain to Journeys in Canada.

At Schuh market conditions in the UK have remained difficult following a challenging holiday period. We will be working intensively with our vendors to strengthen our positioning as a full price retailer and to capitalize on the benefits of being part of the global Journeys brand.

These actions, along with a more targeted promotional strategy, should accelerate growth as the year progresses. At the same time we are in cost containment mode in light of the current top-line headwinds and expect Schuh to hold down expenses given the state of the business.

With regard to expansion, Schuh had a robust growth last year opening 17 stores. We expect growth to continue this year but at a more moderate rate of store openings including a third store in Germany.

Moving to Lids, on top of inventories being cleaner than at any point in the past two years, we are now in a position to take greater advantage of the recent upgrades we've made in the business to drive profitable growth. We call out six factors in particular.

First, implementing merchandising practices and processes to increase turns and better flow product, including earlier and deeper markdowns to clear inventories on a more regular cadence going forward.

Two, developing a healthier store base by closing stores or renegotiating rents for 50 underperforming locations over the next two years through lease expirations and kick outs.

Three, using ShopperTrak data to optimize store labor schedules and improving the in-store sales culture to drive higher conversion and higher average ticket.

Four, further capitalizing on several major technology investments to improve our omni-channel capabilities including: adjusting the specifications of Locate, the system to access inventory in the stores from online; to maximize sales versus shipping costs and expanding this program to Canada, clubhouse stores and our partnership with Macy's.

Gaining efficiency through the increased utilization of auto store, the robotic system to expedite picking in the warehouse. And launching a new front end for Lids.com on the Hybris software platform that we expect to improve navigation and conversion significantly on our websites.

Five, making adjustments to our Macy's business to improve operating margins.

And then finally, six, strengthening our relationship with the four major North American professional sports leagues.

We recently announced a leadership change at Lids Sports Group. We are in the process of identifying a replacement for Ken Kocher, who was President of Lids and led this business through an exciting and dynamic phase of its development. I would like to thank Ken for his many contributions and his years of leadership at the Company. We wish him well in his future endeavors.

In the interim I am excited to step into this role as I am very familiar with Lids having led that business prior to becoming CEO of Genesco. We have a very strong leadership team in place that is working with me to fill the gap.

Next, at Johnston & Murphy we have a number of initiatives to build on the brand's strong finish to the year. On the product side the focus is on expanding J&M's burgeoning casual footwear offering, adding to the apparel complement and growing our women's business.

The performance of the current merchandise assortment is opening up new distribution opportunities, particularly within the department store and e-commerce channels where the brand is gaining market share and shelf space. According to industry data Johnston & Murphy significantly outperformed the total market and was the only top five men's footwear brand to grow market share in department stores in the back half of the year.

Finally, there is a renewed sense of excitement in our license brands division with the re-launch of Bass footwear through a newly acquired license. The early response to the spring line has been very positive and the brand will be carried in several new doors including select Journeys locations in the fall.

[We are] in the process of restrictively restructuring the brand's distribution to support a more premium positioning which should provide a stronger foundation to support long-term growth.

In closing I would like to thank the entire Genesco team for their efforts this past year and especially in the fourth quarter which presented an increasingly difficult holiday calendar.

Special recognition goes to the Journeys and Johnston & Murphy teams for delivering such strong performances, but also to the Lids Sports Team for persevering through a difficult year and setting the table for a solid performance in fiscal 2017.

We are all committed to delivering improved overall results in the year ahead and we continue to be excited about the longer-term potential of all our businesses. Thank you for joining us on the call and we will now open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Erinn Murphy, Piper Jaffray.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

I was hoping you guys could circle back on the tax refund commentary you made. So I just want to make sure, so the first half of January your comps on an aggregate basis were up 10% and then it reversed down 10% in the second half of January.

And then I think your commentary in the quarter-to-date period, you suggested that it starkly improved mid February. Can you just help us understand the pre- or early February versus the second part of February and just how comfortable are you with the comp guidance for the year just given how extreme the volatility has been thus far?

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

Well, the good news about the volatility, Erinn, is we do think we can pin it on tax refund timing. And we've seen this in the past and, as we noted, it doesn't hit Johnston & Murphy obviously. It's a Lids and Journey story.

And there's a website you can go to which we have one of our analysts track regularly. And so, at the peak the gap year-over-year in terms of returns was --

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

$30 billion.

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

-- $30 billion, which that's real money. This money gets spent very quickly by those people who get the refunds. And so, the IRS did not make a big deal out of this as they have had in the past when other factors have caused either delays or acceleration.

But we saw it in our numbers and when the first really big direct deposit occurred it was like we through a switch, especially at Journeys and it changed the comp trends.

So as we noted in the script, we think that is a matter of timing. As of last week the IRS was still behind by roughly $5 billion, so they closed the gap a lot and that's what drove we believe the comp increase.

So when you think overall about our guidance for the year this is not what makes us concerned. What makes us concerned is a little more macroeconomic and that's why, as Mimi noted in her portion of our remarks, that we are at low-single-digit comp in our guidance and that's because we think the visibility due to macroeconomic factors is a little cloudy. Does that help?

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

It does, yes. I guess could you just parse out for us then, Bob, just the first part versus the second part of February? Was it as stark of a difference as it was in January? So was it down double-digits and then it kind of reversed back to up double-digits to get to that 3% quarter to date, or where are we at in terms of (multiple speakers)?

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

Yes, it was stark in it was a flip of a switch. Mimi?

