



Genesco Inc.

Third Quarter Fiscal Year 2026 Conference Call

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

Jason Ware, *Vice President FP&A and Investor Relations*

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

Sandra Harris, *Senior Vice President Finance and Chief Financial Officer*

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

Mitch Kummetz, *Seaport Research Partners*

Joseph Civello, *Truist Securities*

Mantero Moreno-Cheek, *Jefferies*

PRESENTATION

Operator

Good day everyone and welcome to the Genesco Third Quarter Fiscal 2026 Conference Call.

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

I'll now turn the call over to Jason Ware, Vice President of FP&A and Investor Relations. Please go ahead, sir.

Jason Ware

Good morning everyone and thank you for joining us to discuss our third quarter fiscal 2026 results.

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

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

With me on the call today is Mimi Vaughn, Board Chair, President and Chief Executive Officer, and Sandra Harris, Senior Vice President, Finance, and Chief Financial Officer.

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

Mimi Vaughn

Thanks Jason. Good morning everyone and thank you for joining our third quarter earnings call.

We delivered solid performance versus last year in this important back-to-school quarter led by Journeys, which achieved 6% comp growth and more than a 50% increase in operating income. This significant improvement in profitability was partially offset by the anticipated exit of licenses in Genesco Brands Group, the impact of tariffs, and more than expected gross margin pressure at Schuh as the U.K. market faced heightened promotional activity.

Against this backdrop, we delivered our fifth consecutive quarter of positive comp sales growth overall and third quarter results within our expectations, albeit at the lower end, reflecting both the strength and resilience of our portfolio in a dynamic consumer environment.

Total comparable sales increased 3% with store comps up a noteworthy 5%, coupled with a modest decline in ecommerce comps, which faced tougher comparisons against last year's double-digit gains. These results reflect our investment in the store channel and the strength of our in-store experience, supported by well-executed assortments and engaged teams that continue to drive conversion.

The consumer environment continues to reflect customers shopping when there's a reason and pulling back when there's not. This pattern became much more pronounced for our category during Back-to-School this year - which is factoring into our view of the fourth quarter. In the third quarter, demand was even

stronger than we expected during the heart of Back-to-School, and then traffic and purchase intent softened considerably and more than we expected in the weeks following with an especially challenging October.

Customers are searching for must-have items and newness and freshness to drive their purchases. Importantly, when you have what our customer wants, they're willing to pay up for what they want, but they're conserving on footwear shopping in non-peak times and passing altogether on product not in high demand.

We saw this same pattern in the first few weeks of November. Encouragingly, as we moved through November with colder weather and as we approached the holidays, overall performance picked up. Early results from Black Friday and Cyber Monday were positive, reaffirming we have the right brands and styles to satisfy what this discriminating customer is looking for.

Before I dive deeper into the business, I'd like to highlight the progress and the key strategic initiatives we launched during the quarter that will drive growth and profitability going forward.

First, Journeys continues executing against its strategic plan to accelerate growth, delivering its fifth consecutive quarter of positive comp growth along with almost 200 basis points of operating margin expansion. Notably, Journeys' mid-single digit comp was on top of double-digit comps for the third quarter last year and at a time when footwear industry trends have been challenging. These results underscore the meaningful market share gains we've captured this year as the next wave of Journeys transformative initiatives gain meaningful traction.

Second, part of this next wave of initiatives is building awareness of the Journeys brand with the wider customer base we're targeting. The "Life on Loud" brand campaign, launched in September, has already surpassed 70 million social views and continues to grow as we shift investment toward impactful, brand-building campaigns to drive new customer growth and traffic.

Third, we formed the newly created Journeys Global Retail Group under Andy Gray's leadership, uniting Journeys, Schuh, and Little Burgundy. These three banners are the destination retailers for the young, style-led female across their respective markets. We see clear opportunities bringing these retail businesses together, as we strengthen market positioning with this customer and drive greater growth serving her in collaboration with our brand partners. This new structure will facilitate further progress as we shift our attention with even greater urgency to improving Schuh's performance.

