Genesco Inc.

Third Quarter Fiscal 2023 Conference Call

December 2, 2022

CORPORATE PARTICIPANTS

Darryl MacQuarrie, *Senior Director, FP&A*

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

Tom George, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Steve Marotta, *CL King*

Mitch Kummetz, *Seaport Research*

PRESENTATION

Operator

Good day everyone, and welcome to the Genesco Third Quarter Fiscal 2023 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 Third Quarter Fiscal 2023 results.

Participants on the call expect to make forward-looking statements reflecting their 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.

With me on the call today is Mimi Vaughn, Board Chair, President and Chief Executive Officer, who will begin our prepared remarks with an overview of the period and the progress we are making to drive the business; and Tom George, Chief Financial Officer, who will review the quarterly financials in more detail and provide guidance for Fiscal '23.

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

Mimi Vaughn

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

We are pleased with our overall results, particularly sales and gross margin performance. Against last year's record third quarter, we grew revenue 4% on a constant currency basis, achieving significant improvement over the first half of the year, and comps were up 3% with every business posting positive gains. At the same time, gross margins were better than we expected as we lapped last year's unusually strong gains.

The progress we have made with our footwear-focused strategy to increase digital penetration, strengthen consumer connections, grow our footwear brands and reshape our retail cost structure has put the Company in a better position to both outperform in favorable economic backdrops, like we experienced last year, and to effectively navigate the more difficult consumer and market conditions we are facing today.

The third quarter played out largely as we had anticipated with many consumers coming out to shop when there was a reason to buy and retreating to conserve cash during the in-between period. This was a real change from the strong selling environment a year ago when the back-to-school selling season extended into late September and October, driven by higher consumer savings levels and pent-up demand and students bought anything that was in stock and available.

Like they have since the beginning of the pandemic, our teams were prepared for whatever came their way and did an excellent job capturing demand when the consumer emerged and shopped. At the same time, the diversity of our multi-division business and consumer segments proved beneficial. Robust spending by shoes customers in the U.K. and J&M's more affluent customers in the U.S. drove healthy top line gains.

We entered the pandemic in a position of strength, navigated the heart of the pandemic well, and emerged stronger. That said, current market conditions presented some challenges that weighed on third quarter profitability, including the return to a more normalized markdown and promotional cadence, wage and operating cost inflation, and anniversarying some one-time major expense benefits. Overall, I'm pleased with our execution as we managed through the impact of all this.

Other key highlights of the third quarter, in addition to the revenue growth and sequential top line improvement, include both store and digital comps were: nicely positive, highlighting the strength of our omnichannel offering and channel choice we give consumers; digital sales, a key strategic growth priority, were up almost 75% compared to pre-pandemic levels, maintaining essentially all the pandemic growth representing 18% of retail sales and sustaining strong double-digit profitability; gross margin was better than expected as we did not partake in aggressive discounting despite an increasingly promotional environment in the U.S.; adjusted EPS of $1.65 compares to last year's level of $2.36, but represents a 24% increase pre-pandemic levels; and while at the same time investing in our business, we returned capital to shareholders, repurchasing about 3.5% of shares outstanding during the quarter.

Turning now to discuss each business, starting with retail, back-to-school is a major driver of Q3 sales for both Journeys and Schuh. After getting off to a slow start in late July, Journeys' sales sharply accelerated in August and early September as consumers reverted to more typical back-to-school buying behavior. Both fashion athletic and casual footwear sales grew as our expert Journeys merchants delivered compelling assortments that resonated with our teen consumer. Casual continued its run, outstripping the growth of fashion athletics. We did, however, see ongoing evidence of the Journeys consumer being

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squeezed by inflation and pressure on their wallet, making fewer trips to shop, trading down to more accessibly priced product, and pulling back on non-footwear add-on purchases. The breadth of this assortment, careful planning for this potential shift and strong vendor partnerships allows Journeys to meet the needs of this more budget-conscious consumer.

