THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GCO - Q3 2020 Genesco Inc Earnings Call

EVENT DATE/TIME: DECEMBER 06, 2019 / 1:30PM GMT

CORPORATE PARTICIPANTS

David Slater *Genesco Inc. - VP of Financial Planning & Analysis and IR*

Melvin G. Tucker *Genesco Inc. - Senior VP & CFO*

Mimi Eckel Vaughn *Genesco Inc. - Senior VP, COO & Director*

Robert J. Dennis *Genesco Inc. - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Janine M. Stichter *Jefferies LLC, Research Division - Equity Analyst*

Jonathan Robert Komp *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Mitchel John Kummetz *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*

Samuel Marc Poser *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco Third Quarter Fiscal 2020 Conference Call. Just a reminder, today's call is being recorded.

I will now turn the call over to Dave Slater, Vice President of FP&A and Investor Relations. Please go ahead, sir.

David Slater - *Genesco Inc. - VP of Financial Planning & Analysis and IR*

Good morning, everyone, and thank you for joining us to discuss our third quarter 2020 results and our full year fiscal 2020 outlook. With me on the call today are Bob Dennis, Genesco's Chairman, President and Chief Executive Officer; Mimi Vaughn, our Chief Operating Officer; and Mel Tucker, our Chief Financial Officer.

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

Participants also expect to refer to certain adjusted financial measures during the call. All non-GAAP financial measures referred to in the prepared remarks are reconciled to their GAAP counterparts in the attachments to this morning's press release and in the schedules available on the company's homepage under Investor Relations in the quarterly earnings section. I want to remind everyone, we have posted a presentation summarizing our results and guidance that is accessible on our website.

As another reminder, we filed an 8-K in connection with our Q1 earnings release that contains adjusted non-GAAP fiscal '19 results by quarter for last year restated to reflect the sale of Lids Sports Group, as if we never owned the business per GAAP requirements. You can find this on our website as well.

Now I'd like to turn it over to Bob.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Thanks, Dave. As you saw from our earnings release issued earlier this morning, we delivered strong third quarter results that increased our full year guidance. Before we get into a discussion of our recent performance and increased outlook, I want to take a few moments to touch on the leadership transition we announced last month. I couldn't be more pleased with the Board's decision to appoint Mimi as my successor as President and CEO. Since joining Genesco over 16 years ago, Mimi has excelled in each of her leadership roles, including as Head of Corporate Strategy, Head of Shared Services, Chief Financial Officer, and most recently, Chief Operating Officer. For selection as the 12th President and CEO in Genesco's 95-year history is a further step in our succession planning process, which began several years ago. As we outlined in the November 4 press release, Mimi will assume her new role on February 2, 2020, the first day of our new fiscal year. On top of this, Mimi was elected to the company's Board of Directors effectively October 30. Both appointments are incredibly well deserved. I look forward to supporting Mimi and the entire management team in my role as Executive Chairman as we work together to continue the positive momentum we have built since divesting Lids in February and turn our attention to delivering further value with our footwear-focused strategy. Mimi will discuss the strategic direction and the specific initiatives related to the strategy in more detail on our next call.

For now, let me walk through the highlights from the third quarter. From a high level, our results significantly exceeded expectations as continued strength in Journeys, coupled with much improved performance from Schuh, easily offset headwinds from a challenging quarter for Johnston & Murphy. The improvement in EPS above our expectations in Q3 was driven by better operating performance and not by additional share buybacks. Consolidated comparable sales increased 3% on top of our most difficult 2-year stack comp comparison to date this year. This marked our 10th consecutive quarter of positive comp sales. Importantly, our overall brick-and-mortar performance was positive for the ninth quarter in a row, posting a gain despite ongoing traffic challenges. Meanwhile, e-commerce comps increased almost 20%, adding to its strong multiyear run. Total sales for the company would have been up, but for the impact of lower U.K. and Canadian exchange rates. The solid comp combined with higher gross margins across all divisions resulted in an improvement in profitability.

On an adjusted basis, earnings per share were $1.33 compared with $0.97 in the third quarter last year. Our third quarter and year-to-date performance highlights the success we were having as a more focused company on the sale of Lids as well as the benefit of our aggressive share repurchase activity.

Looking at the performance of each of our footwear businesses in the third quarter. For Journeys, the quarter was driven by another successful Back-to-School as full price selling and fashion athletic styles, coupled with an extended handle season, contributed to strong results. The Journeys team remains at the top of its game as the team definitely navigates the ongoing fashion rotation that is an inherent part of the business. We are pleased with the balance within Journeys assortment as both fashion athletic and casual brands contributed to its results in Q3, further strengthening Journeys' market position. Both store and e-commerce comps at Journeys were solidly positive, which led to a 4% comp increase on top of last year's strong gain. Similar to recent quarters, great expense control along with strong sales allowed for expense leverage.

