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Genesco, Inc.

Third Quarter Fiscal 2021 Results Conference Call

December 4, 2020

C O R P O R A T E P A R T I C I P A N T S

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

C O N F E R E N C E C A L L P A R T I C I P A N T S

Steve Marotta, *C.L. King*

Janine Stichter, *Jefferies*

Jonathan Komp, *Robert W. Baird & Co.*

Sam Poser, *Susquehanna Financial Group*

Mitch Kummetz, *Pivotal Research Group*

P R E S E N T A T I O N

Operator

Good day, everyone, and welcome to the Genesco Third Quarter Fiscal 2021 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

Good morning, everyone, and thank you for joining us to discuss our Third Quarter Fiscal 2021 Results. With me on the call today is Mimi Vaughn, our Board Chair, President and Chief Executive 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 and 10-Q filings, for some of the factors, including the impact of COVID-19, 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 that is accessible on our website.

We hope you're all staying safe and healthy.

Now, I'd like to turn it over to Mimi to discuss the quarter and the current outlook for the holiday season.

Mimi Vaughn

Thank you, Dave. Good morning, everyone. Thanks for joining us today.

As we announced earlier this week, we are pleased to report that Tom George has been appointed Interim Chief Financial Officer of Genesco, replacing Mel Tucker, who stepped down last month. Tom has almost 30 years of CFO experience and deep roots in brands and retail, most recently in footwear at Decker Brands. We look forward to adding Tom's valuable expertise to support the continued growth of our business and very much look forward to Tom joining our Leadership Team.

Tom's appointment is effective December 14, and in the interim, I have assumed the responsibilities of Chief Financial Officer, working closely with Dave, Brent Baxter, our Chief Accounting Officer, and Matt Johnson, our Treasurer, who, together, have formed the office of the CFO. These leaders, and the rest of our talented Finance Team, are ensuring that the transition will be seamless. Dave will return later in the call to review the financials.

I'm incredibly pleased with how well our organization performed during the third quarter, as we navigated through a back-to-school season like none other. It's a privilege to lead a team that is facing the challenges brought by COVID-19 head on, serving our consumers extremely well through digital and omnichannel, making progress on our strategic initiatives, and quickly returning the Company to profitability. Through all this, we continue to operate with protocols to ensure our highest priority, the health and safety of our people and customers.

As you'll hear today, Journeys and Schuh, our businesses serving teens and young adults, that represent a large majority of our revenue, have both performed well under recent pressure. This speaks to the strong strategic market positions both concepts have built over time and their ability to capitalize on the accelerated shift to online spending. In today's channel-less world, where there are no barriers to shopping anywhere the consumer wants, Journeys and Schuh's recent performance underscores the tremendous loyalty they've developed with their customers and the compelling propositions they offer to new customers. Johnston & Murphy enjoys a strong strategic position, with great heritage, as well. However, the pandemic has hit J&M's dressier competitive space harder, extending the timeframe for turning this business around. All in all, our teams executed with excellence, managing their businesses well, as they reacted to rapidly changing dynamics during the quarter.

In the U.S., there was nothing normal about the cadence of back-to-school. The selling season, that's usually marked by a sharp acceleration in weekly sales starting in late July and running through Labor Day, did not pack the punch that it usually does, as school districts across the country delayed or suspended the return to in-person learning. As we expected, we did see an extension of the selling season through September and into October. However, in total, back-to-school was down year-over-year and more heavily tilted to online. Meanwhile, back-to-school timing in the U.K. was consistent with historical patterns, but far more consumers shopped online for their school needs than ever before.

Stores were open for about 95% of the possible days in the quarter, compared to about 70% during the second quarter. While we continue to face traffic levels that are down well into the double-digits, our store teams are driving record levels of consumer conversions that help to materially offset this headwind.

Our businesses online, on the other hand, experienced strong gains in both traffic and conversion. We've said before our e-commerce sales were nicely profitable prior to the pandemic, and as we reap benefits of the many investments we've made, e-com is driving even greater profitability. New customers continue to deliver increased volumes, as new website visitors were up almost 40%, driving an almost 60% in new customer purchases.

The combination of these drivers led to a total revenue decrease of 11% year-over-year. This result was better than we expected, due mainly to stronger sales at Journeys, and represents a meaningful improvement from last quarter's 20% decline. The drop in store volume was partially offset by another strong quarter of digital growth, with comps up over 60%.

Thanks to decisive cost-cutting actions early in the outbreak, along with one-time benefits, such as rent abatements, total expenses were down a little more than revenue.

While gross margins were down compared to last year, due primarily to lower margins at J&M and a mix shift among our businesses, the drop improved sequentially from the second quarter, as less promotional activity at Schuh was necessary and Journeys' gross margins increased.

With sales and gross margin improving over last quarter, combined with increased profitability in our e-com channel, our bottom line swung solidly back into positive territory. The return to profitability fueled positive operating cash generation in the quarter. Equally encouraging was the health of our inventories, which were down more than 20%, allowing for fresh receipts of holiday merchandise.