The relentless efforts of our store associates and positive in-stock inventory position drove better conversion and higher transaction size, as they made the most of customers crossing Journeys' lease line. Following a largely full price selling back-to-school, at the end of this key shopping event sales slowed later in the quarter. In addition, the business lapped very strong growth a year ago thanks in part to last year's incentive to shop early for Christmas beginning in October due to limited inventory availability and earlier holiday messaging.

One specific highlight of the third quarter was Journeys' double-digit digital growth fueled by effective use of paid search, paid social and a fleet of influencers that continued to drive Journeys' brand awareness. Importantly, research conducted during back-to-school and in November reaffirmed that the majority of Journeys' teen customers increasingly believe shoes are the most important part of an outfit, with Journeys maintaining its position as one of the top considered retailers for shoes.

Shifting to the U.K., Schuh built on its strong first half with a solid third quarter as sales increased on a constant currency basis against very strong gains a year ago. Like Journeys, Schuh's strength is identifying the right fashion trends and securing the right product and brands for its youth consumer. The fashion trends driving Schuh's business largely overlap with the ones driving Journeys'.

The quarter started with another good back-to-school, and despite strengthening U.K. economic headwinds, Schuh maintained its momentum, continuing to take share from competitors by out-assorting and out-executing. Overall, Schuh is benefiting from better access to higher-tiered product from several key brands, effective marketing strategies like the introduction of its loyalty program, high levels of customer engagement such as its student event, and Schuh's brand purpose pillars which are resonating with its youth consumer, all of which are helping Schuh perform well on a year-over-year basis despite the economic turbulence, exchange rate pressure, and lapping significant one-time gains.

Turning now to discuss our brands, we're excited about the potential of Johnson & Murphy and very pleased with the traction we're gaining as we reposition the brand for growth. Our efforts to reimagine J&M for a more casual, more comfortable post-pandemic environment are delivering strong results with Q3 sales up nearly 20% and operating income that doubled compared to last year. The growth has been broad-based across channels with stores up 14%, online up 20%, and wholesale up 31%. Intensified consumer marketing and fresh new innovative product with technology differentiating J&M's offerings are reaching new customers and fueling market share gains.

Casual and casual athletics now make up most of J&M's footwear assortment, and as a measure of the progress we've made, dress footwear for which J&M is best known now makes up less than 10% of overall sales. This strategic shift has allowed us to position the brand to now reach a broader and younger consumer base, all while maintaining and building upon our premium footwear positioning and price point. We are excited about the new direction we've set. We were able to double the size of the brand in its last reset, and believe we now have the opportunity to do that again.

Finishing our brand review, solid consumer demand for licensed brand footwear was overshadowed by pressure on gross margins and expenses due to high freight expense and elevated inventory levels in the channels we serve. We believe these issues are temporary, affecting this year and early next, and remain positive on the longer-term outlook for this business.

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Now a brief update on ESG. Following the issuance of our inaugural ESG report, we continue to get credit for the forward strides we're making. With this foundation, and now that we've set the baseline for Genesco's global carbon footprint, we'll be working over the next several months to create a strategic road map for key priorities where we aspire to make further improvements. We're advancing these efforts and will share our continued progress.

Moving on to the current quarter, we experienced a very noticeable slowdown in traffic and sales in the last few weeks of October that carried into the first few weeks of November. Not only were we up against last year's early holiday shopping, but warmer weather hampered the start of fall and winter merchandise sales. Sales have improved since and we are pleased with the results over Black Friday weekend; however, as we consider the remainder of the quarter, we recognize the consumer pressured by inflation is having to make harder choices on where they spend their money, and while we believe our inventories are at appropriate levels, given the heightened promotional environment, we have increased our planned promotional activity at Journeys and elsewhere over the holidays in order to be competitive as consumers search for bargains.

We're well prepared for the important holiday season with trend-right assortments and exciting marketing campaigns, and our teams will expend every effort to capture consumer demand. The promotional activity we've added should also give sales a boost. That said, the choppiness in traffic and sales, the additional promotions and continued pressure we've been experiencing will weigh on results. Taking all this into account, we're adjusting our fourth quarter expectations. Based on this more conservative outlook, we're lowering our full-year guidance range to be between $5.50 and $5.90 per share. Somewhere close to the middle of the range is where we anticipate the year will come in.

