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Genesco Inc.

Fourth Quarter Fiscal 2022 Earnings Conference Call

March 10, 2022

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Steve Marotta, *C.L. King & Associates*

Mitch Kummetz, *Seaport Global Securities*

Corey Tarlowe, *Jefferies*

PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco Fourth Quarter Fiscal 2022 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 and full year Fiscal 2022 results.

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 and supply chain issues 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 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.

With me on the call today is Mimi Vaughn, Board Chair, President and Chief Executive Officer, who will begin our prepared remarks with an overview of the period and the outlook for Fiscal '23, and Tom George, Chief Financial Officer, who will review the quarterly financials in more detail, provide guidance for Fiscal '23, and then turn the call back to Mimi, who will discuss strategic initiatives to drive our business in the coming year.

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

Mimi Vaughn

Thanks, Darryl. Good morning, everyone. Thank you for joining today.

A very strong holiday season concluded an outstanding year. Throughout Fiscal '22, we accelerated our recovery from the pandemic and delivered record results for our footwear companies, even as we navigated a number of acute challenges. Despite multiple COVID variants, bottlenecks across the supply chain, labor shortages and higher costs, we capitalized on the opportunity of a strong consumer spending environment to drive our business forward. Our exceptional results underscore the earnings power of our business model, the solid foundation for growth we've built through the strong competitive positions of our retail and branded concepts, and the successful execution of our footwear-focused strategy.

My sincere thanks and congratulations to our incredible teams across the Company for achieving this great success.

There are several key achievements that defined the year:

- we grew revenue more than 35% over last year and 10% over Fiscal '20;

- gross margin expansion and meaningful expense leverage drove record operating income for our footwear businesses, as we achieved an operating margin above 6%;

- we generated $240 million of operating cash flow, putting us in a great position to further invest in our business and return over $80 million to shareholders through share repurchases equal to 9% of outstanding shares; and

- We delivered record adjusted earnings per share of $7.62, an increase of more than 65% over Fiscal '20.

Additional highlights include:

- capitalizing on the accelerated shift to online spending and holding onto last year's almost 75% gain, to reach almost $0.5 billion of digital sales;

- growing our branded wholesale business by almost $90 million, versus two years ago, while improving profitability, adding new licenses and strengthening retail partnerships; and

- increasing store revenues over 40% from last year and nearly achieving Fiscal '20 levels, despite having 55 fewer stores.

Overall, our results highlight the work we've done to create and curate leading footwear brands and, importantly, to strengthen our position as the leading destination for teen and youth branded fashion footwear.

In today's channel-less world, where the consumer can truly shop anywhere, Journeys' and Schuh's growth underscores the tremendous loyalty developed with existing customers and compelling proposition offered to new customers. Teens view us as the unparalleled fashion authority, choosing fashion-right brands and styles, validating whatever brands we're currently selling, and they are increasingly turning to our concepts for their branded footwear needs. We are not dependent on any one brand for the majority of our revenue, but rather ten or more brands typically constitute 80% of what we sell. Trend-driven teens, who are looking for the most current assortment of fashion footwear that is always evolving, whether they want to make a statement to stand out or want to fit in and be just like their friends, come to Journeys and Schuh to buy multiple brands and seek advice from our knowledgeable, fashion-advisor salespeople in our youth-focused, full-service environments. The effects from the pandemic on how consumers shop, rather than harming our business, was instead the catalyst to reach new heights.

Shifting now to the fourth quarter, the work we did to have the right assortments and the right holiday marketing campaigns helped deliver Q4 results well ahead of expectations. Consumer demand was robust, and we, nonetheless, believe our results would have been even stronger had we been able to maintain historic levels of inventory. Our performance over last year's Q4 was driven by store sales and, versus two years ago, by digital and branded wholesale sales.

Q4 highlights include:

- Revenue up 14% over last year and 7% over two years ago. Remarkably, we achieved this despite overall inventory being down almost 20% versus last year and down by one-third compared with the fourth quarter two years ago during the key holiday period.

- With much more limited promotional activity, coupled with price increases, full price selling was very strong, fueling a 300-plus-basis-point increase in gross margin versus last year and a 200-basis-point increase compared to two years ago, much stronger than expected.

- Higher sales and this better than expected gross margin resulted in double-digit operating income expansion over pre-pandemic levels and record adjusted earnings per share of $3.48, an increase of more than 25% compared to last year's holiday season and 13% compared to two years ago.

From a channel perspective, the power of our omnichannel strategy was on full display in the fourth quarter, as consumer appetite to shop in-person, especially in the days leading up to Christmas, drove an almost 20% increase in store sales over the year ago period. Strong demand in stores, with many items selling as soon as they hit the store floor, meant less store inventory than usual was available to service online demand. We saw the biggest shift to in-store shopping in the U.K., as Schuh stores were open 100% of the quarter, compared to roughly only a third of the days last year. Despite the strong in-store sales in both Journeys and Schuh, we held onto almost 90% of last year's digital sales in total.

Turning now to discuss each business, I'll start with Journeys and begin with a huge congratulations to the team on setting all-time records of sales and operating profit for the year. Journeys' performance underscores the competitive advantages the business has built and how it has leveraged those advantages to further separate itself as the destination for branded fashion footwear for teens. All of Journeys top ten brands experienced year-over-year growth in Fiscal '22, with most notching significant gains.