In addition, the significant effort we invested with our landlord partners seeking rent abatements during the time our stores were closed paid dividends, and will bring even greater benefit next quarter. We appreciate our landlord partners' willingness to find mutually beneficial solutions and help to expeditiously reach conclusions with those discussions we have not yet concluded.

But, turning now to discuss each business in more detail, Journeys' third quarter results are influenced heavily by back-to-school. With more than two-thirds of elementary, middle and high school students attending school only virtually to begin the year, the quarter got off to a difficult start. Same store sales were down double digits in August, although e-commerce remained strong. The business hit an inflection point in early September as comparisons began to ease, accelerated significantly over the remainder of the month, and remained strong in October, as we captured our fair share of late back-to-school demand. While we were not able to fully make up for the lost volume in August, we were encouraged that store comps were nicely positive in both September and October, and e-commerce growth was even stronger than earlier in the quarter.

Comfort continued to be the fashion choice with the pandemic, and Journeys' offering of casual product resonated strongly with consumers. While teens always had a big complement of fashion athletic footwear in their closets, when fashions swings toward non-athletic, or what we call casual footwear, Journeys is especially well positioned among its competition to deliver this assortment. This spring, a range of comfortable sandals and other casual products sold through well. This fall, our consumers' appetite for boots began early and more robustly in the season than we have seen in many years. While the casual part of Journeys' assortment has been gaining ground over fashion athletic all year, Q3 delivered the larges quarterly growth so far. These gains have been especially pronounced in women's and kids, as we've seen throughout the year.

On the other side of the Atlantic, back-to-school at Schuh unfolded similarly to previous years, with schools starting on time and most students returning to in-person learning. However, in terms of consumer digital behavior, it was more extreme, as significantly more back-to-school spending shifted online in the U.K. With its best-in-class digital capabilities, Schuh was ideally positioned to capitalize on this digital shift and capture the vast majority of lost store volume through digital sales. E-commerce generated almost 45% of Schuh's sales in the quarter, even with most stores being open. While store traffic was still down considerably, back-to-school gave consumers a reason to shop and helped drive traffic increases—decreases to less negative levels. The blend of better store and much better online sales allowed Schuh to gain market share during the quarter.

With positive comps in total and only a slight decline in year-over-year revenue from closed stores, coupled with cost savings, Schuh delivered a solid year-over-year operating profit increase, a noteworthy achievement under difficult conditions. With less competitive discounting pressure and more scarcity in supply of the brands it sells, Schuh pulled back significantly on promotional activity versus the second quarter, which helped performance, as well. Like Journeys, Schuh's casual assortment gained ground over its fashion athletic assortment, with boot sales driving a good portion of the pickup.

While performance improved from the second to the third quarter with the introduction of its fall assortment, Johnston & Murphy continues to find itself in a tough environment. Its customer has fewer reasons to shop, with many continuing to work from home and most large social gatherings and events postponed or cancelled. In addition to store traffic being down over 50% for the quarter, some of J&M's airport and street locations have yet to reopen, which further impacted retail sales. A bright spot was boot sales, which began selling earlier in the season this year.

While J&M historically has been known for its dressier product, the team initiated work years ago to evolve Johnston & Murphy into a full lifestyle brand, with a range of footwear and apparel offerings from dressier to more casual. Highlighting the traction we've already made, casual and casual athletic represented about 60% of footwear during our last fiscal year, and apparel and accessories drove 40% of total sales.

Looking forward to the coming year, J&M has focused 90% of new product development on the expansion of its casual offering, to include casual athletic, leisure, rugged outdoor, and performance, which follows upon its highly successful re-entry into golf this spring. Leading these efforts is a new Head of Product Development, who joined J&M earlier this year, and brings a successful track record developing casual brands.

As the J&M customer returns to work and socializing, which we hope, with the recent medical advances, will be sooner than later, J&M's assortment will be ready for the post-pandemic lifestyle.

Turning now to the current quarter, we believe we have the right assortments and are ready for this holiday season. That said, consumer demand has been very different this year due to the pandemic and its impact on consumer behavior and the economy, which has caused us to take a conservative approach to our outlook.

In November, we faced headwinds from the re-closure of stores in North America and the U.K., as we carefully monitor and adhere to each country's and region's health requirements, and as a result, were closed for more than 10% of the possible operating days in the month. The biggest impact was in England and Ireland, where we had the best potential to make up some of these sales online, and most stores have reopened at this time.

Following strong gains in September and October, sales moderated and November got off to a slower start against robust comparisons a year ago. We were encouraged to see trends improve quite a bit around mid-month, providing the business with good momentum heading into Black Friday. For the Black Friday weekend itself, as expected, traffic was more subdued than usual. In spite of the choppiness, November sales were in line with our expectations, with an even heavier mix of digital versus store sales. Unlike prior years, most retail venues, and almost all of our stores, were closed on Thanksgiving Day.

