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Genesco Inc.

Second Quarter Fiscal 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Mimi Vaughn, *Board Chair, President and Chief Executive Officer*

Tom George, *Senior Vice President, Finance and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Mitch Kummetz, *Seaport Research*

Corey Tarlowe, *Jefferies*

PRESENTATION

Operator

Good day everyone and welcome to Genesco's Second Quarter Fiscal 2024 Conference Call.

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

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

Darryl MacQuarrie

Good morning everyone and thank you for joining us to discuss our second quarter fiscal '24 results.

Participants on the call expect to make forward-looking statements reflecting our expectations as of today, but actual results could be different. Genesco refers you to this morning's earnings release and the Company's SEC filings, including its most recent 10-K and 10-Q filings, for some of the factors that could cause differences from the expectations reflected in the forward-looking statements made today.

Participants also expect to refer to certain adjusted financial measures during the call. All non-GAAP financial measures are reconciled to their GAAP counterparts in the attachments to this morning's press release and in the schedules available on the Company's website in the Quarterly Results section. We have also posted a presentation summarizing our results here, as well.

With me on the call today is Mimi Vaughn, Board Chair, President, and Chief Executive Officer, and Tom George, Chief Financial Officer.

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

Mimi Vaughn

Thanks Darryl and good morning everyone. Thank you for joining us.

Before I discuss our second quarter performance, I'd like to take a moment to address the other news we released yesterday – the announcement of Mario Gallione's planned retirement at the end of the fiscal year. Mario has had an extraordinary 44-year career with Genesco, most recently as President of Journeys Group for the last six years. His exceptional merchant leadership and footwear expertise has been instrumental in building Journeys into the leading teen fashion footwear retailer it is today. We will all miss his incredible passion for Journeys and for our people, and thank him for his extensive contributions to our company. With Mario working to ensure a smooth transition and Mike Sypert's recent promotion to Journeys' Chief Operating Officer, along with Journeys' experienced senior leadership, I know we already have a strong team in place as we determine Mario's successor.

Now, moving to our results, although the headwinds pressuring our Journeys business persisted, as the second quarter progressed and summer kicked in, sales trends modestly improved relative to Q1, picking up in June and sustaining into July as the back-to-school season began. Paired with our other divisions, this enabled us to deliver results ahead of our reset expectations during this lower volume time of the year.

Despite a challenging consumer backdrop, Johnston & Murphy and Schuh each delivered another quarter of record sales, exceeding our expectations and helping to counter the pressure at Journeys. J&M and Schuh are concrete and recent examples of our ability to manage through adverse cycles, respond to changing consumer dynamics and come out on the other side in an even stronger competitive position. At J&M, in response to the pandemic, we swiftly and effectively repositioned the brand to meet the changing needs of its consumer living in a more comfortable, more casual world; while at Schuh, we evolved its customer value proposition and improved its product access and consumer marketing. Those efforts have yielded multiple quarters of growth and outperformance for both businesses, and now we're similarly acting with urgency to elevate and evolve Journeys. I am confident we will achieve the same success and value creation as we execute on our strategic plan.

The Journeys consumer remains squeezed by inflation, opting to conserve spending, making judicious choices on what to buy and primarily shopping when there is a need or wanted item to purchase. Meanwhile, competitive discounting, most pronounced in athletic footwear, continues to compete for share of wallet and suppress demand for other product. On a positive note, our consumers' appetite for product newness remains strong and we and our brand partners are moving quickly to inject the Journeys assortment with more of these in-demand goods.

On our last call, we discussed the other immediate actions we're taking to mitigate the pressure on profits. We've made good progress on plans to close approximately 100 Journeys stores and identify $40 million of annual cost savings. We've worked hard to rationalize inventory and successfully drove inventories below last year's levels at the end of the second quarter, led by Journeys, and eliminating the need to aggressively promote. We also returned capital to shareholders, repurchasing 8% of outstanding shares during the quarter for a total of 10% this fiscal year. While these measures will position us well when the consumer environment and sales recover, we are not complacent. We know we need to take further action to meaningfully accelerate Journeys' improvement and drive its top line growth.

