Genesco Inc.

Third Quarter Fiscal 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Darryl MacQuarrie, *Senior Director, FP&A and Investor Relations*

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

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

CONFERENCE CALL PARTICIPANTS

Mitch Kummetz, *Seaport Research*

Mantero Moreno-Cheek, *Jefferies*

PRESENTATION

Operator

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

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

I'll 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 Third Quarter Fiscal '24 Results.

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

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

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

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

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Mimi Vaughn

Thanks, Darryl. Good morning, everyone, and thank you for joining us.

Before I discuss third quarter performance, earlier this week, we announced the appointment of Andy Gray as Journeys' new President. Andy is an exceptional and experienced leader, who brings invaluable expertise in brand building, product innovation, and the other areas essential to building Journeys' business for the future. Andy's connection to youth culture and the strong brand relationships he's built over this accomplished career make him the ideal person to lead the talented team we have in place at Journeys, as we work to elevate the business and unlock the great potential we see ahead. I look forward to his partnership and I'm excited for him to join recently appointed COO Mike Sypert to drive success going forward. Welcome, Andy.

Now, moving to results, following a later start to back-to-school, sales picked up early in the third quarter and were generally tracking to our expectations. However, we saw a marked change in trend in October, as the later change of seasons muted initial demand and delayed the start of the selling season for fall product. In addition, our branded businesses were impacted by disruption related to the implementation of a new ERP system, contributing to lower overall results than we anticipated for the quarter. Despite these headwinds, we were pleased that sales trends within our Journeys' business continued to show sequential improvement, and Schuh and Johnston & Murphy delivered record third quarter sales.

The operating environment remained challenging, as ongoing inflationary pressures and economic uncertainty continued to impact discretionary spending. As we've seen throughout this year, consumers continue to make tough choices on where to spend their dollars, often choosing other categories over discretionary purchases, and when they do shop, they're doing so closer to need and are carefully discriminating in their purchase decisions.

Against this backdrop, we continue to advance our strategies to drive consumer demand and make the business more productive and more profitable. Our Journeys store closure plans are on track, having closed 75% of the approximately 100 doors planned for the end of Q3, and the remainder targeted to close by year end. We also remain on pace with efforts to realign our cost base and realize $40 million of annualized cost savings by the end of Fiscal '25. Finally, we once again maintained strong inventory discipline in Q3, with total inventory down high-single-digits year-over-year.

Other key highlights from Q3 included growing our overall comparable digital business by 8%, and expanding digital penetration to 21%, versus 18% a year ago. We launched buy-online-pick-up-in-store at Journeys and J&M in October to quite promising early results, offering additional convenience in time for the holidays, and we continue advancing our omnichannel experience. Finally, Journeys' All Access loyalty program is off to a strong start, performing well against our high expectations.

Now, discussing our individual businesses in more detail, and starting with Journeys, the negative sales trend we experienced through the first half of the year continued to sequentially improve in Q3. Back-to-school trends we discussed in late August accelerated into September, and the changes our merchants were able to effect across the product mix resonated well, enabling Journeys to outpace our most recent expectations. Sales of much-have items were strong, and we continue to chase into that product. Even though this wasn't enough to offset the lack of newness and industry discounting in athletics, or the unanticipated late start to fall selling, Journeys' traffic and conversion, nonetheless, improved considerably versus Q2. Quarter to date, I'm pleased to say that Journeys' comp has shifted into positive territory for the first time this year, driven, in part, by a strong Black Friday weekend. Although the environment remains volatile, consumers are responding well to the newness we and our brand partners have injected into the product assortment. We're excited to amplify the Journeys' story through our

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holiday campaigns, which, among other things, will feature more SMS campaign usage and increased investment in digital marketing, as well as new campaigns and rewards for All Access members.

Now, moving to the U.K., despite facing the consumer pullback in October, Schuh delivered the strongest constant currency third quarter sales to date, reflecting our efforts to enhance its customer value proposition and access to top-tier products. Solid double-digit sales growth and a 5% comp were driven by a compelling back-to-school assortment, led by the kids' business, followed by women's, adding to the outstanding performance Schuh has achieved this year. Schuh accomplished this through growth of casual product, aided by higher average selling prices and success in non-footwear categories, like backpacks. The delay in change of seasons and resulting pressure on sales later in the quarter was most pronounced in stores, as Schuh's digital business notched positive gains throughout Q3, and continues to account for nearly 40% of total sales. Schuh's growing strength and recognition as the leading fashion footwear destination for the youth consumer has been driving market share gains. As of mid-October, Schuh ranked number 10 in U.K. footwear market share, according to Kantar, maintaining its position after moving up three spots earlier in the year. Loyalty continues to bolster this effort, tracking at about 30% of Schuh's Q3 sales. Total Schuh Club members now stand above 2 million, and counting, with members more highly engaged and purchasing more frequently. Schuh is running exciting holiday campaigns through the season to surprise and delight customers, including bundled promotions and digital content tied to its loyalty program.