This change in outlook is reflective of the current environment. We believe this is a moment in time and the strength of our brands and retail concepts and the strategies we're executing will show their resilience through these challenges. Driving this are the six strategic pillars that emphasize continued investment in digital and omnichannel, deepening our consumer insights, driving product innovation, and reshaping our cost base. I'd like to highlight some of the actions that were taken to strengthen our business as we move forward through Q4 and into next year.

First, despite near-term consumer headwinds, we're excited about our ability to grow sales both online and in stores. After absorbing much of the pandemic's digital growth, we'll begin adding to these gains by utilizing our first-party data, the ability to now better personalize marketing, and leveraging the new customer growth we have achieved. With digital at almost 20% of our retail business and its healthy double-digit profitability, returning to historical levels of double-digit growth contributes meaningfully.

Starting with J&M last year, Schuh earlier this year, and Journeys planned for next year, we're in early days of launching our loyalty and affinity programs which are outperforming expectations, driving increases in repurchase frequency and higher average order values for members. Going forward, we'll capitalize on the strong recruitment base to excite and engage our loyal customers to induce them to concentrate bigger shares of their wallets with us, creating a tailwind for growth. We also plan to launch new omnichannel services in North America next year, another catalyst for additional growth. We will be adding to our store fleet for the first time in some time, opening in strategic places like off-mall locations for Journeys. Finally, the shift in J&M's assortment into casual apparel and footwear categories, combined with our increased marketing investments and campaigns, will drive our branded platform and J&M to new levels of sales and profits.

Second, while we're increasing promotions to meet the competitive environment this holiday season, we believe the promotional environment will begin to normalize next year as industry inventories become more appropriately balanced with consumer demand. Given the substantial declines in marine freight costs and the reduced reliance on air freight to overcome supply chain delays, we also expect to benefit

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from these lower shipping costs as we sell through inventory purchase this year and alleviate pressure on cost of goods in our branded business.

Finally, I'd like to touch on the operating costs that have been weighing on our P&L. We recognize that we must aggressively double down on our ongoing efforts to battle the wage and other cost inflation we're experiencing. The considerable leverage we've been gaining in occupancy and other areas has not been enough to overcome these headwinds. We are committed to addressing our cost base and will have more to share, which Tom will discuss later.

In summary, our businesses are in strong and differentiated strategic positions in the consumer marketplace. We compete in growing and fragmented markets, providing a runway for growth and opportunities to take market share. Within our existing consumer segments, we can increase awareness, convert shoppers to buyers, build loyalty, and drive repeat purchases. Our business has proven to be resilient during past recessions and the actions we successfully took during the pandemic provide a road-tested playbook. Despite the current environment, our consumer ultimately wants new and fresh product and the core fashion brands we carry.

To close, I'd like to acknowledge and thank our terrific people for their outstanding work and diligent efforts throughout this challenging environment. The work you've done has positioned us well for the holiday season, and I look forward to continued success with you as we finish out Fiscal '23.

I will now turn the call over to Tom.

Tom George

Thanks Mimi.

As Mimi said, we were pleased with our results for the quarter. We have solid capabilities to not only navigate the current challenging environment, but also we are confident in the ability of our footwear-focused strategy to drive strong results over time.

Consolidated revenue in Q3 was $604 million, up 1% to last year. On a constant currency basis, sales were up 4% and we had gains in all divisions. Schuh's dollar sales were below last year due to significant foreign exchange pressure from the strengthening dollar. On a comp basis, Journeys' total comps were up 1%, Schuh total comps increased 3%, driven by stores, and J&M continued its strength versus last year in both stores and digital, with total comps up 20%. Overall, total Company comps were up 3% for the quarter, with store comps up 2% and direct comps up 6%.