The foundation of our Journeys' plan is our Footwear Focused strategy and its strategic pillars that emphasize continued investment in digital and omnichannel, deepening consumer insights, driving product innovation and reshaping our cost base. We advanced several strategic initiatives in Q2 including growing our overall comparable digital business by 14%, expanding digital penetration to 21% versus 18% a year ago. We are building on this foundation with a plan to effectively elevate Journeys' performance, going well beyond and also accelerating several initiatives already in place.

Before I speak to those plans in detail, I'll touch on the recent highlights for both J&M and Schuh.

Starting with Johnston & Murphy, the brand delivered a solid quarter against a tough multiyear comparison. J&M achieved record Q2 sales and at plus 12%, its fifth consecutive quarter of double-digit comp gains, driven by strong growth in its store channel, led by higher conversion and average transaction size. Sales growth would have been even stronger if not for a challenging wholesale business. As has been the case across the industry, retailers are exercising caution with their order books given the uncertainty of the environment, versus last year when many were grappling with low inventory and refilling their pipelines.

Overall, J&M's assortment continues to really resonate with its more affluent customer base. The casual and casual athletic categories drove results, accounting for almost 90% of the direct-to-consumer footwear assortment. The brand continues to see strong growth in apparel and accessories, up more than 20% year over year, representing more than 40% of total DTC sales.

As we've discussed before, the effort to fundamentally shift J&M's business is driving strong and sustainable results. With the work done to reposition J&M as a multicategory lifestyle brand, there now exists a significant opportunity to increase J&M's brand awareness, which is low relative to some competitors, and change the broad perception that it remains primarily a dress footwear brand. We are committed to investing to unlock this untapped market potential and excited about the multiyear growth story ahead.

Moving now to Schuh, the business had an outstanding quarter marked by 17% comp growth with solid sequential acceleration as the summer season kicked in and warm weather boosted sales. Offering a compelling assortment, Schuh drove robust sandal sales and both increased casual and athletic sales, aided by higher average selling prices. Schuh delivered record operating income, as well as the highest operating margin of all our businesses, led by solid full price sell through. Strength was broad based across stores and digital, with store and web traffic up over last year. At almost 40% of sales, Schuh's digital business is the high-water mark for the digital acceleration we're striving to achieve. Looking at the current quarter, Schuh's Back-to-School season is off to a good start, led by the Kids business as targeted marketing and bundled promotions have been met with positive response.

The notable momentum of this business over the last several quarters is testament to Schuh's growing strength and recognition in the market as a fashion footwear destination for the youth consumer. Better access to the top brands and products and a relentless focus on customer engagement through marketing and loyalty initiatives has enabled the business to outexecute competitors and capture market share despite ongoing economic pressure. Compared to last year, Schuh moved up three spots to rank number 10 in U.K. footwear market share in May and June according to Kantar, and we believe the business is well positioned for continued share gains moving forward. Congratulations to the Schuh team for this exemplary performance!

Now I'd like to more fully discuss our initiatives at Journeys.

Let me start by saying: Journeys' value proposition to customers is intact. It has driven our success and separates us from competitors. The Elevate Plan is a multipronged strategy to drive traffic, sales and profitability, with the goal of delivering not only stronger near-term improvement, but also further cementing Journeys' positioning as the dominant player in teen fashion footwear over the longer term. The key elements of the plan include, number one, strengthening customer engagement and expanding relationships with our target teen consumer, which is key in challenging times and is our first priority. We launched a deep dive on consumer and market insights to build on our expansive knowledge of the teen, to better understand purchase intent and how behavior has changed post pandemic to shape future actions.

As part of our engagement efforts in the lead-up to back-to-school, we fully launched Journeys All Access loyalty program. While it's early on, the initial reads are very promising, with the program approaching 1 million members since its full launch in stores two months ago. We're aiming to interact with customers more frequently, driving repeat purchases, inducing them to consolidate their branded purchases with Journeys to achieve higher loyalty tiers. Moving forward, in Q3, we will expand All Access to offer rewards specific to some of our top brand partners. With even more first party data coming in through loyalty sign-ups, we're further leveraging our investments in customer analytics and more targeted personalized marketing.

Number two, elevating product and strengthening brand relationships, including expanding and adding more differentiation to the assortment, increasing the number of exclusives for Journeys, and testing new brands and styles. Here we're aggressively working to reposition the Journeys product assortment to meet the customer's appetite for newness. But beyond product, we're more fully leveraging the partnerships with our brands; collaborating to tell key stories through social media, events, and other activations to strengthen both the Journeys brand and the vendors' brands. While repositioning the assortment will take some time, we've already had several top-to-top meetings with our brand partners and, in the process, secured greater access to highly-allocated, in-demand styles that allow us to impact the assortment by the back part of this year.