Turning now to Johnston & Murphy, the brand added to its strong run this year, posting positive sales growth and record third quarter sales, despite a unique set of headwinds and a tough multi-year compare. While the challenges J&M encountered from the new ERP system implementation led to some lost sales in Q3, this more robust, modern platform provides greater agility to support J&M's growth and the growth of our other branded business. J&M was also not immune to the broader consumer pullback that hit in October and stalled sales of outerwear and other fall products. Casual continued to drive results, accounting for over 75% of direct-to-consumer footwear sales. Apparel was the bright spot, growing 7%, and, together with accessories, now accounts for over 40% of J&M's DTC sales. We're benefiting from the all-encompassing changes we made coming out of the pandemic to reposition the business as a more casual, multi-category lifestyle brand. Supporting this effort is J&M's Insider affinity program. Insiders now account for approximately 60% of J&M's DTC revenue, with over 60% of new customers joining the program. Looking ahead, we remain very positive on J&M's longer term potential and are investing against it. As part of this next phase of growth, J&M has partnered with a new creative agency to unlock the significant opportunities to increase its brand awareness, which currently stands at only 35%, and educate consumers about the shift away from its heritage dress shoe legacy. This new top-of-the-funnel marketing launches in the spring, as we expand our marketing reach to a broader range of customers.

Now, turning back to Journeys, we're pressing forward with our elevate plan, which leverages the elements of our footwear-focused strategy and drives actions to meaningfully accelerate Journeys' improvement and top line growth. Journeys has a proven track record of managing through adverse cycles, responding to changing consumer and fashion dynamics, and coming out stronger on the other side. The fundamental tenets of Journeys' value proposition to customers remain intact. With our focus on fashion footwear and compelling mix of, and access to, top brands, no other retailer serves the teen consumer quite the same as Journeys. While we have much more to unlock as we finish this year and get into Fiscal '25, the work we've done to date is paying dividends.

Today, I'll highlight the key areas of our plan, where we're making good progress.

- Number one, strengthening customer engagement and expanding relationships with our target teen customer. Initial results from the All Access loyalty program are very encouraging, with roughly 1.5 million members signed up since launching in July. Members are already buying more often than non-members and spending more per average order. With considerable runway ahead

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of us, we're just beginning to maximize our CRM and loyalty data to more strategically target customers based on purchase history and brand preferences. During Q3, we ran integrated campaigns focused on key brand partners to elevate Journeys as the destination for these top brands. These included All Access tie-ins into a home page presence and social call-outs.

- Number two, elevating product and strengthening our brand relationships. We've been working diligently with our brand partners to add more differentiation to the Journeys' assortment, increase our access to the most in-demand brands and styles, expand the number of exclusives, and test new brands which would add new dimension to the assortment, but more than that, we've further focused the partnership conversation on the strategic view that reinforces Journeys' value proposition and unique position in accessing the coveted teen customer. While fully repositioning the assortment will take some time, we've made good progress, that we will build upon for upcoming seasons.

- Number three, sharpening Journeys' brand marketing. Our customer insight work also informed us that while Journeys is top of mind to consumers for certain brands we carry, we have the opportunity to increase mind share for all of the leading fashion brands we sell. We're applying those learnings to drive stronger awareness and strengthen Journeys' voice across social channels. We increased paid social investment for back-to-school and are doubling down our efforts for holiday.

- Number four, implementing incremental initiatives to drive digital and omnichannel growth. We recently launched buy-on-line-pick-up-in-store across the Journeys' fleet to a strong initial response. We're encouraged by what we're seeing at this early stage in terms of customer adoption and attachment rate when customers pick up in store. Although it's small in total right now, these add-on purchases are driving a meaningful lift in AOV. We're excited to see how BOPIS continues to evolve in our full-service environment. Beyond BOPIS, as part of our effort to grow Journeys' digital business, we've also raised product SKU counts on our website and expanded our dropship partners to more than 50.