Next, we're truly excited about Johnston & Murphy's introduction of legendary quarterback Peyton Manning as its new brand ambassador and face of the brand. The launch of this new partnership generated an immediate double-digit traffic increase following the campaign's debut online and in our stores in early October.

And finally, while the wind-down of the Levi's license is causing meaningful one-time headwinds in Genesco Brands Group this year, we are thrilled with and preparing for growth with the Fall 26 footwear launch for the iconic denim and authentically American Wrangler brand.

Now, for more Q3 color and initiatives for each business, starting with Journeys.

August led Q3 for Journeys, with a record back-to-school and strong double-digit comp growth on top of double-digit gains last year. When the customer came out to shop for Back-to-School, Journeys was a key destination. Store performance remained robust, with Q3 store comps tracking in line with the first half of the year, driven by higher conversion and transaction size, and contribution from our 4.0 store remodels.

Journeys' product offering remains diversified across athletic, casual and canvas as we strive to represent all brands in demand by our youth consumer. While we saw growth from both athletic and casual brands in Q3, athletic was the more dominant category with low profile and running-inspired styles resonating. We

are currently seeing our customer gravitating to athletic styles on a more year-round basis. Boot sales were also positive in Q3, but driven by specific brands.

Now turning to Schuh, the U.K. retail environment remains very challenging. Currently, the U.K. footwear customer is focused either on must-have items with much less interest in the rest of the assortment, or is looking for a deal to spur a purchase. As a result, Schuh's overall comps took a step back for the quarter, as gains in store conversion and average transaction size were not enough to offset the traffic declines. We increased our promotional activity even more than expected during the quarter, both to match our competitors' promotional stance and to motivate demand, as well as to manage inventories appropriately. We are taking proactive steps to strengthen the business and position Schuh for renewed growth.

In the near term in Q4, we're focused on course-correcting through several actions, including assortment updates, our Past, Present & Future holiday campaign, targeted social marketing, AI-driven ecommerce content, and stronger in-store conversion via the new ATV program. Even with these steps, we still expect headwinds in a challenged U.K. marketplace that we will have to navigate through.

Into next year, the newly formed Journeys Global Retail Group is working to unlock greater product access and growth. Through this, and by leveraging other elements of the Journeys playbook, we are implementing a holistic plan to dramatically improve operating performance. This ranges from sharpening Schuh's customer value proposition to building Schuh brand awareness and further fleet optimization.

Turning now to our branded business, at Johnston & Murphy in Q3, overall sales increased year over year reflecting growth in the wholesale channel. The decline in overall comps was driven in large part by softer ecommerce trends, as we shifted spend from performance marketing early in the quarter to brand awareness, including the launch of our new brand ambassador in early October. Gross margins were pressured due to channel mix with a greater percentage of wholesale sales, as well as tariff headwinds in the wholesale channel ahead of price increases.

After success with J&M's strategic repositioning into a more casual, comfortable, multi-category lifestyle brand, we've been working hard to deliver more newness and distinctive product in response to comp headwinds. During the quarter, we introduced newness across both footwear and apparel, supported by increased innovation like the XC+ footwear collection, updated fabric and design details, and redesigned programs like the quarter-zip offering. While we were pleased overall with the performance of these new introductions, especially in apparel and accessories, we have work to do to drive more robust sales across the balance of the assortment.

Accelerating brand awareness and acquiring new customers have been J&M's other areas of focus, and we made major strides here with the Peyton Manning launch in October. While it's still early, the campaign generated strong media coverage and immediate double-digit traffic gains, which translated into improved comp trends and new customer acquisition. We look forward to ongoing collaboration with Peyton.

And finally, we're investing in J&M store remodels and new openings with impactful results, and now in early Q4, we have inflected to a net store increase to drive growth going forward.

Rounding out the branded business, the impact of tariffs, which affects this business the most, and the continued liquidation of licenses we are exiting substantially pressured both Genesco Brands Group's gross margins and our overall performance during the quarter. We look forward to completing the liquidation by the end of the year and moving past this headwind.

Now, let me briefly recap the exciting progress fueling Journeys' strategic growth plan.