Moving over to the U.K. Schuh delivered much stronger Back-to-School results than we were anticipating, given the prolonged softness in consumer demand for apparel and footwear. Comps increased 3% for the quarter with fashion boots and fashion athletic driving the business. Leaning heavily into their advanced omni-channel capabilities, Schuh was able to capitalize on an accelerated shift in the U.K. market to online spending, which more than compensated for ongoing softness in store performance. We believe the hard work of the Schuh team and actions under our 20-point plan aimed at addressing profitability and enhancing Schuh's standing with the consumer and with the brands itself are yielding positive results. For the moment, it appears there is some improvement in the U.K. consumer appetite for footwear as well. That said, in the immediate term, we are still cautious in our outlook due to the continued uncertainty about Brexit, the upcoming election and the potential impact on consumer confidence as well as the protracted deterioration in High Street traffic.

On our last call, we spoke about one of Schuh's most critical initiatives. We're attacking Schuh's fixed cost structure with a strong focus on rent reduction. We must renegotiate rents for Schuh's store fleet in order to improve profitability following the ongoing declines in High Street and mall foot traffic, making these rents uneconomical. Schuh is working with an outside adviser and has engaged with every one of its landlord partners. And while we are making progress, we must make substantially more progress on this front as we head into the end of the year and achieve not only reductions but more flexible rent structures to weather the current retail and consumer volatility.

Back to the U.S., Johnson & Murphy posted its first negative comp in many quarters as comparable sales declined 6% in Q3 on top of a double-digit increase in the year ago period. Following a flattish comp performance in the first half of the year, J&M did not overcome both the challenging comparisons and the impact of unseasonably warm temperatures and -- that it had on traffic and low footwear demand during the quarter. The team drove conversion in spite of lower traffic and reacted quickly to the difficult top line trend, reducing both inventory and variable SG&A expense versus a year ago. Last year's introduction of premium sport casual footwear provided a tremendous boost to J&M's results. This year's footwear introductions have not had the same impact, which became even more apparent in Q3 with a more difficult environment. While we have seen some bounce back in Q4 so far in a footwear market currently dominated by some sameness, the team is working diligently on product innovation and new product introductions for next year to inject greater freshness into the assortment. We believe this will better position and differentiate J&M among its footwear competitors and will drive greater traffic and consumption for the brand.

And finally, Licensed Brands delivered a better bottom line performance with meaningfully higher gross margins on lower sales. With a sizable cash flow generated both from operations last year and from the sale of the Lids business, we've been actively buying back stock opportunistically and returning capital to shareholders. Mel will cover buybacks in greater detail in his section.

Now to touch on fourth quarter to date. With the later Thanksgiving this year, visibility into the precise trend is more limited due to the offsets. However, our Q4 results to date are tracking to our projections. For the Black Friday weekend itself, starting on Thursday through Cyber Monday and comparing with the same holiday period last year, consolidated comps were up nicely, with all of our businesses delivering positive results. Both e-commerce bookings and store comps were positive. However, our increases, like many other retailers who have reported out, were heavily weighted to online. Schuh's strong performance was especially noteworthy over the Black Friday weekend.

Based on our strong Q3 results and positive start to Q4, we are raising our full year outlook. We now expect earnings per share for fiscal '20 to be somewhere between $4.10 and $4.40. And as always, we do regard this guidance as a range, but somewhere close to the middle reflects our best current belief of where we might come out, which represents an increase of about 30% over fiscal '19 earnings of $3.28.

It has been a busy year so far with the sale of Lids kicking things off in February, followed by the ongoing work separating that business from our operations. A noteworthy callout is that we have recently sold the former Lids headquarters at a gain to carrying value. As we've made progress separating from Lids, we've been concentrating on execution and are capitalizing on the benefits of being a more focused company. We are pleased with the initial progress we've made on this front and believe there are significant opportunities with further improvement over the longer term.

And with that, let me turn the call over to Mel to give more specifics on the financials and guidance.

Melvin G. Tucker - *Genesco Inc. - Senior VP & CFO*

Thanks, Bob. Good morning, everyone. As Bob said, we were very pleased with our third quarter performance. Our year-over-year profit improvement was led by Journeys with Schuh and Licensed Brands each contributing to the improved results. Q3 exceeded our expectations with adjusted EPS growing considerably to $1.33 from $0.97 in the prior year. The year-over-year improvement was driven by the benefit of share repurchases, solid comps and improved gross margins, partially offset by some SG&A deleverage.

