Genesco, Inc.

First Quarter Fiscal 2022 Results Conference Call

May 27, 2021

CORPORATE PARTICIPANTS

David Slater, *Vice President of Financial Planning & Analysis and Investor Relations*

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

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

CONFERENCE CALL PARTICIPANTS

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

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

PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco First Quarter Fiscal 2022 Conference Call.

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

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

David Slater

Good morning, everyone, and thank you for joining us to discuss our First Quarter 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, 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 attachment to this morning's press release and in the schedules available on the Company's homepage under Investor Relations in the Quarterly Earnings section.

I want to remind everyone we have posted a presentation summarizing our results that is accessible on our website.

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With me on the call today is Mimi Vaughn, our Board Chair, President and Chief Executive Officer, who will begin our prepared remarks with highlights from the first quarter; and Tom George, our Chief Financial Officer, who will review Q1 results in more detail and provide direction for Q2.

Now, I'd like to turn it over to Mimi.

Mimi Vaughn

Thanks, Dave.

Good morning, everyone, and thank you for joining us today.

Our Company began Fiscal '22 with positive momentum following an incredibly challenging year battling the pandemic. In each successive quarter, our people worked with great tenacity and success to improve top- and bottom-line results to close the gap to pre-pandemic levels, drive the recovery, and return to profitable growth.

We entered the pandemic year from a position of strength following 11 consecutive quarters of comp sales growth in our footwear businesses. Our overall performance in a difficult environment reflects the strong competitive position of our retail and branded concepts, the strength of our footwear-focused strategy, and our success capitalizing on opportunities to bolster these positions. Thanks to the ingenuity and efforts of our people, we exited last year with a solid foundation to build upon.

As a result, Fiscal '22 is off to an incredibly strong start, with a first quarter that meaningfully exceeded our expectations. Our outperformance was driven by better than anticipated results at every division, led by record first quarter revenue and profitability at Journeys. Even as the pandemic continued to impact our businesses to varying degrees, the pace of our recovery accelerated each month and overall in Q1, reflecting stellar execution combined with a temporary boost from U.S. Government stimulus and pent-up demand as the economy reopened faster than anticipated.

I'd like to begin today by outlining some of the key highlights from the quarter. First, revenue and operating profit exceeded pre-pandemic levels, increasing 9% and 125% respectively over Q1 Fiscal '20 two years ago, even with our stores open for a little less than 90% of the possible operating days in the quarter, given closures, primarily in the U.K. and Canada. Next, higher operating profit combined with pre-pandemic share repurchases delivered outstanding Q1 EPS of $0.79 compared with a loss of $3.65 last year and positive EPS at $0.33 two years ago, all on an adjusted basis. Finally, we achieved record first quarter digital revenue and profit as we continue to capitalize on the accelerated shift to online spending. We sustained last year's 64% growth and added another 43% on top of that.

Other highlights include hitting our highest store traffic numbers compared to pre-pandemic levels, as the vaccine rollout increased shoppers' confidence to return to physical stores; increase in gross margin, up almost 500 basis points compared to last year, as our merchandise assortment and inventory management continue to fuel strong, full-price selling; leveraging SG&A significantly compared to pre-pandemic levels; and achieving greater capital efficiency by managing inventories and capital spending effectively, leading to a healthy balance sheet and solid cash position.

We were pleased that every business and every channel contributed to the beat versus expectations, with the stores delivering the biggest gain. We've always known our customers enjoy our differentiated store experience and the exceptional service they receive in person, and it has been so exciting to see the strength of our brand draw enthusiastic shoppers back in as economies reopen.

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It was, however, the combination of the store and e-commerce results that led to the strength in the quarter. Our online business, from a strong foundation prior to COVID-19, generated double-digit operating margins due to our focus on full-price selling, disciplined marketing spend, and shipping and return policies to reinforce profitability. Thanks to significant digital investments we've made over the past several years, we were able to handily process the record first quarter volumes, and e-commerce margin improved further as we leveraged these investments with more scale over a wider base of revenue.

To advance our digital capabilities at an even faster pace, we announced we promoted Parag Desai to the newly created position of Chief Strategy and Digital Officer. In this new role, Parag will drive greater synergies and continue to integrate systems and digital best practices across our e-commerce portfolio while also working with our divisions to deepen consumer insights and CRM capabilities. Our digital investments have been generating strong results, and we are confident Parag's appointment will accelerate progress, ensuring that we take advantage of the many omnichannel opportunities the pandemic presented. Congratulations, Parag.