The lion's share of the holiday season remains ahead of us. Outside of Cyber Week, digital sales are normally strongest during the earlier part of December. Our holiday store volume is typically concentrated in peak days and weeks between Thanksgiving and Christmas, and builds as the month progresses. Whenever and however the consumer decides to shop, we believe we're set up well to meet the demand, thanks to investments we've made in technology to drive growth across e-commerce and in our stores. With recent investments across mobile, our platforms, our websites and our distribution centers, we're prepared to handle what we anticipate will be record holiday digital volumes.

We've helped the customer adjust to the pandemic online by introducing services like Klarna at Journeys this summer, which is a pay-in-four-installments option, that is driving much larger transaction size, and offering technology on our websites that help customers determine what size is best to order.

With the ability to fulfill online orders via our distribution centers, or from any of our almost 1,500 store locations, we're well positioned to meet the surge in demand. Earlier this year, we upgraded our inventory locating and order brokering system to provide greater inventory accuracy, which is critical during this peak sales period. This system also allows functionalities, such as tiering stores, to protect inventory in our highest volume stores, enabling us to better to optimize sales across our network.

Even with the acceleration in online demand, the majority of holiday sales will still take place in our physical locations. Our stores become even greater strategic assets as we get closer to Christmas and customers don't want to risk online orders not arriving in time. This is the first year we'll have holiday comparison data in our workforce management system since we implemented it last year. This technology proved invaluable in managing the unusual traffic patterns during back-to-school and will enable us to rapidly add or remove labor to optimize store staffing levels during this unusual holiday season.

Thanks, in part, to changes in our compensation programs this year, we've reduced turnover meaningfully and have a more tenured, more experienced workforce on our sales floor for holiday, ready to provide the excellent customer service we're known for. This holiday will be about execution, something we do well, that will differentiate us among others.

We've also developed some terrific marketing campaigns, adjusted for what we've learned during the pandemic, to drive traffic and sales in this important holiday selling season. We've increased digital marketing spend substantially and are leveraging our CRM systems to inform our digital, social and other advertising efforts.

Thanks to our competitive strength, we've navigated well through extraordinary market conditions this year, including back-to-school and back-to-work uncertainty, and will continue to navigate through this unusual holiday season. As conditions normalize and we make further progress on our strategic initiatives, I am confident we'll emerge strong and be well positioned, with more than enough liquidity to take advantage of the many opportunities the pandemic has presented.

To conclude now, I'd like to recognize and to thank our employees across our Company, especially those in our stores and field, in our call centers and distribution centers, for your dedication, skill and ingenuity. We appreciate your efforts all year round, but really especially in this busy holiday season in the midst of the pandemic, when I'm certain you'll go the extra mile to delight our customers. I'm also so proud of the work our teams are doing in the communities we serve, including donating shoes and masks and supporting our diversity and inclusion initiatives.

Finally, we wish you and your families happiness and good health this holiday season.

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

David Slater

Thank you, Mimi.

We were very pleased, under the circumstances, with our performance in Q3, and the return to profitability against the backdrop of the pandemic. Q3's sequential improvements, compared to the prior two quarters in both revenue and gross margin, along with a lower tax rate and a small pickup in SG&A drove results back to nicely positive levels, with adjusted EPS of $0.85, compared to $1.33 last year.

For the third quarter, ending cash was $115 million, with borrowings of $33 million, for a net cash position of $82 million, just a little below second quarter's levels. We entered the quarter with $299 million of cash, and during the quarter operations generated $5 million, while we spent $8 million on capital projects and paid down $178 million in borrowings, using $184 million in total. In addition, we continue to have outstanding rent payables, as we remain in active negotiations with a number of our landlords.

While the business environment continues to be fluid, we are confident we have adequate liquidity to navigate these challenging times, and decided to pay down the majority of our revolver balances in both North America and the U.K. during the quarter. As a reminder, earlier this year, we increased our North American ABL borrowing capacity to $350 million, and in Q3, we secured a new £19 million U.K. facility, replacing an expiring one.

Turning to the specifics of the quarter, consolidated revenue was $479 million, down 11%, compared to last year, driven by lower back-to-school revenue, continued pressure at J&M, and the impact from store closures during the quarter. A robust e-commerce comp of 62% was offset by a decline in store revenue of 22%, driven by a comp decline of 18%, while our stores were closed for 5% of the possible operating days during the quarter. Digital sales increased to 21% of retail business from 11% last year.

Our comp policy removes any stores that are closed for seven consecutive days and, therefore, we are providing both overall and comp sales by business, to give better insight into performance.

Overall sales were down 10% for Journeys, with comp sales down 6%. While store traffic was down well into double-digits, much higher conversion and transaction size lifted Journeys' comps. At Schuh, overall sales were down 3%, while sales were up 1%. At J&M, overall sales were down 45% and comp sales were down 43%. At Licensed Brands, overall sales were up 91%, due to the Togast acquisition.

