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PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco Second Quarter Fiscal 2021 Conference Call. Just a reminder, today's call is being recorded.

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

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

Good morning, everyone, and thank you for joining us to discuss our second quarter fiscal 2021 results. With me on the call today are Mimi Vaughn, our Board Chair, President and Chief Executive Officer; and Mel Tucker, our Chief Financial Officer.

Participants on the call expect to make forward-looking statements. These statements reflect the participants' expectations as of today, but actual results could be different. Genesco refers you to this morning's earnings release and the company's SEC filings, including the most recent 10-K and 10-Q filings for some of the factors, including the impact of COVID-19 that could cause differences from the expectations reflected in the forward-looking statements made during the call today. Participants also expect to refer to certain adjusted financial measures during the call.

All non-GAAP financial measures, referred to in the prepared remarks, are reconciled to their GAAP counterparts and the attachments to this morning's press release and in schedules available on the company's home page under Investor Relations in the quarterly earnings section. I want to remind everyone we have posted a presentation summarizing our results that is accessible on our website. We hope you're all staying safe and healthy.

Now I'd like to turn it over to Mimi to discuss the quarter and highlight the progress we're making on select strategic initiatives.

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Thanks, Dave. Good morning, everyone. Thank you for joining us today. As we navigate through one of the more challenging retail environments in history, I want to begin by acknowledging the tremendous effort from our employees. The Genesco team has shown great ingenuity and resilience throughout the past several months, as we've tackled a myriad of new challenges brought on by the pandemic. I'm extremely proud of how our organization has executed during this incredibly fluid situation.

Our company began the year with positive momentum and from a position of strength, following 11 consecutive quarters of comp sales growth. Regardless of the near-term volatility we're experiencing now and are likely to experience in the coming months with the pandemic, we remain confident in the strong strategic positioning of our businesses for the longer term.

With respect to the second quarter, fluid is a good way to describe how recent events unfolded. The quarter began with positive momentum from pent-up demand and government stimulus as customers enthusiastically returned to our stores when we reopened and continued to actively engage and shop with us online. The significant undertaking of reopening brick-and-mortar locations require bringing back necessary staff to first reconfigure our stores and then to operate them under the new protocols to ensure our highest priority, the health and safety of our people and customers. The speed and executional excellence our teams demonstrated in getting our stores open and operational was a huge advantage as we often opened on the first day permitted by local authorities.

In July, towards the end of the quarter, after this very positive start, our business in North America was impacted by the resurgence of the virus across the country and its negative impact on store traffic and by the back-to-school season that hasn't yet materialized with an unprecedented number of students learning from home.

Overall, 96% of our store fleet is currently open. The locations that remain to be opened are in places, where local governments have restricted operations and a handful of street and airport stores, where traffic hasn't yet warranted reopening. Journeys opened quickly and benefited from a first to market position early in the reopening phase. J&M didn't begin reopening until mid-May, as we anticipated, its customer would take more time to return to shopping.

Across the Atlantic, the U.K. government was more cautious about reopening its economy. Mid-June was a turning point though when England permitted openings, allowing us to rapidly reopen stores after that. Across all our businesses, our stores were opened for about 70% of the days in the quarter. I'll go into more detail on each business in a moment, but we were very pleased by the initial performance of Journeys stores, which comped up double digits right out of the gate and the nicely positive operating income Journeys posted in Q2 and more recently, with a steady improvement at Schuh. But the headwinds at Johnston & Murphy had a material impact on the quarter.

The combination of all these dynamics led to a total revenue decrease of 20%, with the drop in-store volume partially offset by a notable 144% increase in e-commerce. Thanks to our decisive cost-cutting actions early in the outbreak, total expenses were down almost as much as revenue, even as we added costs from store reopenings, but we experienced gross margin pressure from higher digital sales, increased inventory reserves at J&M and higher promotional activity at Schuh.

While sales and profits improved considerably over Q1, we swung to a loss versus a small profit a year ago with adjusted loss per share coming in at $1.23. We were, however, encouraged by our ability to mitigate a portion of the impact to our bottom line from the reduction in store revenue. On top of the cost savings initiatives, our performance benefited from a meaningful increase in e-commerce profits. Our e-commerce channel was nicely positive and profitable prior to the pandemic. We've always operated with a goal to drive profits, and each incremental sale is accretive, so we welcome the additional volume. And as e-comm grows, we're leveraging the fixed costs and the investments we've made in this channel, which is driving further profitability.

