Genesco, Inc.

Fourth Quarter Fiscal 2024 Earnings Conference Call

March 8, 2024

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Jeff Lick, *B. Riley Securities*

Corey Tarlowe, *Jefferies*

Mitch Kummetz, *Seaport Research*

PRESENTATION

Operator

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

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

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

Darryl MacQuarrie

Good morning, everyone, and thank you for joining us to discuss our Fourth Quarter Fiscal '24 Results.

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

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

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

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

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

Mimi Vaughn

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

Fiscal '24 highlighted how substantially our consumer's shopping behavior has changed since the pandemic. Back in fiscal '22, consumers were flush with cash thanks to fiscal stimulus and spent heavily in the footwear category, which led to a record year for Journeys. As we entered fiscal '24, we saw a pronounced drop in purchases at the beginning of the year and have been working to close the gap ever since.

The forward buying dynamic, along with the period of higher inflation that followed, competitive discounting to clear elevated athletic footwear inventories, and a general lack of innovation in footwear, made for a difficult operating environment that remained challenging as we progressed through fiscal '24. Throughout the year, these evolving purchase patterns led to greater volatility and made it hard to forecast demand, particularly for Journeys.

In the fourth quarter, after a strong Black Friday and solid kickoff to the holiday season, sales were negatively impacted by a more selective customer that shopped almost exclusively for key footwear items, coupled with a marked shift away from boots. As we got into the month of January, the combination of softer than anticipated sales due to disruptive winter storms and higher than anticipated expenses at Journeys is what drove EPS below our most recent guidance. Throughout the quarter, our core product assortment was much more pressured than we originally expected at the beginning of Q4. We expect this dynamic to carry into this current year, and given our limited ability to now impact product for spring, we believe it will remain a significant headwind in the first half, despite facing easier compares.

We are clearly disappointed with these results. However, I want to stress that we've faced challenging times before and consistently demonstrated a strong track record of turning around our businesses to emerge even stronger when confronted with economic and consumer disruption. Our response to the pandemic and recent turnarounds at Schuh and J&M, evidenced by another year of record sales for both, are clear examples of this – and I am confident we will achieve the same success with Journeys.

It's also important to note, despite a very difficult operating climate, in fiscal '24, our overall sales declined only low single digits and our gross margin compressed by just 30 basis points. The sensitivity of our model is such that smaller movements in sales are magnified with quite a bit of deleverage against our largely fixed cost base. Coupled with our low share count, this had a substantial effect on our bottom-line. However, the inverse is true as well. In a sales growth environment, as we've demonstrated before, our

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

model provides significant leverage and earnings upside potential. Our cost savings initiatives are aimed at improving this further.

As we turn the page to fiscal '25, the operating environment remains difficult. Given the steeper challenges in our core business, we now have more work to do in our assortment. As such, we're counting on more time for a Journeys' rebound. All that said, we have a very clear understanding of what we need to achieve. Journeys' continued turnaround is our #1 priority. With the right new leadership already in place and a strong team overall, we are better positioned than ever to accomplish this task.

I've said before – well-positioned strategically, with a spotlight focus on the teen, no other retailer serves this customer quite the same as Journeys. Journeys is the one-stop shop for a broad range of both casual and athletic brands. This unique proposition as the destination for teen fashion footwear, particularly for the teen girl, remains solidly intact. As fashion broadens and teens are embracing multiple wearing occasions, we will achieve success with a more diversified assortment that addresses these needs and fills out our customers' closets. Importantly, we already have the backing of our consumer, who consistently scores Journeys higher than key competitors in market research, and our brand partners who are demonstrating exceptional support.

Under Andy Gray's leadership, the Journeys team is working to dramatically accelerate the pace of improvement in response to how the consumer has changed. With his strong merchant background, excellent vendor relationships and expertise in brand building and product innovation, Andy's insight has already proven tremendously valuable. We are working with great urgency; however, these efforts will take some time given footwear industry lead times. Already in the works though, they will set the stage for more significant progress for back-to-school and especially for holiday. I will discuss some of these initiatives in more detail shortly.

But first, I'd like to point out some important highlights from the quarter and year beyond the record sales years Schuh and J&M delivered:

We grew our comparable digital business by Q4 in 5%, 8% for the year, and expanded digital penetration in fiscal '24 to 23% versus 20% a year ago

We launched Journeys All Access loyalty program and buy-online-pick-up-in-store in North America to encouraging initial results. BOPIS was a bright spot in Journeys in its first holiday in operation, accounting for almost 30% of e-commerce sales in the week leading up to Christmas.