Q3 consolidated revenue was a little under last year's level at $537 million. Excluding the impact of lower exchange rates, revenue would have been up $2 million compared to last year. Consolidated comps were up 3%, with store comps up 1% and direct comps up 19%. Positive comps were offset to some extent by lower wholesale sales and the impact from closed stores. Direct as a percent of total retail sales was 11.4% in Q3, up 180 basis points, accelerating the great progress we are making driving e-commerce. Our e-commerce business is profitable, and we continue to invest at attractive returns to better serve our customer in this channel.

Journeys posted a solid comp increase of 4% on top of 9% last year, and its toughest 2-year stack comp to date of 13%, marking its 10th consecutive quarter of increases, highlighted by both positive store comps and strong double-digit e-commerce growth.

Q3 continues the trend of increases in conversion and increases in transaction size, which drove a solid comp in spite of less store traffic. Schuh posted a solid comp of 3% versus a negative 4% a year ago. On a 2-year stack basis, Schuh's comp performance has improved sequentially each quarter this year. Not including the impact of foreign exchange and its exit from the German market, Schuh's total sales would have been up 3% for the quarter.

E-commerce posted its highest double-digit growth year-to-date during the quarter but was partially offset by negative store comps. Store traffic continues to decline as overall traffic on the High Street has been negatively impacted by the shift in sales from bricks-and-mortar to the online channel. Improved conversion and a higher average selling price mitigated negative store traffic.

J&M posted a negative 6% comp for the quarter on top of its most challenging comp comparison from last year of positive 10% and a 2-year stack of positive 9%. Sales were hampered by lower store traffic and a lower average transaction size, but strong in-store execution drove an increase in conversion. Positive results in J&M apparel sales were a highlight for the quarter.

In total, Q3 consolidated gross margin increased 70 basis points to 49.2%. Journeys' gross margin increased 50 basis points due to higher initial margins and lower markdowns. Schuh's gross margin improved 20 basis points due to higher margins on both sale and full price product. At J&M, gross margin was up 120 basis points due to a higher mix of direct-to-consumer sales and improved margins in its wholesale business as J&M liquidated merchandise in its women's category last year. Licensed Brands' gross margin improved 150 basis points due to more direct-to-consumer shipments and less closeout product.

SG&A expense was up about 1%, excluding bonus as we continue to benefit from the numerous cost-saving initiatives we implemented throughout fiscal '19 and in this fiscal year. Nonetheless, total adjusted SG&A expense deleveraged 60 basis points to 44.2%, driven primarily by the negative comp at J&M and increased selling salaries across the balance of our businesses. In addition, we experienced some stranded cost headwinds from the divestiture of Lids. The increased selling salaries reflect headwinds from minimum and living wage increases and our investment in wages to increase retention. We have successfully reduced total hours over the last several quarters by focusing staffing hours on high-traffic periods, but the wage increases outstripped the reduction in hours this quarter.

Selling salary increases were partially offset by rent savings as we continue to have, in partnership with our landlords, very good success with renewals and rent reductions. We have negotiated 117 renewals year-to-date and achieved a 13% reduction in cash rent or 9% on a straight-line basis in the U.S. This was on top of a 15% cash rent reduction or 8% on a straight-line basis for almost 170 renewals last year. These renewals are shorter term, providing flexibility in our cost structure, which, for this year, averaged approximately 3 years.

We are making good progress towards our stated goal to identify and eliminate stranded costs as a result of Lids divestiture. In total, we had approximately $12 million of expenses that were allocated or shared with Lids, primarily in areas like finance, IT, HR and the call center. The process of restating our fiscal '19 financials without Lids removed approximately $9 million of these costs from last year's numbers. To the extent that we are not able to actually eliminate these stranded costs to the level reflected in our restated results, we would risk deleverage. So for those of you modeling our business, removal of the first $9 million of stranded cost does not reflect a reduction to last year's expense levels as they have already been removed in our restatement. Over time, we do expect to eliminate all $9 million of stranded costs, but had not accomplished this during Q3. We anticipate that some stranded costs will remain in the fourth quarter as well, although we are working diligently to remove these costs.

In addition to major effects around stranded costs, we are taking further profit enhancement actions to reduce costs in areas such as rent, payroll hours and supply chain. In total, we aim to identify by the end of the year, up to an additional $15 million of costs across our organization for the second round of profit enhancement program.

In summary, third quarter's adjusted operating income, $26.7 million versus $26.3 million a year ago. Adjusted operating margin increased 10 basis points to 5%. Adjusted operating income dollars increased for all but our J&M division and was offset by higher corporate bonuses.

Turning to the balance sheet. Inventory is higher than last year but appropriate to expected demand. We believe we've invested in the right categories, particularly at Journeys, to set ourselves up for success in the all-important holiday selling season. Q3 total inventory was up 4% on quarterly sales that were flat. Journeys' inventory was up 9% on a sales increase of 3%. Last year, Journeys' inventory was lighter than we would have liked as we were chasing inventory, driven by strong comp performances up 10% and 9% in Q2 and Q3 last year, respectively. Schuh's inventory was up 5% on a sales increase of 2% on a constant currency basis. J&M's inventory was down 10% on sales that were down 9%. The J&M team is doing a good job managing inventory down in response to challenging sales results.