Number three, sharpening Journeys brand marketing. We're heightening these efforts, as our insight work told us that when our customers engage, they have a great experience with Journeys, but we have an opportunity to build greater awareness with our target consumer. The partnership with thredUp we launched this past quarter unites our Journeys brand purpose messaging with activities to drive commerce. In addition, in efforts to boost traffic in the back half, we're increasing paid social and paid search spend, both of which are delivering positive returns.

Number four, implementing incremental initiatives to drive digital and omnichannel growth. We have the opportunity to significantly grow our ecommerce business like we've done at Schuh and are building on the successful initiatives that have driven Journeys' digital business to double-digit growth. These include increases in digital advertising and leveraging the new loyalty program. We are especially excited for the imminent launch of buy-online-pick-up-in-store. BOPIS will be phased in over the next few months, beginning in September, and rolled out before Holiday. This leverages our store fleet while providing consumers with an additional convenient pick-up option just in time for the holidays.

Number five, optimizing our Journeys footprint and driving productivity and efficiency. While closing underperforming mall stores, driving ecommerce and piloting off-mall locations are in response to the changing shopping habits of our teen consumer, our overall objective is to grow Journeys revenue and share of market. Through improving customer data and analytics, when closing a store we're better able to communicate with our customers and direct them to a nearby store or online to maximize sales recapture. It's important to note that given the fixed costs we eliminate by closing a weaker performing store, we need very little sales transfer to achieve a breakeven operating income. Our recently completed time studies to optimize store selling efficiencies will ultimately yield positive results, notably driving stronger conversion and higher productivity per hour as we eliminate excess work and focus more effective selling tactics on peak volume times. Our new point-of-sale hardware and software including in-store mobile devices is facilitating further improvement as we deploy this and other technology toward these efforts.

Importantly, I want to underscore again the conviction I have in our ability to address Journeys' challenges and achieve success, just as we have demonstrated with our other businesses. With the great talent, creativity and dedication of the Journeys' team, its unique strategic positioning as the leading destination for fashion footwear for teens and unparalleled strength of its brand relationships, I believe strongly in our future prospects. I look forward to keeping you updated on our progress as we continue to refine and evolve this plan and its priorities.

Now, moving to our outlook, while we were encouraged to see some pickup in trend in Q2, we believe it's prudent to stay cautious given the lack of visibility into an acceleration in consumer demand or economic improvement. Thus far in August, back-to-school sales for Journeys have improved a little further with consumers having a reason to shop and shopping much closer to need. Overall though, we are not planning for a major change in trend for the balance of the year. As I said, we have, however, moved quickly to inject the assortment with more freshness and in-demand goods, and expect to see some impact through the back half from these efforts, especially in Q4 during the holidays.

Before I pass the call to Tom, I would like to thank our employees for your resilience, tremendous efforts and dedication, which makes all the difference navigating challenging times like these. I'm proud to work with such an inspired group of people.

Our businesses are in strong and differentiated strategic positions and mean something to the consumer. We have a track record of managing well through adverse cycles, and I am confident that once again we will succeed.

With that, I'll hand over to Tom.

Tom George

Thanks, Mimi. While the second quarter was challenging, we were encouraged that our profitability came in ahead of expectations in the current climate. We not only have a solid foundation in place to navigate the current consumer environment, but also remain confident that our Footwear Focused strategy can continue to drive strong results over time.

Turning to our results for the quarter, consolidated revenue was $523 million, down 2% compared to last year, and down 3% on a constant currency basis, with the stronger result relative to expectations driven primarily by Journeys and Schuh. While the Journeys consumer remained discerning when it came to spending, the magnitude of store channel traffic and sales decline improved versus Q1 and our digital business saw a nice acceleration in year-over-year growth, increasing double digits, with particular strength in July as Back-to-School approached.

Our total comps were down 2%, as strong double-digit gains for Schuh and J&M were offset by the negative comp at Journeys. By channel, total store comps were down 6%, while direct comps were up 14%. By business, Schuh total comps increased 17%, J&M total comps increased 12%, and Journeys total comps were down 11%.