Importantly, we made further progress right sizing our inventory. Journeys ended Q4 with inventory down over 20% to last year, enabling us to generate strong cash flow and enter the new fiscal year in a very clean position. This also helped us deliver solid gross margins ahead of expectations and positions us well to buy in to the product we need to drive Journeys' sales.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Furthermore, we continued to advance our strategies to position the business for better productivity and profitability. We closed nearly 100 underperforming Journeys stores and are evaluating up to 50 more closures this fiscal year, as we reshape the footprint to align with the shopping patterns of today's consumer. We made substantial progress in realigning our cost base and are now targeting an increased run rate of $45 million to $50 million in annual savings by the end of this year

Now, for color on our individual businesses:

Starting with Journeys, while we were pleased that sales once again improved sequentially in Q4 as they have in every quarter this year, results nonetheless fell short of our initial expectations. Following a strong Thanksgiving weekend, business decelerated in December, as customer shopping trends remained choppy. That said, store traffic was positive, and consumers responded well to the newness in our assortment, which tells us that Journeys remains a key destination for our teen. However, a decline in conversion outweighed this, given our consumers' selective appetite for key items. Once we ran out of high demand product, we were not able, as we usually are, to motivate an alternate purchase, and discounting did not drive enough sales to be effective.

This was evident in boots. While we planned our boot business down in anticipation of a challenging season, it was weaker than expected. Impacted by both warm weather and style preferences, boot sales, which typically represent 50% of Journeys' holiday business, were down 20% during the holiday period. And as I mentioned, we experienced more pressure than we expected in our core assortment, including vulcanized product.

The overall sales decline in Q4 was confined to stores, as Journeys' digital business performed quite well, up mid-single digits versus last year. We tested numerous engagement and traffic-driving programs with All Access members, increased SMS usage, and increased influencer and paid social campaigns to generate awareness and drive conversion. In fact, as we exited the year, we saw some acceleration in total comps in January led by Journeys e-com, which increased 35% during the month.

Moving to the U.K., despite experiencing a slowdown in Q4 comps against a difficult compare, Schuh delivered an exceptional year with strong comp growth through the first nine months. Our efforts to strengthen Schuh's value proposition has differentiated the business from competitors – grabbing the attention of new customers and enhancing our brand relationships and access to top-tier product.

That said, sales in Q4 were challenged by a tough boot business, coupled with a more cautious U.K. consumer that, against recessionary economic challenges, was also more discriminating in their purchases. The pressure was primarily in stores, as Schuh's e-com business remained positive in the quarter, accounting for over 40% of total sales. Kids also remained a bright spot, with sales up 8%, while non-footwear categories saw strong growth of 35%.

Even amidst a difficult operating environment, Schuh held strong market share. As of mid-January, Schuh maintained its #10 rank in total U.K. footwear market share, according to Kantar, a position it's held since

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-0262 1-604-929-1352 www.viavid.com

May 2023 after moving up three spots during the year. Loyalty has played a key role in strengthening Schuh's market position. Currently accounting for roughly 30% of total sales, Schuh Club members now stand at 2.3 million and are more engaged than non-loyalty customers, purchasing more frequently.

Turning to Johnston & Murphy, the business was a standout over holiday with a record fourth quarter, as we continued to invest to drive growth. Compelling product and strong sales of non-footwear led to nicely positive comps, demonstrating a solid recovery from the ERP implementation challenges in Q3. However, relative to the run rate over holiday, sales were pressured by the disruptive January winter storms.

Our efforts to reimagine J&M as a more comfortable lifestyle brand, with product suited for today's more casual preferences is resonating really well with our consumers. In Q4, J&M's direct-to-consumer business was strong across all channels – e-com, retail and factory. Although the casual and casual athletic categories were key drivers in J&M's footwear business, apparel and accessories were an even bigger callout in Q4. Apparel and accessories increased 18%, driven by strong growth in blazers and outerwear, and accounted for almost half of J&M's DTC sales.

J&M is a great example of how we've taken our strong DTC capabilities, built in retail and applied them to a branded concept. With the work of repositioning to an updated, multi-category, lifestyle brand paying dividends, J&M is positioned to drive meaningful growth, with opportunities across categories, age demographics, geographies, and gender. As the cornerstone of our branded platform, the future for this business is incredibly bright.

Now, switching back to Journeys, Andy and team have taken a deep dive on the business and put sharper focus on a turnaround program and growth strategy that will impact the customer through product, marketing and experience.

Today I'll highlight some key initiatives for this fiscal year which are a mix of both strategic acceleration and disciplined expense management.

Number one, drive product leadership and create marketplace differentiation. To continue improving Journeys' footwear leadership and assortment, we're implementing new strategies led by our recently appointed Chief Merchant to meaningfully increase product access and boost investment in key fashion athletic and casual brands. This includes: diversifying and adding new key styles with our existing brand partners; increasing our leadership position with all our key brands; enhancing in-store, social, and digital exposure, to build awareness with our customer to shop Journeys for these brands; and working to add brands beyond those we're traditionally known for.