The current fashion cycle, which I've been describing as shifting more into casual away from fashion athletic, plays into Journeys' strengths, positioning Journeys well among its competition to deliver this assortment. In anticipation of continued supply chain pressure, we encouraged customers to shop early, and they did, and the holiday season got off to a very strong start. At this peak volume time, as the season unfolded, while traffic remained solid, conversion, which had been robust, dropped off, as Journeys was not able to quickly replenish in-demand product to match outsized holiday demand. While Journeys' talented store teams drove sales above last year's levels, selling whatever was available, we believe Journeys' sales would have been meaningfully higher had we been able to get the inventory receipts we had ordered. As a positive, tight inventory led to unprecedented levels of full-priced selling, with customers also willing to absorb price increases to secure desired product, driving further margin acceleration.

Finally, the Journeys team continues to live its core values of being a family with an attitude that cares, partnering during the holidays with non-profit Can'd Aid and customers at the register for its largest national community activation, and donating $600,000 for bikes for underserved youth across the United States. As part of this initiative, Journeys' headquarter's employees built and donated 300 bikes and helmets to two Nashville elementary schools just in time for the holidays.

Shifting to the U.K., we were incredibly pleased with holiday results, as Schuh capitalized on pent-up consumer demand and delivered Q4 constant currency revenue up more than 30% versus last year and 12% versus two years ago. Like Journeys, Schuh's strength is its ability to deliver the fashion brands desired by its youth consumer, and Schuh drove nice growth across its diversified mix of both casual and fashion athletic footwear. As a result of its stellar execution throughout the pandemic, navigating multiple store openings and closings, and making the most of its advanced digital capabilities, Schuh garnered improved product access, being moved up a tier by a number of its high-profile brands. This step forward in access, coupled with less severe supply chain disruptions and strong inventory management, allowed Schuh to be in a better inventory position over the holidays. U.K. customers were more comfortable shopping in-person, leading to better in-store traffic. Schuh retained much of its digital gains from when stores were closed last year, resulting in a Q4 46% digital penetration. Lastly, less promotional activity and product mix also drove strong margin gains.

Turning now to our branded side, our plan to reimagine Johnston & Murphy for a more casual, more comfortable post-pandemic environment continues to prove out in the marketplace, with the biggest Q4 bottom line gain over last year of all our businesses. J&M continues to expand its focus from not just the products consumers need for work, but the products people desire for everyday life. Q4's strong sell-through in boots, casual and casual athletic footwear, and equally strong performance in apparel and outerwear, demonstrates just how far we've come making J&M an attractive, multi-category lifestyle brand. This pivot has included new strategies for how and where we reach our customer. New product-story marketing campaigns have been very effective, and we've seen the most growth in our digital channel, up 14% compared to Q4 last year, and growth in our under-35 customer base up 30% in Q4. Much stronger demand and supply constraints pushed inventory more than 50% below pre-pandemic levels, hampering our ability to capture all of the demand during the holidays and return J&M to pre-pandemic sales. Nevertheless, we're excited about J&M's trajectory and expect upside in the year to come.

Rounding out the discussion, momentum for Licensed Brands accelerated as the year progressed, notching impressive sales growth of 70% over last year, as we successfully turned around the business and capitalized on the new capabilities we obtained with the Togast acquisition. While supply chain disruption and excess freight costs weighed on the P&L throughout the year, we saw growing demand for both Levi's and Dockers footwear in value and full-priced channels, positioning the business for improved profitability as these challenges subside and we continue to take advantage of the white space in the marketplace.

In conclusion, our footwear-focused strategy is delivering results. COVID provided the real opportunity to transform our business at a more rapid rate. We are a healthier company today and delivered growth and improved earnings as a result of higher digital sales and profits, a more profitable store channel and growing branded wholesale sales. Our future is bright, as we build upon the progress we have made.

Turning now to the current year, Fiscal '22 had headwinds, I have discussed, and also some unique tailwinds; namely, healthy consumer spending in the first half due to significant government stimulus, an unusually good environment for full-priced selling as a result of high demand and scarcity of supply, and we benefitted from some one-time gains related to rent and government relief, mostly in the U.K.

With respect to Fiscal '23, sales have gotten off to a much stronger start versus last year, but a slower start versus pre pandemic, driven largely by the lower inventory levels and lagging tax refunds. We are expecting year-over-year trends to moderate as we anniversary stimulus and the lack of inventory further pressures growth early in the new year, especially in the first quarter. Looking further into Fiscal '23, we're working hard to overcome the cost pressures that are prevalent today and we don't anticipate the factors that led to such a strong full-price selling environment to be sustained.

Tom will provide the financial details of our outlook momentarily, but we feel confident about delivering top line growth on top of a very strong Fiscal '22. Consistent with what I have outlined, we are planning the back half to be much stronger than the first half, as inventory levels improve, logistics cost pressure starts to ease, and continued price actions help offset higher costs. Fiscal '23 will also be an investment year for J&M, as we advance the work on the brand's repositioning. We expect adjusted earnings per share for Fiscal '23 to be between $7.00 and $7.75, and believe somewhere close to the middle of the range is where the year will land. While there are a number of variables at play, our results over what has been a very volatile past 24 months gives me great confidence in our team's ability to execute.