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

Yes, that's right. It was down by negative double-digits, down in the mid-teens. And then actually in the course of a week turned around and then ended up being up in the mid-teens. And so, that is a swing of 20 to 30 percentage points. So the difference is dramatic.

And it's interesting, we have counters -- we have readers in our store where we can track sales by hour. And we can tell by the surges in the sales volume even on an hourly basis how quickly the IRS is doing these refunds. It's amazing.

The refunds hit people's accounts in it goes right back out into our stores. And so, we were able to track the point in time when the IRS started catching up and they caught up by tens of billions of dollars per day and that really helped to juice our sales.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Got it. Thank you, Mimi. That's helpful. And then I guess just a couple other questions. First on the Journeys gross margin, it was down in the fourth quarter, I think you said down 20 basis points.

Was that tied to just more promotional activity to select boot brands? And then how are you thinking about kind of the headwind from I guess some of the specific brand pressures at Journeys as we get into fiscal 2017?

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

So with Journeys, now that it's 70 degrees in Nashville right now, we forget what kind of winter we went through. But we went through one where running up to Christmas, you will remember, weather was a headwind for anybody with winter goods and that was the issue with Journeys. So our seasonal goods weren't performing as well this year as they were last year and so that required us to give a little bit of help.

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

Yes, and Erinn, I talked a little bit about the guidance for the year of Journeys' margins being down a little bit going forward.

And it is not so much that we are worried about Journeys' gross margin's going forward, it's just that we had pickups in gross margin through the course of the second and third quarter where we just had a good mix of brands and a good mix of discounts from our vendors that helped 10 to 20 basis point pickups in Journeys' margins.

And so, conservatively speaking we are not anticipating getting those pickups again. But to Bob's point, the drop in Journeys' gross margin in the fourth quarter was specifically isolated to discounting and markdowns in specific brands.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Okay, got it. And then I guess just last, on the direct quarter-to-date comp, you said it was down 5% tied to timing. What was the timing shift that you referenced?

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

Yes, so it's interesting, last year we -- this is mostly in the Lids business -- we stopped shipping Internet when we shut down the warehouse for our fiscal inventory count. This year we were actually able to keep on shipping the stores because we were able to access -- we were able to access inventory from the stores to ship to consumers.

And so -- and auto store also helped us to continue to ship. So it was just that we had a surge of Internet orders last year that we didn't have this year because it was more evenly distributed.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Okay. Got it, thanks.

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

So it's the comparisons that are getting us.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Got it. Okay. I will let someone else jump in. Thank you, guys.

Operator

Jay Sole, Morgan Stanley.

Jay Sole - *Morgan Stanley - Analyst*

Bob, I want to ask you about Lids. Obviously you are the interim leader of the business. The question is, would you consider or are you considering being the permanent leader of that business?

And secondly on Lids, now that the inventory is clean and the store comp is 3% quarter to date, are you generating this comp at the kind of full price selling and markdown cadence that you expect? Obviously guidance sort of implies that, but can you talk about what the ASPs are right now given inventory is clean?

And lastly, Mimi, if you can just kind of dig into the margin guidance a little bit on SG&A being up 100 basis points for the year. What piece of that is bonuses? What piece of that is deleverage on rent, and what piece of that is wage pressure? That would be super helpful. Thank you.

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

Let me start with the easy part of your question. No, I am not contemplating remaining as the head of Lids. I have a day job and so we have a search underway. What I think is worth noting is that we are going to be patient and make sure that we get the leadership decision right. So I'm in the seat for as long as it takes.

And then also very important to know is we have a solid, solid core of very capable leaders who are really stepping up and they are excited about the year ahead. It's a mix of the old and the new. Our founder of Hat World, Glenn Campbell is back working more aggressively in the business. And so, he had been a less visible and we brought him into a very visible role right now.

We have two new players -- our CFO is new and our Head of Planning and Allocation is new -- specifically to deal with the elements of flow and timely markdowns. Our store line people are terrific. And so I'm really confident that the team that's in place and everyone underneath them are very capable of keeping the momentum going.

The inventories are clean and so, yes, we are doing more full price selling. Year to date we have a higher gross margin, but you may have noticed that this past week we ran our first clearance promotion, so we are being active.

Obviously a lot of things went on in the free agency market. And so, what I was very pleased to see is the team -- we are taking marks on the players that had changed teams, some of them unexpectedly, to make sure that we are on top of being as quick as possible. And being as active in terms of deep marks in order to make sure we are clearing in a way that we want to on a go-forward basis.

So, I think the business is very well-positioned. The early reads are good. The early visibility on the way the team is executing is good. So, I'm feeling very good about the business, but I'm not going to be there forever.

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

And just a note, Jay, we expected gross margins to pick up because we did just a tremendous amount of clearance activity in the fourth quarter. And so, in February we didn't need to run additional promotional activities. And as Bob said, we've just started again to do the normal cleansing of the business.

To talk specifically about the around 100 basis point deleveraging for next year, I'd say about half of that is due to bonus. When you come off of a year in which no bonuses were paid and it's been a few years since no bonuses have been paid, it does tend to de-leverage.

And then the rest of the deleveraging happens really specifically within Lids and to a lesser extent within Schuh because those are the two divisions that we expect comps to be the lowest. And so, the deleveraging of both selling salaries and rent within Lids are split about evenly.

And then for Schuh it's a little bit more on the rent side because they have more ability to control labor because it is a bit more variable. So when you think about the overall deleveraging, it's about half due to bonus. The rest of it is due to just deleveraging of store expenses and that's split evenly between rents and selling salaries.