- Number five, optimizing our Journeys' footprint and driving productivity and efficiency. We've implemented key learnings from our store time studies, that are having a positive impact on conversion and productivity. These include shortening the time it takes to get shoes from the stock room and eliminating unproductive daily processes. Our new point-of-sale hardware and software are also generating additional operating efficiencies and contributing to higher average transaction size.

Regarding the store closures I mentioned earlier, we expect to achieve annualized savings of about $25 million, which is in addition to the $40 million of annualized cost savings we're targeting. Given that we need very little sales transfer from those stores to achieve a breakeven operating income, we're deploying customized communications to direct consumers to online or to nearby stores.

To sum it up, we're pleased with the progress we're making with the Journeys' elevate plan and the ongoing improvement in comp sales. The team has worked hard this year to adapt to the dynamic shift and challenges in the market. I have strong belief in our abilities to address these challenges and in a much stronger Journeys' future.

Now, moving to our outlook, as we entered the fourth quarter, we saw an acceleration in fall selling and positive store traffic with the arrival of more seasonable weather, and following a strong start to the holiday season, I'm please to say our total company comps are currently running positive quarter to date. In addition to Journeys' strength, J&M experienced record online demand and its best Thanksgiving weekend to date, leaving us more confident we are on the other side of the pullback of October. That

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said, the environment remains choppy and footwear promotions are even more widespread than we anticipated over the holiday weekend. In response, we've made the strategic decision to increase promotional activity going forward, especially at Journeys, over the holiday to drive sales in this competitive environment. The resulting margin impact is reflected in our revised guidance, for which Tom will provide more details. We're largely a non-promotional retailer, and plan to stay that way, but believe this is a moment in time and these actions are appropriate for this season.

Before closing, I'd like to thank all our amazing people across our Company for your hard work and dedication through this challenging environment. I appreciate your efforts throughout the year, but especially heading into the busy holiday season, when I'm certain you'll raise your game to an even higher level.

As we look forward, I'm very encouraged by the many initiatives that are driving meaningful progress, the strength of our brands and retail concepts, and the strategies we're executing that will show the resilience of our business.

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

Tom George

Thanks, Mimi.

Our third quarter financial performance not only reflects the challenges and hurdles we faced, but also the progress we continue to make. As we now round out the fiscal year and begin to look to Fiscal '25, we believe our solid foundation and increased efforts around financial discipline will position us to drive stronger results.

Turning to our results for the quarter, consolidated revenue was $579 million, down 4% compared to last year and down 5% on a constant currency basis, mainly driven by the sales decline at Journeys. Relative to our expectations, better sales trends at Journeys were offset by lower than expected sales and associated deleverage on expenses in our branded businesses in Schuh.

Total comps were down 4%. Although still negative, we were pleased to see another sequential improvement in the trend at Journeys. Meanwhile, comps at Schuh and J&M remained positive, despite the later seasonal transition and our branded businesses dealing with its ERP conversion challenges. By channel, total store comps were down 7%, while direct comps were up 8%. By business, Schuh's total comps increased 5%, J&M total comps increased 1%, and Journeys' total comps were down 8%.

Overall gross margin was in line with our expectations, down 60 basis points, as compared to last year. By business, Journeys' gross margin was down 110 basis points, mostly due to the expected increase in promotional activity, including introductory coupons for Journeys' loyalty program, along with some mix shift. Schuh's gross margin was up 100 basis points, as the division benefited from reduced duties from its new Ireland-based distribution center, as well as a more elevated product assortment mix. J&M's gross margin was down 210 basis points due to a more normalized markdown and close-out cadence, versus last year. J&M had much more inventory available to sell this year versus last, as much of last year's product was caught in-transit. Finally, Genesco Brands Group gross margin was up 270 basis points, as we continue to benefit from lower freight and logistics costs and price increases.

Adjusted SG&A expense was 46.2% of sales, an increase of 190 basis points over last year, with most of the deleverage driven by the lower Journeys sales. In absolute dollars, SG&A expenses were flat to last year. In line with our strategic pillar to reshape the cost base to reinvest for future growth, we have gained traction with our cost savings initiatives, while at the same time increasing the variability of our expense

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base. This resulted in reduced occupancy, selling salaries, and other store costs, and enabled us to invest in marketing, which drove increased sales. In addition, we invested in systems and people to drive our business forward, which resulted in increased depreciation and IT compensation for new technology initiatives.