Consolidated gross margin was 47.1%, down 210 basis points from last year, 100 basis points of which was related to J&M. Consistent with last quarter, increased shipping to fulfill direct sales pressured the gross margin rate in all of our businesses, totaling 50 points of the total overall decline. Journey's gross margin increased 110 basis points, driven by lower markdowns. Schuh's gross margin decreased 320 basis points, more than half of which was due to increased e-com shipping expense, with the balance due to higher penetration of sale product. J&M's gross margin decrease of 1,370 basis points was due to more close-outs at wholesale, incremental inventory reserves and higher markdowns at retails. Finally, the combination of lower revenue at J&M, typically our highest gross margin rate of our businesses, and the revenue growth of Licensed Brands, typically our lowest gross margin rate, negatively impacted the overall rate mix.

Adjusted SG&A expenses down 11%, and as a percentage of sales levers 10 basis points to 44.1%, as we realized the collective benefits of our organization's disciplined actions to manage expenses and relief from government programs. The largest year-over-year savings came from occupancy costs, driven in large part by the execution of $7 million of rent abatements with our landlord partners who provided support for the times when stores were closed, and savings from the U.K. government programs which provide property tax relief. The next largest areas of savings came from bonus expense and the reduction in store selling salaries. Compensation expense benefited from reduced operating hours and government salary relief provided in Canada and the U.K.

Given the added cost of driving customer traffic to our stores and websites, our organization is intently focused on the strategic initiative of reshaping the cost structure. One of the most impactful areas has been a multi-year effort centered around occupancy costs, and we have achieved even greater traction this year with the pandemic.

In addition to the rent abatement savings, we have negotiated 58 renewals year to date and achieved a 28% reduction in cash rents, or 27% on a straight line basis in the U.S. This was on top of an 11% cash rent reduction, or 8% on a straight line basis, for 160 renewals last year. These renewals are for an even shorter term, averaging approximately one-and-a-half years, compared to the three-year average we saw last year. With almost a third of our fleet coming up for renewal in the next 24 months, we should make substantial progress here.

In summary, the third quarter's adjusted operating income was $13.9 million, versus last year's adjusted operating income of $26.7 million. Both Schuh and Licensed Brands generated operating income increases over last year, while Journeys was lower and J&M saw the largest year-over-year decline.

Our adjusted non-GAAP tax rate for the third quarter was 4%, reflecting the impact of foreign jurisdictions for which no income taxes were recorded.

Turning now to the balance sheet, Q3 total inventory was down 22% on sales that were down 11%. Journeys' inventory was down 28% on sales that were down 10%. Schuh's inventory was down 22%, with sales that were down 8% on a constant currency basis. Both Journeys and Schuh will continue to chase inventory during Q4, adding fresh merchandise, to increase these levels. J&M's inventory was down 3% on sales that were down 45%, reflecting the pack-and-hold inventory and a level of reserves we believe will be adequate to better right-size the current inventory levels.

Capital expenditures were $8 million, as our spend remains focused on digital and omnichannel, and depreciation and amortization was $11 million. We closed seven stores and opened seven during the quarter.

Given the continued uncertainty due to the pandemic, we are not providing guidance this quarter, but will share some current thoughts on the business going forward.

Q4 revenue usually is dependent upon performing well during what are traditionally the peak volume times of the holiday season. This year, we are more conservative about those consumer peaks materializing. Therefore, thinking about revenue, the year-over-year percentage decline in overall sales in the fourth quarter could be just a little bit more than the decline in the third quarter as a result of this. That said, if consumer demand is stronger during the peaks, we believe we are well positioned to capture our fair share, which would result in us exceeding these levels. This does not contemplate any additional store closures or restrictions beyond what we know today, which could be a bigger headwind. For the month of November, stores were open for about 88% of the possible operating days, and currently 97% of our stores are open. Stores have also been operating on more limited hours.

Gross margin rates, versus last year, for Q4 should be in the range of the decrease we saw in Q3. The Q3 headwinds of higher e-commerce penetration, J&M gross margin pressure and the negative impact from the mix businesses, we expect will persist into Q4.

We expect SG&A in Q4 to leverage quite a bit from last year's levels, as we continue to benefit from ongoing cost-reduction efforts and get some substantial help from rent abatements.

While the annual tax rate is expected to be approximately 18%, I'd like to highlight that in the fourth quarter, we expect it to be approximately 40%.

In conclusion, I would like to echo Mimi's comments on our amazing teams who have executed so admirably throughout this entire year. From store closings and re-openings, through an unprecedented back-to-school season, and now in the middle of the most important holiday season, the talent and perseverance shown during this challenging year leaves me with much to be admired and appreciated.

This completes our prepared remarks. At this time, I would like to turn the call back over to the Operator for questions.

Operator

Thank you. At this time, we'll now be conducting a question-and-answer session. If you would like to ask a question, please press star, one from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

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

Steve Marotta

Good morning, Mimi and Dave. Congratulations on the terrific execution in the third quarter.