Jay Sole - *Morgan Stanley - Analyst*

I understand. And then maybe if I could ask, what's the sensitivity to the bonus payout relative to the same-store sales? Right now I think you mentioned the total company comp is 3%. The guidance is for 1% to 2%. But if it stays at 3% does that make the bonuses go higher, or do the bonuses stay the same and vice versa?

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

No, the bonuses -- first of all the bonuses are not tied to comp. They are tied to profitability and then to some extent asset utilization. Those are the two big factors. What's really important for everyone to know -- for our shareholders to know is the Lids team hasn't seen a bonus in four years and actually the corporate people who have a portion of Lids haven't seen a bonus in three years.

So the bonus this year being paid to that group is a meaningful point of deleveraging, but it's very important that we do it and it is somewhat formulaic. The formula is important to understand.

A portion of the bonus gets booked but not paid out, so when we have a year that is anticipated to be as good as we anticipate it is this year from a bonus perspective, some of the bonus gets paid in future years assuming the business sustains that level of performance.

So we are basically reserving some of the bonus for future years. And if we don't sustain it can get clawed back. And so -- and we only pay on improved performance once.

So assuming a very strong improvement in performance this year in fiscal 2017, if for arguments sake fiscal 2018 was more or less a flat year, earnings actually go up because the bonus pool would be smaller than what it is this year which will be an exceptional year from a bonus perspective.

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

Yes, I think those are important points that Bob makes, in particular the one about we pay bonuses on year-over-year improvement. And so, when we have more improvement the bonus is self funding. If we don't attain the improvement that we expect we don't pay out the bonuses.

And so, there's a portion of the operating income improvement that goes to pay bonuses and then it's capped at a certain level in terms of what is paid out versus what is earned.

Jay Sole - *Morgan Stanley - Analyst*

Got it. Super helpful. Thank you.

Operator

Scott Krasik, Buckingham Research.

Scott Krasik - *Buckingham Research - Analyst*

So staying on Lids, obviously inventory is very clean exiting the fourth quarter. I guess how do you anticipate if you are planning for a flat to down comp? Will we begin to see the inventory build throughout the year?

And on the comp piece of it, there's a litany of retailers who have pulled back on promotions, Jos. A. Banks, Justice, Coach Outlet and the comps have been a lot worse. So how do you feel or get comfort that the comps will stay around flat?

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

Well, first we said flat to slightly negative and the countervailing forces there, Scott, are going to be that we don't have promotional goods. That's the driver of comp last year. The good news is that we believe we will be fresher and more relevant to our customers with what we are presenting in the stores.

Just some of the simple facts is that the stores will be that much more shoppable because they are cleaner. And we saw last year when we took some of the markdown merchandise out of the stores and shipped it back to the warehouse for clearance in e-commerce that that alone helped the stores. So we think a full year of stores that are clean is going to be helpful.

In terms of inventory build, we are going to have seasonal variations that are expected for a business like ours, but we are actually budgeting a final inventory per square foot number next year to be flat to down.

So, and we have a team in place whose sole job is to manage the planning and the allocation which will include the markdown cadence to make sure we hit those numbers. So, I'm very confident that you will not see a rebuild of the inventory. We will take whatever action is needed to keep it in line.

Scott Krasik - *Buckingham Research - Analyst*

Okay. That's helpful. Then a couple more. You mentioned taking steps to improve profitably at Locker Room at Macy's. Maybe what are your levers or actions there?

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

Scott, we've talked about this in the past. So it's rolling out what we've already worked through with Macy's. We collaborated with them. They've been great partners to make adjustments to the business model that should help profitability. It affects things like our staffing requirements.

And so, we think that when we model out what changes we've made there should be a meaningful improvement in the profitability there.

Also just let's note, we continue to view it as a start up with lots of learning still ahead of us. On the merchandising front we are learning what works what doesn't. We are working with vendors to put together assortments that are specific for Macy's because we now know what works there and what doesn't work.

So I almost go back to the Journeys Kidz story where we are very excited about the prospects there. But in its early earliest years Journeys Kidz wasn't -- from a pure profit standpoint wasn't working all that well. And it took some patience, it took work, it took scale. And when we got it working obviously now we think it's a gem.

So, we would urge you all to be a little patient with Macy's as we work through it. But that said, we will -- we do expect to see a meaningful improvement in the bottom line of that business this year.

Scott Krasik - *Buckingham Research - Analyst*

Thanks. And then if I could just sneak one last one. In your expectations for Journeys how are you thinking about white shoes versus brown shoes? And then it seems like a lot of the brown shoe traditional brands are selling more white shoes. Is that helping, hurting? Thanks.

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

Yes, we expect to do a lot of business in both white and brown.

Scott Krasik - *Buckingham Research - Analyst*

Okay, thanks.

Operator

Jonathan Komp, Robert W. Baird.

Jonathan Komp - *Robert W. Baird - Analyst*

Mimi, maybe the first question I had, if we could just back to the December time frame. I think at the time you talked about the consensus earnings at that time looking relatively conservative. I think it was in the $5.15 range for EPS and now obviously you are pointing the full year a little lower than that.

So if you could maybe just help parse out the difference versus what you were thinking back then. I know the base of your earnings are lower for fiscal 2016, but it seems like a lot of those factors might have been temporary. So if you could maybe give any color there that would be helpful.

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

Sure. I think that the primary thing is it's important to focus on, Jon, is that at the time our overall guidance versus where we ended up, there is a $0.30 difference. And so, when you think about the improvement needed from where we ended up this year, that would be an EPS growth in excess of 20%.