Our strategy focuses on Journeys as the destination for the style-led teen, especially the teen girl, as no other concept goes across athletic, casual, and canvas footwear. This is how we are differentiated in the white space we identified to build on the traditional strengths of Journeys to serve a wider teen audience interested in style and trend that's 6 to 7 times larger than the market we've historically served.

As a reminder, we're executing across four key areas.

First, product elevation and diversification. We're driving product elevation and diversified footwear leadership with best-in-class and more premium footwear brands. This work is achieving great impact, as we saw an increase in third quarter average transaction value on top of significant growth last year. As we strive to represent all brands in our customers' closet, we launched Nike in November with an assortment of premium styles that is just right for our teen. The Nike addition added newness to Journeys' offering and generated true excitement and energy in our business and with our people. We look forward to building further on this partnership.

Second, investing in the Journeys brand. We're building momentum through a refreshed, style-led positioning aimed at expanding awareness with this broader teen audience. I've talked about the launch of "Life on Loud" brand awareness campaign where we reimagined an iconic late 90's music video, as well as created unique experiential moments like our Gus Dapperton pop up event in our New York City 14th Street store. Beyond the Nike launch, we also executed brand activations including a customization tour with UGG. We held an in-store concert with Puma and Lyn Lapid and launched a partnership with Converse to bring first-of-its-kind hologram advertising to malls across the US.

Third, elevating the customer experience, especially in stores. We've accelerated the rollout of our new 4.0 store format, an elevated setting to attract new customers and call attention to our more premium offering, which continues to deliver more than a 25% sales lift and strong new customer acquisition. We expect to end the year with more than 80 stores in this new format with more to follow next year.

And finally, investing in our people. We've been investing in a stronger team at retail engaged in better selling behaviors and stepped-up customer engagement, which has helped drive high single-digit store comps over the last 12 months.

Journeys is well positioned for Q4 and the holiday season with a strong offering and campaigns that are clearly resonating with our target customer. The brand's consistent comp growth, profitability improvement, and expanding omnichannel engagement give us confidence as we close the year and continue building on this momentum into next year. We're excited about the road ahead and the tremendous value Journeys can unlock.

Now turning to our outlook, while we're encouraged by the read from November, particularly during Black Friday and Cyber Monday, there are some factors causing us to update our view on the remainder of the year.

To start, we have materially changed our sales and margin projections for Schuh to reflect the ongoing difficult U.K. market and performance. We have also moderated the growth assumptions for our other businesses based on the footwear consumer traffic and spending patterns we've witnessed on non-peak shopping days. While we are able to partially mitigate the impact on profitability through reductions in expenses, it isn't enough to offset the overall reduction in sales and, even more so, the margin pressure at Schuh. Therefore we are adjusting our full year EPS guidance.

While we are disappointed to be lowering our overall outlook, our updated view doesn't change the fact that Journeys remains on track to deliver an outstanding year with comps projected to increase mid-single digits and operating income that almost doubles. Sandra will take you through the more detailed guidance assumptions.

Before I turn the call over, I'd like to thank our teams for their tremendous efforts to evolve our business with a deep understanding of what our customers want, and for their incredible execution which is essential to delivering the important holiday season and a strong finish to fiscal 26, which we will build upon in the year to come.

Now, Sandra, over to you.

Sandra Harris

Thanks, Mimi. I'll now walk through the details of the third quarter and provide an update on our outlook for the full year.

Starting with revenue, total revenue for the quarter was \$616 million, up 3% compared to last year, driven by overall comparable sales growth of 3%, reflecting positive 6% comps at Journeys and 2% lower comps at Schuh and J&M. Store comps increased 5%, while direct comps declined 3% on top of 15% comp growth last year, a favorable exchange rate in the U.K. and strong wholesale volume helped offset an overall smaller store base.

Gross margin for the quarter was 46.8%, down 100 basis points from last year. The primary drivers were product liquidations in Genesco Brands Group, tariff cost increases ahead of price adjustment, margin pressure at Schuh due to the promotional environment in the U.K., and higher wholesale mix at Johnston & Murphy. While we expected lower margins from the exit of licenses at Genesco Brand Group, we again pulled forward liquidation sales, which lifted revenue and gross profit, but at lower gross margins. We expect to be largely through this inventory by year-end, which should support gross margin improvement next year.