Lowering overall occupancy costs and reducing the amount of fixed expense in the store channel remains a key priority. In Q3, we achieved a 16% 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 155. With over 50% of our fleet still coming up for renewal in the next couple of years, we have a lot of runway to capture additional savings. While we have been making nice headway in rent savings and savings on selling salaries, increasing wages continue to be an area of challenge. All told, in an environment where these and other cost pressures have been prevalent and ubiquitous, we were pleased to hold our SG&A dollars flat to last year.

In summary, for the third quarter, we realized adjusted operating income of $11 million, compared to adjusted operating income of $26.3 million for Q3 last year. This all resulted in adjusted diluted earnings per share of $0.57 for the quarter, versus earnings per share of $1.65 last year. Relative to our internal expectations, the extent of the ERP disruption, coupled with a higher than expected tax rate, had a large impact on this lower EPS result.

Turning now to capital allocation and the balance sheet, as expected, we ended the quarter in a net borrowing position.

Regarding inventory, we were very pleased to keep our inventory levels well controlled, down 8% year-over-year. With respect to Journeys, specifically, we continue to work with our brand partners to adjust receipts, enabling us to end the quarter with inventories 14% lower than last year, and more fully positioned with the newness we've needed in the assortment. Schuh's inventories increased, compared to last year, to support the higher levels of demand in the business, and although J&M's inventories were down versus a year ago, as I mentioned, a significant amount of last year's inventory was in-transit and unavailable for sale. Overall, we expect to end this year with inventory down high-single-digits, versus last year, as we continue to thoughtfully manage our assortments and keep our inventory position clean entering Fiscal '25.

Capital expenditures in Q3 were $15 million, with the investments primarily directed to retail stores and our digital and omnichannel initiatives. We opened five stores, which were primarily off-mall and in outlets, and closed 20, ending the quarter with 1,360 total stores.

Lastly, we didn't repurchase any shares during the quarter and our current authorization remains at $52 million. Over the past five years, we repurchased almost 50% of our outstanding shares.

Regarding our cost savings initiatives, we are working diligently to deliver the annualized run rate of up to $40 million in cost savings by the end of Fiscal '25. We expect savings from reduced store rents, lower corporate shared services and Journeys' central expenses, selling salary, productivity gains, reduced warehouse and logistics costs, and reduced freight costs from omnichannel inventory location optimization initiatives. When you combine our efforts to increase the variability of our cost structure, along with progress on our cost savings plan, we are on pace to achieve approximately $20 million of cost reductions in Fiscal '24.

With respect to store closures, we closed 74 Journeys stores to the end of Q3, or roughly 7% of the total fleet since the beginning of this year. These were primarily mall-based locations. As Mimi mentioned, the savings from the 100 Journeys stores we aim to close by the end of the year eliminates roughly an

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additional $25 million in costs from SG&A expense, which, on an annualized basis, will begin to benefit us in Fiscal ’25.

The goal of these cost savings and store closure programs is to achieve expense leverage and drive operating margin expansion on more modest increases in sales growth.

Now, turning to guidance, overall sales trends have accelerated nicely thus far into Q4, in part due to positive adjustments we made several months ago to the product assortment, that, given product lead times, are having impact now at Journeys. However, the variability in consumer demand we see week-to-week, coupled with the heightened promotional activity at the start of the holiday season, has led us to take a more promotional stance going forward, especially to drive demand at Journeys and remain competitive in this environment. While we expect this to positively impact sales, it will also result in some additional gross margin pressure. We now also expect growth at Schuh to be somewhat more muted than our prior expectations, given the softer consumer trends of late, and we expect the ongoing lack of visibility in the wholesale channel to put some pressure on J&M and our other branded business.

Combining all these factors, we now expect full year total sales to decrease 1% to 2%, versus our prior expectations of down 2% to 4%. Excluding the 53rd week, which we expect to add approximately $25 million of sales and have a small negative effect on earnings per share, we expect sales to decrease 2% to 3%.

Some color by division on the total year end sales, compared to last year. For Journeys, we continue to expect a high-single-digit decline; for Schuh, we continue to expect low-double-digit growth; for J&M, we now expect high-single-digit growth; and for Genesco Brands, a low-double-digit decline.

We now expect gross margin to be down 40 to 50 basis points, compared to our prior view for Fiscal ’24 gross margin to be flat to down 20 basis points. The change in our guidance is driven primarily by increased promotional activities at Journeys going forward in the fourth quarter, as well as product mix shift.

We now expect adjusted SG&A as a percentage of sales to deleverage 200 to 220 basis points, compared to our prior view of 220 to 240 basis points of deleverage.