And we really built this year's forecast from the bottom up. We looked specifically at Lids and the anniversarying of the promotional activity and said that we were going to have headwinds there and that we needed to build in a flat to a negative comp.

We have the gross margin pickup that we expected from that business and we will continue to build gross margins over time. And then, the rest is really just if you work through that and add that up, it is the lower base that we ended up having for this year.

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

This is Bob. The other things that we considered is between then and now we've had Schuh showing us some more headwinds, and what it took for them to get their inventory clean in January was more than we expected which is attributable to the miss.

So we want to get comfortable that we've got good traction in that business. We think we know what the plan is but we want to see that happening.

And then quite frankly the macro environment seems to have deteriorated a little bit in terms of what confidence you have going forward. And tied to confidence would be that we are mindful of the number of misses we've had in the past and we want to make sure we are in a different position in the year going forward.

Jonathan Komp - *Robert W. Baird - Analyst*

Okay, got it. That's helpful. And then, Bob, maybe to follow up on the outlook for Journeys, I think recently you talked on the fashion side a little bit less newness in terms of some of the product you are seeing.

I'm wondering if you could just provide your updated view there. And maybe 2% to 3% comps for Journeys certainly good on a relative basis, but below what you've done five out of the last six years. So any perspective on what you are seeing there and the degree of conservatism in that 2% to 3% comp projection?

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

Yes, the phrase lack of newness probably is a bit of a head fake in the sense that the Journeys team is always presenting things that are new to their customers. What we really meant by that is no big, dramatic shift as we've seen when Doc Martens went away and [Skate] showed up and canvas became so incredibly important.

But underneath what is being presented in the store is indeed a lot of newness. And that shows up first with a lot of the core brands that are continuing to work well with our teams to refresh what they are doing and to give us the opportunity for a lot of exclusives.

And then secondly, there's a lot of brands that may not be a number one or number two brand but are creating an excitement in the store with what they are doing. And as you probably know, we don't get into specifics about what brands we see doing things.

But we had a lot of conversations with the Journeys team in the last few weeks. And they are feeling very good about the amount of things that are happening in the store that will create excitement. I apologize for not being able to get more to specific, but strategically we like to keep that to ourselves.

Jonathan Komp - *Robert W. Baird - Analyst*

Okay, great. And then just one more clarification on the first-quarter guide to the comps in total up 1% to 2%. You are tracking above that early on at 3%, so any reason why you expect the trend to slow overall? I know there's volatility week to week, but --.

And related to that, if you see a normal type tax refund year you should actually see some additional catch-up since the refunds are still running down $5 billion or $10 billion year-over-year. So any perspective on what you are looking at for the full quarter guidance?

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

Yes, well they are down $5 billion, not $10 billion. $10 billion would be great but they are down $5 billion. And so, we also know -- just be mindful of the fact that in the Lids business -- Mimi called this out, but if you look at last year we had terrific sports teams in the first, second and third quarters.

So we went into the year with Ohio State having won the national championship. We had the Blackhawks which is a major team. We had Golden State which was an incredible phenomenon. And then in the baseball playoffs we had all five of our partner teams in the playoffs for the first time ever and so lots of good things happened.

Fourth quarter turned into being a -- there we had headwinds because when we anniversaried the NFL playoffs which were a net difficult result for us.

So, just be mindful that when we look at Lids' comp -- with respect to what's called hot teams in the industry, those can have a meaningful effect on comps. And so from a compare standpoint we've got three quarters of tough compares and then a fourth quarter that will hopefully be more promising. Mimi, do you want to add to that?

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

Yes. Jon, I think when we look at the underlying comps we have Journeys in the 2% to 3% range. We feel like that is pretty solid. They ended up having just a very good first quarter last year and so the comparisons are tougher for Journeys.

If you look at Johnston & Murphy, they are running up quite a lot in February, but last year's February they were down. That's the easiest comparison. And so, we are looking at a 3% to 4% comp within the first quarter there. And so those are the plusses -- those are the puts. The takes are in the Lids Sports Group, as Bob mentioned.

We are particularly mindful of the fact that we are running promotional activity through the course of the year and we are just going to see how that ends up falling out. And then Schuh, that market has been a tough market. And so, I think our guidance is balanced in the quarter and we are just a few weeks into the quarter.

We have a long way to go. And so, we will see with the Easter shift how the overall spring merchandise ends up being picked up by consumers, and how strong comps end up being and we will know a lot better in the next few weeks.

Jonathan Komp - *Robert W. Baird - Analyst*

All right. Thank you both for the perspective.

Operator

Mitch Kummetz, B. Riley & Co.

Mitch Kummetz - *B. Riley & Company - Analyst*

I guess first I will just say I haven't heard white and brown shoes mentioned sense [Goulmey] was there.

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

I thought the same thing.

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

We all had the same thought.

Mitch Kummetz - *B. Riley & Company - Analyst*

Okay. Glad I'm not the only one. A few questions. Mimi, you mentioned that Lids' gross margin should be up I think over 450 basis points, but there's obviously some offsets on the SG&A side. So how should we be thinking of that in terms of operating margin?

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

All right, so the 450 is a big number and I think the important thing to recall is that we sold the Lids Team Sports business which was a wholesale business and that operates at a much lower margin. And so, I think the way to think about it is that the decrease in Lids' overall margins for the year were about 400 basis points.

If you back out the Lids Team Sports business the decrease was also about 400 basis points off of the higher base. And so, what we are thinking about is we're going to pick up about half of that.

And when you look at Lids' bottom line you see that strong pickup in gross margins, but the offset is on the SG&A line. And so, when I look to see Lids' overall margins, I think we ended up at about 1.7% this year. We should improve that significantly in the range of almost a doubling.