Turning now to discuss each business in more detail, beginning with Journeys, which again led the way, delivering record first quarter revenue and profit, with 75% operating income growth versus pre-pandemic levels. There were several factors that shaped Journeys' exceptional Q1 performance, starting with superb execution by its merchant team. The pandemic has only magnified Journeys' industry-leading capabilities of anticipating, identifying and securing the brands and styles most coveted by our teen customers.

The combination of the right assortments and effective consumer engagement drove strong demand and full-price selling, including later in the quarter when we captured a healthy share of the increased consumer spending following the arrival of government stimulus checks and tax refunds. In addition, Journeys store team executed with excellence, achieving much higher conversion rates and increased transaction size, capitalizing on improving store traffic to drive store revenue above pre-pandemic levels.

On top of this, Journeys online team delivered e-commerce sales that more than doubled pre-pandemic levels, as new website visitors increased by almost 30% and generated close to 50% of Q1 online revenue. With this incredibly strong vendor relationship, the Journeys team accomplished all of this while skillfully managing through the supply chain disruption which persisted in the industry throughout the quarter.

Journeys' offering of casual products resonated strongly with consumers, as comfort continued to reign as the fashion choice of the pandemic. While teens always have a big complement of fashion athletic footwear in their closets, we have talked about when fashion swings toward non-athletic or casual footwear, Journeys is especially well-positioned among its competition to deliver this assortment. Moreover, current teen fashion trends are diverse and playing into a number of Journeys' brand strengths. While fashion athletic grew nicely year-over-year, the gains in casual outpaced this growth, including a strong start to the sandal season. Congratulations, Journeys team, on another record quarter as the destination for fashion footwear for teens.

Over in the U.K., Schuh delivered a commendable performance under very difficult circumstances. Stores were open for less than 20% of the possible operating days during the quarter due to government mandated lockdowns that began around Christmas and continued until after Easter. Despite the substantial loss of store days, revenue was in striking distance of Q1 two years ago, and operating income exceeded pre-pandemic levels, including some one-time gains.

The Schuh team leaned successfully into its best-in-class digital capabilities throughout the pandemic to take advantage of the shift to online purchasing. The first quarter was no exception as direct comps grew

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by more than 70%, on top of last year's 90% growth, and constituted more than 80% of Schuh's total revenue.

Prior to COVID-19, Schuh had the most advanced digital capabilities among our retail businesses, which have only strengthened over the past year through enhanced CRM capabilities, including more robust prospecting. Schuh implemented significant operational changes to facilitate this digital growth, including reconfiguring its DC and labor model to add more e-commerce packing stations, extending the deadline for next-day delivery through new freight carrier arrangements, and using stores as mini DCs by rotating store fulfillment of e-commerce orders.

With fast-tracking of the U.K.'s vaccine rollout, restrictions started to lift, and Schuh deftly executed the formidable task of reopening stores in England in mid-April, followed by the large majority of the U.K. stores at the end of the quarter. With seven of the top 10 best-performing brands in common, many of the trends driving Schuh's business were similar, as usual, to the ones driving Journeys but with more of a fashion athletic tilt.

Before moving on from Schuh, I'd like to take a moment to congratulate the team on the official certification of its operations by Carbon Footprint Ltd. as a carbon-neutral organization. It has for a long time been a part of Schuh's DNA to operate in a socially responsible manner, consistent with its purpose pillars, and this accomplishment is the result of the team's efforts over several years. This impressive achievement was realized ahead of schedule and provides a roadmap for our other businesses as we seek to reduce greenhouse gas emissions and work with our partners to reduce the carbon footprint of the products that we sell.

For Johnston & Murphy, the first quarter marked another positive step forward in its recovery. As vaccines rolled out, consumers began the return-to-life phase more quickly than expected, gathering with family and friends with social outings and occasions. In Q1, retail store traffic improved in each successive month; digital sales grew a notable almost 20%, attracting new customers to the brand; and wholesale revenue increased. J&M's recovery plan is centered around new product technology and innovation, with 90% of new product development focused on expansion of its casual offering.