Number two, build the Journeys brand and enhance the omni-experience. We're intensifying efforts to build and promote Journeys as an industry-leading retail brand. We're currently onboarding a new creative agency to develop a new brand communication strategy. We plan to roll this out in the back part of the year along with an updated brand mission, vision and purpose. In parallel, we're improving Journeys' brand presence and upgrading the customer experience with quick actions in both stores and

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

online, including refreshed messaging and visuals that tell a cohesive brand story across channels and social. We're excited about the investment we're making to personalize and improve the timeliness and relevance of our marketing communications as well.

We're also evolving the All Access loyalty program, where we've signed up over 2 million members in six months, continuing to provide an exciting, feature-rich program that differentiates Journeys, generates valuable consumer insights, and encourages consumers to consolidate purchases across brands with us. Finally, we will ultimately pursue an updated store concept and next-generation design to further enrich the customer experience.

Number three, leverage the power of our people. This initiative leverages the expertise of our store employees to set us apart by providing excellent service as a differentiator. Over the past year, we've introduced new capabilities, including mobile point of sale and BOPIS, to improve efficiency and customer engagement. This year, we'll further improve training and execution and roll out additional features like data-informed suggestive-selling.

Number four, optimize to drive operational and cost efficiencies. We're implementing several initiatives here, including: continued efforts to optimize the store footprint, closing unproductive stores and redirecting traffic and sales while strategically opening mall and off-mall locations, and prioritized optimization projects focused on selling salaries, rent expense, inventory management and digital marketing spend efficiency.

In summary, overall, I want to emphasize my belief in our team's ability to reshape our business and unlock Journeys' considerable earnings potential.

In addition, we're executing new initiatives to accelerate growth for Schuh and J&M in fiscal '25, all building off our Footwear Focused strategy. I'll discuss a few select examples. With the data capture rate of 75%-plus for customers in North America and growing loyalty and affinity programs, across our concepts, we're augmenting our understanding of our customers' needs and driving up repeat purchase rates using our CRM platforms and more advanced analytics.

For J&M, we're excited for the launch of the brand's refreshed marketing campaign this spring. Powered by a new agency, this campaign aims to increase overall brand awareness and heat and attract a broader and younger consumer, while also changing the perception that J&M is still primarily a dress shoe resource. Revamped social media content and organic social campaigns are key drivers of these efforts along with new digital and in-store rollouts. Finally, building out the Schuh Club loyalty offering will accelerate member signups and customer engagement.

Turning now to our outlook for fiscal '25. We continue to navigate volatile consumer behavior and are not assuming any significant change in the near-term. As I mentioned, we anticipate a difficult first half, with significant pressure in Q1, given the product challenges at Journeys, and are planning the back half to be much stronger than the front as we make an aggressive push to reposition our assortment. Our guidance

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

for the year reflects this view with the expected front-half results impacting our ability to further grow EPS in fiscal '25, but with the product build we are putting in place setting us up well for fiscal '26 and beyond.

Before closing, I'd like to say that while this past year has truly tested us, I'm extremely proud of our resilience and drive to overcome the challenges we face. None of this would be possible without our incredible, talented people. I'd like to thank you all for your tremendous efforts, and for all the great work you will be doing in the coming year.

With that, I'll turn it over to Tom.

Tom George

Thanks, Mimi.

The headwinds in Journeys, along with the inclement weather we faced in January, had a greater impact on our fourth quarter financial performance than we initially anticipated. Relative to our revised guidance, the net earnings per share result was below our expectations primarily due to expense pressures at Journeys, coupled with the lost store traffic and earnings resulting from January's unusually impactful snow and ice storms. Looking ahead, the efforts we've made, and continue to make, to contain expenses and drive productivity will better position us to withstand this pressure and emerge even stronger as sales growth returns.

Turning to results for the quarter, consolidated revenue was $739 million, up approximately 2% compared to last year, driven by sales increases in all divisions other than Journeys. Excluding the 53rd week, total sales declined 2%. Relative to our expectations, sales were largely in line with our revised guidance, with the exception of J&M, which was especially impacted by January's weather disruptions.

Total comps were down 4%. For Journeys, although comps were negative 5%, the business continued to improve sequentially. Schuh comps were down 5%, driven by stores. Even with the January shortfall, J&M comps increased a healthy 8%. By channel, total store comps were down 7%, while direct comps were up 5%, with digital sales accounting for 27% of total retail sales, up from 25% last year.

We ended the quarter with 69 fewer stores versus a year ago, largely the result of closing underperforming Journeys stores, as we optimize our store footprint and drive productivity in our remaining store fleet.