Mimi Vaughn

Thank you.

Steve Marotta

I've got a couple of questions, and you've probably already incorporated this into what was a cursory fourth quarter guidance, but as far as increased shipping costs go during these peak weeks, can you talk a little bit about how that's affecting the margin, if you could potentially quantify that, or maybe you're avoiding it in some fashion? If you could talk to that costs specifically, that would be helpful.

Mimi Vaughn

Yes, let me sort of just start talking about our overall relationship, because we spend a lot of time focused on making sure that we could not only have enough shipping capacity—I know there's been a lot of conversation out there about various retailers hitting capacity limits—but we work with Federal Express. We actually changed over to a Federal Express relationship a number of years ago, and it's been really positive. We are not concerned about hit any caps. We indicated what volume we thought we would hit early, very early in the fall, and so far we've been executing well against that.

Certainly, we do have more shipping expense within our P&L because our digital penetration is so high, but part of what we are seeing is that we are increasingly more profitable, because we're amortizing the fixed expenses of digital. If we look at our last quarter, we more than doubled our e-commerce profitability because of that, and so we were in a good position to have the operating positive e-commerce economics prior to the pandemic, and what the pandemic has done has only enhanced our ability to gain profits out of this channel.

Dave, I don't if you'd add anything to that.

David Slater

Yes, I would say that, Steve, we're not likely to quantify the expected impact in Q4, but that is definitely something that will pressure our margin rate as we head into the holiday season.

Mimi Vaughn

Yes, it was 50 basis points in the third quarter, so we'll expect that the penetration won't quite be as high in the fourth quarter, because penetration is usually higher, anyway.

Steve Marotta

That's very helpful. Looking ahead to the next back-to-school season—you mentioned currently that comfort and casual are working well, that is no huge surprise—given how different this season is, is it possible—you don't have to tell me what they are, but is it possible to glean any changes, or potential future changes, in consumer fashion preferences that can be applied to next year and next back-to-school season …

Mimi Vaughn

Yes, sure.

Steve Marotta

… or is there so much noise, that it's simply impossible.

Mimi Vaughn

Well, there's definitely a lot of noise, and I think that's going to be the case for some time to come. I talked a bit about it in our prepared remarks, but our teen is known for going through fashion cycles, and over the years we've talked about lots of different fashion cycles, from surf to skate, to more Gothic, to you name it, and teens are constantly seeking something new. Our latest cycle that we've been talking about has been the retro athletic cycle, and that's been a terrific cycle, because there are lots of brands that have fantastic silhouettes in their portfolios that they've been able to pull out.

We saw earlier this year a bigger shift into casual, and we really define our world in terms of fashion athletic and casual. This year, we saw that sandals were really popular. Our kids are always wearing fashion athletic shoes, but the pandemic steered everybody toward comfort, and our teams found lots of nice product within the casual side of our assortment. We saw that not only in the summer, but we saw early boot sales in the fall, and so the combination of sandals and boots has put our casual as a percentage of our overall business at a much higher level. Will that stick? We'll see. But, typically, our teen consumer jumps on a trend, stays on that trend for a bit, and we typically have a fairly good sense as to opportunity and upside, and we see that we've got some nice upside in that casual trend. Journeys and Schuh are both uniquely positioned among competition out there. We're in a great position, where we can offer both fashion athletic and casual, and we will move toward whatever brands are most popular with our kids.

Steve Marotta

That's really helpful. Thank you.

Operator

The next question is from the line of Janine Stichter with Jefferies. Please proceed with your question.

Janine Stichter

Hi, good morning. I wanted to ask a little bit more about digital, maybe talk a little bit about some of the omnichannel investments you've been making over the years and how those tend to benefit you for holiday, and then if you could just remind us, by brands, where your digital penetration sits and where you see the most opportunity? Thank you.

Mimi Vaughn

Great. We've had a lot of success with our digital strategy this year. Last quarter, we were up 144%. This quarter, we were up over 60%. Over the last many years, we've been growing at a 15% rate, but last year we said we have an intent to grow digital even to a greater level, and we're growing at a 20% rate. We've invested across a number of areas, it's not just the front end systems, but it's really important to be able to have the right tools to drive traffic and to encourage conversion, and it's important to be investing in the infrastructure, in the order management systems. I talked a little bit about the upgrade we did to our inventory locating systems. It's important to be investing within our distribution centers, and we've made quite significant investments over the last few years in both the Journeys and Schuh distribution centers. We've put in a bespoke e-commerce picking model into Journeys last year. We will be putting in another bespoke—another one of those modules in the coming year. We're going to actually start work on that early in our next fiscal year. So, you roll all of that—and payment is another place. Payment is another opportunity. So, it's no one thing, it's no one silver bullet that allows digital to be successful, but it's investment across all of those areas, and our teams have been focused on each one of those.