Overall gross margin was up 20 basis points as compared to last year. Although Journeys' gross margin declined, the decrease was less than anticipated, and was more than offset by improvements in all other businesses. As compared to last year, Journeys' gross margin was primarily driven by incremental markdowns to clear product in the current environment. Overall, we are pleased with the improvement in our other businesses as our initiatives to expand gross margin continued to gain traction.

By business, Journeys' gross margin was down 100 basis points. Schuh's gross margin was up 280 basis points, as the division benefited from an elevated product mix and assortment and reduced duties as a result of adding an Ireland based distribution center. J&M's gross margin was up 60 basis points as air freight tailwinds and better product mix more than offset higher markdowns and closeouts.

Finally, Genesco Brands Group's gross margin surpassed our expectations in the quarter, up 500 basis points, as stronger operating and supply chain efficiencies took hold, and the division benefited from price increases and a product mix shift.

Moving down the P&L, adjusted SG&A expense was 49.6% of sales, an increase of 400 basis points over last year. Given that we are at minimum levels of expenses at this lower volume time of year, it is difficult to drive them any lower in response to sales, particularly as it pertains to selling salaries. In addition, we are experiencing hourly wage pressures. While our time studies have yielded valuable insights, converting them into store selling efficiencies is only beginning to take hold. As a result, we incurred higher-than-expected selling salaries.

In addition, we recorded higher expenses to drive our technology initiatives, as well as increased expenses in our divisions that are growing. However, the deleverage would not have been as steep had we not reversed approximately $5 million of incentive comp expense last year. Excluding incentive comp comparison, operating expenses deleveraged 310 basis points. When also adjusting for the incentive comp comparison, Journeys expenses were relatively flat on a dollar basis to last year.

Lowering overall occupancy costs and reducing the amount of fixed expense in the store channel remains a key priority, and we continue to make good progress. In Q2, we achieved a 15% reduction in straight-line rent expense on 59 lease renewals across the Company, with an average term of approximately three years. This brings our year-to-date renewals to 96. With over 50% of our fleet coming up for renewal in the next couple of years, we have a lot of opportunity to capture additional savings.

In summary, for the second quarter, we incurred a better-than-expected adjusted operating loss of $10 million, compared to adjusted operating income of $10 million for Q2 last year. This all resulted in an adjusted diluted loss per share of $0.85 for the quarter, which compared to EPS of $0.59 last year. Increased interest expense and a reduced share count also contributed to the decline in EPS.

Turning now to capital allocation and the balance sheet, we ended the quarter as planned in a net borrowing position, and we are pleased inventories were well controlled, down 3% to last year, achieving our goal to be below last year's levels.

With respect to Journeys specifically, we were able to adjust receipts and ended the quarter with inventories 15% lower than last year and better positioned to invest in the newness trends we need in the assortment. J&M and Schuh inventories grew compared to last year to support the higher levels of demand in their businesses. We will continue to work with our brand partners to manage our inventory levels and adjust our product assortments through the back half of the year.

Capital expenditures in Q2 were $18 million, with the investments primarily directed to our digital and omnichannel initiatives and new stores. We opened 10 stores, which were primarily off-mall and in outlets, and closed 31 to end the quarter with 1,375 total stores.

Finally, we repurchased 1 million shares during the quarter, or 8% of total outstanding shares, for $23 million, leaving $52 million on our current authorization.

We continue to holistically review our cost structure, and we continue to anticipate achieving an annualized run rate of up to $40 million in cost savings in fiscal '25, approximately $20 million of which will be realized in fiscal '24. We are also shifting more fixed costs to be variable, thereby decreasing our sensitivity to revenue swings during times of economic turbulence. These actions to shore up our cost structure are designed to maximize operating leverage and provide a meaningful lift in operating income and EPS growth when sales rebound.

Regarding store closures, we've closed 54 Journeys stores through the end of Q2, or roughly 5% of the total fleet. These were largely mall-based locations.

To help you think about the positive impact to our P&L, the savings from the 100 Journeys stores we've targeted to close eliminates roughly $25 million in costs from SG&A expense, which will mainly benefit fiscal '25. This is in addition to the $40 million of annualized run rate costs savings and, as Mimi mentioned, we only need to recapture a small portion of those lost sales digitally or via a nearby store to have a net neutral effect on operating income.