Overall, gross margin was down 10 basis points compared to last year, which was ahead of our expectations due to lower planned promotions at Journeys. With our consumer focused on purchasing key items, discounting was not as effective in driving sales and so we moderated our promotional stance. Relative to last year, Journeys' gross margin was down 30 basis points, due primarily to product mix shift. Schuh's gross margin was down 10 basis points to last year, while J&M's gross margin was up 70 basis points driven largely by lower freight expense and a favorable mix shift to retail versus wholesale, partially

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

offset by higher retail markdowns. Lastly, Genesco Brands' gross margin was up 420 basis points, as we lapped last year's freight and logistics cost pressures and benefited from price increases this year.

Moving down the P&L, adjusted SG&A expense was 41.1% of sales, 170 basis points above last year, with roughly 60 basis points of the increase attributable to the 53rd week. While the 53rd week added to our top line, it was a low sales volume week that was particularly dilutive to our bottom line. Adjusting for the 53rd week, SG&A expenses were relatively flat in absolute dollars compared to last year, despite additional variable expenses associated with our direct sales growth, reflecting the impact and benefit of our cost savings initiatives. The increase in operating expenses relative to our guidance was primarily driven by Journeys. In addition to the incremental costs to support higher than expected direct sales, product returns to our vendors resulted in greater than anticipated wage and freight pressure. Finally, we experienced additional store expenses, including occupancy costs.

Lowering overall occupancy costs and reducing the amount of fixed expense in the store channel remains a key priority. In Q4, we achieved a 15% reduction in straight-line rent expense on 47 lease renewals across the Company, with an average term of approximately three years. This brings our full-year fiscal '24 renewals to 202, resulting in a 15% reduction in straight-line rent expense. With over 50% of our fleet coming up for renewal in the next couple of years, we continue to have a lot of runway to capture additional savings. Although we've made nice headway on rent savings and savings on selling salaries productivity and hours, higher hourly wages has been an offset and remains a pressure point due to minimum wage and competitive increases, and we continue to work to mitigate them.

In summary, for the fourth quarter, we realized adjusted operating income of $38.5 million, compared to adjusted operating income of $51.0 million for Q4 last year. This all resulted in adjusted diluted earnings per share of $2.59 for the quarter, versus earnings per share of $3.06 last year. For the 53rd week, operating income was an estimated loss of $2.6 million, or approximately $0.18 per share.

Turning now to capital allocation and the balance sheet. We ended the quarter in a slightly positive net cash position and generated approximately $108 million of free cash flow. We ended the year with clean inventories, down 17% from last year. With respect to Journeys, we worked with our brand partners to adjust inventory levels, enabling us to end the quarter with inventories 22% lower than last year and well positioned to bring newness and freshness to the assortment. In addition, our strong cash flow, balance sheet and liquidity under our revolving line of credit provides the financial capacity to support all our strategic efforts.

Capital expenditures in Q4 were $10 million, with the investments primarily directed to retail stores and our digital and omnichannel initiatives. We opened five stores, which were primarily off-mall, and closed 24, ending the quarter with 1,341 total stores.

Lastly, we didn't repurchase any shares during the quarter, but bought back 10% over the year, and our current authorization remains at $52 million. Over the past five years we have repurchased almost 50% of our outstanding shares.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-0262 1-604-929-1352 www.viavid.com

Regarding cost savings, when you combine our efforts to increase the variability of our cost structure with savings under our cost savings plan, we made meaningful progress on expense reductions in fiscal '24. Our updated plan now targets a reduction in annualized run rate before reinvesting of $45 million to $50 million by the end of fiscal '25, which is above our original target of $40 million. We expect savings from reduced store rents, selling salary productivity gains, reduced warehouse and logistics costs, and reduced freight costs from inventory optimization initiatives.

With respect to store closures, we closed 94 Journeys stores in fiscal '24, or roughly 8% of the total fleet. These were primarily mall-based locations. For fiscal '25, we are aiming to close up to 50 more Journey stores.

The savings from these closures will eliminate approximately $14 million of annualized cost from SG&A expense, which adds to the roughly $25 million of annualized savings from the stores closed this past year and is in addition to the $45 million to $50 million of run rate savings we expect to achieve by the end of this year. The goal of these cost savings and store closure programs is to gain better expense leverage and operating margin expansion even with modest increases in sales.

Now turning to guidance.

Recognizing that we're starting this year in a difficult position given the product challenges we are facing, I'd like to start by providing some specifics around Q1.

Starting with the top line, we don't expect to see the demand curve improve within Journeys' core product assortment, which makes up a sizable portion of our Spring business. That pressure will make it difficult to drive sales growth. As such, we expect a mid- to high-single digit sales decline versus last year, driven primarily by Journeys, and to a lesser extent, Genesco Brands Group.

Regarding Q1 gross margins, we expect an overall gross margin decrease of 40 to 50 basis points, mostly due to product mix shift at Journeys and Schuh. As Q1 is also one of our lower volume quarters with expenses at minimum levels and largely fixed, the sales decline will result in roughly 320 to 350 basis points of SG&A deleverage, resulting in an earnings per share loss of approximately $1.10 more than we lost in Q1 last year.