Equally encouraging was our ability to reduce inventories in line with sales and to generate cash during the quarter. Mel will take you through the details of our net cash position, but I'm pleased with the entire organization's focus on cash generation and preservation during this trying stretch.

So looking now at each of our businesses in more detail. Journeys was positioned well, with the right product at accessible price points for a teen customer excited and anxious to shop. Comfort became the fashion choice of the pandemic, and Journeys' fashion athletic assortment fits the bill. On top of that, Journeys' spring/summer offering, which included a range of comfortable sandals and other more casual product resonated strongly, especially with women and kids.

While store traffic was down double digits in the first 2 months of the quarter, robust conversion and higher transaction size drove comps in open Journeys stores to positive double-digit levels as the teen consumer, less affected by the virus, showed up in our stores with stimulus money in their pockets and a high intent to purchase full-priced footwear. The strength of store sales, plus healthy e-commerce volume, which almost tripled for the quarter, drove Journeys' total sales up double digits year-over-year for June, even as we were still opening stores.

Then, in early July, traffic began to fade somewhat in North America, as the number of new COVID cases spiked. First in states like Florida, Texas, Arizona and California, and then across much of the country. Around mid-July, we typically see weekly traffic and sales volumes begin to accelerate as back-to-school selling gets underway. With students starting school later, or beginning the new year learning from home, we experienced a meaningful falloff in year-over-year store traffic and did not see the big bump in demand we usually see in late July, which pushed Journeys' store comps into double-digit negative territory for the month. With July representing almost 50% of Journeys' second quarter sales last year, this trend a little more than offset the strong store results in May and June.

Schuh's market positioning is similar to Journeys, selling comfortable, accessible fashion footwear to teens and young adults, a real plus for the pandemic, and good weather aided sales of sandals this summer. Schuh stores were opened for less than half the quarter since the U.K. was slower in reopening its economy. And even as they reopened, U.K. consumers were not as quick to shop in stores post lockdown. Traffic was initially down well over 50% before steadily improving along with sales as the quarter progressed. Like Journeys, robust conversion and higher transaction size boosted store comps to less negative levels. In addition, Schuh's advanced digital capabilities were on full display. It was the most successful of our businesses, capturing a portion of the lost store volume by almost tripling its e-commerce sales, albeit through heavy promotional activity to match the U.K. competition.

The trends that helped Journeys' and Schuh's performance have been headwinds for Johnston & Murphy, with its less casual product and an older consumer. Results were very challenging throughout the quarter as the J&M customers had fewer reasons to buy, with many working from home and most social gatherings and events postponed or canceled. Store traffic, after initially improving, reversed course in July with a spike in COVID cases and was down over 60% for the quarter with sales performing a little better than that. While J&M historically enjoys a larger penetration of e-commerce sales, the gains during quarantine have not been as pronounced as we've seen in our teen and used businesses. So given its results, J&M has been a business where we've taken the greatest action on cost and headcount in the quarter in addition to significant inventory reserves. We also made the difficult decision to wind down Trask, which was a start-up brand J&M was underwriting.

Turning now to the current quarter. Back-to-school, our most important season after holiday, significantly impacts our Q3 performance, and back-to-school has been very different this year. Some of the more broad-based BTS surveys estimate that up to 2/3 of U.S. elementary, middle and high school students will attend school only virtually to start. Beyond this, some will follow a hybrid online and in-person model. For those students going back in person, Labor Day is 1 week later this year, and many schools are delaying start dates for up to several weeks. This has a couple of implications for Journeys.

The first is the shift of BTS shopping to later. The second is, to what extent will the appetite for footwear, apparel and accessories change for students who will be learning virtually at home initially. We've already gone through what is typically the BTS peak in the last week of July and the first half of August, so we saw a meaningful drop in Journeys' traffic and sales versus last year due to the shift. We have, however, also seen significantly better results in the last 2 weeks, and would expect this trend to continue as comparisons further ease. We've seen nicely positive comps for this period in some states where we know students are going back in person.

When all is said and done, we believe the BTS selling season will be prolonged, extending several more weeks into September for the delayed starts and potentially longer if virtual learners then shift to in-person. Journeys, as the go-to place for BTS footwear, is ready to service customers with an exceptional assortment and excellent service whenever BTS finally arrives.