Capital expenditures were $8 million and depreciation and amortization was $12 million. We continue to return capital to shareholders. As of last Friday, November 29, we had repurchased approximately 300,000 shares for a total of $11 million since the end of August, exhausting the remaining $1 million of the $100 million authorization the Board approved in Q1, and purchasing another $10 million from the $100 million authorization the Board approved in Q3. Altogether, since last December, we have repurchased over 5.5 million shares across 3 authorizations for a total of $235 million. This represents a 28% reduction in the average shares outstanding in the last fiscal year. We ended the quarter with $56 million in cash versus $53 million a year ago and no U.S. dollar borrowings.

Moving on to guidance for fiscal '20. With our better-than-expected Q3 performance and a solid start to Q4 in this all-important holiday selling season, we are taking our EPS guidance range up to $4.10 to $4.40 compared to our previous guidance range of $3.80 to $4.20. Something close to the middle of this new range reflects our current belief of where we might come out for the year, which implies year-over-year improvement of about 30%. This new guidance range now also includes the estimated negative impact of tariffs for this year. We now expect consolidated sales for the year to range from flat to up 1% as our year-to-date results enable us to narrow the bottom end of our range. We still expect consolidated comps to range from up 2% to up 3%, and for store comps underlying our guidance to range from up 1% to up 2%. We continue to be conservative in our overall comp assumption for the rest of the year due to more difficult stack comparisons for Journeys in particular. We are now more optimistic about Schuh's comp given the recent performance, but have a little more cautious outlook for J&M for the balance of the year.

With respect to Brexit, the situation has evolved since we last provided an update on our Q2 call in September. The U.K.'s exit from the European Union has been postponed again and a general election is set for December 12. This is obviously an evolving situation with a potential for some consumer disruption that we've taken into an account in our guidance.

With only a few months left, we have improved visibility into our real estate transactions for fiscal '20. We now plan to open around 15 new stores, still mostly Journeys and Journeys Kidz. We still plan to close around 40 stores if we can't get the right rent deals or a slight decrease in square footage for the third year in a row.

Based upon our Q3 performance and the updated Q4 forecast, we now expect gross margins to be up 40 to 60 basis points in total, an increase from our prior estimate of up 30 to 50 basis points with improvement coming from all of our businesses. Our full year guidance now includes the estimated negative impact from tariffs of a little less than $0.05 in Q4. With a low store comp and the timing of eliminating stranded costs, we still expect SG&A will delever, but we now expect deleverage in the 30 to 40 basis point range, narrowing from our prior estimate of 30 to 50 basis points. We now expect capital expenditures will be around $40 million, which includes spending on digital and omni-channel capabilities while investing to refresh our store fleet. We still estimate depreciation and amortization at $50 million. We continue to estimate the fiscal '20 tax rate at approximately 28% and an average of approximately 15.7 million shares will be outstanding for this year, assuming no stock buybacks beyond what we've made today.

Also assuming additional share repurchase -- assuming no additional share repurchase for the remainder of the year, our weighted-average shares outstanding for next year, fiscal '21, will be approximately 14.4 million shares providing an EPS increase of approximately 9%.

Now I'll turn the call over to Mimi, who will cover some of the key initiatives our businesses are executing this holiday season and provide an update on the progress we're making on our footwear-focused strategy.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & Director*

Thanks, Mel. As we've discussed, it's been a good start to the holidays with solid results for the Black Friday, Cyber Monday period. We feel good about our current momentum and believe we are well prepared to capitalize on the ramp in consumer spending leading up to Christmas. While the calendar is compressed with 6 fewer days between Thanksgiving and Christmas compared to last year, we are confident in our team's ability to execute, and we don't foresee the shorter holiday season materially affecting our business.

I'll highlight elements of our plans for driving traffic and sales during our busiest selling season starting with Journeys. We kicked off last week's official start to the holidays with a 360-degree seasonal lifestyle brand campaign across both owned and paid channels over the Black Friday weekend and into Cyber week. Instead of using traditional model, this campaign features local micro influencers and creatives in their teens and their early 20s, including 2 Journeys store employees from the Portland and Mount Hood, Oregon area. The campaign includes a deep spend within social channels most relevant to our teen consumer and features exclusive rich content that showcases Journeys' varied and compelling product assortment.

At the same time, over Black Friday weekend, we ran a targeted promotional campaign with more robust messaging across stores, e-mail, SMS, web and social media channels. The results were very encouraging across the board.