Finally, our ESG program will achieve an important milestone early in the year, with the completion of our inaugural enterprise-wide carbon footprint assessment. Our work continues to progress, with more to come when we publish a comprehensive ESG report later this spring.

Now, to close, I'd like to again thank our people for their outstanding work and diligent efforts through another challenging year. Throughout Fiscal '22, our employees stepped up wherever needed, and I can't overstate how critical this work was to our success. Companies succeed, like we have, because of strong teams and dedicated people who help them achieve new heights. I am incredibly proud of what we accomplished together.

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

Thomas George

Thanks, Mimi.

I would like to echo Mimi's remarks regarding the continued success of our key strategies and our amazing people. With the year now behind us, we feel even more confident in our portfolio and the ability of our footwear-focused strategy to drive strong results. Throughout the year, we saw continued strength in all our businesses, culminating in a strong Q4, which was driven by our teams' ability to execute the strategies put in place.

Before I get into the details of the quarter, I want to again remind you, as we have done throughout the year, that we believe comparing to our pre-pandemic Fiscal Year ‘20, two years ago, typically provides the more difficult, and often most meaningful, assessment of our business. However, when comparing to Fiscal Year ‘20, keep in mind how our strategy has changed our business. E-commerce has become a larger percentage of sales, along with wholesale sales for Licensed Brands. These changes come with an overall lower gross margin rate due to the impact of direct shipping expenses and the expansion of our wholesale volume. However, this should be more than offset with lower SG&A from these businesses. While these changes are reshaping the P&L, they have a net positive impact on operating margins and an added benefit of a less capital-intensive business model.

Turning now to the specifics for the quarter, consolidated revenue was $728 million, up 7%, compared to Fiscal ‘20. Journeys grew 2%, while Schuh grew 12%, on a constant currency basis, and we more than tripled our Licensed Brands business. As for J&M, the quarter started off strong in November, but supply chain challenges led to a significant lack of inventory, which led to J&M’s sales being down 12% for the quarter.

From a channel perspective, we experienced increases in both the e-com and wholesale channels, and while we drove robust growth in the store channel, sales remained 4% below Fiscal Year ’20, as scarcity of inventory impeded sales. Worth noting, as well, is that we ended the quarter with 55 fewer stores than we had in Fiscal Year ’20, as we optimize our store footprint. On a year-over-year comp basis, however, total company comp store sales were up 10% and were driven by comp sales of 6% at Journeys, 22% at Schuh and 55% at J&M. Finally, e-commerce sales were up 36% to Fiscal Year ’20, and accounted for 22% of total retail sales, up from 17% in Fiscal Year ‘20, while we also held onto 88% of last year’s gains, even while having the majority of our stores open during the quarter.

We were again very pleased with gross margins, which were up 310 basis points to last year and 200 basis points versus two years ago. Strong full-priced selling and price increases offset the channel mix impact of increased e-commerce and wholesale and increased logistics costs. Increased logistics costs put approximately 120 basis points, or $9 million, of pressure on Q4 gross margin and were the greatest drag in our branded businesses.

Journeys’ and Schuh’s gross margins were up 330 and 250 basis points, respectively, to Fiscal Year ‘20, driven by more full-priced selling and higher footwear ASPs. J&M’s gross margin was up 420 basis points to Fiscal Year ‘20, also benefitting from strong full priced selling and price increases, which also drove the release of slow-moving inventory reserves. Finally, Licensed Brands’ gross margin was down 190 basis points to Fiscal Year ’20, as we experienced almost 1,000 basis points, or almost $5 million, of pressure from additional logistics costs, which more than offset margin improvements in the business.

Adjusted SG&A expense was 39.8%, which was 170 basis points more than Fiscal ‘20, as deleverage from investments in marketing and higher incentive compensation more than offset leverage in occupancy and selling salaries.

As a reminder, our incentive compensation plan is based on year-over-year performance and, comparatively speaking, we had a much lower bonus expense in Fiscal Year ‘20 Q4 than we did this year.

The other major driver of the deleverage was in marketing expense, which is due to our efforts to drive our digital footprint, as well as brand awareness. This coincided with price increases in digital marketing costs, including increased cost-per-click.

It’s worth mentioning, last year’s SG&A levels were unusually low, benefitting from tens of millions of dollars of one-time COVID rent relief. We did, however, experience significant leverage in occupancy costs, driven by both permanent reductions and some temporary rent waivers and government relief in Canada and the UK.

Regarding our rent reduction efforts for Fiscal ’22, we negotiated permanent reductions through 181 renewals, which achieved a 16% reduction in rent expense in North America on a straight-line basis. This was on top of a 22% reduction for 123 renewals last year. These renewals are for an even shorter term, averaging approximately two years, compared to the three-year average we have seen in recent years. With 45% of our fleet coming up for renewal in the next couple of years, this continues to remain a key priority.