Digital penetration by brand is the highest at Schuh. Pre-pandemic—and it's important to talk about pre-pandemic, because the pandemic has made comparisons challenging with openings and store closings, but pre-pandemic, Schuh's digital penetration was over 25%. In this last quarter, digital was almost 50% of their business, with some stores closed, followed by Johnston & Murphy. The Johnston & Murphy customer likes shopping online, likes taking advantage of perhaps not having to go into a retail venue. Then, Journeys follows up after that. I think that, perhaps, you know, we've seen just—we've seen high growth rates of new customers in both Journeys and Schuh throughout the pandemic. I think there is likely the largest opportunity in those businesses.

Janine Stichter

Great, thanks for all the color, and best of luck for holiday.

Mimi Vaughn

Thanks, Janine.

Operator

Our next question is from the line of Jonathan Komp with Baird. Please proceed with your questions.

Jonathan Komp

Yes, hi, good morning, and thank you. First, I just want to ask about the fourth quarter and the commentary you gave. When we think about the trends to date and November being in line with your expectations, is that signaling you're projecting forward a similar trend that you've seen in terms of top line growth, or are you expecting a change during the balance of the quarter?

Mimi Vaughn

Yes. So, Jon, we talked a bit about this, but what we have been seeing is an unusual set of behavior. In the back-to-school time period, we typically have spikes early on during back-to-school and then it trails off in September. We didn't see the spikes this year, but we saw really nice spikes in September and into October. We have also been seeing the consumer choosing to shop during the week, more so than on the weekend. So, what we saw, and what we saw over Black Friday, is that consumers shopped a lot in the week prior to Black Friday. Traffic, overall, was more subdued, and it was more subdued both in stores, and then even on Cyber Monday, because there had been so much shopping pulled earlier and pulled forward. We expect that that's going to happen through the course of the holiday season.

We have a number of really peak days, such as the Saturday before Christmas, and Black Friday is typically one of them, and what we expect to see is something similar to what we saw with back-to-school, where the peaks are not quite as high, but that the valleys get filled in. So, we are expecting—we added all of that up together in our forecast and said let's take a little bit off the peaks and lets fill in some of the valleys and came up with something that was fairly similar to where we had been in the third quarter, with hopefully more of our stores staying open.

I think one of the key things to point out is that it's going to be more online-oriented and we expect that volumes are going to build in stores as we get closer to Christmas. If consumers shop more robustly during those peaks, then it will be higher than what we have laid out, but if the peaks are more subdued, as we're expecting, then that's where we think we will end up.

Dave, will you add anything to that?

David Slater

Yes, you know, as Mimi indicated, November came in pretty close to where we thought it would be, and that included the impact of the COVID-related closures we saw, mainly in the U.K., and Thanksgiving Day being closed virtually in all locations in the U.S. We said that we would expect Q4 sales to decline just a little bit more than we saw in Q3, the 11% we saw in Q3, and when I say "a little bit more," I mean a couple percentage points more. As Mimi indicated, our focus has really been around the peak days and we're being conservative on the peaks, but if traffic comes in better during those peak times, then our sales will be better. That's really our outlook right now.

Mimi Vaughn

And if we get stimulus, that will be more than enough icing on the cake, and so lots of challenges, but also lots of opportunity in the coming holiday season.

Jonathan Komp

Yes, that's certainly helpful, and then maybe a question on SG&A. It sounded like for the fourth quarter, you're signaling more leverage potential, even potentially slightly greater sales decline, so I just want to understand that, and maybe more broadly, the cost structure going into next year. I think it's helpful—in your COVID-related adjustment table in the press release, I think it calls out more than $20 million year to date, the savings from property tax relief and rent abatements, and just want to ask how you're thinking about the ability to overcome that headwind next year as, presumably, those costs come back in.

David Slater

Yes.

Mimi Vaughn

Why don't you start with SG&A and then maybe I'll jump in on some—start on the cost structure, and I'll jump in on that.

David Slater

Yes, absolutely. First, to address, Jon, your question on the COVID table in the release that we have, or the items that we list on there related to property tax relief and rent abatements, and how I think about rent abatements, it's more of a timing issue than it is of actual savings, because we ended up booking full rent earlier in the year and now we're just getting savings for when our stores were closed, so when stores are opened next year, then the economics should play out accordingly. The U.K. property tax relief, again, is similar. We're getting that relief because our stores were closed, and as stores reopen next year, we should be able to overcome the costs as they come back into our business.

Just as overall thoughts on SG&A and why we think we can leverage in Q4, we're benefiting from a lot of the collective efforts that we took early on in the pandemic around our cost structure and many of those will continue into the fourth quarter. I would say the largest opportunity is going to come from the rent abatements that we are coming to conclusion with many of our landlords, and what we think is that could be more than double the amount of the $7 million that we recognized in Q3. We really expect our SG&A to leverage quite a bit from last year's levels, even on the lower sales volumes that we expect because of this. It could be as much as 100 basis points, depending on the level of our revenue in the quarter.