Now turning to guidance, although Q2 results were better than we initially expected, the consumer environment remains uncertain. As such, we believe it's prudent to retain our cautious view for fiscal '24 and not assume a significant change in current sales trends through the balance of the year. We continue to expect a challenging Journeys consumer, and while we expect Schuh and J&M to continue performing well, we are seeing some continued pressure in Q3 in the wholesale channel.

On the expense side, even with our cost reduction initiatives, we anticipate some of the escalating cost pressures we experienced in Q2 to continue in the back half, particularly in Q3. In addition, we shifted some marketing expense out of Q2 and into Q3.

These factors are offsetting the better-than-expected earnings per share we realized in Q2 and leading us to maintain our full year outlook for adjusted earnings per share of $2.00 to $2.50, with expectations for earnings to be near the midpoint of this range.

For the full year, we now expect total sales to decrease 2% to 4%, or down 3% to 5% excluding the 53rd week. This improvement versus our prior guidance primarily reflects our actual Q2 sales results, but also factors in an improvement in Schuh. We continue to expect the 53rd week to add approximately $25 million of sales and have a small negative effect on our earnings per share.

Some color on the total year-end sales by business compared to last year: For Journeys we now expect a high single-digit decline; for Schuh, we now expect growth in the low-double digit range, reflecting the strong trends in the business; for J&M we continue to expect a low double-digit growth rate; and for Genesco Brands, modest growth in the back half with a slight decline in Q3 offset by growth in Q4.

We now expect gross margin rates to be flat to down 20 basis points compared to our prior view for fiscal year '24 gross margins to be down 30 to 40 basis points. The change in our guidance is being driven by our Q2 actual results and some improvement at Journeys in the fourth quarter as more newness flows into the assortment.

We now expect adjusted SG&A as a percentage of sales to deleverage 220 basis points to 240 basis points compared to our prior expectation of 170 to 200 basis points of deleverage. This is largely driven by increased wages and other cost pressures. Despite this pressure, Journeys expenses are expected to decline in the back half of fiscal year '24, as cost savings measures and store closures take hold.

Our guidance assumes no additional share repurchases, which results in fiscal '24 average shares outstanding of approximately 11.4 million, and we expect the tax rate to be approximately 24%.

I'd like to now provide some color around Q3. Starting with the top line, we expect Q3 sales to be down low single digits, or a similar percentage as the second quarter.

With respect to Q3 gross margins, we expect an overall gross margin decrease of 50 basis points to 70 basis points, given incremental markdowns we have built in at Journeys to ensure clean inventory, as well as lower margins at J&M due to product mix shift and higher markdowns against last year's extremely lean inventories.

Regarding expenses, with additional pressure on selling salaries and other cost inflation, we expect roughly 130 basis points to 170 basis points of overall SG&A deleverage in Q3.

Finally, for Q3 we expect approximately $2 million of interest expense, a 24% tax rate, and a share count of 11 million.

In summary, we continue to position ourselves to weather the current consumer headwinds while simultaneously creating a leaner and more nimble organization that is better equipped to capitalize and deliver even greater shareholder value once the tide turns.

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

Operator

Thank you. (Operator instructions).

Our first question is from Mitch Kummetz with Seaport Global Securities. Please proceed.

Mitch Kummetz

Yes. Thanks for taking my questions. I guess I have several; I'll ask a few now and then jump back into the queue.

Mimi, on the Journeys business you referenced sequential improvement, both in the press release and on the call today. Is there any way you can—and I guess that's continued into your August. Can you quantify that? Did you get that down mid-singles by August, or kind of just maybe go through that.

Mimi Vaughn

Mitch, thank you for your question. We were pleased to see improvement overall in the journeys business. I'll just remind you that the Journeys comp in the first quarter was down 14%. In the second quarter we saw that improvement to down 11%, and really, as I said on our last call, when we got into May the comp for May was pretty much reflective of what we were seeing in the first quarter. The summer was off to a very slow start and we didn't see comps pick up until June, but they picked up nicely in June and really picked up in July to being down in the high single digits, running down around 9%. That really carried through into August. So, we've seen that movement from down 14%, to down 11%, to down 9%.

Mitch Kummetz

Okay. Just from a product standpoint, I know last call you talked about—and I think the last couple of calls you talked about kind of the shift away from casual, more towards athletic, and I think last call you talked about strength in clogs. Can you just give us an update in terms of what you're seeing there?