Mobile continues to dominate how our customer shops with us online at Journeys as almost 90% of our online traffic now comes through a mobile device. Mobile has experienced a sharp spike in traffic year-to-date, thanks to efficient spending across various advertising channels, which we plan to capitalize on throughout the holiday season.

In addition, with the unplugging of Lids from the customer service center shared with Journeys, the team is now 100% dedicated to serving the Journeys customer. This has allowed for better training and led to lower turnover of rents enabling us to provide a much improved customer service experience. We are seeing better call center metrics compared to the same period last year, including faster customer connect times, quicker handle times and lower abandon rates.

Meanwhile, we're utilizing, for the first time across our entire store network for this holiday, newly introduced workforce management data to optimize store staffing levels with the goal of improving employee to customer ratios during peak sales times. These tools create significant value by redistributing and moving hours where needed based on store traffic, so our associates can deliver an exceptional full-service experience at every customer, which has driven higher conversion rates all year. We have seen benefits from this system, in particular, on Fridays, Saturdays and Sunday so far, which are peak traffic times during the week, and we anticipate even greater benefit during these busy holiday times when converting every customer really counts. In addition, Journeys is seeing the benefits from the decision to accelerate holiday hiring time lines to allow for the additional training of seasonal employees.

Finally, Journeys accelerated its use of cross-stocking this year to get inventory in and back out of the warehouse and into stores much more quickly. With its customized e-commerce picking module in its second year of operation, this investment is paying dividends as Journeys shipped more than 60% of its web orders from the distribution center. Shipping directly from the DC is the most effective way to process e-com orders, and it allows us to keep a stronger inventory position in our small footprint stores where we have the opportunity to sell it while freeing up our store associates to focus on serving customers instead of packing orders to ship.

So on the other side of the Atlantic, Schuh has received a lot of positive attention for its recently rolled out Sell Your Soles campaign that rewards customers with a GBP 5 discount on their purchase when they bring in a pair of old shoes for recycling. The sustainability and charitable aspects of this program are resonating with industry press and consumers appear eager to contribute to a good cause while also helping out their wallets. This program is a key part of Schuh's overall sustainability efforts, which is one of its purpose pillars.

Schuh is also offering a Pay in 3 installments option for both stores and online purchases this holiday and has automated several aspects of customer service queries, making it easier for customers to get their questions answered more efficiently.

Finally, to drive traffic to its stores and website, Johnston & Murphy dropped 1 million catalogs at homes the Monday before Thanksgiving and will drop 1 million more to maximize traffic in the final weekends of the shopping season. Customers shopping online will discover a redesigned website aimed at improving the mobile shopping experience, which showcases larger product images and allows for additional payment methods as well. In addition, J&M offers e-gifting, where a gift giver can select an item for a recipient without having to know his or her size. And to give further gift-giving incentives, J&M has eliminated a minimum purchase for free shipping, too.

Shifting gears now, I plan to share with you more detail behind our footwear-focused strategy and initiatives on our next earnings call. Our strong results this year illustrate the powerful footwear platform we've built that combines both operating niche footwear retail businesses and owning footwear brands. Our abilities to curate and rotate the leading fashion brands desired by our customers is what separates us from competition and allows us to occupy the strong market positions in the third-party retail businesses we operate today. And as we think about the future, it's the opportunities to grow the branded side of our business, both owned and Licensed Brands that gives us additional robust growth prospects. We're extremely excited about this next chapter for Genesco, and I look forward to sharing with you what our team has been working on.

So to conclude now, Bob and I would like to express our thanks and acknowledge our employees throughout our company for their enthusiasm and their hard work, which we see all year round, but are especially appreciative of in this busy holiday selling season. In particular, we want to call out our employees in our stores, in the field, in our distribution centers and in our call centers that put in extra hours so we can help our customers find that perfect item they're looking for and provide wonderful customer service along the way. I saw so many examples of this over Black Friday weekend of our people delighting our customers. We truly have exceptional people across our businesses. Our thanks to you for all you do for Genesco. Happy holidays, everyone, and we look forward to talking with you on our next call.

Operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Janine Stichter with Jefferies.

Janine M. Stichter - *Jefferies LLC, Research Division - Equity Analyst*

Congrats on the great results. Question for Mimi. You went through a lot of different initiatives that seem like they've come more into focus since you sold Lids and to more fully focus on the footwear business. Can you kind of bucket, which ones you think are really the most needle moving? And it seems like you're already seeing some benefits from some of these initiatives. So just give us some perspective on how we should think about what are the most meaningful drivers of how you can impact the business now that you're squarely focused on footwear.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & Director*

Sure, Janine. We've got a really rich set of synergies and platforms when we look across the size of our business. We like the businesses that we're in. We like the platform that combines both operating footwear, retail businesses and owning footwear brands, and there's really a lot of synergy across this platform, even between the retail side and the branded side of our businesses. And these synergies come in lots of forms. It's product and vendor synergies that we've been capitalizing on this year, and it is platforms that we can leverage. And I think some of the things that we are most excited about this year are really our digital initiatives. We have had a chance to double down on our focus on digital. We have been executing across the platforms that we have, updating our websites, really giving the opportunity for our customers to have a better experience online, and that has paid really nice dividends.