Moving to the full year, while we are confident that our turnaround strategy at Journeys can begin to drive improvements in the back half, especially for holiday, since this is a transition year for Journeys, we believe it's prudent to adopt a cautious view throughout fiscal '25, with opportunity for a more significant rebound in fiscal '26.

We are also taking a more conservative view for Schuh and J&M as they both cycle robust multiyear compares.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-0262 1-604-929-1352 www.viavid.com

Taking this all into account, we expect fiscal '25 total sales to decrease 2% to 3%, or down 1% to 2% when excluding the 53rd week last year. The variance between the high and the low end of the range is primarily due to uncertainty in the consumer and macro environments, particularly in the U.K. Regarding EPS, we expect adjusted earnings per share in the range of $0.60 to $1.00.

We expect a challenging first half to give way to positive earnings in the back half as back-to-school and holiday give us the opportunity to generate profitability on higher sales. Net-net, we expect improvement over last year to be weighted to Q4, as further pivoting the Journeys assortment will take time.

We expect gross margin rates to be flat to up 10 basis points for the year, with improvement at Schuh mitigating some product and channel mix pressure at Journeys.

As a percentage of sales, we expect adjusted SG&A to range from deleverage of 30 basis points to flat, with the cost reduction efforts I described earlier and other actions working to partially offset deleverage on fixed expenses. All of these inputs result in an operating margin that is in the range of fiscal '24's operating margin.

Our guidance assumes no additional share repurchases, which results in fiscal '25 average shares outstanding of approximately 11.3 million, and we expect the tax rate to be approximately 26%.

In closing, we are taking aggressive actions to accelerate our Journeys turnaround, and while those efforts will take a little time to create impact in the P&L, we believe they will best position us to unlock Journeys' considerable earnings potential, return to growth and create meaningful shareholder value.

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

Operator

Thank you. We'll now be conducting the question-and-answer session. (Operator Instructions).

Our first question is from the line of Jeff Lick with B. Riley Securities. Please proceed with your questions.

Jeff Lick

Good morning, guys. Thanks for taking the question. Kind of like a three-parter here. First off, in January, it appears that Journeys sales actually got better. If you look at the pre-release, comp was down 6%, it ended up being down 5%. Weather was bad. I was wondering if you could expound upon that.

And then, just building on that, you referenced, Tom, in your script product challenges. I'm just kind of curious product challenges for the first half, first quarter, what specifically those are.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

And then, the big kind of head scratcher question is the implication was that—or the thought that sales was the issue, but it appears that it's expenses and you referenced unanticipated expenses. And just to put a point on this, in 2019, you did $317 million of gross profit dollars. This year, you did $342 million of less stores, but your SG&A is $43 million higher. So, it appears that the issue here might be expenses more than it is sales or gross profit. So, I was wondering if you could unpack that for us. Thanks.

Mimi Vaughn

Jeff, thank you for all those questions and let's take them one at a time. So, you asked about in January, Journeys sales got better. And in fact, in January, Journeys sales did get better. I'll just remind you of the cadence of the quarter that we started out nicely in November with a very nice Black Friday weekend. And then, sales gave some back in December and then picked up in January. And I'll also say that in December, in particular, we saw that the customer was coming to our stores, traffic was up. But in fact, they were very focused on select items and were shopping only for those things, those must-have key items. And we always can convert our customers to other things, but it was challenging this year just given some of the other pressures—economic pressures.

And so, as we got into January, we saw that what really took off was our e-commerce business. We've been working to grow e-comm over the last many years, and we're delighted to see some of the growth. There were a lot of winter storms and our Journeys customer went online. We were driving some of those sales with clearance product, and so there was some appetite for clearance product as well. I would say that that's what helped January.

And then, just talking about product challenges that are specific to Q1 before I hand it over to Tom, we have made a lot of progress on Journeys over the course of this year, where we started the year, we came into the year and, after relatively flattish sales the year before, saw a pretty significant drop as the consumer just had a great appetite for newness and wanted to buy different things than they had been buying before. We had some record years coming out of the pandemic, and I think the pendulum swung back the other way. And so, we have been working all year to be able to fill that gap that started down 14%. And again, we've made a lot of progress here.

What we do see here is that Journeys sells a—it's the destination where teens go for a variety of product, both fashion athletic and also the casual product that we have been talking about. And Journeys is quite well positioned to take advantage of this. What we saw is that the product that we knew was hot and would sell and that we chased into for the fourth quarter, sold very nicely. But what we also saw is that some of the core product that we expected better sell-through rates on, there was not as much take-up on the part of the consumer. And that's the product that we're talking about that we are going to have challenges on in the first half of the year.