We were pleased that Q1's success was driven by high demand for newly developed casual styles, led by the athletic-inspired Amherst and Activate collections, and a new holistic marketing campaign in support of these launches. At the same time, we saw continued gains in golf shoes and apparel this spring, further validating our success extending J&M beyond its dress shoe roots. While sales lagged pre-pandemic levels, we are encouraged by these trends and expect the recovery to accelerate once America begins the return-to-office phase, likely to begin in earnest as we enter summer and move into fall.

In yet another highlight, Licensed Brands is now beginning to realize the benefits of the Levi's footwear license and Togast acquisition that closed in January 2020 right as the pandemic began. Revenue more than doubled to record Q1 levels and operating profit improved considerably versus pre-pandemic levels as Levi's footwear was well-received in accounts ranging from department stores, to Journeys and Journeys Kids, to family footwear. This progress reinforces our excitement about the potential to create value by combining powerful brands with our fully integrated footwear sourcing capabilities.

Turning now to the current quarter, while Q2 is typically our lowest volume quarter as teens and consumers in general turn their attention to getting out of school and summer activities, the momentum from Q1 has continued into May. While we expect government stimulus and pent-up demand to ebb at some point, we expect Journeys' strength to continue, Schuh's strength to build with the opening of stores and the U.K. economy, and Johnston & Murphy's recovery to continue, but it will likely take until back to work in the fall to propel another step function improvement.

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Vaccine rollout progress should benefit store traffic in the back half of the year, and we expect that a good amount of the digital business that we captured during the pandemic will be sticky and anticipate a much higher e-commerce penetration as compared to Fiscal ’20.

We’re anticipating a more normalized back-to-school, with a significant return to in-person learning, and a more normalized holiday. Some COVID effects will linger, but with higher savings and continued government aid, the consumer is well-positioned to spend.

While stimulus has been a positive, the strength we’re seeing in our results goes well beyond this tailwind to the traction and momentum we’re experiencing as a result of our strong portfolio of businesses and the strategic direction we embraced a couple of years ago with our footwear-focused strategy. The pace of our recovery only reinforces our belief that the path we were on prior to the pandemic, and now, is the right path forward.

What we’re most excited about is we see opportunities to solidify the digital gains we made and capitalize on the ongoing industry consolidation to further expand our market share. COVID-19 has provided us the real opportunity to transform our business at a faster pace, and our results demonstrate that’s what we’re accomplishing.

I’ll now turn the call over to Tom.

Thomas George

Thanks, Mimi.

Q1 results far exceeded both our expectations and last year across the board. For comparison purposes, we believe that comparing to two years ago, our pre-pandemic Fiscal ’20, provides the most meaningful assessment of current performance, as there is simply too much noise in Fiscal ‘21’s results for drawing informative comparisons.

However, looking back at how our business has changed since Fiscal ’20, e-commerce has become a larger percentage, and our Licensed Brands segment has become a larger piece of the total as well due to the acquisition of Togast and strong Levi’s sales. These changes come with an overall lower gross margin rate due to the impact of direct shipping expense and the expansion of our wholesale volume, which should be more than offset with lower SG&A from these businesses coupled with the impact of our cost reduction initiative once our business normalizes post-pandemic. While these changes will reshape the P&L, they have a positive impact on operating margins and an added benefit of a less capital-intensive business model.

Turning back to Q1, I’m pleased to report that the first quarter continued the sequential improvement of our operating results since the onset of the pandemic. Higher revenue in excess of pre-pandemic levels combined with SG&A that remains well-managed led to significantly higher operating income versus Fiscal ’20 and Q1 adjusted earnings per share of $0.79 compared to $0.33 in Fiscal ’20.

In terms of the specifics for the quarter, consolidated revenue was $539 million, up 9% compared to Fiscal ’20, driven by continued strength in e-commerce, up 144% versus Fiscal ’20, combined with strong results from Journeys and Licensed Brands compared to pre-pandemic levels. We did not provide overall or store comp results in Q1, as our comp policy removes any stores that are closed for seven consecutive days either this year or last year. Therefore, we feel that overall sales is a most meaningful metric.

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Overall digital sales increased to 25% of our retail business, compared to 11% in Fiscal ’20, led by Journeys penetration improvement, Schuh’s ability to capture lost store sales online, and J&M’s double-digit improvement compared to Fiscal ’20. Licensed Brands’ revenue was up 122% versus Fiscal ’20.