Mimi Vaughn

Sure. There's been some bouncing around, Mitch, in terms of product. But in general, what we saw and what I described coming out of the pandemic is that our customers, our teen customers, gravitated toward what we call the casual side versus fashion athletic. Our teen always has a huge complement of fashion athletic in their closet. It's what they wear on a day-to-day basis, but fashion swung much more to casual, driven by purchases of more sandals, more boots, more shoes, versus what we call fashion athletic.

In ups and downs, we're still seeing the strength within the casual side in terms of what customers are buying. What I described before is that if you go back to winter, we saw a lot of trading down from tall boots into shorter boots. What our teens are liking is slipper-like product but a little bit more structure. So clogs, I've talked about as well. There are a number of different brands that are representing the clog style, and so that's a nice trend that we are seeing.

We are actually getting some early reads on fall product. Interestingly, it's still quite hot in many parts of the United States but we are seeing that there's some more interest and more appetite in product for the fall. So I think in general the consumer has been sitting on the sidelines; they've been picking and choosing what they want to buy, and I've talked a lot about the appetite for newness which is driving what our consumer purchase behavior is responding to more than anything else. So, that appetite for newness we have seen translate into appetite for more fall and winter type product despite the fact that it's still summer time.

Mitch Kummetz

Then on Schuh, obviously that business is trending very well. You referenced some market share gain there. I guess I'm curious, how much of this is—and again, you talked about kind of a better assortment. How much of this is the assortment is that much better, maybe the consumer in the U.K. is stronger, the competitive landscape has changed more there than here? Can you maybe parse that out a little bit more?

Mimi Vaughn

Yes. There are lots of dynamics within the U.K. market. Schuh's business has performed just remarkably well in the face of pretty extreme headwinds. There was a lot of change in the consumer—in the retail landscape. There were a lot of retail store closures and the like, but that's largely behind us and we're measuring against a market that has stabilized from the point of retail store closures. So, against a backdrop of a consumer environment in terms of inflation being high, in terms of just overall spending power on the part of the consumer being competed away, Schuh is outshining competition and truly taking market share.

The measurement of market share is that the compelling assortment that Schuh's offering, the great service within stores, the terrific abilities on the website, the amplified marketing and the specific marketing to the Schuh consumer is resonating and working really well. So it's a combination of lots of factors in addition to access to more and better of our allocated product. That's what's working well and that's been a pretty remarkable move up to number 10 in the overall market, and that's a movement of three places overall. So, it is a gaining of market share because of how well that team has created strategies to go after the market and how effectively they've executed.

Mitch Kummetz

Okay. One more and then I'll get back into the queue. You mentioned some of the challenges around wholesale. I think you referenced some weakness for J&M in the quarter and then also a change in your outlook for the back half. Can you say what J&M Wholesale was in the quarter? Then, can you maybe just again add a little bit more color in terms of how you're thinking about Wholesale, whether it's for J&M or the other brands for the back half?

Mimi Vaughn

The way to think about that, Mitch, is that one way you can get to it because we didn't break it out specifically is that J&M's comps, and that's really retail stores and ecommerce were plus 12%, and the growth in sales overall for the business up 4%, so you can get a measure of the overall Wholesale headwinds there.

What we're seeing and I think what many in the industry are talking about is that given the consumer environment, our Wholesale customers, that is our retail partners, are just being very conservative. Right now, the number one thing is to keep inventories clean and to keep them low. And even when product is selling through nicely as it is evidenced by the great sell-through in our direct channel, our partners are being cautious and I think that they just are coming off of a huge bulge of inventory and want to make sure that they are able to keep inventories in line. So, those tend to be really pronouncements across the board, again, in spite of sell-throughs, great sell-throughs within particular brands. We have seen that in general on the branded side of our business and have reflected that into our overall guidance for the back part of the year.

Mitch Kummetz

Okay. Thanks. I'll get back in the queue.

Mimi Vaughn

Thank you.

Operator

Our next question is from Corey Tarlowe with Jefferies. Please proceed.

Corey Tarlowe

Great. Thanks. I was wondering if you could talk about some of the momentum that you've seen at Johnston & Murphy. You mentioned that comps were up fairly strongly, so it would be great if you could just double-click into what's driving that momentum and what you expect ahead at the division.