Back-to-school in the U.K. have started as usual, and we've seen store traffic and sales build in Q3 as a result. Schuh's e-comm performance remains strong with the potential to fill much of the gap left by stores in the quarter. At J&M, the third quarter has seen a continuation of Q2 trends. And we expect the catalyst for improvement to be a switch in the fall season, which is typically in August, but we shifted to September this year.

Visibility is limited as we head into the back half and dependent in part on what happens with the virus and how federal, state and local governments respond. As such, we're approaching the remainder of fiscal '21 cautiously, especially as it relates to expenses and inventory. The cost reductions we've booked to date reflect a small amount of the progress we've already made in our recent rent negotiations, with both a number of our larger as well as some independent landlords. We continue to engage in constructive conversations with the balance of our landlord partners, who understand both our need for rent relief while stores were closed, and for more flexible and appropriate rent structures going forward in order to keep stores open.

Shifting gears, I'll discuss the progress we're making on several digital and omnichannel strategic initiatives we outlined at the beginning of our fiscal year, which we're speeding up wherever possible. The first is accelerate digital to grow direct-to-consumer. Digital is one of our biggest growth opportunities. And while we doubled e-commerce over the last 5 years, we aim to further accelerate growth to double the business again in a shorter period going forward. When stores closed during the pandemic, our e-com business experienced unprecedented demand.

Our second quarter was the highest volume digital quarter in company history. Importantly, we were able to meet the explosive demand thanks to investments we've made in mobile, our platforms, our websites and our distribution centers. We've helped the customer adjust to the pandemic by introducing services such as pay in 3 or 4 installments and videos on how to measure shoe size to aid with online purchasing. In the near term, we're prepping to handle what we anticipate will be record holiday digital volumes and have just upgraded our inventory locating and order brokering system, which will help the cause by providing even greater inventory accuracy, which is critical during peak sales periods.

We've also started the work on another bespoke e-commerce picking module for the Journeys DC as we continue to invest to drive digital. Not only did we achieve record e-comm volumes, but we also achieved records for attracting new customers to our e-commerce channel. The number of new web customers visiting our sites grew 55% in Q2 over last year's levels.

Progress we've made with our second initiative build deeper consumer insights to strengthen customer relationships and advancing our CRM capabilities are helping us to engage with and retain these new customers. We completed a CRM implementation as planned earlier in the year at Schuh, aimed at increasing frequency of shopping and average order value. Schuh's CRM welcome campaigns initially launched in June, are designed with personalized content to induce new customers to complete additional purchases and to build loyalty to Schuh along the way. These new campaigns are already delivering higher conversion and promising results. Journeys has had success driving additional purchases through its welcome campaigns for its much larger number of new customer files as well.

Lastly, throughout the year, we have been making progress on a third pillar, maximize the relationship between physical and digital, as we plan to launch in our North American stores the initial pilot of BOPUS, a capability we've had for a long time in the U.K. Our stores are a strategic asset and this capability, which is pandemic right, allows us to leverage them further.

Touching now for a minute on strategic positioning. The strength of our concepts and the competitive advantages we've built over time were evident in Q2. This was especially true for our concepts that served teens and young adults, which represent more than 80% of our business. The Journeys teen customer is a young, fashion-seeking customer, who appreciates its edited assortment of branded products that trend right for them, trusting Journeys to validate their choices. They also value and need the advice of our edgy, fashionable salespeople and like interacting with people they can relate to.

As a house of brands, Journeys serves its customers' needs year-round, from sandals in the summer to sneakers for back-to-school and boots in the winter, which is compelling since kids buy more than just one brand. And of course, with teens, the brand that's hot today will not be tomorrow, which strengthens the moat around Journeys' positioning. Thanks to its unparalleled relationship with the teen customer, Journeys' discerns these trends and continually secures the right coveted, limited distribution product, which keeps its customers coming back again and again.

Schuh has as more positioning to Journeys, and its strong connection with its customers has only increased during the pandemic. All this gives us confidence that when our consumer does come out to shop, back-to-school or otherwise, that both Journeys and Schuh will continue to capture more than their fair share.

Our J&M brand, along with Levi's and our other licensed brands have deep, rich histories and significant brand equity. J&M has achieved great success over the last decade, pivoting away from being known strictly as a dress shoe company, both evolving it's product mix toward a more casual offering and proliferating the categories it offers as a lifestyle brand. While J&M holds true to its heritage of quality and style, customers have embraced the newer product. Casual and casual athletic styles represented 60% of J&M's footwear sales last year; and apparel and accessories, 40% of sales in total. Work from home has only accelerated the trend away from direct-to-you product, and the J&M team in response is rapidly accelerating the transition of its assortment to an even more casual focus for future seasons.