Consolidated gross margin was 47.8%, down 160 basis points from Fiscal ’20. As we have experienced since the onset of the pandemic, increased shipping to fulfill direct sales pressures the gross margin in all our businesses, totaling 150 basis points of the overall decline, driven mainly by Schuh’s much higher level of digital sales due to store closures. While e-comm puts pressure on our gross margin rate, as I mentioned, it comes with a lower cost structure and a high operating income rate.

Journeys gross margin increased 130 basis points, driven by lower markdowns in both stores and online. Schuh’s gross margin decreased 1,030 basis points, due largely to the higher shipping expense from the shift in channel mix since e-commerce accounted for so much of Schuh’s revenue in the quarter. J&M’s gross margin decrease of 200 basis points was due to more closeouts at wholesale and higher markdowns at retail. However, it was a sizable sequential improvement. Finally, the combination of lower revenue at J&M, typically the highest gross margin rate of our businesses, and the revenue growth of Licensed Brands, typically our lowest gross margin rate, negatively impacted the overall mix by 90 basis points.

Adjusted SG&A expense was 44.3%, a 340 basis point improvement compared to Fiscal ’20, as we leveraged from higher revenue and ongoing actions around expense management. The largest year-over-year savings came from occupancy costs, driven by the U.K. Government program which provides property tax relief, rent abatements, and our ongoing rent savings on renewals.

The next largest areas of savings came from the reduction in store selling salaries, driven by the effective use of workforce management tools to drive higher conversion in the face of wage pressure. These savings were partially offset by incentive compensation driven by improved profitability and increased marketing expenses needed to drive traffic to both stores and online.

Over the past many years, our Organization has been intently focused on a critical effort to reduce occupancy costs, given the shift of traffic online, and we continue to have even greater traction during the pandemic. In Q1 this year, we negotiated 48 renewals and achieved a 29% reduction in cash rent, or 27% on a straight-line basis in North America. This was on top of a 23% cash rent reduction, or 22% on a straight-line basis, 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 over 40% of our fleet coming up for renewal in the next 24 months, this will remain a key priority for us going forward.

In summary, the first quarter’s adjusted operating income was $18.8 million versus Fiscal ‘20’s $8.4 million. Journeys, Schuh and Licensed Brands all achieved higher operating income compared to Fiscal ’20. Our adjusted non-GAAP tax rate for the first quarter was 36%, reflecting the impact of foreign jurisdictions for which no income tax benefits were recorded.

Turning now to the balance sheet. Q1 total inventory was down 18%, compared to Fiscal ’20, on sales that were up 9%, with all divisions showing improvement. Our ending net cash position was $214 million, $32 million higher than the fourth quarter’s level, driven by strong cash generation from operations. Capital expenditures were $12 million, as our spend remains focused on digital and omnichannel. Depreciation and amortization was $11 million. We closed 17 stores and opened one during the first quarter.

Due to limited visibility in the business of the impact of the pandemic, we will not be providing guidance for the second quarter or full Fiscal 2022. That said, I do want to share some high level thoughts on how

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we are expecting the upcoming quarter to play out. As I mentioned, we believe it is best to use the pre-pandemic Fiscal ’20 as the reference point.

Q1 revenue benefited from stimulus and new Levi’s business, with headwinds from store closures at Schuh. And while J&M’s trend is improving, it remained lower than Fiscal ’20. Expenses in Q1 benefited from rent abatements and some government relief programs. Selling seller dollars were lower in the quarter as Schuh stores were open for less than 20% of the quarter.

As we transition into Q2, in May, we continue to feel the tailwind of stimulus but expect it to wane as we progress through the quarter. As we enter back-to-school late in Q2, we assume that schools will return to in-person learning this fall, with what should be a more normalized back-to-school selling season for Journeys and Schuh. Around the same time, we expect more customers should begin returning to their offices, which should further benefit J&M’s trend.

Now getting into more specifics of Q2, starting with revenue. We expect higher revenue compared to Fiscal ’20 levels. This is mainly due to growth at Journeys, Schuh stores coming back online, and continued strength from the Levi’s business. J&M’s trajectory is expected to improve but remain under Fiscal ‘20’s level. Directionally, the overall sales increase for Q2 compared to Fiscal ’20 could be a little less than the 9% increase we experienced in Q1. Our view does not contemplate additional store closures or restrictions from COVID-19 beyond what we know today.