Given our Q3 actual results and revised assumptions for Q4, we now expect full year adjusted earnings per share of $1.50 to $2.00, compared to our prior range of $2.00 to $2.50. Our expectation is that we will be near the midpoint of this range.

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%.

To close, we continue to take the necessary measures to navigate the current consumer environment, while also proactively evolving our Company towards a leaner and more agile state to better meet the needs of our consumer, drive stronger profitability and ultimately deliver greater returns to our shareholders.

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

Operator

Thank you. (Operator Instructions) One moment, please, while we poll for questions.

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Thank you. Our first question is from the line of Mitch Kummetz with Seaport Research. Please proceed with your question.

Mitch Kummetz

Yes, thanks for taking my questions. I guess I've got a few. Maybe, when you guys reported 2Q, you raised your gross margin outlook, and part of that was because you were expecting improvements in the Journeys' 4Q gross margin, with more newness kind of flowing into the assortment. I think you also made a comment at the time that the consumer is looking for two things, must-have product or good deals. I'm wondering what's changed from three months ago? Is the newness not performing as well, or is what I would maybe call sort of non-newness in the assortment, is that just requiring, you know, deeper discounts to move the product? Can you just maybe sort of elaborate on that?

Mimi Vaughn

Thanks for your question, Mitch. There really has been quite a lot going on and we've seen a lot of ups and downs in the consumer environment over the last few months. Absolutely, the newness is working. Our merchants have done a phenomenal job chasing into product that is resonating with the consumer, and that is selling through quite nicely. What we saw—and I'm going to take you through—I'm going to take you to October and then bring you into November, and bring you into Black Friday, just to give you a sense of where we are.

Starting in October, traffic was out there, but conversion was tough, and I think we, and anybody else who sells fall product and sells boots, really saw that the consumer was not motivated to spend in October, they were looking, but, you know, for us, boots represent 40% to 50% of our mix in the fourth quarter, and so if your boot sales aren't coming through, then that's what made for October.

We saw a marked change in November, where, with colder weather, there was a lot of good, positive traffic in all of our retail concepts, and if you were out over Black Friday, it was a joyful experience. I mean, people were out, people were shopping in the malls. It seemed to be just pent-up excitement for shopping. But, what we also saw is that our brands, in particular, were really promotional. We were as promotional as we thought we would be over Black Friday, and, really, in the third quarter, but we saw that the inventory buildup from some of the slower sales in footwear over the course of the year caused some of our brands to say that they were going to deviate from that pricing and get more promotional.

Now, that promotional activity worked well, it drove sales, and so with traffic and some of the promotion on the right product, there was a bifurcation in the market here, Mitch, where the must-have items are flying off at full price, but anything else needs some encouragement in order move. As we have evaluated that, and it's a bit of a have-and-a-have-not world these days within our brand world, the footwear category is lining up to be more promotional this holiday. What you'll see in our guidance is that we are driving more sales and that we are going to be taking a few more markdowns to be able to get there. What we're anticipating, and what we're hopeful for, is that this will be the final push through the year to clear through the inventory overhang in the market, and that we all—we, for sure, will be able—that we all, as an industry, will be able to start next year clean.

Mitch Kummetz

That's helpful. Then, Mimi, you talked about some of the strategies at Journeys, and I think one of them, you said repositioning the assortment. I kind of got the impression that this was more, maybe, significant than kind of the typical tweaks that you guys are always making in terms of the assortment and the merchandising. Again, can you maybe speak more to that? What exactly are you looking to do in terms of repositioning the assortment there, what's the aim to that strategy?

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Mimi Vaughn

Mitch, we're the destination for where teens go to buy their fashion footwear, and we always have a great supply of the best items that people are—that our teens are looking and that our customer is looking for. Our customer is hanging in there. They're being very discerning when it comes to retail spend and the choices of what they're spending on. I think that all of the comments, and I don't know that we're deviating from our merchandising trends, but what did see at the beginning of this year is that our consumer had a huge appetite for newness and that's what we're chasing into, and that's what we've chased into for the back part of the year, and that is what's driving our sales and the improvement. We're quite pleased at the improvement from where we started at the beginning of the year in Journeys to the point we are right now, where we're having the best results of the year, and a big pickup. So, it really is that we're chasing into this newness. We're working with our brands in order to further differentiate our assortment to have more of the must-have product, to have more exclusives, and to continue to get in front of the consumer as the destination of choice.