Fiscal '21 is a year like no other. I'm so proud of how our teams have responded to the unprecedented challenges we've all faced. Not only have they focused on supporting the business and one another, but they've worked to advance our diversity initiatives and get back to our community in need through many efforts, including donations of shoes to students impacted by hardships as they get ready for back-to-school.

While we don't yet know how the rest of fiscal '21 will play out, we believe our performance this year has been impacted by the extraordinary market conditions and back-to-school and back-to-work uncertainty. And as these conditions normalize, we will see the competitive strengths of our businesses shine through. Importantly, we're well positioned from a liquidity standpoint to weather this storm, and I'm confident we will emerge strong to take advantage of the many opportunities on the other side.

And with that, I'll turn the call over to Mel to give more insight into our performance and financials.

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

Thank you, Mimi, and good morning, everyone. Turning to results for the second quarter. Even with robust e-commerce sales, overall revenue was down from store closures and store opening results. Gross margin was pressured by higher shipping costs from strong digital sales, inventory reserves at J&M and promotional activity at Schuh, offset partially by disciplined expense management that reduced SG&A cost in line with the decline in revenue. While the drop in revenue and earnings improved from last quarter's levels, adjusted loss from continuing operations was $17 million or $1.23 per share compared to last year's adjusted earnings from continuing operations of $2 million or $0.15 per share.

For the second quarter, ending cash was $299 million, with borrowings of $211 million, for a net cash position of $88 million. We entered the second quarter with $239 million of cash. And during the quarter, operations generated $74 million, while we spent $4 million on capital projects, paid down $14 million in borrowings and generated $4 million from other activities for plus $60 million in total. During the quarter, we also paid a large majority of vendor invoices that had been extended in reaction to the pandemic, but we have outstanding rent payables as we are in active negotiations with some of our landlords.

As the business environment continues to evolve, we remain focused on cash preservation. We are actively modeling multiple potential scenarios. And even in our worst-case scenario, we should have adequate liquidity to navigate our way through the choppy waters.

Turning to the specifics for the second quarter. Consolidated revenue was $391 million, down 20% compared to last year, driven by store closures, a later start to back-to-school and lower wholesale revenue. E-commerce delivered an impressive 144% comp, which was offset by a decline in store revenue of 39%, with stores closed for 30% of the possible operating days during the quarter. We have not provided overall store comp results in Q2 as our comp policy removes any stores that are closed for 7 consecutive days, and therefore, we believe that overall sales is a more meaningful metric.

Overall sales were down 12% for Journeys, 22% at Schuh and 64% at J&M, while sales were up 64% at licensed brands due to the Togast acquisition. Consolidated gross margin was 42.7%, down 590 basis points from last year. Increased shipping to fulfill direct sales drove 190 basis points of the total decline and impacted all divisions with digital sales increasing to 32% of our retail business from 10% last year. The remaining balance of the overall gross margin decrease was driven largely by significant inventory reserves we took at J&M on carrying over inventory and promotional activity at Schuh to compete in a highly discount-oriented environment in the U.K. J&M's gross margin rate declined by 3,380 basis points year-over-year, while Schuh's gross margin rate decreased 1,190 basis points. Journeys' gross margin rate decreased 120 basis points, with e-commerce shipping driving the reduction since additional markdowns and inventory reserves above last year's levels were not needed.

Adjusted SG&A expenses were $188 million for the quarter, down 19% on total sales that were down 20%, as our entire organization has managed expenses with a very focused effort in a challenging sales environment, a significant amount of the savings resulted from the reduction in store selling salaries and wages in our corporate areas from the actions we took related to furloughs, salary reductions and reductions in force. Compensation expense also benefited from reduced operating hours once stores reopened and government relief provided in the U.K. and Canada. Occupancy cost was the next largest area of savings, as we have benefited from the government program in the U.K., which provides property tax relief and a small amount of booked rent abatements. Full contract rent expense, for the most part, is included in our expenses per accounting requirements, as we continue to have active discussions with landlords and work to pay for the negotiations we have finalized. Other areas of savings include: advertising, travel and bonus expenses.