Overall, SG&A expense was 44.7% of sales, leveraging 140 basis points year-over-year. The improvement reflects broad-based cost reduction efforts with nearly every SG&A line showing leverage. The most meaningful savings came from rent expense as we continue to optimize the store fleet and freight reductions. Importantly, we achieved this leverage while increasing marketing investment to support growth. All banners delivered expense leverage other than Schuh, which deleveraged with the lower store comps.

Adjusted operating income for the quarter was \$12.9 million, above last year's \$10.3 million, resulting in adjusted diluted earnings per share of \$0.79 compared to \$0.61 in the same period last year. The growth was driven by the sales increase and expense leverage and was partially offset by the gross margin pressure already highlighted.

Turning to the balance sheet and capital allocation, free cash flow for the quarter improved nearly \$5 million year-over-year. Inventory was up 7% compared to last year, in part because strong sell-through of key new styles in the third quarter last year left us with tighter inventory levels heading into the holiday season. Our inventory is clean, and we are taking actions in the quarter to rightsize our inventory at Schuh.

Capital expenditures totaled \$18 million focused on store remodels, new stores, digital investments and customer experience enhancements. We ended the quarter with 1,245 stores, having opened 4 and closed 12. Our Journeys 4.0 stores continued to deliver exceptional performance across all key metrics: comps, traffic, conversion and average transaction size. We now have 76 Journeys 4.0 locations and expect more than 80 by year-end, and their consistent outperformance reinforces our confidence in this concept as we continue to expand the rollout.

We did not repurchase any shares in the quarter, but as a reminder, we did repurchase approximately 600,000 shares in the first quarter, approximately 5% of shares outstanding, leaving \$29.8 million remaining under our current share repurchase authorization.

Now turning to guidance, we now expect to deliver full-year adjusted earnings per share of approximately \$0.95, reflecting a higher tax rate of 34%. At our previously assumed tax rate of 29%, adjusted earnings per share would be above a dollar. The key drivers of the revised outlook are: greater pressure on Schuh sales and margins due to the challenging U.K. consumer environment; more conservative sales assumptions across the portfolio, reflecting the heightened volatility in consumer spending we've seen recently, including tougher year-over-year comparisons in the Journeys e-commerce channel; and lower SG&A, consistent with our disciplined cost control throughout the year, which helps offset, but cannot fully absorb the incremental margin pressure at Schuh, combined with a more modest top line.

Our full-year assumptions now reflect total revenue growth of about 2%, comparable sales growth of about 3%; we continue to expect mid-single-digit comp growth at Journeys for the full year; gross margin down approximately 100 basis points year-over-year reflecting deleverage year-to-date; and continued margin pressure primarily at Schuh and to Q4; SG&A leveraging about 100 basis points as a percent of sales, driven by continued cost actions and store optimization efforts; capital expenditures of \$55 million to \$65 million, supporting growth initiatives, including the Journeys 4.0 remodel program, other new and refreshed stores and ongoing digital investments.

We continue to expect positive free cash flow for the full year.

Average shares outstanding of approximately \$10.6 million and an adjusted tax rate of about 34%, impacted by deduction limitations tied to lower Schuh profitability.

While the external environment is affecting our near-term performance, we remain encouraged by the progress of our strategic initiatives and confident in the areas within our control. We remain focused on disciplined execution and flexibility while continuing to invest strategically to position Genesco for sustainable, long-term value creation.

Now, I'll turn the call back to Mimi for her closing comments.

Mimi Vaughn

Thanks Sandra. Before we open for questions, let me provide context on fiscal 26 and our path forward.

This year has been defined by strong momentum at Journeys, offset by headwinds elsewhere. Looking ahead, we're well-positioned for growth. Journeys will build on its proven momentum as we continue executing our strategic plan, and through our new Journeys Global Retail Group structure, we're applying our successful retail playbook to materially improve Schuh's performance. Our branded businesses are expected to see gross margin rate benefits from a full year of price increases and lapping the license exits, even though tariff pressure will persist.