Mitch Kummetz - *B. Riley & Company - Analyst*

Okay, all right, that's helpful. And then on Team Sports, is there any way you can give us what the sales and margins were on that business? Or if you don't want to do that, is there any way in terms of your 2017 guidance to kind of break out what the impact of wholesale or maybe non-comp is?

Because there are a lot of moving pieces -- not only just with the sale of Team Sports, but also the addition of Little Burgundy. So anything there would be helpful in terms of how to model that.

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

We are not going to break it out, we never have and I'm not even sure we are allowed to per the purchase agreement. So this is going to be a year for modeling the business that'll be for you guys a little more of a challenge because we took out a business that is just so different from the retail business in terms of its economic structure.

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

Yes. And Mitch, I think if you look back at the comments that I made, I gave some pretty specific guidance around where Journeys' absolute gross margins and SG&A would end up coming out. And so, I think that might be helpful to you. And I'm happy to talk a little bit more about -- about Lids -- and I'm happy to talk more about that off-line.

Mitch Kummetz - *B. Riley & Company - Analyst*

Okay. And then lastly, I'm just trying to understand the bonus piece more, because in your press release you gave guidance also by earnings from continuing ops. And when I look at that guidance it looks like earnings from continuing ops should be up like 2% to 4% for the year. I think a lot of the earnings growth in your projection is coming from lower share count.

So, when I think about bonuses being paid on profitability, I mean, I guess there's been profitability gains at Lids, as you mentioned. But are there any offsets in some of the other businesses if the operating earnings are only growing 2% to 4%? I guess I'm just surprised that bonuses are such a big drag in that context.

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

Yes, and that's why I made the comments about the bonuses earlier because we recognize that they are this year a pretty big number. Understand -- first of all, we pay on year-over-year performance. And that year-over-year performance comes both out of operating income improvement and then asset utilization.

And because of that, part of what we are paying out on, Mitch, is the successful sale of Lids Team Sports, which was at a gain and had been a business that was a drag on our earnings, so there's a benefit from that. I know it sounds odd to pay a bonus on that, but it had prevented the team from getting bonuses in previous years.

So again, be mindful that this team hasn't gotten a bonus in a very long time. And so, the formula brings them well into the money this year and is paying them for a lot of different good things that are happening.

And again, it's very important to repeat two other factors. You only get paid on year-over-year bonus. Some of this doesn't actually get paid out, it gets booked but not paid. It gets paid in a future year. And so, this bonus is really probably going to be a bonus that is covering this year and next year, but we are booking at all in this year because that's what GAAP calls for.

And then also understand that when we calculate the bonus, part of it goes back to paying off a negative [bank]. So we are also -- the bonus is mitigated a little bit by the fact that people have earned, quote, negative bonuses in the past. And there's a formula that goes to that.

But we are very mindful of the fact that the bonus does look like an unusual number and we just are urging you all to think about it in the context of the first bonus in over four years for the Lids team and the first bonus in over three years for the corporate team.

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

And Mitch, just to add to that, I think our bonus formula -- we are very focused on shareholder value creation and creating value for our shareholders. And the always think about the asset side of our business.

In addition to the Lids Team Sports divestiture we are running a much lower level of inventory and that lower level of inventory then should help to reduce our turn on investment. So that return on investment equation should work for our shareholders over time and that's how our bonus formula is driven.

Mitch Kummetz - *B. Riley & Company - Analyst*

Got it. All right. Thanks. Good luck.

Operator

Corinna Freedman, BB&T Capital Markets.

Corinna Freedman - *BB&T Capital Markets - Analyst*

I wanted to clarify that the Lids inventory excludes the Team Sports inventory. That's my first question.

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

Yes, it does now.

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

Yes, and when we explained the takedown in -- the reduction in the retail inventory had been targeted at 20% and we hit 25%. You might remember a number that had targeted overall Lids' inventory as being down by 10% to 50%. That's the number we had earlier been -- quoted.

And that target had included Team Sports. So what we've done, to give you a sense of how far we overshot our reduction target, is we took Lids Team Sports out of those numbers and said so the adjusted target was down 20% and the actual realization was down 25%.

Corinna Freedman - *BB&T Capital Markets - Analyst*

Great, that's helpful. And then just wanted to reconcile some commentary about not being able to leverage rent increases. Very strong e-commerce for Journeys, but yet you're opening more stores. Are those openings primarily Kidz locations that are maybe at better rents because they are smaller locations?

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

Well, the openings are concentrated in first Kidz and second Canada. And so, they are areas where we are experiencing terrific success. I know we are contrarian a little bit in terms of opening stores, but our stores are working. And so -- and we track how well our new stores perform as we go through that decision process. So that's it.

The real issue on rent is a low-single-digit comp is difficult for rent to leverage. We've gone through a phase -- and we've reported to you guys on this -- where in the B and C malls we have gotten historically a lot of relief in our rents. And so, the ability to continue to get that magnitude of relief are probably behind us and the A malls are still tough. So it really is related to comp, Mimi.

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

Yes, Corinna, I think that's exactly right, that we are actually expecting to leverage rent in Journeys. It's de-leveraging in Lids and in Schuh that brings the overall average down for the Company and puts us in a deleveraging of rents position. But individual there are variations within each individual division and Journeys, in fact, is anticipated to leverage rents this coming year.

Corinna Freedman - *BB&T Capital Markets - Analyst*

Okay, that's helpful. And then my last question is, could you comment about the difference between the merchandise composition at Schuh versus Journeys? Does Schuh also have the same athleisure component as Journeys does?