And just given the product lead times—we've got a new Head of Journeys, we've got a new Chief Merchant in Journeys. They are both chasing aggressively into product that we believe is going to move the needle even further. And they have merchant backgrounds and they bring the right expertise and the

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

right relationships to improve even further on the relationships that we have. And so, we're chasing into additional products that will really hit in the back part of the year. We see fashion broadening and teens embracing just more wearing occasions. And I think over the longer term, that is going to be good for us, both on the fashion athletic and on the casual side.

And so, there are some interesting things happening on the apparel side as well. And it's the chasing into the greater appetite for newness and freshness, and then specifically around the brands that we know are really resonating with the consumer today and will be resonating with the consumer as we anticipate we go through the year.

And I will turn over to Tom for the last question.

Tom George

Yes, Jeff, let me try to tackle on the expenses and hit some of the points. I think the first one was an understanding of the expenses in January, and we did have some additional expenses more than we originally anticipated in Journeys, and it was around the store channel. Some of it was the occupancy cost for Journeys and some of that's related to just some of the final timing of some store closures there as well as we had some additional cost in January over and above what we expected, processing some significant returns to vendors. And as a result of that, the good news is we got our inventories down at the end of the year. Journeys' down about 22% related to the prior year. So, there was some return on those additional expenses. And then, there was just some other additional store expenses related even to labor to process that return to vendor. So, that's the January number.

When you look at expenses relative to calendar '19, our fiscal year '20, important thing to point out there is there's been a huge transformation in the business and that there's been a huge movement towards our direct business in all our businesses, especially Journeys. With that growth in our e-commerce business, there is an investment operating expenses. So, you need to consider that when you're considering the growth in expenses. And I think another thing to point out on expenses in terms of when you look at our guide going forward to next year, you can see that that implies a significant reduction in our expenses going forward.

So, we feel good where we're at on expenses. And when you look at that guide, you can see the traction we're getting, taking expenses out. And just another thing back on fiscal year '24, we got a lot of traction within the Journeys store channel taking expenses out. So, feel good where we at...

Jeff Lick

Just a quick follow-up then...

Tom George

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Yes, go ahead.

Jeff Lick

Tom, I'm just curious, with regards to the final timing of store closures, returns to vendors, the labor that's associated there, I mean, it seems like it might have been tempting to kind of put those in non-recurring, which you did not. Any thoughts there, and what maybe—any guidance as to what that amount might have been?

Tom George

Yes. It's normal course, so we really—those are situations we can't necessarily put them down into non-recurring. So, we were hoping to use the conference call here to get into conversations about some of those one-time type of things.

Mimi Vaughn

Yes, we had an aggressive push and I think the great news is that we are in terrific shape in our inventory. Journeys is down more than 20%. And so, that, and we did that without having to take an excessive amount of markdowns. And so...

Tom George

Right.

Mimi Vaughn

...we're clean. We've got ample open-to-buy to chase into the product that we know we will bring in during the course of the year. And so, I think that's the positive, and we had a chance to be able to push back more inventory that didn't work to our brand partners who've been exceptional working with us and are excited about being able to work with us to bring new styles in and to bring in to feed some of the trends like clogs and the fashion athletic that we see a lot of appetite for.

Jeff Lick

Okay. Thanks very much. I'm taking up too much time, so let some others ask the questions. Best of luck in Q1.

Mimi Vaughn

Thank you, Jeff.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Tom George

All right, thank you.

Operator

Our next question is from the line of Corey Tarlowe with Jefferies. Please proceed with your question.

Corey Tarlowe

Good morning, and thanks for taking my question. Mimi, longer term in nature, curious to how you think about the go-forward margin trajectory for the business, and what the right margin profile for the enterprise might be more broadly, and what are the building blocks to get you to that level over a multi-year time horizon?

Mimi Vaughn

Corey, thank you for the question. To talk about the different parts of our business, we were delighted to see that both Johnston & Murphy and Schuh had back-to-back record years. We have done a lot of work there. The consumer changed a lot during the pandemic. Both of those businesses were quite challenged a couple of years ago. And we put our heads down and did the work to really turn around those businesses and took the actions around product and marketing and technology to be able to get those businesses back to mid-single digit levels of operating income where they have achieved historically.

And so, what we are talking about right now is Journeys. And Journeys' value proposition is very strong. We've been through many cycles before where we have come out ahead. This time around, it was unique because there are so many factors at play, and we do believe it's a cycle that we're in. We have a lot of confidence in the Journeys business. It's the go-to-place for teens. It plays such an important role in just their selection of fashion footwear items. Our brand relationships are terrific as well. We're very important to our brands, and we've got some terrific dialogue going on with our brands today to talk about bringing in new product to be able to fill the appetite for our teens.