Mimi Vaughn

Just to chime in a bit on the cost structure and the reshaping of the cost structure, I think Dave pointed out—did a good job pointing out how much relief we have gotten outside of these abatements, and that's through the course of the normal renegotiations. Jon, we've talked for a number of years about how, on the renewals that we have been executing, that we have seen rent reductions in the neighborhood of 8% to 10%, but it's stepped up pretty significantly through the course of the pandemic, and I think that that is some acknowledgment of the fact that traffic has been down and we're having to spend more marketing dollars to be able to drive traffic to stores and to our websites. So, that certainly helps the cause.

I do think, as far as cost structure goes, that the growth of our e-com channel, and the size and the scale, will help profitability. There's a lot of investment required upfront, but all the way along, to grow e-commerce, and the more size and scale that you can get, the better the economics end up being, and so that, coupled with some of the rent savings and the cost reductions on the store side, should add up to a positive economic formula.

Jonathan Komp

Okay, that's really helpful. Thank you.

Operator

Thank you. The next question comes from the line of Sam Poser with Susquehanna. Please proceed with your questions.

Sam Poser

Good morning, everybody. Happy Holidays. Thank you for taking my questions. I just want to know—a few just follow-ups. The question was asked what your digital penetration was by banner, by business, and you talked about—you gave the number for Schuh, but you did not give specifics for Journeys and Johnston & Murphy. Please do.

Mimi Vaughn

Yes, sure. Johnston & Murphy, it was in the range of 20%, and Journeys was less than 10% last year. All of our businesses this year, their digital penetration has been higher—and, David, I think you've got the number for the—maybe just talk about the second and third quarters.

David Slater

Yes, obviously, Sam, with stores closed for portions of both—for all the quarters this year, our digital penetration has swung wildly higher, but for the third quarter, Journeys was up almost double of their digital penetration versus last year.

Sam Poser

So, around—could you just give us what the numbers are?

David Slater

Yes. So, last year in Q3, the digital penetration at Journeys was 7%, and this year in Q3, it was nearly 14%. For Schuh, last year it was 24% and this year it was 43%, so almost doubling. For Johnston & Murphy, last year it was 18% and this year it was almost 34%. So, big swings this year over last.

Sam Poser

Also, those businesses grew nicely. So, when you think about just the revenue increase in the digital, and once the stores are fully reopened and traffic sort of improves, how sticky do you think you'll be able to—how sticky do you think your e-commerce revenue will be?

Mimi Vaughn

Yes, look, we think that the consumer has tried a lot as far as digital goes this year, and they've liked what they've seen and they've really liked the experiences that they've had. I will give a huge shout-out to our teams for the ability to execute on some of these levels, because in Schuh, for example, last quarter, e-com penetration was 70%, and in Journeys, it was 20%, and to be able to do—and the growth rates were almost triple their businesses, and to be able to do that and execute well against that and get very high customer satisfaction scores is a good testament to our abilities there. I think that much of that will stick. At the same time, our teen likes coming into our stores and we saw that our digital penetration went down from the time—from the second to the third quarter because consumers have those options.

The way we're thinking about the world going forward, Sam, is however our consumers want to shop with us, we're going to have terrific experiences within the stores and great experiences on our websites, and the consumer will go back and forth seamlessly across the two of them.

Sam Poser

Thanks. I've got a handful of other questions. Number one. You mentioned a level of new customers to your website, but if you think about it again by banner, how many new customers—especially at Schuh and Journeys—how many new customers were new not only to the website, maybe, but also just new to Schuh or Journeys?

Mimi Vaughn

Yes, look, I think we were measuring the website just because there's been such up and down in terms overall closings of stores, Sam. I think that it's just an unusual time for measuring stores, because we've got the pandemic going on and customers, some customers may be reluctant to go ahead and shop within stores. That's why we're really focused on our websites.

The exciting thing about the websites is that you could type anything into your URL and consumers are choosing to come and shop with our concepts, and what we saw, as I called out, a 40% increase in new website visitors, it was pretty equal between Journeys and Schuh. Johnston & Murphy, of course, is a bit less just because of where they're situated from a fashion point of view. New customers drove a large percentage of purchases and were almost 45% of our overall online sales. We take those new customers, we plug them into our CRM systems. We do a lot of work for specific programs and specific journeys to try to get them to purchase again, and the key to getting stickiness is to have the customers have a great experience, have them come back and shop with you again, and then encourage additional purchases, and after a certain number of purchases, we can say that those are—we can define them then as loyal customers.

Operator

Thank you. Our next question comes from the line of Mitch Kummetz with Pivotal Research. Please proceed with your questions.