We ended the quarter with 30 fewer stores versus a year ago as we optimize our store footprint and drive productivity in our existing store estate. Digital sales were up almost 75% versus pre-pandemic levels. Ecommerce sales accounted for 18% of total retail, which was flat to last year and up from 11% in Fiscal Year '20. Wholesale was up for both J&M and licensed brands, as J&M continues to have success with new product offerings in key accounts.

Gross margins were down 50 basis points to last year, but were ahead of our expectations, driven by better results for Journeys and J&M. The main driver of the year-over-year change was the return to a more normal promotional environment compared to essentially none last year and increased freight expense. By business, Journeys' gross margin was down 40 basis points. Schuh's gross margin was down 80 basis points pressured also by greater than expected additions to its loyalty program. New members used their sign-up coupons right away, but ultimately the program should provide long-term growth, as we already have seen new members purchase shoes at a greater frequency than non-members. J&M's gross margin was down 160 basis points, driven by freight logistics cost pressures and

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an unfavorable inventory reserve reversal comparison, and licensed brands' gross margin was down 100 basis points pressured by incremental freight and logistics costs. All together, increased freight and logistics costs put approximately 55 basis points or $3.3 million of pressure on overall Q3 gross margin.

Adjusted SG&A expense was 44.3%, 270 basis points more than last year. It is worth noting that last year we received meaningful one-time COVID rent credits and government relief during the quarter to the tune of $7 million. Without last year's one-time credits, total SG&A deleveraged 150 basis points, driven by marketing, selling and other salary costs and surface freight expense, while occupancy cost declined and leveraged 80 basis points.

Regarding wage pressure, the competitive environment and legislated increases in minimum or living wages continue to pressure our store selling salaries and warehouse costs. In addition, the competitive environment for talent in general is increasing our other compensation costs, especially for IT talent to drive our initiatives. In summary, deleverage from these expenses more than offset leverage from occupancy and lower performance-based compensation.

Rent credits aside, we are achieving great success driving occupancy costs lower. Across the Company for the first nine months of Fiscal '23, we have negotiated 168 lease renewals and achieved a 16% reduction in straight-line rent expense with a shorter average term of roughly 2.5 years. This is on top of 192 renewals with a 17% rent reduction last year. With over 48% of our fleet coming up for renewal in the next couple years, this continues to remain a key opportunity and priority.

In summary, third quarter adjusted operating income was $26.3 million, a 4.4% operating margin compared to $45.2 million or 7.5% last year and 5% pre pandemic. Additional freight and logistics costs this year and the significant COVID rent and other credit benefit last year had a major impact, while a more normal markdown environment, marketing investments and the competitive wage pressures for talent drove the remaining impact on these results. For the quarter, our adjusted non-GAAP tax rate was 19.6%, which compares to 22.7% last year.

This all resulted in adjusted diluted earnings per share of $1.65 for the quarter, which compares to $2.36 last year and $1.33 in Fiscal '20. Our share count is down roughly 15% from pre-pandemic levels.

Turning now to capital allocation and the balance sheet, our net cash position at the end of Q3 was negative $57 million, a $324 million decrease versus last year. During the past 12 months, our strong cash balances enabled us not only to reinvest in our business for growth, but also to accomplish the formidable task of re-inventorying, and at the same time returning significant capital to shareholders. In terms of specifics, we purchased roughly $200 million of net inventory and $125 million of our outstanding shares during the past year.

While net inventories are up $200 million year-over-year, we believe it's more meaningful to compare this year's inventory levels to pre-pandemic Q3 Fiscal '20. Since outsized stimulus demand and supply chain limitations resulted in unusually low inventories last year, inventories in Q3 this year were $563 million, 19% higher than Fiscal '20 on a quarterly sales increase of 12%. We are pleased with the quality of this inventory, will adjust receipts as necessary going forward, and do not believe we will need to take incremental markdowns to right-size inventory levels.