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

The assortments between Schuh and Journeys are similar and they are different. And the differences come from two things, just certain brands are more relevant here than over there.

We have said in the past that we've seen some of the brands that have really resonated here and did resonate over there back up a little bit. So there's been more of a separation between the two chains very recently in terms of what works and doesn't work.

And then also be mindful of the fact that Journeys is more relentlessly focused on teenagers and so the assortment is driven by what teenagers buy. The Schuh assortment plays -- and this is typical of UK retailing -- that it serves a broader customer base and so that also shapes what they do. In both instances the athletic side of the business is very important. The fashion athletic side is very important.

Corinna Freedman - *BB&T Capital Markets - Analyst*

And could you remind us what percentage of the assortments that is for both?

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

We don't disclose that.

Corinna Freedman - *BB&T Capital Markets - Analyst*

Okay. I was going to try. Thanks you so much.

Operator

Laurent Vasilescu, Macquarie Capital.

Laurent Vasilescu - *Macquarie Research - Analyst*

I wanted to follow-up on Scott's question regarding Lids' comp guide. The 2016 Lids comp of 6% was driven I think by high-single-digit unit growth and while ASPs were down low-single-digits. Should we think ASPs are up this year while units are down? Just want to get a better understanding of the comp drivers.

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

Yes, you should expect ASPs to be up because we are going to be -- we have two categories for motion. We have stuff that we were clearing and then stuff that we were aggressively clearing. The aggressively clearing category is going to be shrunk significantly because we don't need to do that happily, and that would have a big effect on ASPs.

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

Yes, and units we expect to be down just because we sold such a large number of units last year at these reduce prices.

Laurent Vasilescu - *Macquarie Research - Analyst*

Okay, great. And then moving on to Journeys, the 5% comp for 2016 was driven by mid-single-digit ASP growth. How should we think about ASP and unit growth for 2017?

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

We've had that question in the past. The Journeys team doesn't build an ASP target in, they build a bottom-up assortment plan based on what we think our customers want. To be honest I don't know what the ASP and the unit mix is.

It varies a lot by quarter, naturally, because we get to fourth quarter and the ASP number goes up a lot. But I'm not sure anybody has the homework to say exactly what that is. We don't think about it that way.

Laurent Vasilescu - *Macquarie Research - Analyst*

Okay. And then lastly, with regards to the full-year gross margin guide, it sounds like from the prepared remarks that the gross margin improvement will be more heavily weighted in the back half. I know there is no explicit quarterly guide, but how should we think about the first-quarter gross margin? Is it down year-over-year and, if that's the case, what kind of range should we consider?

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

So gross margin, if you look at the cadence of the promotional activity last year, we were hardest hit in the back two quarters of the year. We were down 500 to 600 basis points in the back two quarters of the year and down in the 200 to 300 basis point range in the first two quarters of the year.

Gross margin overall for the Company we expect to be up in each of the quarters, but to a much lesser extent in the first quarter; a little bit more in the second; a little bit more in the third and then a lot more in the fourth.

Laurent Vasilescu - *Macquarie Research - Analyst*

Okay, great. Thank you very much and best of luck.

Operator

Sam Poser, Sterne Agee.

Sam Poser - *Sterne, Agee & Leach - Analyst*

I have a few. Can you give us like a range -- I mean just to give us some color on how much sales rollout of the Team Sports. Can you help us there at all?

Maybe give us a total revenue number for the year or something -- a range of the total revenue for the year on the comp you are giving and at least give us the ability to back into that?

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

Sam, I'm not sure we're -- we sold to a lead competitor and part of our agreement there involves some confidentiality. So I know you'd love to have it, but we are going to respect --.

Sam Poser - *Sterne, Agee & Leach - Analyst*

I guess the question is -- we just have to guess now how much that Team Sports business was worth? How about when you bought the Team Sports business back whenever you got it, how much revenue was it doing?

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

Sam, I think you can get there if you look at our overall guide for the year in terms of we talk about where we expect overall revenue to end up for the year. And then do the build from each of the divisions for the comps we expect. And then whatever the gap is is how much you have to take down with Team Sports.

Sam Poser - *Sterne, Agee & Leach - Analyst*

All right, thank you. And then you mentioned -- well, okay, real quick. Is Bass going to be accretive this year?

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

Remember we expensed ballpark $1 million this year in basically startup expenses, fiscal 2016. Fiscal 2017 is still a build, so it still an investment year in Bass, so don't expect it to be a significantly accretive business this year. We are setting the table.

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

The response so far to the spring line has been good, but we are just delivering product for the first time in spring. And so, we are going to see how the sell-throughs go and that momentum should build through fall.

Sam Poser - *Sterne, Agee & Leach - Analyst*

Okay, thank you. And then you mentioned -- maybe talk about the macro headwinds.

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

Macro uncertainty.

Sam Poser - *Sterne, Agee & Leach - Analyst*

Macro uncertainty. It seems to be when retailers have the right stuff, that tends to over -- especially given the fashion that you have sort of if sports -- with the hot sports teams or fashion as it relates to Lids -- sorry, to Journeys or Schuh. If you've got the right stuff there that seems to overcome macro headwinds.

And I'm not talking about weather like having a warm winter and hurting boot sales. I'm just talking about the general -- if you have the right stuff and it looked like you had the right stuff at Journeys through most of the year, even in Q4 where you comped well, just not as well as you would have if it wasn't for the weather. So can you give us more details on the macro concerns?