Mitch Kummetz

Thank you. I've got a few questions of my own, so let me start—and if Tom George is on the call or in the building, welcome, Tom, it's been a while. So, let me start with the fourth quarter outlook. You expect it to be down more than Q3, although it sounds like maybe only by a couple of points, and I get what you're saying about the peaks and valleys, but I'm wondering if the main reason for Q4 likely to be weaker than Q3, in terms of the growth rate, is more about the store open days, that there are fewer store open days in Q4 than Q3, or is it more about the peaks and valleys, at least as it kind of relates to the difference between Q3?

Mimi Vaughn

Yes. So, look, I think that what I would say is that, above anything else, that there's just a lot going on in the overall atmosphere. The consumer's been resilient throughout the year. There are also a whole lot of tailwinds. The consumer's been saving, so that they've got disposable income. There's lots of indications of that. There's not a lot of spending on travel and entertainment, or holiday parties and other things.

Look, our brands and our footwear is really desired by teens at Christmas, it's just a big gift-giving item, so we're very optimistic that we've got the right merchandise and that we can execute when traffic shows up in our stores. People are going to have a lot of time to shop, because they're going to be working from home, and you can run out from home and do some shopping, or you can pull up your mobile device and you can shop online, as well.

I would say, Mitch, that how we are thinking about it is just with some conservatism. Right now, we have got 97% of our stores open. Last month, many of our stores were closed, and so we were only operating for about 88% of the overall time. December is a much bigger month than November is, and so to the extent that our stores can stay open and operate, then we'll be able to meet the demand. We expect more shopping will be on the weekdays, we've seen this already. We expect more shopping during the non-peak hours. Many malls have been working on reduced hours and have added hours to try to help meet this demand. Lots of people will wait until the last minute, they'll come into our stores really last minute. We're being conservative just because of the unusual nature of consumer behavior during the pandemic, but as the consumer comes out and shops in force, then we'll be able to meet the peaks to a greater extent and more like usual.

Mitch Kummetz

Given the challenges around the peaks, especially to the extent that your store capacity may be limited around some of those really big days, what are you doing, if anything, practically to kind of stretch that out and make the valleys better? I know that some of that is just happening organically, but to what extent are you trying to steer that in order to soften the impact of the lower peaks, and then I have a follow-up question?

Mimi Vaughn

Yes, sure. We are definitely using our promotional posture to be able to steer the consumer into various times. For example, Journeys typically launches their sale both in stores and online the week of Black Friday, and it's a great opportunity to just take advantage of traffic. In fact, they launched the week before this year and were really successful driving customers both to the stores and to online, which relieved some of the pressure on Black Friday weekend itself. Interestingly, we saw a lot of nice pickup in volume prior to Black Friday. Black Friday weekend itself was more subdued. Of course, stores were closed on Thanksgiving. Then, we saw a nice pickup afterward.

All of our marketing, all of our messaging—all of, quite frankly, retail's marketing and messaging is about shop early, think about how to avoid the peak times, make sure you get your shopping in, and we feel like people are going to be in a gift-giving spirit. It's a nice relief from some of what has been the monotony of the pandemic, and so there may be some real opportunity here.

The consumer is doing this themselves. I mean, they are smart. They are figuring out when are less busy times within the malls and within shopping venues, and will come in and will either pick up merchandise quickly without trying it on and take it home and try it on or they will choose to try it on within our stores and purchase at that time. But, we've seen a lot higher conversion. Conversion has been at the highest levels we've seen. There's a lot of intent to purchase. Even with traffic down, we can have positive comps. In Journeys, in both September and October, we had positive store comps, and that was on lower traffic, because conversion was so strong and transaction size was better.

You add all of that up and you say that it's a combination where we can make the numbers work to be able to meet some of the volumes that we had last year.

Mitch Kummetz

Okay. Then, lastly, on boots, I know that in your comments on quarter, you mentioned that boots started early, and I know that your boot business is driven more by fashion than anything else, but I'm curious if you've seen the boot strength continue into November, because, I guess, November feels like it's been, or was kind of a warm month, and I think your boot business was pretty good in November last year, so maybe a tougher compare, but I'm kind of curious how you've seen that continue as you started the fourth quarter.

Mimi Vaughn

Yes, you've got a good memory, Mitch. Yes, I mean, boots started early and it started really well, and there are a number of boot brands that are driving this. I'll tell you, in the first couple of weeks in November—last year, in November, it was super-cold, and so boot sales took off. This year, in November, we had a lot happening in the first part of the month, the election was going on, weather got a lot warmer, lots of different distractions, and so just overall traffic, as I mentioned, became more subdued, but then we saw the robust pickup thereafter. I think that it's mostly fashion that is driving teens' appetite, and I think there's a feeling that they just want something different, they want the change of seasons, they want to be doing something different, and they really like the offerings. Lots of our brands have put out some terrific product and we have lots of nice allocation of that product, and so that's a winning formula.

Operator

Thank you. At this time, we have reached the end of our question-and-answer session and now I'll hand the call back to Mimi Vaughn for closing remarks.

Mimi Vaughn

Great. Thank you, everybody, for joining us today. We're wishing you really happy and really safe holidays.

Operator

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