Mitch Kummetz

Then, lastly, just in terms of the uptick in promotional activity, you did mention that boots are a large percentage of your mix in 4Q, and that the season got off to a slow start. It looks like the Journeys inventory is actually in good shape, but in terms of its content, are you guys sitting on a few too many boots and it's part of the promotional strategy in order to kind of work through maybe some excess inventory there, or is that not the case?

Mimi Vaughn

Yes, I would say that we want to make sure that we have enough dry powder, Mitch, to be able to move on whatever items that we need to move on as the holiday unfolds, and certainly, I think that we were—in the third quarter, and certainly over the course of November, we saw good sales in Journeys. So, in spite of some of the lower boot sales, we were selling other product that the consumer was interested in buying. When we've had these cold spurts, at least here and as in much of the rest of the country, we've had cold spurts and then it's gotten warm and cold spurts and it's gotten warm again, and in those cold spurts, we do see sell-through of boots and we see a pickup in boots. We know that it will be cold, we know the consumer, we believe the consumer is going to be out shopping around holiday, and we'll move the boot inventory that we have, and then we'll take whatever marks we need to at the end of the season.

Operator

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

Mantero Moreno-Cheek

Hi, and thank you for taking our call. I just wanted to see if you could describe the differences between the U.S. and U.K. consumers, are there any trends really worth calling out between those two, and can we expect those trends to continue into next year?

Mimi Vaughn

Thank you for your question. Interestingly, the U.S. market and the U.K. market have tracked, from an economic point of view, similarly, in terms of high inflation and the consumer having to make choices. Our

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Schuh business has had an exceptional year, has outperformed the market, has moved up three places in terms of ranking in overall market share, and so we've been outpunching the competition.

I think if you have product that the consumer wants and if you have product that resonates with the consumer, then consumers who are making choices among items that they're spending on, you can motivate that purchase.

What we've seen most recently is that, across the board, there was a slowdown with the start of the fall selling season and we have seen a turnaround there in the U.S., with really robust Black Friday sales. Our store traffic was up. Stores were the great highlight of the Black Friday weekend. But, all together, the consumer in the United States was out to shop. We had a very strong Black Friday weekend in the U.K. last year. Right now, we think that the U.K. consumer is waiting, holding out. Typically, the U.K. market goes on sale before Christmas. We think there may be some holdback in the U.K. market. That's the difference right now, is that the U.S. showed a lot of pickup in traffic over the Black Friday weekend and the U.K., we think that there will be—the season has to unfold further.

All together, the way the consumer is acting is that they'll pay up for the must-have product, but, other than that, they really are seeking the value that I talked about.

Mantero Moreno-Cheek

Thank you, and then a quick follow-up. Are there any supply chain or material costs that are headwinds at the moment, and if there are, are there any that will turn into tailwinds next year? Thank you.

Tom George

Yes, I would say, at this point in time, we feel really good about the supply chain and the costs that we're going to expect going forward. This year, we're getting a lot relief on freight logistics costs in our branded business, and that was the big headwind last year, as well as air freight, to get product in, so we're starting to see improvement in our gross margins in our branded business as a result of the reduced freight logistics costs, and really not a headwind at all, as all the efforts we're making in our branded business, from a sourcing perspective and a design and development perspective, and a cost estimating perspective, we expect good gross margin expansion going forward from that perspective. Then, on the retail business, we really think that we're in a good position with all our branded partners and we don't see any headwinds there going forward.

Mimi Vaughn

The cost pressure that we've been facing has been around wages, and so a lot of the initiatives that we are talking about is to be able to make our use of labor more efficient. In our distribution centers, we've been adding automation and that has helped to bend the curve on just overall wage increases in our stores. We have spent a lot of time on store time studies, where we are looking to get much more efficient within our stores, take out the non-productive hours and shift the labor into selling, and we're seeing that pay some dividends. We've started on that work in Journeys and in Schuh, we are doubling down on our efforts there. But, that's where we're seeing a lot of the overall cost pressure for this year, that, with the working we're doing, we anticipate that we'll make progress in this area for the coming year.

Mantero Moreno-Cheek

Thank you, and best of luck in the rest of the quarter.

Mimi Vaughn

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Thank you.

Tom George

Thank you.

Operator

Thank you. At this time, I'll turn the floor back to Mimi for any closing remarks.

Mimi Vaughn

Thank you for joining us today, wishing everybody the best of the holiday season, and look forward to talking with you in the new year.

Operator

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

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