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

Sam, I don't mean to oversimplify it, but when people are choosing to spend a little less money we are part of that. So, yes, we think our assortments are good and we think we are really well-positioned to do good business. But when you think about plus or minus 1 point of comp, that can be affected by people's willingness to spend.

And so, we think we are in a terrific position from an assortment standpoint at Journeys, from an inventory standpoint at Lids. But the variability that you can -- you are reading the same articles I'm reading -- the variability on what this year looks like in terms of general growth in consumer spending has got a wide variability about it, so we are being cautious.

Sam Poser - *Sterne, Agee & Leach - Analyst*

Thank you. Then lastly, the increase in the selling salaries that's going to impact Journeys, is that primarily a front half issue just because those wages went up in the back half of last year? Am I thinking about that right? Is that why you'd get hit by more of that on the front half of the year?

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

Yes, we are hit a little bit more by it in the front half of the year only because when you think about it we have higher fixed expenses in the front half of the year and the minimum wage increase tends to hit all of that.

We can manage some of the variability of the incremental labor in the back half, so we did in fact see more pressure from selling salaries in the front part of the year last year and that will likely happen again this year.

The minimum wage increases are relentless. It was 29 states last year, it's 12 states this year so far. And as that builds in we are doing as much as we can to shift from full-time hours to part-time hours which are at a significantly lower cost. But it's difficult to do.

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

And also, Sam, as you are aware, in our industry several retailers have just simply raised the bar with a commitment to a higher level of pay. And that just is something we have to be mindful of as we look to keep pace by hiring and retaining great people.

Sam Poser - *Sterne, Agee & Leach - Analyst*

But my point is a lot of people did that in the back half of last year, so that makes the front half comparison much more difficult than the back half comparison in that regard.

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

Yes, but as Mimi just noted, it's not over yet. So they are still minimum wage increases still rolling through this year; not as many as last year, but it's still in play.

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

California did a two-year increase and other states are adopting multiyear increases.

Sam Poser - *Sterne, Agee & Leach - Analyst*

Thank you and good luck.

Operator

Stephen Marotta, CL King & Associates.

Steve Marotta - *CL King & Associates - Analyst*

Most of my questions have been asked and answered. Just have one question left. Did you intimate the gross margin guidance for Journeys and J&M are expected to be down this current year? And if so if you could use bullet point the reasons why in those divisions gross margin would be under pressure. Thanks.

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

It's really just a little and I want to just underscore just a little. And I talked before about the fact that Journeys, if you looked at margins throughout the course of the year, they were up in the range of 10 to 20 basis points in each quarter. And it's just because they enjoyed some pickup in IMOs in certain brands. And just to be conservative we are not assuming those pickups again this year.

J&M had incredibly good full price selling and markdowns were just at an unusually low level for last year. And so, it's more mix than anything else. It's nothing to be concerned about. It was just to point out the fact that -- probably a better characterization is that gross margin is going to be flat in those couple of concepts.

Steve Marotta - *CL King & Associates - Analyst*

That's helpful. Thank you.

Operator

Jillian Nelson, Johnson Rice & Company.

Jillian Nelson - *Johnson Rice & Co. - Analyst*

Good morning. Could you just talk about given your recent sale of the Lids Team Sports division, how are you looking at the rest of the portfolio? Your thoughts on further diversities as you try to focus on your core retail brands?

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

Well, we don't have any other divestitures planned right now. And we explained I think in the script why we thought the Lids Team Sports divestiture made sense. So I think that's it.

Jillian Nelson - *Johnson Rice & Co. - Analyst*

Okay. And then if you could talk about the 50 underperforming stores, namely Locker Room. I know you've talked about before in previous calls, but how many were closed this past year and how many are set to close or renegotiate for 2016?

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

So we have about 50 that are roughly equally weighted between this year and next year. And they have either a lease expiration or a kick out, either of which give us an opportunity to visit with the landlord and try to work something out.

We had a number of this year and we had a substantial -- I'm not going to give you a number because everything is a negotiation -- but we had a substantial reduction in the stores that we [did] have a chance to address this year.

Jillian Nelson - *Johnson Rice & Co. - Analyst*

Okay. all right, thank you.

Operator

Pam Quintiliano, SunTrust.

Pam Quintiliano - *SunTrust Robinson - Analyst*

Just had a few. First up, following up on Sam's question regarding the macro environment, just to clarify, have there been any meaningful shifts that you guys have seen in consumer sentiment? Or is it just more hindsighting volatility from last year, you want to be appropriately conservative when communicating with the Street?

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

Well, first of all, we've seen huge volatility that we think we can explain away with the tax refunds. Then beyond that you've got it right. We just want to be conservative going forward.

Pam Quintiliano - *SunTrust Robinson - Analyst*

Great, thanks. And then as far as Schuh, can you just remind us what you view as the long-term opportunity? And have there been any changes to that or when would you look to reevaluate it? I know it's still very early days, just trying to wrap my head around it.

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

So, when we bought Schuh 4.5 years ago it had roughly 60 stores and we said it could get to 120 stores of the parent Schuh business in the UK and we are essentially approaching that number.

What we did that has been very exciting is brought the Journeys Kidz concept to Schuh and we are very pleased with what's going on there, so that's a growth opportunity, and we are experimenting with stores in Germany, scheduled to open our third one and it's way too soon to predict whether that becomes an avenue of growth.

They have a very strong e-commerce business, so that represents a continued opportunity. So it'll become more at a comp story, both e-commerce comp and store comp, in the UK and Ireland because we are pretty well built out. And then the story on the [continent] is still yet to be written.