Mimi Vaughn

Corey, thank you for that question. We're very excited about our prospects for J&M. It's one of the most exciting opportunities for growth within our company and very much aligned with our strategy to grow the branded side of our business.

What we did, what that team did in being really hard hit during the pandemic was to pivot much harder into casual and into comfort. It's great product with great styling, but also with special technical features, with proprietary chassis systems, its waterproofing features, its smart moisture wicking technology, and we've been investing a lot in the product. So it's a comfortable product. It's a product that's really filled with great features, and it's much more casual. In prior times, we have been focused on a shift into casual might mean trading down average selling prices for our footwear, but because we have built in technology, we're actually able to achieve pretty similar overall pricing for casual products.

In addition to that, the team has done quite a tremendous job of proliferating categories and building these technical features into the apparel and the accessories. I talked about our overall apparel and accessory sales being up 20%; they now comprise overall 40% of our direct-to-consumer sales.

In general, our customer really likes what they're seeing. They're seeing an opportunity to buy product that they doesn't have in their closets right now, and it's just fantastic when you put on the shoes, you put on a pairable (phon). It is so comfortable. It is so good looking. So there's opportunities for further expansion into other categories, expansion into blazers. We've been doing really well this season. We have expanded into a boys' business as well.

We think right now the opportunity is to build brand awareness. Our customers like what they're seeing. Some of our more recent research has said that we have opportunities to drive further awareness, and that's what we're intending to do.

Corey Tarlowe

Great. That's very helpful. Just secondly, on inventory it seems like you've made some really nice progress there. Could you maybe talk about how you expect inventories to trend throughout the rest of this year and maybe the associated impact on margin? It seems like your inventories maybe even be in a better place than the industry more broadly, so curious just to get a sense for where you're at on that journey.

Tom George

Corey, this is Tom. Good question. We're really pleased with what we've been able to do with our inventories.

The Journeys Group continues to have strong relationships with all its key vendors and those vendors work and the merchandising team work very closely with those key vendors, making sure we have the right product at the right time and the appropriate inventory balance so we can mitigate markdowns.

In terms of trends going forward, you saw the overall inventory was down 2% to 3% at the end of the second quarter; we expect to even continue to improve on that for the third quarter and the fourth quarter. Journeys specifically, you saw it was down at the end of the second quarter 15%, and we expect similar kind of results in the third quarter and the fourth quarter. Really pleased with that.

I think in terms of how that impacts margins going forward, we feel a little bit more bullish in the fourth quarter on Journeys margin as a result of that because we're going to end the year with an inventory position with much more of their current relevant product that's selling well vis-a-vis a year ago.

So, feel really good about what we've done with inventory. We've got continued processes in place and the business is driving to continue to watch inventories going forward, which will help with the margins as well.

Mimi Vaughn

As Tom said, our merchants have done a great job of managing inventory, but what's so good about this is it gives us lots of flexibility to chase into the newness that I've been talking about. We, in fact, have been able to do that, and so we've got ultimate flexibility to be able to bring in the product we need to be able to drive that business.

Corey Tarlowe

Great. Thank you so much for all the color and best of luck.

Mimi Vaughn

Thank you.

Operator

We now have some follow-up questions from Mitch Kummetz with Seaport Global. Please proceed.

Mitch Kummetz

Thank you. I've got another handful, so I hope you'll indulge me. On the Journeys guide for the year, it looks like it's improved from down low doubles to down high singles. Can you kind of walk through sort of what's implied for the back half of the year? Are you looking at sort of down high singles in 3Q, down mid-singles in Q4? Is that kind of the trajectory that you think that business is on?

Mimi Vaughn

Let me talk generally about that and let Tom be able to weigh in. Specifically, the approach that we have taken is that we believe it's prudent to just keep extrapolating the current trend, Mitch. There's been a little bit of pickup in the current trend and so we're incorporating that into our overall thinking, but we're not anticipating that there's going to be a big pickup in the consumer market. We're not expecting any major economic improvement or decline in the back part of the year; we're just extrapolating out the trend.

What we are doing though is we are building in this newness that I keep talking about and the product that is resonating with our consumer. That's what is driving our overall pickup. It is product-driven by gaining access to product that we have a good degree of confidence that we'll sell-through.

That's the general approach that we've taken, and I'll turn over to Tom to give you any more color.