Janine M. Stichter - *Jefferies LLC, Research Division - Equity Analyst*

Great. That's helpful. And just on Journeys, it sounds like the strength you're seeing there is pretty broad, but can you give some perspective just maybe by category? What you're seeing boots versus casual versus athletic? And how we should think about the fourth quarter performance?

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

This is Bob. I'll start and hand it to Mimi. As you know, we're very sensitive about giving too much color on our current trend lines for competitive reasons. The big news on Journeys, I think, is that it is broad-based. And so coming into the holiday, we were benefiting from the fact that we continue to see customers buy products for the current season and wear-it-now kind of mentality hands sandals a long run, and that was probably aided by the weather. As we've gone into this -- we've gone through Back-to-School and into this holiday season, we're broadly assorted, we're seeing a lot of activity in boots. The athletic sector is strong. We have some very strong casual brands. And so I think there's always puts and takes, and so things are going up and going down, but we're overall very pleased with the assortment.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & Director*

Yes. I think I would just echo what Bob said is that we are nicely diversified across brands and franchises. There's a lot of newness in what we have been selling fashion as always rotating. Our merchants are excited about what they're seeing as far as the early reads on boots. And we continue to sell nicely on both the athletic and the casual side of our business. It's the casual side that has given us a lot of encouragement lately.

Operator

We'll take our next question from Jonathan Komp with Baird.

Jonathan Robert Komp - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Maybe just a follow-up on Journeys. I know for a while, you've been talking about kind of the more difficult multiyear comparisons and the business really hasn't slowed as you cycled the tougher 2-year comp. So maybe just any more perspective as you get further into cycling the higher 2-year comps and the sustainability for Journeys as you look forward.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & Director*

So we are really pleased with the Journeys' performance. And if you look on a 2-year stack basis across the 4 quarters of this year, it was a plus 9% to a plus 11% to a plus 13%, and then it goes up even more for the fourth quarter. But against that, Journeys continues to execute. And we think it's a measure of just a very deep understanding of that teen customer. Journeys has had tremendous success over the past couple of decades of reading and understanding and evolving with that teen customer and then does just a tremendous job of rotating the assortment to whatever that teen desires. And so we believe that it's really a measure of gaining share in the marketplace that, that profound understanding of the consumer, coupled with a great reading of the trends, allows us to continue to put up really solid results.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

It's Bob. I'd point back to something Mimi said before, particularly with respect to Journeys, is the investments in digital have helped a lot. And so as we have driven our digital presence that has been driving sales on that side of the business, we -- as you know, we've refitted our DC to accommodate a faster delivery and a more efficient delivery of digital orders, that's feeding us really well. The marketing that we've been doing on social, some of which Mimi just described, is also really helping us. We know that our catalog continues to be a driver of traffic in the stores as well as digital sales. So the marketing efforts we're making are paying off. So I think it's a -- there's a big virtuous circle of all of these things connecting with a great assortment.

Jonathan Robert Komp - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Great. And just following up on the sales projections for this quarter, and this is maybe across the banners. But just wanted to maybe clarify the color you gave quarter-to-date. I know it's noisy with the shifts. But to get to the comps guidance that you gave, 1% to 2% overall for the fourth quarter, are you assuming catch-up yet in the weeks ahead, given some of the shifts? Or just trying to get color on how you're planning the business for the quarter.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Well, we haven't given a comp number for the quarter because as we noted, it's -- there's this huge offset in the comps. So what our teams did was did their very best job given the offsets of estimating what their trends would be by week by day. And as we said on the script, we're tracking to that projection. So we feel comfortable. Obviously, the biggest chunk of December is yet to come. We've got a huge week out there about 10 days away. So we're comfortable with the trend we're on right now, and we think we're well prepared.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & Director*

Yes. I think that's right. I think that we are tracking to the overall guidance that we gave, and we were pleased by the 5 days of the Thanksgiving weekend, and it is -- it's only 5 days. And as Bob said, there's a lot to come. But each one of our businesses delivered positive results on a comparable period year-over-year. We were especially pleased to see really strong results at Schuh, Journeys was strong, Johnson & Murphy was positive after a challenging third quarter. So we think we're set to go into the holiday.

Jonathan Robert Komp - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Great. And then maybe just last one, if I could. Just on the stranded costs and the cost savings you're planning. Were you signaling kind of any change in the ability to achieve those or in the timing that you expect to work down some of those costs? I just want to clarify the comments you gave around on the cost side.