In summary, the second quarter's adjusted operating loss was $20.9 million versus last year's adjusted operating income of $4.7 million. Journeys generated positive operating income for the quarter, but gross margin headwinds, especially at J&M and Schuh, led to a consolidated operating loss. Our adjusted non-GAAP tax rate for the second quarter was 23%.

Turning to the balance sheet. Q2 total inventory was down 18% on sales that were down 20%. Journeys' inventory was down 22% on sales that were down 12%. We have been chasing inventory at Journeys and are working to bring inventory back in line with sales. Schuh's inventory was down 20% on a constant currency basis, with sales that were down 22%. J&M's inventory was down 11% on sales that were down 64%. This reflects carryover inventory, and a level of reserves we believe will be adequate to better rightsize current inventory levels.

Capital expenditures were $4 million, as we took action to manage spending down even further in areas outside of digital and omnichannel, and depreciation and amortization was $12 million. Given the uncertainty in the economic environment, we are not providing guidance this quarter, but we will share some current thoughts on the business going forward.

Q3 revenue will be dependent upon when and if schools return to in-person instruction this fall. If the improvement in back-to-school that we've seen recently continues on its current trajectory, the year-over-year drop in overall sales will be somewhat better than it was in the second quarter.

Gross margin rates for Q3 will improve from Q2, as we do not anticipate the same level of inventory reserves or promotional activity. However, we do expect Q3 gross margin rate will be lower than last year, as e-commerce sales penetration will continue to be higher.

We expect SG&A dollars in Q3 to remain below last year's levels as we continue to benefit from our ongoing cost reduction efforts and savings from rent abatements. Q3 SG&A reductions, however, will be below the first half's levels, as most stores have reopened. The annual tax rate is expected to be approximately 20%. Finally, in Q3, if back-to-school does not continue on its current trajectory, we also expect a loss for the quarter.

In conclusion, I would like to thank our associates who've maintained their unwavering focus to serve our customers and manage our cost structure, while maintaining a safe environment as we effectively manage through these demanding times together. Our thoughts are with our people and others affected by Hurricane Laura and the wildfires in California.

This concludes our prepared remarks. Thank you for joining us. At this time, I'd like to turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Janine Stichter of Jefferies.

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

I wanted to ask a little bit more about back-to-school and what you're seeing regionally. I guess, talk us through some of what you're seeing in terms of how can we get comfort around the idea that this might be more a shift in spend later in the season than a complete lack of back-to-school spend. And just talk through some of the details that you're seeing regionally around that.

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Janine, yes, back-to-school is certainly very different this year. And for us, it's meaningful in the second quarter, but it's even more meaningful in the third quarter.

And so what's happening this year is, as we've said in our remarks, is that up to 2/3 are going back virtually. And so if you think about that, that means only 1/3 are going back in person to start, and this is the big deal. And of those going back in person, we estimate that a little over 70% have already gone back. That's later than usual. So there's no question that kids are going back later. But if you think about it, net-net, only about 1/4 or a little bit more of our country's kids have gone back in the way that they typically do.

And so what we have seen is that during the peak period, that was the toughest comparison for us. We had tax freeze during that time, and the tax freeze were not effective. They typically stimulate sales, but I think parents were sitting on the sidelines just waiting to see. There was a lot of uncertainty about when and how kids are going to be going back.

So the last 2 weeks have gotten better. We actually have 20 states that are positive, and there's a high correlation between the states that have gone back in person and more robust sales. Plus, more kids are going back after Labor Day than usual. You may have seen that New York City said that it's going to be September 21.

So we will see more volume in September than we typically do because of the delays. And you take the current trend, which has been better and you run this out, and that means that we'll get in the neighborhood of about half of the back-to-school volume that we typically get. The big wildcard is whether the schools that have gone back virtually, will eventually shift back to in person. And there's lots of appetite for parents to get kids into school, especially younger kids, because they don't want kids falling behind. So that could extend back-to-school into October.

I think the bottom line is that there are a substantial number of kids who have not gone back, that points to potential opportunity for us ahead.

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

Okay. And then just maybe a follow up on that. Any color on how you're planning holiday in terms of timing? We've heard some companies saying they may start holiday marketing as early as October, which would seem that we might just wrap up back-to-school and go straight into holiday this year.

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Yes, that's true. I think that the October time frame is what lots of folks have been talking about, and we anticipate that the e-commerce volume will be larger this year than it ever has been before. And I think a lot of retailers are going to be trying to induce customers to get their shopping earlier to accommodate those peaks.