Pam Quintiliano - *SunTrust Robinson - Analyst*

Great. And then just last question. At Journeys the higher markdowns on some product, when you are hindsighting do you think that's more reflective of weather, the competitive landscape or customer demand for specific brands?

And I know you touched on some previous commentary that it seems like there are exciting things in the pipeline. But just if it is customer demand for specific brands, do you think you will have to find something new to replace some of your brands that have been successful historically?

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

It was very concentrated in seasonal.

Pam Quintiliano - *SunTrust Robinson - Analyst*

Okay. And so, you think it was more weather-related than anything else?

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

Yes, ma'am.

Pam Quintiliano - *SunTrust Robinson - Analyst*

Great. Thank you so much. Best of luck, guys.

Operator

Chris Svezia, Susquehanna.

Chris Svezia - *Susquehanna Financial - Analyst*

I guess first I just want to go back to leveragability of the business. When you think about a 2% to 3% comp what would you need to do from a comp perspective to start to inflect in terms of leverage on the fixed costs?

And I guess in particular on Journeys, you mentioned that you can leverage the rent piece, but I guess not the salary and wages. Where is the leveragability for Journeys in this new realm that we're in at this point for that business as we move forward?

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

So let me just separate two issues in terms of leveragability. This is an unusual year, as we've commented on several times, because of the bonus element. If we were in a period where we are normally paying a bonus this year of normal size and a bonus next year of normal size, let's talk about that leverage situation because the leverage this year is different because of the expanded bonus. Mimi?

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

If you are asking about Journeys in particular, and I think Bob's comments about bonus relate much more to Lids and to corporate overall. So Journeys last year at the level of comp that it achieved did in fact leverage overall expenses.

I think that back in -- when we were coming out of the recession we were able to leverage in the 2% to 3% range just because we were seeing rents going south. And as you know, Chris, our main underlying expense drivers are selling salaries and rents. And so depending on how much pressure we have on rents and how much pressure we have on selling salaries depends how much we can leverage.

In more recent times, because of the selling salary pressures, we have needed more in the 3% to 4% range to be able to leverage. And so for Journeys, Journeys has a number of renewals coming up in this current year. We have been successful, as Bob mentioned, in being able to get rent decreases in the C malls, but A malls will always have rent increases. So we are anticipating for the current year that at least Journeys will continue to be able to get some leverage.

Chris Svezia - *Susquehanna Financial - Analyst*

Okay. So to go back just 2% to 3% -- to get leverage this year you'd probably for the total company need to dip closer into a mid-single-digit 5% or better to be able to leverage the business based on the pieces -- as a percentage of the bonuses? Is that fair?

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

Be careful. Yes, be careful about this year also because remember that Lids is a gross margin story. So Lids is leveraging on a flat comp because it's also a special case because gross margin is (inaudible). So a low-single-digit or flat comp at Lids with a big gross margin increase is also a different result, but that's also a bit of a one-off.

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

That's right. So what Bob is saying is that we have a big enough pickup in gross margin to offset the de-leverage in the expenses from the low comp and so there's a pick up on the bottom line for Lids. For the Company overall same story. There's enough of a pickup in margin that we offset the deleveraging from expenses and therefore we expect the bottom line to improve.

Chris Svezia - *Susquehanna Financial - Analyst*

Okay. Macy's, I know you don't want to talk too specifically, but was it profitable last fiscal year? And I guess if it was or wasn't I just assume you expect the profitability to improve meaningfully in the new fiscal year?

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

It was not profitable last year and we expect the business to improve meaningfully this year off of that base.

Chris Svezia - *Susquehanna Financial - Analyst*

Okay. Mimi, for you, just revenue growth, you said down 1% to 2% for the total Company. Did I catch that correctly for the fiscal year?

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

Yes, that's correct and that's largely because of the Lids Team Sports divestiture.

Chris Svezia - *Susquehanna Financial - Analyst*

Okay. And I know you don't want to give quarterly cadence, but just curious. A lot of dynamics between Q1/Q2 and you mentioned both down. Just maybe flesh out is potentially Q1 better or less down than Q2 because of the comparisons year-over-year? Or is there any difference between the two periods or they are both expected to be down roughly the same amount?

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

Yes, I think I said that expect on a year-over-year basis that Q1 is going to be down more. And again it's the deleveraging within Lids because of the low comps. And then we just have some unique expenses and offsets in gross margin in Q1 that on a year-over-year basis we are expecting it to be down a little bit more.

Chris Svezia - *Susquehanna Financial - Analyst*

Okay, fair enough. And lastly just quickly, just on Johnston & Murphy -- I guess I'm going to ask a Johnston & Murphy question. John will be thrilled. Just between apparel, women's accessories, men's footwear just tell us what's really driving the business, how much if you can parcel out between those pieces in terms of what's really driving those across the board, or is one stronger than the other?

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

It's across the board. The brand is really resonating right now. And I think what we see in our stores are very strong comps, but equally exciting is the share gains we are seeing in the department stores.

And so, the messaging that we are getting back from the department stores is, this brand is their star at the moment. And so, as a result we are getting shelf space and we are getting great sell-throughs. So they've just got it hitting on all cylinders.

Chris Svezia - *Susquehanna Financial - Analyst*

Okay (multiple speakers). All the best.

Operator

At this time I'd like to turn the conference back over to Bob Dennis for any additional or closing remarks.

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

Just thank you, everybody, for joining us and we look forward to chatting with you again in three months. Cheers.

Operator

Again, that will conclude today's conference. We thank everyone for their participation.