Melvin G. Tucker - *Genesco Inc. - Senior VP & CFO*

So on stranded costs, we had identified there was about $12 million for the costs that were allocated and shared, and when we did our restatement in fiscal '19, we were required to eliminate those costs as if they never existed. So in order for us to not deleverage, we have to remove a minimum of $9 million worth of cost. And what we saw in Q3 was some deleverage because we had not gotten all those costs out, and we still see some of that deleverage in our Q4 guidance as well. But we do have a line of sight to get all of the cost out. And really, I think, this quarter, the hard work to kind of remove that is happening. We'll have a much better view of when those costs are completely out of the system on our next call. But I think right now, I feel comfortable that we have a path to get there. This is just a question of when. We do expect some deleverage in Q4 as a consequence.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & Director*

Yes. One positive for that is that Bob mentioned that we sold the Lids headquarters building, and that was something that we were anticipating was going to weigh on our expenses. So that will be positive moving forward.

Operator

We'll take our next question from Sam Poser with Susquehanna. (Operator Instructions)

Samuel Marc Poser - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

I just have -- I have a few. One, just some cleanups. The corporate and other for the quarter was up fairly significantly. Can you give us some color on that?

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & Director*

Yes. We can give some color on that. And some of that was what Mel just talked about in terms of the additional costs. This is the first quarter that we have been unplugged from Lids completely. And so you see some stranded costs show up in those overall numbers. And there are higher corporate bonuses than there were last year just because of the great performance that we've had so far. It's put us in a position to accrue some more bonuses.

Samuel Marc Poser - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

And then I just want to -- within the preliminary look into next year that you provided with the approximately 9% increase in EPS, can we assume that the majority of that EPS growth would come out of the expense -- out of -- we know it would be expense leverage or less SG&A growth? Is that a fair way to think about it?

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Well, let's be clear about something. We did not give any guidance for next year. What we did do -- let me finish, please. What we did do is we stated what the share count will be on average for the rest -- for that year if we don't buy any more shares back. And the reason that we're doing that is when you go through a year where you buy shares all through the year, as we did this year, you're constantly changing your share count. And so what we want to get out there is what is the best estimate of the share count for next year and then what is -- how does that compare to the average share count for this year and that means a 9% difference. So put it another way, Sam, if you -- if we repeated precisely last -- this year's operating income to next year, right, so no change in anything other than share count, it's a 9% increase in EPS. We're not saying that we're guiding to a 9% increase in EPS. We're sizing the difference in the share count for you. Does that make sense, sir?

Samuel Marc Poser - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Okay. And you expect the share count next year, one more time, I just want to make sure I get it all correct, to approximately what?

Melvin G. Tucker - *Genesco Inc. - Senior VP & CFO*

So we expect the average shares outstanding for next year to be 14.4 million shares. This year is 15.6%. So it's significant reduction.

Operator

We will take our next question from Mitch Kummetz with Pivotal Research.

Mitchel John Kummetz - *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*

And Bob, Mimi -- Mimi congrats on both of you with the leadership transition. I think I'm a little more jealous of Bob though. And then let me start with -- actually let me just start with Sam and then John's questions, kind of. Just trying to understand the cost side and really more thinking about next year or maybe you don't want to go there yet. But -- so when I think about stranded costs, if I go from fiscal '20 to '21, how much does that come down? When I think about like bonuses, obviously, Journeys is generally well next year. This is, I would guess, an abnormally good year for Journeys, and we sort of assume a normal year for Journeys or a normal year for corporate next year. How much can you save on the bonus side? I'm just trying to understand how -- and again, I'm talking about next year, maybe you don't want to go there. But I'm just trying to understand how those things might flow into next year.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

So let me lead off by saying, you're right, we don't want to go into next year yet because we really haven't done the heavy lifting on our budgeting of the year. And as you know, we make so much money in the fourth quarter that without seeing this fourth quarter, it's really hard to roll forward. We gave the share count thing because we thought as you guys tend to start to model up the year that, that would be useful to you, and so we laid that out for you. The one thing that you called out, which I think there is some truth, we are going to have a solid bonus year here this year. And so there's -- that's valid and -- but we're not guiding to what next years will look like.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & Director*

Yes. So just to add on to that. We, over the last couple of years, have been building back from 0 bonuses. And so last year was a really good bonus year for Journeys. And because it was good last year, this year is -- there's not a big buildup in the Journeys bonus. But from corporate, corporate was impacted by also owning the Lids business last year. So for this year, for the first time, corporate is able to benefit from the consolidated results for the business. And so I would really think of it, Mitch, as going from no bonuses to building back a usual level of bonus into the business. And depending on where -- how we perform next year, we'll either maintain those same levels, we hope, or go up because our bonus plan is based on overall improvement.