The next thing I'd say is that Journeys is a really resilient business. If you go back and you look at our track record of navigating both economic headwinds and fashion shifts, we have successfully navigated that in the recent past and in the less recent past as well. And the beauty of our model is that we can shift into brands that are hot, we can rotate the assortment, and there's a lot of leverage in our business. So, structurally speaking, the things that have changed is what Tom talked about that there's a lot more opportunity for digital.

And our digital business is not only profitable, but it's nicely accretive, because we've got double-digit profitability within digital. We have a chance to grow Journeys' digital business. Schuh is at 40%. Journeys is less than half of that. So that will certainly help over the longer term. And we've taken a lot of

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-0262 1-604-929-1352 www.viavid.com

actions to bring our cost base down. You will see that in Journeys' overall P&L, both by closing less-productive stores and also by working on productivity and overall expenses. And so, that allows us to leverage at very low levels of comp.

The really big issue here, and Tom talked about that as well, is that our—we deleveraged the expense base on the negative store comp. And so, the solution to that is to build that back and to drive sales. And so, when we talk about the most important initiatives, it is around driving sales, it is around being able to drive newness and freshness into the product assortment, to drive store sales and online sales. And I see no reason why we won't go back to historical levels of profitability for Journeys, certainly in the mid-single digit range, and it takes positive comps to be able to get us there.

Tom George

Maybe one more thing I'd add, Corey, is on the branded side of the business. Johnston & Murphy and our Genesco Branded group, we're getting a lot of traction in terms of improving our gross margins and we have a roadmap going forward to continue to improve our gross margins on the branded side of the business. So that's—as well as a driver going forward to improve the overall company operating margin.

Corey Tarlowe

Great. Thanks. And then, just to double-click on gross margin, it sounds like there's an expectation for sales to be down this year, but gross margin to be up. So, Tom, could you just maybe walk through how to get to that from the first quarter through the full year and what are the underlying drivers are? And maybe rank the drivers, if you could?

Mimi Vaughn

Let me start and then I'll hand it to Tom. But I think we have been in a position where we've kept our inventories really clean through the course of the year. So, we haven't seen any—we haven't taken markdowns at all near the level of others in our industry, and in fact, we outperformed gross margin in the fourth quarter. So, we don't—and by the way, the industry is more cleaned up than it was when we started the fourth quarter. And so, we don't anticipate that we will have a lot of pressure from markdowns, given how clean our inventories are. There's a little bit of pressure from mix because of the brand mix in both Journeys and Schuh, but that's offset by some other initiatives that we have underway to help on gross margin. So, I think we're anticipating it will be up a bit. And I'll hand to Tom to talk about that.

Tom George

Yes. In total, we expect it to be flat to up a bit for the year, and Mimi hit on a good—one of the bigger points in terms of the promotional environment we're expecting on the Journeys side. Another thing to consider is with our Schuh business, we continue to work and have initiatives in place to continue to drive gross margin improvement there as well. So, we'll see some of that.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Mimi Vaughn

And some of that is freight contracts we've renegotiated. We've got more efficiency within our distribution centers, so both in the U.S. and the U.K. that will allow us to have more efficient warehousing and distribution expense.

Tom George

And then, on the branded side of the business, we expect to see some improved margins there as well. But one thing to point out in terms of the cadence in that, in the first quarter, we're expecting some decline in gross margin, and that's mainly around the IMO (phon) mix in both Journeys and Schuh in the first quarter, and that seems to moderate as the rest of the year goes by.

Corey Tarlowe

Great. Thank you so much for all the color.

Operator

Thank you. Our next questions will be coming from the line of Mitch Kummetz with Seaport Research. Please proceed with your questions.

Mitch Kummetz

Yes. Thank you. Can you guys hear me okay? I'm having some phone issues.

Mimi Vaughn

We can.

Tom George

We can.

Mitch Kummetz

Okay. Good. I've got a handful of questions. I'm going to maybe just do these one by one. First on Journeys, you mentioned the sequential improvement in 4Q. Has that continued through February? Or have you seen the business kind of fall back again?

Mimi Vaughn

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

So, when you think about the fourth quarter, I just talked about January picked up a bit. The key here, Mitch, is that what emerged over the holidays is that our consumer moved further away from core product. And while we made improvement in terms of the winter assortment that we brought in and the newness and the freshness, it's the core product that the consumer moved further away from. And that is core product that we anticipated to carry into the spring. And that's really what we have been focused on in terms of our outlook for the first quarter that we'd have pressure as a result of that.

And so, we wouldn't anticipate that trend would pick up further. We have had nice sequential improvement, but we expect that we'll sort of be where we are at least for the first quarter of the year, that will improve a little bit as we can bring product in and affect the trend in the back part of the second year, even more pickup in the third quarter, and we have a huge push in the fourth quarter just given the overall lead times for footwear, which are in the range of six months.