Over the last year, we repurchased 2.2 million shares or almost 15% of outstanding shares at an average price of $56.28. More recently, for the third quarter we repurchased $21 million of stock at an average price of $46.01 and now have $34 million remaining on our current authorization.

Capital expenditures in Q3 were $11 million and depreciation and amortization was $11 million. We opened three stores and closed 11 during the third quarter, to end the quarter with 1,404 total stores. As

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a reminder, traditionally the period between the end of Q3 and to the commencement of the holidays reflects our lowest cash levels of the year, as this is the time for our peak working capital requirements. Looking out to the end of the fiscal year, we expect to end the year with ample cash and a balance sheet that remains a strategic asset.

Finally, as we have discussed, rising operating costs have significantly pressured our business this year despite our ongoing cost reduction efforts. After leveraging expenses last year, we are facing cost pressures in the current inflationary environment across our business, but particularly, as I mentioned, in areas related to attracting and keeping talent and wages in our stores, distribution centers, and corporate center. We must also continue to invest in marketing, data analytics and technology in order to drive sales and advance several strategic growth initiatives.

In the recent past, we have implemented effective multi-year cost reduction programs to reshape our cost structure and reinvest for growth. We are looking to thoughtfully identify further cost savings, efficiency and automation opportunities, and we will have more to share when we report our Q4 results.

Now turning to guidance, as I've said, we are confident in our longer-term strategy, but in the near term we continue to see the impact inflation is having on consumer discretionary spending. While third quarter sales came in above our projections and the end of November was stronger than the beginning of the month, we think it is prudent to take a more cautious view on Q4 given the current environment.

We now expect full-year Fiscal '23 revenues to be 1% to 2% below last year's levels with the midpoint of the range similar to our prior guidance. Also note that this guidance reflects a roughly $12 million negative foreign currency impact versus our previous guidance.

In addition to a more conservative sales outlook for Q4, we are experiencing increased pressure of gross margins due to the heightened promotional activity and excess inventory in the market, which is forcing us to become more promotional ourselves. As a result, we now expect full-year gross margins to be down between 100 and 110 basis points versus last year.

Finally, the take-down in our Q4 sales projection will cause us to deleverage SG&A expenses slightly more than we expected, resulting in deleverage on a full-year basis in the range of 100 to 120 basis points versus last year, but still showing improvement over pre-pandemic levels. This all leads to an expected operating margin a little bit above 4% for the fiscal year and EPS ranging from $5.50 to $5.90. Again, somewhere close to the middle of the range is our best expectation of where we will land. Note that this new guidance is based on a weighted average share count of approximately 12.7 million for the full year versus our prior estimate of 12.9 million, reflecting our share repurchase activity during the third quarter, but assumes no additional share repurchases for the fiscal year. Furthermore, we expect some improvement in the tax rate at 25%, down from the prior guidance of 26%.

While we acknowledge the challenges facing consumers these days, and the headwinds those pose in the near term, we remain excited about the future of our business and the strategy we are driving forward.

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

Operator

Thank you, and our first question is from the line of Steve Marotta with CL King. Please proceed with your questions.

Steve Marotta

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Good morning Mimi, Tom and Darryl. Thank you for taking my question.

I wanted to ask you a little bit about consumer buying patterns in the fourth quarter. You mentioned that this year was a typical back-to-school. And being the armchair contrarian that I am, if the fourth quarter is a normal historical holiday shopping pattern, and obviously November, then, would be difficult based on the compare, and with evidence that Black Friday and Cyber Week was a little bit better, is it possible that December could be a little bit better than what people are expecting as well?

Mimi Vaughn

Steve, thanks for your question.

Just to talk a bit about the consumer patterns that we've seen and to give you some of our thoughts on how we thought about the remaining months in the quarter, listen. Back-to-school was more typical. What we have been seeing is that when there's a reason for the consumer to shop, particularly the Journeys consumer, they turn out and they do shop, and they're conserving cash in between.

There is no question that we believe that the consumer is waiting this year to shop much closer to the holidays; Christmas and Hanukkah are in the same time frame this year. And I will remind you, as you appropriately called out, that we were running on fumes after selling out in November and we had limited receipts in December and January, and so we will see.