So the consumer has been holding up well in the U.S. and the U.K., just judging from the retail sales that we've seen so far, and additional government stimulus would help us. There's a lot of evidence that the U.S. consumer has been saving, and not spending. So we think that there will be income available for holiday spending.

The fourth quarter and holiday is typically a time when we over index, especially for Journeys. If you look at our stack comps over the past many years, it's been strongest in Q4. The boot season in footwear for teens is a big gift giving item. We had solid boot seasons for Journeys and Schuh last year, and it's given us some good reads on what would work this year. And if back-to-school is less robust than it typically is, then that may leave some pent-up demand for holidays. So net-net, we're planning conservatively, but we also know that fourth quarter is an opportunity for us to really do some business.

Operator

Our next question is coming from Jonathan Komp of Robert W. Baird.

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

I wanted to just first ask about inventory and how you're planning, and especially for Journeys, specifically. Given the reduction that you reported, how are you planning, looking into the second half here? And any additional color on how you're concentrating the makeup of the inventory around brands or trends that you're seeing? And any differences then we might typically think of?

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Sure, John. Let me start and give some color, and then I'll hand it to Mel to give a bit more. We had robust demand when we were closed in our stores online, and then when we reopened for Journeys and for Schuh, which depleted our inventory pretty significantly. We cut orders for the back half when the pandemic first started, so we really have been in inventory chase mode. And part of the thinking around reducing inventory was to focus on core styles and core products that we know would sell.

And just given some of the results from reopening, we feel really good about what our assortments contain and their -- the degree to which they're resonating with consumers. And so we have leaned into those assortments for holiday. We are sticking to the core products that we think will sell well. On balance, we will be chasing into inventory, but our inventory is really clean right now. And so that positions us nicely as we go into holiday.

And Mel, if you'd add more to that.

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

Yes. I mean, I think you just -- you touched on it pretty well, Mimi. I mean with Journeys and Schuh, we were able to quickly reduce inventory. And I think we have the ability to flex up and down with sales. So with overall inventory in line with sales with those 2 businesses, we've been able to react quickly and chase product when needed, and we have mainly core product.

The area where there's a little bit of challenge is at J&M. It's historically our lowest turning business and they're going to need some time to align their inventory levels to the rate of sale. We're below last year for the quarter, but we expect through the third and fourth quarters that we'll probably run a little bit above last year. But we've taken the appropriate write-downs in terms of the inventory. We chose not to liquidate, but rather to carry it through so that we can sell it next year because it's good quality product, not requiring more than the reserves that we've booked already. We are starting to see a little bit of pickup in the wholesale channels, in the off-price and the family footwear channels. They're coming back online a little bit more quickly than department stores. And as a consequence, licensed brands is starting to benefit from that.

In J&M, they are starting to see some wholesale accounts place orders. So I expect that we'll probably have some challenges there, but I think we've appropriately reserved for it. And I think all the divisions are on the side of trying to chase inventory. For the quarter, we're going to build inventories. It's our highest inventory period of the year. But all in all, I think that we're in a pretty good shape as it relates to inventory.

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

Okay. Great. And then just on the SG&A reduction in the second half that you're expecting, especially with most of the stores back out then. Can you just share more color on the drivers that you see? And then, within that, how much might be considered kind of more unique or kind of more onetime factors in the second half versus savings that might continue into next year?

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

So just as we look at where we're getting our biggest savings, there's going to be about 4% of our stores right now are closed, so we're going to continue to benefit from that. A lot of these are one-timers. So for example, in the U.K., the property tax relief goes through this year. But on the occupancy line, which is our biggest cost line, we've been doing a lot to negotiate lower rents, trying to push for percentage rent deals where appropriate. So hopefully, we'll get some movement there. I expect there's going to be quite a few rent abatement deals that get papered in the third quarter. I'm not sure how that will extend into the fourth quarter. Selling salaries in the back half will continue to benefit from reduced mall hours. We're operating under less hours in a lot of our stores right now, and that certainly -- it reduces payroll costs, increases productivity. So that's certainly a plus.

And as we're experiencing a new norm, clearly, we've learned how to communicate and operate and not travel as much, so I think travel continues to be a benefit. I think one of the things that we're going to have to do is we're going to have to really look at how do we align our expenses once we determine what the new normal is on the revenue line, and we're still trying to figure out how we normalize going forward. But I think that, by and large, the teams have been very focused on making sure that what we're spending is required and discretionary spend is not really happening.