Finally, we were pleased with our ability to leverage selling salaries, particularly in this higher cost and more difficult labor environment, as we effectively utilized our workforce management tools.

Last quarter, we reported that we had identified the full amount of our $25 million to $30 million cost savings target. A large part of these savings are from current and future reductions in store occupancy. We will continue to focus our multi-year cost savings efforts on store channel profitability, including further efforts on reducing occupancy costs, gaining more efficiencies with selling salaries to mitigate the effects of wage pressures, and continually look for ways to further drive efficiencies given the changing cost structure of the business.

In summary, fourth quarter adjusted operating income was $66 million, a 9.1% operating margin, compared to $59 million, or 8.8%, for Fiscal Year ‘20. Versus last year, operating income improved by $2 million, or 2.6%. Again, last year’s SG&A levels were unusually low, benefitting from significant COVID rent relief. The impact of this was greatest at Journeys and, in large part, led to lower operating income this year, despite higher sales and gross margins, as Journeys anniversaried these one-time gains. The profitability achieved during the quarter provides strong evidence of the operating margin expansion that we are continuing to see with our footwear-focused strategy, as well as our ability to execute our growth algorithm. As Mimi mentioned, for the fiscal year, we achieved north of a 6% operating margin, which was an important milestone in our long-range plan.

For the quarter, our adjusted non-GAAP tax rate was 25%, which compares favorably to the 37% last year, due to the impact of the CARES Act tax provisions in the fourth quarter of Fiscal Year ‘21. This resulted in adjusted diluted earnings per share of $3.48 for the quarter, which compares to $2.76 last year and $3.09 in Fiscal ‘20.

Turning now to the balance sheet, Q4 total ending inventory was down 24%, compared to Fiscal ’20, on sales that were up 7%. At the end of the quarter, all our business experienced inventory shortfalls, versus Fiscal ‘20, with the most impacted in Journeys and J&M, which were down 20% and 39%, respectively. Our strong net cash position of $305 million, an increase of over $120 million, versus last year, was driven by our strong operating performance. Additionally, we consolidated operations and sold a warehouse, realizing a sizeable gain on the transaction.

This strong performance and our confidence in the business enabled us to continue to return cash to our shareholders through the repurchase of 840,000 shares of stock for $52 million at an average price of $62.22 per share during the quarter. Total Fiscal ‘22 share repurchases were approximately 1.36 million shares, or 9% of outstanding shares, at a cost of approximately $82.8 million and at an average price of $60.88 per share, which effectively used up our September 2019 $100 million share repurchase authorization.

As a reminder, to continue to support our capital allocation strategy, we recently announced the approval of an additional $100 million of repurchase authorization in February of this year, which represents our current availability.

Regarding capital allocation strategy, our immediate priority is to accomplish the substantial task of re-inventorying, then invest in the business, and continue to return cash to our shareholders through opportunistic share repurchases. Capital expenditures were $19 million, including our new headquarters, and depreciation and amortization was $11 million. We opened two stores and closed 11 during the fourth quarter, to end the quarter with 1,425 total stores.

As we look toward Fiscal Year ‘23 guidance, we are excited about the year ahead and the continued momentum of our business, but we recognize that we are faced with supply chain delivery delays, increased product and logistics costs, and the lapping of significant stimulus last year in the first half. Regarding supply chain delays, we expect inventories to normalize late Q2 to early Q3. In addition, we expect to experience wage pressures throughout the year.

After considering these factors, we expect Fiscal Year ‘23 sales to grow 2% to 4%. For adjusted earnings per share, we expect a range of $7.00 to $7.75 per share, with our best current expectation that EPS will be near the midpoint of the range.

Note that our full year guidance does not anticipate further significant supply chain disruptions or a more rapid escalation of inflation or geopolitical conflicts.

Regarding our individual businesses, for Journeys, we expect first-half sales to be below comparable Fiscal Year ‘22 levels, since Journeys benefited considerably from stimulus last year. We then expect growth in the back half, as we assume inventories will normalize to pre-pandemic levels and we benefit from further price increases. For Schuh, we expect growth for the year driven by more normalized store openings. For J&M, we expect to return to pre-pandemic sales levels, and we expect growth for Licensed Brands, as well.

Regarding gross margins, we expect gross margin rates to come down versus last year by roughly 40 to 50 basis points, due mainly to increased mark-down activity in the quarters in which mark-downs normally occur, as compared to essentially no promotional activity last year.

We expect adjusted SG&A as a percent of sales to deleverage in the range of 10 to 40 basis points. This is driven by leverage from reduced performance-based compensation being offset by anniversarying significant one-time rent abatements, primarily at Schuh, and selling salary wage pressure. In addition, we will have increased marketing investments to drive our business forward.

Our guidance assumes no additional share repurchases for the fiscal year, which results in Fiscal ‘23 average shares outstanding of approximately 13.4 million, but we can repurchase opportunistically with the availability under our most recent authorization.

Furthermore, we expect the tax rate to be approximately 28%.

In summary, this all results in an expected operating margin below Fiscal Year ’22, which, beyond cost pressures, in large part, is due to a difficult first quarter, and our belief the factors that led to such a strong full-price selling environment will not be sustained.