Gross margin rates for Q2 will be below Fiscal ’20 levels but better than the 160 basis point decline we experienced in Q1. The sequential improvement is expected to come from better margin at Schuh, which will have a lower penetration of e-comm compared to Q1. Overall, higher e-commerce penetration and the higher shipping costs that come with it continue to put pressure on our rate versus Fiscal ’20. Additionally, we anticipate the pressure from J&M to continue into Q2, as well as impact the Licensed Brands growth on our business model, as previously discussed.

We expect that the adjusted SG&A rate in Q2 will be in the ballpark of the rate in Fiscal ’20. Sequentially, we will not see the large SG&A leverage we saw in Q1, as the benefits from rent abatements and some government relief programs will be less in Q1. Compared to Fiscal ’20, higher revenue combined with our ongoing cost reduction initiatives will drive an improvement but will be offset by higher performance-based compensation. As a reminder, our EVA program pays for year-over-year improvement and we paid no incentive compensation last year, which will have an impact in every quarter this year.

In summary, we expect operating income to be around breakeven for Q2, which is historically our lowest volume quarter of the year, making it difficult to turn a large profit. For taxes, with operating income around breakeven in Q2, we expect a negligible tax expense. The annual tax rate is expected to be approximately 32%.

In addition, thinking about the year, we’d also like to note we had a number of expense pickups, like rent abatements, in the back half of Fiscal ’21 during the pandemic we don’t expect to repeat in the back half of this year. Given the accelerated shift of our business from stores to digital and the impact from the pandemic, we continue to make progress on reshaping our cost structure with rent expense as a critical component. We have good experience reducing our cost base. During Fiscal ’19 and Fiscal ’20, we identified $43 million in expense savings, and in addition, following the divestiture of Lids, we eliminated the $9 million of stranded costs associated with that business.

More recently, in Fiscal ’21 during the pandemic, we reduced our adjusted SG&A expense by over 15%. While a good amount of this was temporary, there are also significant permanent dollar savings. This has become a core competency of Genesco. As a reminder, our initial target for this year is to identify savings in operating expenses of $25 million to $30 million, or approximately 3% on an annualized basis. These

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savings are coming from reduced occupancy costs and selling salaries, and lower IT, transportation and marketing costs from our procurement initiatives already underway. These savings are before investing in the variable expenses necessary for our increased digital sales, as well as minimum wage and other new cost pressures, and increased inflation that time will tell whether is temporary or permanent.

To date, we have made significant process on the targeted savings, and we'll continue to provide updates as the year unfolds. This cost saving initiative is one part of a multi-pronged strategy to transform our business, all designed to reflect a more capital-efficient model. Combined with lower capital expenditures on stores, fewer lease obligations, and efficient use of inventory, it will drive further improvements and return on invested capital and allow for improved flexibility in our operating model.

In conclusion, I would like to thank all our employees for such an incredible start to our new fiscal year. The team has much to be proud of and remains aligned on delivering on our footwear-focused strategy.

At this time, I would like to turn the call back over to Mimi so she can discuss our strategy.

Mimi Vaughn

Thanks, Tom.

As I said, the footwear-focused strategy we embarked on a couple of years ago is the right strategy for our business and a foundation of our strong performance. Let me briefly revisit the rationale behind this strategy and how it continues to drive results.

Across our Company, we aspire to create and curate leading footwear brands that represent style, innovation, and self-expression, to be the destination for our consumers' favorite fashion footwear. Our strong strategic positioning in the specialty consumer markets we serve, close connections with our customers and enduring leadership positions are what make each of our footwear businesses distinctive on their own, and the synergies they share make them stronger together.

We are best known for our retail platform, but we have an important and valuable side of our business that successfully owns and licenses brands, giving us another good platform for future growth. Our opportunity to unlock the full potential of Genesco is to accelerate the digital and omnichannel potential in our retail businesses and to meaningfully grow our branded side. We operate in an industry undergoing substantial change, with the continued consumer adoption of digital commerce positioning our Company to affect transformational change. We made substantial progress on this in Fiscal '20, and the pandemic, despite its challenges, was an accelerant to this change.

Looking at the retail side of our business, Journeys' understanding of teens and unrivaled access to merchandise they want equips Journeys uniquely well to serve this fickle customer and to navigate the shifts that are an advantageous and inherent part of fashion footwear in this market segment. Schuh occupies an essentially identical position in the U.K. Both brands have exceptional merchandising abilities and a passionate focus on customer service. Both serve as key omnichannel distribution partners for the current most relevant youth footwear brands.