Tom George

Mitch, in the third quarter, we're really same expectations as we had three months ago for the third quarter; sort of down relative to the prior year, high single digits to low double digits. In the fourth quarter, pretty similar expectations as well. Maybe a slight improvement based on some improvement newness, but really nothing of significance relative. Essentially pretty much in line with the prior expectations in both the third quarter and the fourth quarter.

Mitch Kummetz

Okay. Then, Mimi, just to clarify something you said earlier and reconcile that with your prepared remarks, I think you said that July Journeys comp was minus 9% and I thought you said in your prepared remarks that August was better than July in Journeys. Is that the case? Was August better than a minus 9%?

Mimi Vaughn

I think what I was referencing in my prepared remarks, Mitch was the pickup from the second quarter into the third quarter. So really it was going from the down 11% in the second quarter, which, of course, had sequential improvement into overall improvement into August.

Mitch Kummetz

Okay. Then you mentioned the confidence that you have in the newness. In your prepared remarks, you also talked about some of the challenges around the athletic inventory overhang. Have you seen any improvement there? Are you anticipating less of a drag from that on Journeys as we go through the balance of the year?

Mimi Vaughn

We have been talking for several quarters at this point about the athletic overhang really within the industry, not within the product that we are selling. Initially, I think everybody was anticipating that this overhang would be cleared up by Back-to-School, and then the goalposts shifted out until the end of the year.

What we are seeing out in the marketplace, and what we're hearing from other competitors and the like is that the overhang is still out there, and it will linger certainly through the back part of the year, and that's incorporated within our overall thinking. We are anticipating that by the end of the year, hopefully that the industry can really move past some of this, but it's still existing today. Markdowns are still being taken pretty significantly; you're not seeing that degree of markdown within. That's not a specific factor that is affecting our business, but what it is doing is it's suppressing demand for some of the athletic product that we're selling because the deals that are out there on really very good product is pretty attractive.

Mitch Kummetz

Okay. Then, just a couple of last ones. Tom, on the Journeys stores, I know you're closing a bunch of stores. Do you have a store count for Journeys at year end?

Tom George

I do.

Mitch Kummetz

I've got kind of a separate one for you, Tom. On the $40 million in cost savings, it sounds like $20 million of that is being realized this year. Can you maybe kind of walk us through the phasing of that by quarter? Have we already started to see some of that in the first half or the second quarter, and how does that kind of play out over the next couple of quarters? That's it for me.

Tom George

Mitch, the first question, projected Journeys store count is 1,057 at the end of the year.

Mitch Kummetz

Okay, thank you.

Tom George

In terms of cost savings, Mitch, most of the costs will still be in the fourth quarter. There will be some, some in the third quarter, but most of it is still driven in the fourth quarter. We're still confident, still feel confident about what we're doing from that perspective.

In addition, as we talked about, we have a lot of initiatives in place relative to selling salaries and we're using a lot fewer hours relative to the prior year in selling salaries. At the same time, some of the traction we're getting in terms of reducing those salaries is not what we originally expected, but we'll continue to work on that. We'll still continue to yield some selling salary savings. We also still have some good initiatives in place outside of selling salaries; we'll continue to double down on our occupancy costs going forward. We've got some initiatives in the branded group as well in terms of what we can do to reduce our expenses there. We also have some procurement initiatives in place relative to outside spend that we'll continue to work on that. A

We also have some good visibility and line of sight in what additional cost savings we'll look for for next year as well. Pretty similar categories for next year as well. Good line of sight on that, good confidence that we'll achieve that, and again, to the original question, there's more of it in the fourth quarter.

I think another thing just to point out in the fourth quarter that in this year the Journey's fourth quarter expenses absorb a 53rd week of expenses as well. So, when you adjust for that and you adjust for a full year of the OpEx impact for store closings in the next year, you really start seeing the opportunity we have here with a reset cost base, and you start thinking about sort of modest expectations for the other parts of the business from a sales growth and a margin perspective relative to the success we've seen there. So modest expectations on the other divisions, even a modest comp improvement with Journeys going forward into next year, and with what we've done over the last 12 months, we bought back 13% of our shares, you can see a lot of earnings per share leverage next year.

Operator

This does conclude the question-and-answer session. I would like to hand it back to Management for closing comments.

Mimi Vaughn

Thank you for joining us today. We look forward to talking to you on our next quarterly call.

Operator

Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.