While we typically don’t provide quarterly guidance, I want to provide some perspective on Q1. As I said, we are lapping the benefits of Fiscal Year ‘22 stimulus, while at the same time experiencing delivery delays. As a result, we expect Q1 sales to be below last year, which is the main driver of a good amount of SG&A deleverage in the quarter. We are also anniversarying some one-time pickups, like rent abatements, in Q1 last year. Regarding gross margin, increased airfreight and logistics costs are driving pressure, particularly at J&M. The good news is we expect overall gross margin to be just under last year's levels. With all of this, we expect a small loss in the quarter, even as first-half earnings return more to a pre-pandemic cadence. Also, it is worth noting for Q1, we expect to incur a small amount of tax expense due our inability to recognize tax credits for our international operations.

Now, I would like to turn the call back over to Mimi to discuss the progress and continued efforts of our strategic initiatives.

Mimi Vaughn

Thank you, Tom.

The results Tom detailed clearly demonstrate that our footwear-focused strategy is advancing our business in this ever-changing environment. This strategy, implemented before the pandemic, leverages our teams' significant direct-to-consumer expertise across footwear retail and brands and the synergies between platforms. Driving this strategy are six strategic pillars that emphasize: continued investment in digital and omnichannel, deepening our consumer insights, driving product innovation, reshaping our cost base and pursuing synergistic acquisitions, all to transform our business and exceed the expectations of today's consumer, whose needs have rapidly advanced. We continually refine our focus within the six pillars to take further advantage of the major changes underway in our industry.

Before we get to Q&A, let me walk you through the pillars and briefly highlight select initiatives for Fiscal '23.

The first pillar is accelerate digital to grow the direct-to-consumer channel. The investments we have made paid huge dividends and contributed meaningfully to our results these past two years, as we achieved e-commerce sales growth of almost 80% over this time. Importantly, our online business generates operating margins well into the double-digits, due to our focus on full-price selling, disciplined marketing spend and shipping and return policies to reinforce profitability. This year, we are increasing our IT investments and resources to support digital. We also believe continued enrichment of the digital shopping experience through fit refinement, try-on augmented reality, and shop-the-look features will further add to digital growth in Fiscal '23. After a successful virtual try-on pilot program with Journeys this past year, we plan to roll out that program across all brands in the upcoming year. Additionally, we accelerated automation to support omnichannel growth, and will benefit from last year's go-live of our new carton on-demand system and bespoke e-commerce packing module. Lastly, we will add to our investment in digital marketing to drive traffic and attract new customers. We expect marketing to be up more than 60% versus pre-pandemic spending, in large part driven by these digital marketing increases.

Our second pillar is maximize the relationship between physical and digital channels. During the pandemic, we increasingly saw the importance of these two channels working seamlessly together to provide consumers with their preferred shopping experiences, and we are building on and refining this relationship. Our research has told us that over 30% of our Journeys' target consumers visit local non-mall shopping centers two to three times per month and enjoy the convenience of shopping closer to home, combined with enhanced omnichannel services, like easier curbside pickup. We piloted a number of these off-mall locations and we're very pleased with the early sales and four-wall results. As such, we are expanding our portfolio of Journeys' non-mall locations and opening up to 30 new locations this year. Tools, like our new real estate analytics platform, will allow us to optimize our site selection as we build out this footprint. At Schuh, we are opening a new distribution center in Ireland to better support omnichannel sales there. With this new center, we will also increase the efficiency of our Irish operations, while reducing costs resulting from new duties imposed post-Brexit.

Moving to our third pillar, building deeper consumer insights to strengthen customer relationships and brand equity, data-driven consumer insights and more robust CRM capabilities are key to driving our next big wave of growth. Because of the trusted relationship we have with our customers and their parents, and the efforts to capture first-party data in our stores, we are currently able to identify 80-plus percent of our Journeys and J&M customers. This year, we will continue our investments in CRM and data analytics, particularly through database growth and loyalty program advancement. We expect to fully launch our new Schuh loyalty program following a successful test in Fiscal '22, grow our Johnston & Murphy program which launched last year, and advance the work on a loyalty program for Journeys. We will also invest to elevate the Journeys and Johnston & Murphy brands through increased marketing campaigns and spend to support this initiative.

Our fourth pillar, intensifying product innovation and trend insight efforts, we will be utilizing new consumer insights to further innovate Johnston & Murphy's product offering and its accelerated shift to casual. We have made tremendous progress reimagining the brand, highlighting proprietary innovation involving performance, advanced cushioning and breathability technologies in both footwear and apparel, and growing Johnston & Murphy into its position as the number seven casual brand in the premium channel. In addition, we will leverage our Togast capabilities and talent in connection with our new Starter and Etonic licenses, which have shown strong pre-sale demand, and also build on the impressive growth achieved with the Levi's U.S. men's, women's and kids' footwear license and category opportunities in areas like slippers, flip flops and slides. Finally, we are investing in a new scalable wholesale enterprise resource planning system to support the growth of our branded platform.

Pillar five, reshaping the cost base to reinvest for future growth, has been a continuous effort, aimed especially at the store channel and working with our landlord partners to find a solution to right-size rents to match traffic levels. In addition to the approach Tom outlined for rent reduction, we are improving efficiency wherever we have people-intensive activities. For example, this year, we are investing in new receiving automation in our Journeys distribution center, which should lower labor costs and increase productivity, especially during peak receiving periods.