Given that they enjoy significant overlap in their vendor bases, their combined scale allows for stronger brand relationships, underscored by activities like joint top-to-top global summits and shared special makeup product collections sold exclusively at Journeys and Schuh. Vendor scale along with product and consumer insights provide great synergies, as does strategic and operational initiative sharing. A strong example of this is Schuh entering into the Kid's business, a now substantial, profitable and growing part of Schuh, by borrowing and leveraging Journeys' knowhow and success.

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The anchor of the branded side of our Company is Johnston & Murphy, whose leadership position is founded on brand equity that has taken 170 years to build. This heritage, ability to interpret and shape its customer's evolving fashion needs through time, and established omnichannel expertise provide a strong foundation for recovery from the pandemic.

As a complement to brands we own, Licensed Brands allows us to leverage our footwear capabilities and expertise across other well-known brands with strong brand equity and opens additional tiers of distribution. Our branded businesses benefit from common wholesale trade relationships and product trend inspiration exchange; and in addition, the global sourcing platform spanning across J&M and Licensed Brands provides some of the most meaningful benefits. For example, Licensed Brands designs, develops and sources product accounting for one-third of the casual footwear sold in J&M factory outlets, including the top-selling style overall.

Our branded platform is Genesco's most promising platform for future growth. This platform allows for leveraging of our robust direct-to-consumer capabilities complemented by well-developed wholesale channel relationships, giving us the opportunity to add additional footwear brands that can plug into this infrastructure and capitalize on today's retail landscape where brands increasingly go direct-to-consumer. Licenses plugged into this infrastructure also add value, evidenced by the success we're having with Levi's and the enhanced capabilities Togast added to our footwear sourcing platform. In addition, not only do we benefit from a North American shared services platform in areas like technology, logistics, finance and HR but size and scale matter even more in our now technology- and digitally-driven retail sector, as the investments to keep pace with consumer expectations continue to grow.

While Journeys and Johnston & Murphy go to market as separate and distinctive brands, they share almost all of their retail systems and services, providing significant cost-sharing and enhanced benefits. From point-of-sale software to merchandising systems, to loss prevention and real estate, the retail technology and infrastructure of these two concepts are largely integrated. For example, the point-of-sale software upgrade we're rolling out this year will serve both Journeys and J&M. Likewise, the wholesale technology infrastructures of J&M and Licensed Brands are significantly integrated as well.

As we look to the remainder of Fiscal '22 and beyond, further leveraging these synergies within and across platforms is an important step in delivering increased value on top of the six strategic growth pillars driving our footwear-focused strategy. These six pillars, put in place prior to the pandemic, emphasize continued investment in our digital and omnichannel capabilities, deepening our consumer insights, driving product innovation, and reshaping our cost base. On future calls, like the last one, I will provide an update on the significant progress we're making on these six pillars and corresponding strategic initiatives, which are having real impact driving growth and profit for Genesco.

Now to conclude, my genuine thanks goes out to all our people for your diligent effort to deliver absolutely exceptional first quarter results. Not only have we taken care of our customers and each other during the pandemic, but we began the year on a firm foundation that allowed us to grow and create tremendous value in our Company. In addition, over the last several months, we've added four very qualified and experienced directors to our Board, whose perspectives will be invaluable as we shape our future.

Genesco is on the right path. Our strategy is working, our future is bright, and I have never been more excited about the people and potential in our business.

This concludes our prepared remarks, and I'll now turn the call back over to the Operator for Q&A.

Operator

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Thank you. Our first question is from the line of Steve Marotta with C.L. King. Please proceed with your question.

Steven Marotta

Good morning, Mimi and Tom. Congratulations on capitalizing on the tailwind in the first quarter, very nicely done.

Mimi Vaughn

Thank you, Steve.

Thomas George

Thank you.

Steven Marotta

I want to ask you a little bit about your inventory position versus two years ago, considering that it's below two years ago and the pace of sales are as good as they are. I'm assuming you're in chase mode. Can you talk a little bit about when you would expect a little bit more equilibrium between what your inventories are and what you expect demand to be?

Mimi Vaughn

Sure. Steve, definitely, the supply chain situation has been challenging. It's not just the ports, but transportation from ports, containers. COVID disruption has really started with COVID, and supply chains haven't been ready for the consumption to pick up so robustly.