The consumer remains selective, but we have the right strategies, teams, and brand portfolio to navigate this environment. We're building a stronger, more resilient Genesco, positioned to deliver sustainable long-term value.

Thank you for joining us today. We'll now open for questions.

Operator

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

Thank you. The first question comes from the line of Mitch Kummetz with Seaport Research. Please proceed with your questions.

Mitch Kummetz

Thanks for taking my questions. I've got three of them.

Let me start on Journeys and the outlook for the fourth quarter because you guys have lowered your sales outlook for Journeys for the year and if my math is close to being right, that implies maybe sort of flat to

down low single-digit sales for Journeys in the fourth quarter. I'm wondering if that's essentially what you're thinking, and I'm wondering if you expect Journeys to—how you expect Journeys to comp in the quarter. Are you kind of looking for sort of a flat to slightly positive comp for Journeys in Q4? And then I have two others.

Mimi Vaughn

Great. Thanks for your question, Mitch, and thanks for joining us this morning.

In terms of Journeys outlook, I will just take us back to last year where Journeys had really a very strong back half of the year, I think it was a plus 11% comp and then a plus 14% comp. So when we look to the fourth quarter, one of the things we called out today is that we have seen that during the nonpeak shopping times, the consumer is pulling back and we saw that—we had a very strong Back-to-School. We had a record Back-to-School. Sold through a lot of the terrific product that we're carrying and then we saw the consumer pull back in the week following.

So as we think to the fourth quarter, we have gone through a nonpeak period at the beginning of November, and we're mindful of the nonpeak period in January, but we're optimistic for robust sales for Journeys during the time when the consumer is going to come out to shop.

So when you look on a stacked comp basis over the last couple of years, we are expecting positive comps for Journeys in the fourth quarter. If you take the stack and you moderate just a bit, then that is really where we end up coming out.

If you look specifically at how we're thinking about the sales moderation, we're thinking about very strong store growth as we've seen all year, but we're moderating the e-commerce comp because we're going against such strong comparisons, and we saw that also in the third quarter.

In general, we are, again, optimistic for positive comps for Journeys. We have closed some stores, and so that ends up impacting the overall sales number. But in fact, Journeys is more productive in the stores that we are running and we are using initiatives like the 4.0 to make the strong stores even stronger. And so net-net, when all is said and done, we expect a stronger portfolio and stacked comps that are in line with where we were in the third quarter.

Mitch Kummetz

Then maybe just as a follow-up to that, Mimi, on prior calls, I think you called out the lift that you've gotten from the 4.0 stores. Can you say what that was in the third quarter?

Mimi Vaughn

Sure. We continue to see about the same level of performance out of the 4.0s, just really strong overall performance. Even during the nonpeak periods, our 4.0 stores performed at a higher level than the rest of our store fleet, so we know that, that initiative is really helping to both attract new customers and to elevate the environment where we see higher transaction size and higher conversion altogether.

We have just anniversaried the initial opening of the 4.0 stores. We had about 10 open by the end of the year last year. We expect that we're going to have more than 80 opened by the end of the year this year. We're accelerating and we've accelerated through the course of the year, what we can see, what we believe we can do as far as having more remodels, because we like so much the impact that it's having on our business.

Again, we're mindful of the very strong comparisons to last year in Journeys, but we feel very good about our product assortment and all the other initiatives that I talked about on the call in terms of attracting new

customers and really attracting that wider group of young customers, particularly that teen girl, to what we have at Journeys these days.

Mitch Kummetz

Then I wanted to clarify something. In the press release, I think it's you being either quoted or saying that given the improvement in the sales trend for Black Friday, Cyber Monday that, that contributed to a positive start to the fourth quarter. That suggests to me that sales were up in November. I just want to maybe see if that was actually the case and if Journeys was positive comp in November. I know there are a lot of non-peak shopping days in November before you get to Black Friday. So I was curious if Journeys was positive comp in November, and how do you expect the balance of the quarter to play out? I mean, between now and Christmas, there's a lot of peak shopping days. Do you expect December to be positive comp for Journeys and then things to really kind of fall off in January? Is that sort of the trajectory that you're expecting?