I think that we were pleased with the overall performance over Black Friday. We know that we've got a great in-stock inventory position that, when the consumer comes out to shop, that we will be able to provide them with the merchandise they are interested in. Our sales teams are ready to go and can really make the sales happen when the consumer arrives, as we did over Black Friday weekend; but given the choppiness that we have seen, we thought it was just appropriate to be conservative for December and January.

One other thing I would call out for January is that last year we actually didn't have any product to be able to provide for returns and exchanges, and this year we will be in a position to do that. Christmas is on a Sunday this year, and there should be a good week of selling afterwards, and so we're ready. We've got the inventory, we've got the people, and we will see where we go.

Steve Marotta

That's very helpful.

When we think a little bit about next year, and I know you're not providing guidance, understandably so, but can you talk a little bit about how you're thinking about next year and planning for next year? There's obviously lots of chatter within the industry that from a wholesale standpoint, wholesale orders are down pretty significantly year-over-year for the first half and then we'll see what happens for second half. Are you planning similarly? Do you think it's going to be a tail of two halves? Then I have one follow-up as well, thanks.

Mimi Vaughn

Sure. You know, the way we are thinking about it is, right now there is a large amount of inventory in the system, and we are seeing a lot of promotional activity and therefore everyone is pulling back on receipts and trying to work through the inventory that is in the system. We do think that that will continue somewhat into the patterns of next year; but overall as we are thinking about our ability to grow sales, both online and in stores, which is a very large part of our business, growth will be really important for us.

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We have an opportunity to convert consumers who are aware of Journeys but aren't buyers. With digital at almost 20% of our business, we plan to drive digital, with its healthy double-digit profitability returning to historical levels of growth will really drive our business. We are in early innings for loyalty. We talked a little bit about the success we've having with Schuh and with the J&M loyalty program, and so we're introducing loyalty for Journeys next year. We will have a little bit of growth in our store base, and right now our Johnson & Murphy business is really doing well with continued growth in casual apparel and our footwear category, so we're really planning to drive growth next year, and that will be a key overall.

We do a lot of business in back-to-school and holiday, and so that will be a time when some of the cost pressures from additional freight expense and some of the pressures that we've been seeing ought to abate, and so it's going to be a real focus in the front part of the year and then a real opportunity during back-to-school and Christmas.

Steve Marotta

That's very helpful as well.

Tom alluded to potential realignment from an expense standpoint. Can you talk a little bit about, I know you probably don't want to get into magnitude at the moment, but the impact, when it could have the impact? Could it be rather immediate, is this going to be multi-year? Is it something that could move the needle next year? If you could just talk a little bit about it again without providing any sort of detail that you can't do right now. Thanks.

Mimi Vaughn

We have a really good track record of reducing costs. I'll hand it to Tom in a minute. Most recently during the pandemic, we cut costs dramatically and quickly when we had to do that. Rent is our big expense. We've had a multi-year effort with a lot of success year after year of reducing our overall rent expense, and selling salaries really have been a journey. We've done a lot to use analytics and data to be able to create efficiency, really, and put the right ratio of our store people to customers and drive efficiency that way, and so we think there will be opportunity there that we'll get into.

I think we've got a great track record and we will certainly get after the cost pressure that we've been seeing.

Tom George

Yes Steve, let me reinforce that we do have a good record of reducing cost in the Company. We've got good discipline around that. We've been looking at this closely with this tsunami, so to speak, of inflation that's hit us, especially around talent retention, being able to attract and retain talent. We've got increased costs in our DCs on an hourly basis, increased costs in our selling salaries in the store, increased IT costs to be able to execute on the digital initiatives, but we feel good we're going to be able to identify some costs and be able to take some cost out of the business going forward. Let us get through holiday here and spend some more time with it, and when we report our fourth quarter earnings, we'll be able to give everybody some more detail around the order of magnitude and the cadence.

Steve Marotta

Very helpful, thank you very much.