It's not a new problem. We have been managing throughout the pandemic with this situation. Our last quarter that we just had, we had some of these issues as well. Basically what happened is that, whatever inventory came in went right back out. There was a worse GAAP to Fiscal '20 at the beginning of the quarter, yet sales were strong, so we, again, have been managing through this.

The good news is things have been getting better at the ports and in the supply chain. We're a very important partner to our brands; they've worked with us a lot to date. This is a lower volume time for us. It gives us a bit of time to catch up. We do expect to do a good amount of catching up in the second quarter, which will help with back-to-school.

We expect to be in good shape by the end of the third quarter, in time for holiday, based on what we know today.

Steven Marotta

That's really helpful. I did want to touch a little bit on back-to-school and holiday overall as well, considering that it looks like even summer camps, and by that I mean immediate term, are a little bit more normalized, as far as all indications are, from in-person classes at elementary, middle and high schools, as well as colleges, will be occurring in the back-to-school season, and how abnormal, obviously, last year was. You could dream a little dream about how strong back-to-school could be, and then obviously dovetail a little bit into holiday, assuming that there is much optimism internally there as there might be here in my commentary.

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Can you talk a little bit about how you would approach the holiday season in order to maximize sales and market share? Thanks.

Mimi Vaughn

Yes, sure. Look, there are a lot of great pluses out there. GDP growth is good. There's been a huge injection of cash into the economy, been a lot of savings, employment's increasing. COVID cases have been rapidly declining, and you can just feel that people are excited to get back to normal, and you just feel that America is coming back to life.

Back-to-school should be more normal this year than last year, and it was completely not normal last year. We gather a lot of data about back-to-school; we estimated about two-thirds of students attended only virtually. Back-to-school for us starts in late July, we do significant business in August and then it trails off in September. We are really watching to see what the school districts are saying.

All school districts have not decided definitively what they're going to do next year, but there's a big push to get back in-person. We think that that is going to be a positive for our business. We also think that there are nice underlying drivers, like the enhancements to the Child Tax Credit, that's going to start in the middle of July. People are going to get payments directly into their accounts, and this timing coincides nicely with back-to-school. It's going to continue right up until holiday, so it may help with gift-giving as well.

Look, we see lots of great signs in our business, we see lots of great signs in the economy. There was a tremendous amount of disruption last year, so the consumer patterns are different, so we are taking all that into account and are optimistic, but know that there's a lot to come in the back part of the year.

Steven Marotta

Very helpful, I'll take the balance offline. Thanks.

Mimi Vaughn

Thank you.

Operator

Thank you.

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

Jonathan Komp

Yes, hi, thank you.

First, I want to ask on Journeys, maybe separate of consumer demand or ability and willingness to spend. How are you thinking about positioning the assortment, just looking at how strong Journeys has been, and any commentary, the balance of the seasonal, summer season here and then how you're positioning the assortment for back-to-school and fall/winter?

Mimi Vaughn

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Sure. First of all, I just want to give a shout-out to our merchants. They placed the right bets on the right product. They have so much experience just navigating the twists and turns of the teen market and clearly the twists and turns of the pandemic.

What we have been seeing in this latest fashion cycle, and John, you know we spend a lot of time talking with you about the retro athletic cycle which was the cycle right before we went into the pandemic, and we started to see last year that there was a real shift into what we call more casual product. I talked about it on the call. We saw casual, in terms of sandals, in terms of boots, we saw the propensity of the consumer shift away from fashion athletic, which they always are consuming, into a more casual assortment.

This is a real positive for our Journeys business because we're uniquely positioned to serve the customer in the casual assortment. What's interesting right now is that teens are finding inspiration for whatever they're wearing and just reinterpretations of throwback styles, so 1980s, 1990s, the 2000 fashions. There's a lot of diversity in fashions and styles right now: TikTok videos and other social media, teens want to show their individual style, and that is just playing nicely into the assortment we have. They're borrowing bits and pieces from what they are seeing, and this is translating into just such creativity and such wonderful displays of fashion.

We expect that's going to continue through back-to-school and back into holiday, and casual's grown as a percentage of a business every quarter last year and also in Q1.

Jonathan Komp

Okay, that's really helpful. Then one on just the licensed business, can you give a little more detail on what's driving the Levi's growth? Then, when you look at the licensed portfolio combined, currently, how do you think about the opportunity for the brands that you have currently?