Finally, pillar six, pursue synergistic acquisitions to enhance growth. As we navigated an unprecedented environment over the last two years, acquisitions were not at the forefront of our strategy, in spite of the success we're having with the Togast acquisition. Now that many of the challenges of the pandemic are behind us, we will concentrate our efforts on opportunities to leverage our powerful direct-to-consumer capabilities to grow our branded platform and leverage its synergies.

So, now, to close, while we are so pleased with the year we just finished, we are even more excited about driving our footwear-focused strategy to deliver additional growth and shareholder value.

Operator, we're now ready to open to call to questions.

Operator

Thank you. At this time, we will be conducting a question-and-answer session.

Our first question comes from the line of Steve Marotta with C.L. King & Associates. Please proceed with your question.

Steve Marotta

Good morning, Mimi and Tom. Congratulations on closing out a terrific fiscal year. Mimi, you implied earlier that embedded in your guidance is for a more normalized promotion environment as the year progresses. Do you see that just generally because supply lines will be catching up with demand, or do you see it a little bit more as a leveling of demand, or just wanted to know why you think, just from an industry perspective, that the gross margins that had been—or merchandise margins that have been posted, that a little bit will come off of that?

Mimi Vaughn

Thank you, Steve. As far as gross margins go, if you think about the cadence of the year last year, what we saw is there was such robust demand and limited supply, that in the quarters in which normally take mark-downs—that is the second and the fourth quarters—that we, essentially, took no mark-downs. It was very much an unprecedented environment, and I think it coincided with the opening of the country as the COVID vaccines were rolling out, and then just an exuberant demand on the part of the consumer, really, fueled by stimulus.

So, as we come into this year and we compare to historical margins, we've learned a lot. We actually think that we will have better margins on business-by-business basis, but that we are going to give back some from last year, just because of the unusual environment that sustained new mark-downs. Our merchants are fantastic, but they have set us up to know that we shouldn't expect to have no mark-downs again this year.

Steve Marotta

Very understandable. Can you talk about—considering there's issues with another well-known, mall-based footwear retailer, maybe you could discuss your risk mitigation strategies in an effort to avoid similar challenges that they might be feeling currently?

Mimi Vaughn

Thanks for that question. Journeys is really different, and I just want to talk about how different Journeys is.

What Journeys and Schuh represent is a place for teens and young adults to go buy their fashion footwear. What we are all about is that teen relationship, and we own the teen relationship. When they think about buying fashion footwear, they think about our concept. We're really known as the fashion authority. We validate the choices that teens make, which is really important. They know that what they buy at Journeys, that they'll be fashion-right, and that's a really important offering to give to teens who are nervous about going to school and making sure that they've got the right shoes on. They very much like our curated assortment. They like our service model. They think our sales people are cool. They're very edgy, they look very fashionable. Our teens are in a phase of discovery, and we have the allocated products that our teens really want.

Importantly, we are not dependent on any one brand. As I said, 10 or more brands, typically, make up 80% of what we sell, with more brands constituting the remaining 20%. If you walk into our stores or you visit our website, it speaks to our consumer; it uniquely speaks to our consumer, our young consumer. Branded websites or branded stores stretch beyond our core consumer. They're more about the brand, they're less about the consumer, because they're appealing to a number of consumer segments.

One thing we know for certain about the Journeys business is that fashion is going to rotate, whatever is popular today is not going to be popular tomorrow, and so what our merchants are incredibly good at is discerning those trends, testing brands and styles, knowing what to scale, and, importantly, knowing when to get out of particular brands. I think that's the key skill that keeps our teens coming back and back again, because they know that we're going to have the right assortment.

So, fashion rotation and the ability to serve a teen customer so effectively through, really decades, with evolving tastes, is a competitive advantage for us, and it's instituted within our merchant talent and capabilities. Schuh is very much the same thing, mining the ins and outs of fashion and brand rotation is what has us stand out from others.

Steve Marotta

That's very helpful. Maybe if I could just sneak one more in. Considering risk mitigation again and what's going on currently in Ukraine, has Schuh felt any collateral impact from that, either from consumers, from a retail traffic standpoint or digital traffic standpoint, and how do you see that, maybe, progressing over the next two or three months, and how it could affect Schuh? Thanks.

Mimi Vaughn

We haven't yet seen a specific impact at Schuh. You saw what an extraordinary back-to-school and holiday period that Schuh has had, and that has carried into this fiscal year. I think where we would see the biggest impact is really in higher gas prices. Like the U.S., the U.K. has experienced quite a bit of inflation, for all of the same reasons that we have experienced it, and that consumer in the U.K. will also be sensitive to just overall inflation, and then, specifically, gas prices.

There is a tourist element, an tourist element from Europe, in addition, from broader Europe, but that was impacted by COVID, and so our business has been operating without that effect. So, I really do think it depends on how long this conflict lasts and whether or not a diplomatic resolution can be achieved fairly quickly.

Steve Marotta

That's very helpful. Congratulations again. Thanks.