Operator

Our next question is coming from Mitch Kummetz of Pivotal Research.

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

I guess, I've got a few, and let me get my back-to-school question out of the way first.

So Mel, when you talk about kind of your outlook for Q3, that sales would be down less than they were in Q2 if you see continued improvement in the back-to-school situation. What exactly does that mean, kind of in terms of your thoughts around sort of in person versus virtual learning? I think you guys said that 2/3 right now are virtual. Do you sort of -- are you assuming to kind of get that continued improvement that more kids are going back in-person? Or does that virtual percent stay the same, it's just that you're catching up as more kids are back in school, even if they are virtual? I'm just trying to understand kind of the dynamics around that, in terms of what's assumed for that guidance.

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Yes. Mitch, let me start and give some color, and then let Mel chime in as well. But as we have observed back-to-school, all that we are counting is those kids that we know, who will be going back in person. Now we know that it's more than just stay in person kid who has been shopping, we can tell that because our -- if a 1/3 are going back in person, we expect to realize more than 1/3 of our typical back-to-school sales. But definitely for those virtual learners, a lot of parents, I absolutely assume, including me, are not -- we're not buying at the same levels because we're waiting and conserving our dollars with the idea that our kids will go back, and they're going to want to have new shoes and new backpacks to wear when they do, in fact, go to school.

So the way we have thought about the additional back-to-school revenue that we would pick up is just a continuation of these current trends. It's not betting on whether kids, who are learning virtually, are going to go back in person. If that is the case, if a number of kids, and a lot of schools have been saying, hey, may be after Labor Day, which we're on Labor Day -- some schools recently have said that we're going to try for after fall breaks, which are in early October. If more kids do end up going back-to-school, then that's upside to what we have built into our outlook.

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

Got it.

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

And I would just -- to that, just briefly, that we still have the headwind of 4% of our stores currently aren't open. And if you look at -- we were 20% down in sales for Q2. I don't think we're going to be able to cut that in half, but I think that we'll probably be able to reduce it to between 10% and 20% down for Q3.

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

Got it. And then Mimi, you mentioned that the Q2 got off to a good start because of stimulus and pent-up demand, some of that's kind of worn off. And then also you talked about some of the COVID spikes that happened in July, and I think the rates there have gotten better. So I don't know how difficult it is to sort of parse these things out, especially in a weird back-to-school season. But could you maybe speak to stimulus and pent-up demand, and kind of maybe some improving COVID rates, and how you see that sort of impacting your business of late? And then I guess, I've got one last one.

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Sure. So let me just start with just the trends that we observed. Look, there's no question, and Journeys was our early read because they got out of the gate and opened up the most quickly. Customers were just so excited to get back into Journeys stores, and we have the right assortment to fit their needs. And yes, pent-up demand helped and stimulus money helped, but the assortment was certainly one of the main drivers of that demand.

And it was right as we got into July, and we tracked it pretty closely to measure the increase in COVID rates. And we saw an impact on our business, but it wasn't nearly as pronounced as the back-to-school impact. Back-to-school is just significant for us at the end of the second quarter -- it's really the last half of July, with the last week of July being the biggest, and then into August. And so when I just think about the impact on the Journeys business, it's been mostly back-to-school, which we believe is delayed in part and may have future opportunity with kids coming back from virtual learning and to a much lesser extent, the impact of COVID.

My sense is that consumers are learning to live with COVID. They're figuring out how to navigate daily life. And we've learned so much about the disease, that there's going to be some more willingness for your average consumer to get out and go shopping, because they believe that they can manage against COVID. So I expect that COVID is going to become less of an issue as we get into the back part of the year. Certainly, there are going to be some consumers who are going to vote to shop online. We expect our online business will continue to flourish through the back part of the year. But net-net, I'd say that the impact of back-to-school has been far more pronounced than COVID.

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

And I guess my last question, you made some comments about improving e-comm profitability. I mean, obviously, when we kind of look at the P&L in the quarter, the outpaced e-comm growth put pressure on the gross margin line from shipping. I don't know that, that goes away with improving profitability. So is it just -- what improves as that business scales? I mean, where are there fixed costs? Or how do we think about the impact on the margins of improving e-commerce business or e-commerce profitability as e-commerce grows as a percentage of the business? I'm just trying to kind of reconcile all of that.