Mimi Vaughn

Sure. We have traditionally, in our Licensed Brands business, it's been a double-digit operating margin with really good return on invested capital. We knew that we needed to add a license. The consumer appeal of some of the licenses that we had in our portfolio had been waning and sales had been shrinking, not enough to support our infrastructure. We'd been searching for the right opportunity for some time, and so Levi's, clearly, just an incredible iconic branded name with a tremendous amount of heritage, was the right opportunity for us.

This Togast acquisition added to our overall sourcing capabilities. We were able to get some infrastructure to add on to the infrastructure that we have right now that allows us to hit some different price points and allows us to hit some styling that we couldn't otherwise hit. We like what we're seeing so far. The pandemic delayed our ability to capitalize on this investment, but the first quarter and the strength of the sales and the bottom line, I think, show where the opportunity is. We acquired a few other licenses, and I think the infrastructure exists for us to plug additional licenses into it.

I'd ask Tom if he would add anything…

Thomas George

Yes, John. John, I would say…

Mimi Vaughn

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…to this opportunity.

Thomas George

…we're excited about this opportunity. It's a good driver of return on invested capital, it's a very asset-light model. The arrangement we have with Togast provides a lot of capabilities from a sourcing point of view. We're doing well with that business. We've got a strong order book, and we really like how that's progressing.

Jonathan Komp

Yes, great. Just one more, Tom, if I could, thinking about the first half performance here, if I back out some of the one-time benefits you highlighted. It looks like operating margin is still trailing Fiscal 2020 in the first half, so how should we think about maybe the full year getting back to that 4.5% operating margin level you had for the full year of Fiscal '20 and then growing from there?

Mimi Vaughn

Yes, so John, I think that we're clearly not out of the pandemic, and there are a couple of our businesses, Johnston & Murphy and Schuh in particular, that would not have been operating at full strength during the first quarter. When you think about it, Schuh stores were open for only 20% of their time, and yet, in spite of that, the strength of digital was so good that we almost met Fiscal '20's sales levels. You can imagine that there is just more to come with the opening of stores and continued strength of the digital business.

Then Johnston & Murphy, we've talked also about the fact that that consumer went into hibernation. We were very pleased to see how much that business grew and strengthened over the course of the first quarter. It's going to take a little bit of time. I think that that is largely some of the drivers that give us opportunity going forward. Fortunately, with the strength of Journeys and Licensed Brands, we're able to even overcome the time that we need for those businesses to recover and deliver a very strong first quarter performance.

I'll ask Tom to add to that.

Thomas George

I think I don't have much more to add to that, but that's a great, great summary of what the opportunity we see going forward to continue to improve our operating margins. We talked about the Licensed Brands business. There's some further opportunity to improve the digital penetration with Journeys. We like the competitive positions both Journeys and Schuh have in their marketplaces. We see further opportunity to improve the margins at Schuh.

To Johnston & Murphy, I think we've got the right team in place here to be able to recover from the pandemic, and we've got some good items at Johnston & Murphy that are getting a lot of traction and they're selling well. We like that opportunity and ability to have our Johnston & Murphy business recover. Keep in mind, it's a branded business, so we have better margins. We already have the omnichannel distribution strategy put in place, so we see a lot of tailwinds in place for us to be able to start improving our operating margins.

Mimi Vaughn

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Yes, and I think that to have imagined we could be back with a pre-pandemic operating margin level so quickly is something that is certainly within our line of sight, more so because of how quickly the economy has opened up.

I think when you think about our overall formula for profitability, we talked on the call about a great opportunity for growth in our digital business, which has healthy double-digit operating margins, and a chance to get even better with size and scale. The opportunity to reshape our cost structure in our store channel, we had signed up for rents that were outsized given the shift to online, and the pandemic's disruption to retail, along with a significant number of our leases coming up for renewal, as Tom talked about, 40% of our leases coming up for renewal, has given us a chance to reduce rents even faster, which is the most important part of reshaping our cost structure.

When you think about our ability to get to pre-pandemic levels and perhaps beyond, those are the real drivers. The bottom line is that we mostly believe that that opportunity exists because of the competitive strengths of our businesses that we discussed.

Jonathan Komp

All very helpful, thank you very much.

Operator

Thank you.

At this time, we have reached the end of the question-and-answer session. I'll now turn the call over to Mimi Vaughn for closing remarks.

Mimi Vaughn

Great, thank you everybody for joining us today.

We hope you have a great holiday weekend.

Thomas George

Thank you.

Operator

Thank you. This will conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.

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