As far as stranded costs, I'll just echo what Mel said and pass it to Mel if there's anything additional for him to say about it. But just look carefully. Stranded costs, because of the peculiarities of the accounting, means that those costs were taking out of fiscal -- our fiscal '19 results. And so we've got to pedal fast just to stay even. And so when Mel talks about taking out $9 million worth of cost, that's just for us to equal last year's level. If we do better than that, then we will have some pickup going forward, but the opportunity to do a lot better than that is fairly limited. So right now, we're focused on just being able to match what we've already done, and if we can do somewhat better than that, then that will be reflected in our statement next year.

Melvin G. Tucker - *Genesco Inc. - Senior VP & CFO*

The only thing I would say and add to that was just the -- given where we are in the planning process, we're right in the middle of rolling everything up, and I think it would be premature to guide to a number. And I feel good about the fact that we'll get the stranded cost out but the timing and then all the other puts and takes that are going on with wage pressure and cut savings, until we roll everything up, I don't think we're going to have a really good, clear view. So I just would pause and tell you that for Q4, we'll be ready to give you a good view of next year in terms of total cost.

Mitchel John Kummetz - *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*

Got it. Okay. A couple of other questions. On Schuh, I'm just trying to understand how conservative you guys are being with the guidance. Because obviously, you're cautious on Brexit, High Street traffic, all that. But Bob, I think a comment you made was that Schuh was -- the performance was noteworthy for Back-to-School. And Mel, I know you talked about some stack comps. When I look at Q3, Schuh was a minus 1% stack. If I look at your guidance for Q4, the high end of the guidance, sort of, implies a minus 7% to your stack. So I'm just trying to -- feels like you're being really conservative there. And I kind of understand that, but I'm just trying to under -- maybe you could just add a little bit more.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Mitch, Schuh really rebounded nicely. And it's very exciting for us to see that. We're very pleased with the team. They've put a lot of work into making this happen. They've made some changes and tough decisions, and we really seem to be getting some credit for that. But it was 1 quarter, and we've got an election coming up. And so 1 quarter isn't enough for us to kind of say we have basically, fundamentally changed the trend. So we're going to stay there. And I guess -- are we being cautious? I guess time is going to tell whether we are being cautious. We think we're being prudent, which would be, sort of, a different wording of it. But we're very excited about the fact that they have been able to show that. The other thing I'll just point out is the competition in the U.K. is evolving as well. And so part of the benefit that we're seeing is possibly related to competitive pressures on others elsewhere in the marketplace. The big box guys, in particular, have struggled, and they have a meaningful footwear business. So there's lots going on, and we thought it's smart, given the unusual dynamics politically over there, in particular, to stick with what we have given to you.

Mimi Eckel Vaughn - *Genesco Inc. - Senior VP, COO & Director*

Yes. Over time, we do think Schuh is a good business of -- from really great technology and a great customer service proposition, and their leadership team is really strong, recently augmented by a new Head of Product, and we also are seeing really nice success from the leadership that we've put in place over some of the marketing efforts. So over time, we anticipate that there will be consolidation in the market, and the 20-point plan is designed to improve near-term profitability and also to position Schuh well to take advantage of that market consolidation. So we expect that, that will play out over time and that's why the precise timing of which we don't specifically know yet.

Mitchel John Kummetz - *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*

And then lastly, on J&M. Bob, you mentioned you've seen some bounce back quarter to date. And obviously, you guys are guiding to a stronger comp in Q4 than what you posted in Q3. So I was hoping you just elaborate on kind of what bounce back you've seen there.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Yes. So J&M is still a model where they reset the store for fall. So if you look at what happened in the third quarter, they were reset for fall when we were seeing those -- at least in Nashville, those 85-degree days when it wasn't supposed to be that warm, and we could see that in the numbers. So if you look at the cadence of their business. They suffered mildly in the period where it was really warm, and they improved a bit with the weather. And then as we noted, fourth quarter has continued to show a little more strength than how the third quarter played out. There's a little bit of a sameness in the business. The athletic bottoms and a variety of others has become the norm in the business and what we need to do now is to dig in and continue to innovate around that look. The other thing I'll just point out is, when you get to the fourth quarter, Johnston & Murphy does a higher percentage of business in their non-footwear, and so -- and that was not as affected by -- some of the weather-related stuff was affected, but the non-footwear part of the assortment has performed well, and so we get the benefit of that as we go through the fourth quarter.

Operator

And this does conclude today's question-and-answer session. At this time, I would like to turn the call back over to Bob Dennis for any additional or closing remarks.

Robert J. Dennis - *Genesco Inc. - Chairman, President & CEO*

Well, thank you, everyone, for joining us. And our next call will be somewhere early March. And I, like you, look forward to hearing it. Thank you for joining us.

Operator

And this does conclude today's call. Thank you for your participation. You may now disconnect.