Mimi Vaughn

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Thank you Steve.

Tom George

Thanks Steve.

Operator

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

Mitch Kummetz

Yes, thank for taking my questions. I've got three as well; I'll just do them one by one.

First question is really a follow-up to Steve's first question. It sounds like November was tough, although you're not giving us a number, so I guess my question is, does the Q4, implied Q4 sales outlook assume sequential improvement over the balance of the quarter as you lap easier comparisons, or are you basically kind of taking where you are for November and extrapolating that over the balance of the quarter?

Mimi Vaughn

Yes, so I will let Tom talk a little bit about that, but Mitch, we clearly see again that when there is a reason to shop, that that Journeys consumer comes out, and so again we are optimistic. We saw that happen during back-to-school, we had tremendous results in August when there was a reason to shop. We had very good, solid results when there was a reason to shop over Black Friday weekend, and so we are looking again, we believe, that Christmas and the holidays will be more back-end loaded.

What we have done is we've taken the trend in the back part of November, with the pick-up in the back part of November, and we've actually been more conservative than what that trend was running, just given some of the choppiness. I did highlight with Steve's question that we think there is opportunity for Christmas week; there is an extra day of selling. We do think there is opportunity after into January as well with a good in-stock inventory position, that we ought to be able to drive sales.

Tom George

Yes, I think Mitch, I'll just add to that.

We did see the back half of November, including Black Friday, we saw some improvement in our business, but with a good roughly two thirds of the business to go in the quarter, we think, you know, we should be more cautious with that much business to go, so we've been more cautious in the trend going forward.

Mimi points out some of the differences relative to last year, relative to pre pandemic. We feel that there is opportunity there potentially to outperform that, but it's early, there's a lot of business to deliver here, so we think it's best to take a more cautious view on the balance of the quarter at this point in time.

Mitch Kummetz

Okay, that's helpful.

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Then a question on the wage inflation, the pressures there. I'm just wondering if you see any potential light at the end of the tunnel there. I mean, I don't know that minimum wage rates are going to go down. But maybe if we end up in a slightly less competitive labor market, could that potentially help that situation? Then I have one last question.

Mimi Vaughn

On wages, we have been really—you know, I think the biggest pressure of late has been just competitive pressure. I think we all came out of the pandemic and were looking to hire people because our businesses—to drive our business, and we have seen some good abatement in that overall pressure to bring talent on board in the last few months. Just given where the economy is right now, we think there should be less competitive pressure going forward.

I'll turn that to Tom to add anything else.

Tom George

I think what I'd add is we see opportunities for further automation, both in the stores and in our distribution centers as well, so obviously that's going to require some capital. But at the same time, we see that's going to be able to improve some of our operating expense lines going forward. I mean, it's going to take a while to implement that, and I'll give you some more details around that when we do the fourth quarter, but I think there's some light at the end of the tunnel there.

Mitch Kummetz

Okay, thanks. Then last question, just on the gross margin, hopefully my math is correct, and Tom, correct me if it isn't, but for Q4, I back into a gross margin rate of, like, 46.5 to 46.9, which is down a couple hundred bps year-over-year, but it's actually pretty flattish on a three-year basis. I'm wondering, just given how difficult the environment is, I totally get that you would expect more promotions year over year, are you basically thinking that promotional levels are going to be similar to kind of pre-COVID, or is there reason to think it would be worse than that, and if so, why wouldn't the implied Q4 gross margin not be worse?

Tom George

Yes, I think the way you're looking at the implied gross margin for Q4 is consistent with what we're thinking about. We are assuming that the fourth quarter this year from a promotional perspective will be similar to the fourth quarter of our Fiscal Year End '20.

Mitch Kummetz

Got it, okay. All right, thanks for that, and good luck for holiday.

Tom George

Right, thank you.

Mimi Vaughn

All right, thanks everybody for joining. I think there are no more questions in the queue, and we look forward to talking with you on our next call.

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Tom George

Thank you.

Operator

This will conclude today's call. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.

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