Mitch Kummetz

And then on Journeys, so you're expecting Journeys comp to be down mid singles for the year, I believe, if I read the presentation correctly. It sounds like from a sales standpoint, you expect the most pressure in 1Q. So, what is your plan for Journeys in the first quarter? Are you expecting it to be down like double digits?

Tom George

No.

Mimi Vaughn

No, not expecting it to be down double digits.

Tom George

Right, yes.

Mimi Vaughn

And for the year, I think we just need to check that number...

Tom George

Yes. I don't think we gave...

Mimi Vaughn

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

... for the year.

Tom George

(Multiple speakers). Mitch, I'm not sure we came out with a number for Journeys specifically. I know we gave total company guidance for the year, but the first quarter for Journeys, we could expect that to be down mid- to high-single digits in the first quarter.

Mitch Kummetz

Okay. It looks like in the presentation...

Mimi Vaughn

Not far from where we...

Mitch Kummetz

In the presentation, you've got Journeys down mid-single digits, but I guess that's on a sales side, not a comp side.

Mimi Vaughn

(Multiple speakers)

Tom George

(Multiple speakers)

Mimi Vaughn

That's correct. That's because of the stores that we've closed that took away from sales.

Tom George

That is not a comp.

Mimi Vaughn

But are not productive (multiple speakers)

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-0262 1-604-929-1352 www.viavid.com

Tom George

Right. That's right.

Mitch Kummetz

Okay. And then, on Schuh, I know that you're lapping some difficult comps in the first half of the year. You guys were, I think, double-digit comp last year in the first half. So, how are you thinking about the shape of Schuh for the year just given tougher compares in the first half and then that easing in the back half?

Mimi Vaughn

Yes, that's exactly right. So, in the first half, we expect the most pressure of Schuh, because if you look at the stacked comps, we had really a pretty spectacular stacked comps in the first half over the last several years. And so, we expect continued pressure in Schuh, particularly because the economic environment has been tougher. In the second quarter, we actually expect that to ease off a bit. And we see opportunity in the back part of the year for Schuh with holiday and also back-to-school.

The environment—you know, inflation is coming down. They've had higher inflation than we've had. Their inflation efforts overall are gaining traction. We expect that that will show up in the consumers' appetite for purchasing in the back part of the year. There also have been mandatory wage increases in the U.K. that will take hold and we expect a brighter picture for the consumer in the back part of the year.

Overall, Schuh has just been taking market share and operating in a very difficult environment. And the overall retail sales in the U.K. were down for the holiday period. And we expect that as the consumer regroups and we get into spring selling that there is appetite for spring product and some sandal product and that we'll be able to leverage that into the back part of the year. So, you're right, it's a more difficult front part of the year building into a more positive back part of the year.

Mitch Kummetz

And then maybe lastly, I'm just trying to better understand your confidence in an uptick in the Journeys business for the back half. Because for holiday, I mean, obviously boots were weak, but also you talked about selling out of key items. And then for the first half of the year, spring, you're talking about challenges in the core business. So, when you look at the back half, from a key item standpoint, are you anticipating better access and allocations to those key items?

And then also in terms of the core business, are you seeing some inflection there? Do you think that—you talked about vulcanized being difficult in 4Q. Like are you anticipating the vulcanized business getting better or you pivoting to other things, other products that you consider to be core that you'd be better represented in core product because of some shift to other types of product? Do you understand what I'm

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

kind of trying to get at? How much of this is just better allocation of key items versus something happening in the core that's different in the back half versus the first half?

Mimi Vaughn

So, a lot of questions in there, Mitch, but we are absolutely anticipating that we are going to be getting better allocations of product. We are absolutely anticipating that we are going to be shifting into brands and increasing the assortment in the brands that are working. And we've got line of sight into what those are. We've actually got line of sight into a bigger order book based on the actions that we have already taken.

When I think about the strength of our Journeys' merchant relationships, we have doubled down on that by bringing in even more expertise that our new Chief Merchant and that Andy have and the relationships that they have with the brands that are really important. And so, it's a full-court press to get more allocation of items that we are excited about of diversifying across our mix with brands that are working today. It is moving the assortment into a different mix for sure. And we absolutely do not anticipate that core products that we've been selling traditionally will rebound, that the vulcanized product that I referenced will be rebounding. It is putting in additional product on the athletic side and also on the casual side to be able to build the sales through the course of the year.

Mitch Kummetz

Okay. That's helpful. I appreciate the color. So, thanks, and good luck.

Tom George

All right, thanks.

Mimi Vaughn

Thank you.

Operator

Thank you. At this time, I will turn the floor back to Management for any further remarks.

Mimi Vaughn

Great. Thank you for joining us today. We look forward to you joining us on future calls where we're going to talk about the progress that we are making within our Journeys business. And thanks again.

Operator

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

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

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com