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Yes, sure. So unlike some other retailers, we have always operated our e-comm business to be profitable. You can push the pedal on marketing expense to the point where you're not getting a return, and you're just building market share, but not necessarily profitable market share. And we've always kept in mind the need for the balance to build profitable e-commerce volume, and so we started in a position of profitability. We actually have reasonably solid gross margins. It's just that there's a more variable portion of expenses when you consider the e-comm channel.

And so the more we sell, the more we have expense added into the gross margin line, which makes it more variable, but the SG&A expense is amortized over a broader base of volume.

And so that's really what we've been seeing. And we saw a pretty strong pickup in contribution from e-commerce dollars during the course of the quarter. In fact, e-commerce dollars tripled. And it's mostly because of gross margins on an apples-to-apples basis, hanging in there, but then great amortization of some of the investments and the fixed expenses that we have. So just to put it -- to put a lens on how we think about e-commerce volume, we welcome e-commerce volume, all the e-commerce volume we can get. If we don't get positive comps in stores, we deleverage on the fixed expenses there. So that really is -- we view the channels as separate channels, and the need to either be able to rightsize the cost structure on the store side or to continue to drive traffic and sales into that channel so that we don't deleverage on the fixed expense base over there.

Operator

Our next question is coming from Sam Poser of Susquehanna.

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

Could you tell us what the e-commerce growth was by -- or lack thereof, by banner? You mentioned the triple digits at Schuh, but could you tell us about the other businesses as well, please?

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Sure. So e-comm tripled at Schuh. E-comm also tripled at Journeys, when you see the 144% rate of growth. Johnston & Murphy also grew, but it was at a lower rate than the other 2 businesses. And so that brought the average down to the 144%. I think there was a lot of appetite to shop online. We saw a 50% increase in traffic to online. We saw just phenomenal conversion rates. There was a high intent to convert. We were very pleased with the number of new customers who showed up online. Our growth of new customers outstripped our growth of additional traffic to the site. So that was a really good sign, and we have an opportunity to capture those new customers and sell to them going forward.

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

And that's a good segue. I have a whole bunch of questions, but that's a good segue on my second one. What -- how many of these new customers were new to the website? And then how many of them were new to Journeys, new to Schuh, new to Johnston & Murphy, in their entirety as far as your data goes?

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Yes. So we definitely were converting some of the customers who typically shop in stores to shopping online. And that's a positive because you've seen the data, Sam, that your best customers shop you in multiple channels. Far more of our new customers were truly new to Journeys, new to Schuh, in particular, Schuh. Schuh saw the biggest rate of growth, but Journeys' rate of growth was also quite positive. So by far, it was customers that we hadn't seen before, either in our stores or online, and they were attracted to the assortment that we were offering. And as I said, comfort and casual is a sign of the times. And so Journeys and Schuh were well positioned, not only for the teen customer base that they serve and the young adult customer base, but my sense is that we may have attracted a broader set of those consumers and perhaps others who were attracted to the product mix.

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

Great. And then I'll ask you my mobile app question. Where -- are you working on that now? And given the kind of scale and given some of the results we're hearing from other people that are driving a lot of business or a lot of interactions through their mobile apps, is that something that you're advancing right now?

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Yes. So early on -- and I'll talk about Schuh. Several years ago, actually, Schuh had launched a mobile app. And we found that the consumer is -- has a higher propensity to use mobile apps for purchases that they do frequently. And so we felt like, yes, consumers downloaded the mobile app, but didn't engage. The world has changed a lot since then, and a mobile app certainly is something that others have found to really help drive their business.

I described that as a bit of icing on the cake, where you are -- you've got robust customer information, and we've got robust customer information. We're working our CRM initiatives really hard to drive further insight about our consumers and also to be able to market to those consumers in a way that's personal to them. And then a mobile app makes sense in the context of building the customer information, building the data and giving customers a way to interact with your brand through social, through the mobile app and certainly through the website, which has been our consumers' choice to come shop with us.

Operator

Thank you. At this time, I'd like to turn the floor back over to Ms. Vaughn for closing comments.

Mimi Eckel Vaughn - *Genesco Inc. - CEO, President & Chairman*

Great. Well, thank you for joining us today, and we look forward to speaking with you on our next call, when we talk about Q3 results.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines or log off the webcast at this time, and have a wonderful day.