Mimi Vaughn

Thank you.

Thomas George

Thank you.

Operator

Thank you. Our next question comes from the line of Mitch Kummetz with Seaport Global Securities. Please proceed with your question.

Mitch Kummetz

Hi, thanks, and let me add my congratulations, as well. Thanks for taking my questions, I've got a few. To start with, on operating margins, you guys landed at a 6.3% this year. If my math is correct, I'm looking at around 5.4% to 5.8% next year. Pre-COVID, you were 4.5%. So, how do you think about operating margin on a normalized basis, and kind of what are the puts and takes to get there?

Mimi Vaughn

Thank you, Mitch. Pre-pandemic, our operating margin was at 4.5%. We had put a 6% target out there and we were delighted that we hit this ahead of schedule. It really shows that our business has the earnings power that we knew it had. But, we know this year, as I just discussed, that we were helped by unprecedented full-price selling, and so we give back a little bit.

I first just want to talk about how excited we are about the organic growth we have in our business, because there's a very close link between that and operating margins. We said 2% to 4% this year, but that's following a really robust year of growth, and going forward, we expect that we're going to have growth in the mid-single-digits.

First, let me talk about this year, and then let me talk about subsequent years.

We feel good about this year, because, while we picked up stimulus in the front half of the year, it largely helped the Journeys business, we left significant sales on the table in the back half. I think our inventories held in there well, but at Christmas, we just hit the wall and feel like we left a lot of sales on the table. So, when you think about this year, we're going to have fewer sales in the front part of the year, but a lot more sales in the back half of the year. In fact, we left more sales on the table than we gained during stimulus. The second thing is that price increases that we have taken are sticking, and so that gives us confidence in this year.

Our business is strong post-pandemic. Our business has changed. This is a transition year. But, in general, the growth algorithm to get us to the mid-single-digits have three pieces:

- The first is that we're going to grow digital, which is now 21% of our sales. If you think about historical growth of digital, we've been 15% to 20%. At 10% or 20%, that alone gives us 2% to 4%.

- We will grow wholesale, that's the second thing. We added almost $100 million of wholesale sales this year, and going forward, we think there's more opportunity in Licensed Brands. We think that with the new Johnston & Murphy proposition, that we have quite a lot of opportunities on the wholesale side, as well.

- Then, lastly, I talked about a new store strategy for Journeys, where we'll be opening off-mall locations. We've been very pleased with the profitability and the sales that we've seen there, and the opportunity to open more stores will add up to another 2% of growth per year, and on wholesale, that's about another 1%. In addition to our store comp, we feel like there is ample opportunities for growth, all of this with a more capital-light model and more diversified beyond the store channel.

Coming back to the 6% operating margin, we'd be there this year if not for a tough first half, and a tougher first quarter, especially. So, we feel confident that with this growth, we could get to higher than 6%. We'd like to see how the business normalizes this year, and we'll come back to you and let you know how it will evolve after this year.

Mitch Kummetz

If I look at operating margin by operating group, Journeys, for '22, I think came in around 10.5%, so that's actually slightly better than prior peak, but your other three businesses are still well below prior peak, particularly J&M and Licensed. Now, I know Licensed looks a lot different than it did prior peak. But, how do you think about the operating margin opportunities in those businesses? I mean, can J&M get back to a 7%, can Licensed get back to a 10%? Can you maybe just quickly address that?

Mimi Vaughn

Yes. So, going business-by-business, when you look at Johnston & Murphy, Johnston & Murphy's historical operating margins were actually 10%, and Brand margins are typically in the double-digit level. As we talked about, Johnston & Murphy's future being more wholesale-oriented and being more digital, then that allows us to lift operating margins beyond what we were able to achieve in the store channel. So, getting back to 10% certainly is achievable for Johnston & Murphy. This year is an investment year. As we are investing in casual product, we've been very pleased with the growth we've seen on casual, and we're investing in marketing. We've done a good job attracting the under-35-year-old customer, which is going to be key to lots of growth for the brand going forward.

On the Schuh front, Schuh benefited from a good amount of government aid last year, and we also had a number of rent concessions. That business also is stronger in the market, really taking advantage of its consolidation in the market, but we're going to have a catch-up year as we anniversary those one-time pickups. Schuh's operating margin, we do think that, as we are able to drive gross margins, as we're able to leverage overall SG&A, bring down rent expense, that we should get back to—our first step is to—historically, we were achieving 5%, and there's nothing fundamentally different in that business versus the Journeys business that would prevent Schuh from getting to Journeys' operating margins.

Then, finally, Licensed Brands was way down this year by a good amount of logistics costs, and so we expect better margins for next year, really, to digest the sales that we had and achieve the earnings out of that business.

Thomas George

Mitch, maybe just to summarize, Mitch, I mean, we're on a solid foundation here to generate 6%, and we've got opportunity to expand even further with the initiatives that Mimi's talked about. Business-by-business: Journeys is already a 10% type business; Schuh, in the long run, is going to be lower than Journeys, mainly because of real estate costs, because their gross margins are expanding; the Johnston & Murphy business is a more premium-priced, omnichannel vertical brand, that should be double-digits; and our Licensed Brands business is a wholesale, capital-light kind of business, with a lot of opportunity, and that should be a double-digit business, as well. On essential costs, we've done a good job, always keeping those below a 2% level. So, we've got a good opportunity to grow the 6% to even higher levels.

Operator

Thank you. Our next question comes from the line of Corey Tarlowe with Jefferies. Please proceed with your question.

Corey Tarlowe

Good morning, and thank you for taking my questions. You mentioned this year would be an investment year in Johnston & Murphy, particularly in casual styles. What I'm wondering is have you witnessed any improvement in dress as COVID cases have come down and restrictions have been eased?

Mimi Vaughn

It's interesting that you ask that, Corey, and, yes, we have seen improvement in dress. In fact, we have typically dominated the dress category. But, what we're seeing is that we are viewing that to be just pent-up demand for events and for people who perhaps have looked at their shoes and say, "I really need a new pair of dress shoes." We actually don't think that there is a trend back into dress. Our J&M customer is in a good place, they've been saving a lot, they got used to comfort, and once you experience comfort, you really never go back. We've got an opportunity here, or the pandemic gave us a change to reimagine Johnston & Murphy, from a product point of view, and the work that we're doing is really paying off. We've pivoted harder into comfort and casual, that category has grown more. The proof point of what we're doing is working is really the strong sell-through of our spring and our fall lines. In November, we were up above our pre-pandemic levels in sales, driven by casual product, but simply ran out of product. We're investing even more in products this year, more in casual, we'll continue to sell dress, along with that, and our apparel and accessories business has been fantastic, it's now 40% of our business. So, the prospects to double the size of the brand again, like we did coming out of the Great Recession, we would think is very much within our grasp.

Corey Tarlowe

That's great. Then, with regard to the full year gross margin outlook, can you unpack how we should be thinking about the guidance, particularly as it relates to freight? I believe the gross margin is guided down 40 to 50 basis points. Then, can you just discuss plans in place to offset this headwind and other inflationary pressures that you're witnessing?

Thomas George

Yes, to give you a little bit of insight on the down 40 to 50 basis points, as Mimi mentioned, most of—a lot of that is related to the fact that this year, Fiscal Year '22, which was such a promotional—lack of promotional environment, that we just really don't think is sustainable going forward. Most of the pressure on the gross margin is going to be in the Q2 and Q4 periods, because those are the normal periods where you have most mark-downs.

On the freight and logistics side, we do have pressure in the first quarter of additional freight and logistics costs of about $10 million in the first quarter this year, that is putting pressure on the first quarter. Then, the second quarter, there's an additional $6 million to $7 million in the second quarter. So, that puts a lot of pressure on the gross margin in the first half.

What we're doing, from a mitigation point of view, is we're continuing to monitor the market, continuing to look at our current freight and logistics contracts, all the way from surface, as well as our container cost contracts, and continuing to look at ways to be creative from that perspective, and continuing to look at potential alternatives, other methods of surface transportation, as well as other methods of transportation. Obviously, that's high priority and we're continuing to work on that pretty much 24/7, to see what we can do to mitigate the risk of—additional risk of these costs.

Corey Tarlowe

That's great, and if I could just sneak one more in. Can you maybe unpack what's embedded in the 2% to 4% revenue growth outlook, with stores expected to be, I think, down slightly, and square footage to be done 1%?

Thomas George

Yes, I'll give you some perspective on that, Corey. From a total year perspective, relative to Fiscal Year '22, I think that's the best way to do that, we actually in the end, although we've got some lower stores, lower amount of stores, we expect some growth in the store channel, driven by a couple things. One of them, assuming—and it's a reality, not an assumption now, is the Schuh business, all their stores are assuming to be open now, so we'll see some good growth in the store channel from the Schuh business, and some growth in the J&M business, as we get more inventory, and even though there's some fewer stores, there are some new store openings with Journeys and we'll see some growth in their stores, as well. So, net/net, the store channel will grow. There's somewhat of a little bit of headwind on the direct business, primarily driven by the Schuh business, because with all the stores now open, they'll come back some off their digital business, because of—that go to the stores. Then, also, in Canada, we're assuming all those stores are going to be open. So, that benefited the Journeys store growth, as well.

So, that gives you a little bit of perspective on stores and digital. I'll hand it over to Mimi now.

Mimi Vaughn

So, just by business, and I think to reinforce what Tom was saying, that in Journeys, as we said, we will give up some sales in the front part of the year as we lap stimulus, but we'll pick up quite a lot of sales in the back part of the year when we re-inventory and sales we felt like we left on the table, so we think there's a little bit of upside in the Journeys business, even in spite of the stimulus. Schuh and Licensed Brands, we also think there is a little bit more growth in those businesses, but the biggest amount of growth is Johnston & Murphy. Johnston & Murphy was not back to pre-pandemic levels and we believe that they will get there, which represents a meaningful amount of growth for Johnston & Murphy this year. We think the demand is there, it's just a matter of catching up with supply.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Vaughn for any final comments.

Mimi Vaughn

Thank you for joining us today and I look forward to talking to you on our next call.

Operator

Thank you. This concludes today's conference, you may disconnect your lines at this time. Thank you for your participation.