Mimi Vaughn

Yes. So we were positive with Journeys comps. In November, we saw a strengthening into the holiday. We had a record Black Friday on top of a record Black Friday last year. And so when there is a reason to come out and shop our customer is shopping. The exciting thing that I would call out, Mitch, is that we were doing a lot of full-price selling. We were not promotional over the Black Friday weekend. If you walk the malls if you walked the shopping districts, you saw that our athletic competition was highly, highly promotional. They've been promotional for some time but they accelerated the messaging around promotional activity. And so a customer who is getting squeezed and looking for a deal had plenty of opportunities to get deals at our competition, but we saw very nice full-price selling. We saw higher average transaction value over the Black Friday weekend. We saw robust sales online as well. So, here again, when the customer comes out to shop, we feel like we're going to get our fair share and then some.

In particular, when we think about the shopping days going forward, we are expecting that we will have a very positive holiday. Our assortment is better than it's ever been. We've added Nike most recently, just to appeal further to our team customer. We are mindful of the fact that after the holiday with a consumer that is conserving to spend during the holiday and who's paying up for what they really want to have, that in January that we would expect to see the pullback that we saw after Back-to-School after Holiday in January.

Mitch Kummetz

And then maybe just one last one for me because you mentioned Nike. Can you say how many doors—I mean my understanding is that it went into the 4.0 doors and online, but can you say how many doors you launched Nike in and kind of what your plan is in terms of moving forward with Nike in terms of bringing it into new doors or maybe broadening the assortment?

Mimi Vaughn

Sure. We are excited about this partnership with Nike, and we have carried Nike in Journeys before, but it's been some time. And like any of our brands, Mitch, we don't start in all of our stores. We do start in a handful of doors. I've talked in the past about new brands that we've introduced. It might be 50 doors, it might be 100 doors. Two hundred would be a lot of doors for us to introduce a brand into because we want to see how it performs. We dropped Nike Journeys on November 12, so it's been a matter of days that we have been carrying the brand, but we are seriously excited about this because it fits our strategy to offer to our target customer, all the brands that they're interested in across our diversified assortment. And Nike is with us because they want to reach the teen customer and they want to reach the teen girl. I mean that's a very compelling partnership for us.

What's really important is that we got top-tier product. You see the Vomeros and the P-6000s, but Dunks and Air Force 1 are also an important part of the wardrobe of our teen, and so we've got just the right assortment for our teen.

So we're going to start with Nike in the same way that we start with everybody else. It isn't going to drive huge volume initially. None of the brands that we introduce do, but it's super important in terms of validating Journeys as the place to go for the top brands. We will build and believe that Nike can absolutely move into one of certainly our top 10 and one of our more major brands.

Mitch Kummetz

Great. Thanks and good luck.

Mimi Vaughn

Thank you, Mitch.

Operator

Our next questions come from the line of Joseph Civello with Truist Securities. Please proceed with your questions.

Joseph Civello

Hey guys, thanks so much for taking my questions. Can you give any more color on the demand trends between canvas and athletic? One, is the divergence between the two expanding? And two, how should we be thinking about the innovation pipeline across both for 2026?

Mimi Vaughn

Joe, thanks for joining us this morning. I'm just going to talk about fashion trends in general in Journeys.

We've talked about fashion broadening and teens embracing more wearing occasions and so we have a really nice assortment. It's our unique positioning that we've got both the fashion and the—the fashion athletic and the casual brand.

When we look to see during the third quarter, we typically start to sell more boots. And this is the time of the year that the customer looks to specific boot brands. We have seen a trend where boots were actually positive. They were good for us in the third quarter, and we expect to be positive in the fourth quarter, but it's very, very brand-specific. The other trend that we have seen is that we have seen the consumer moving toward wearing athletic footwear much more year round. And so we saw growth in our casual brands, as I said, but even more growth in our athletic assortment. So we are really, really excited about the lifestyle athletic that we are selling.

In terms of canvas, canvas is not as strongly in demand by our overall customer; it's still an important part of our mix.

In terms of the innovation pipeline between the two going into 2026, we see more innovation on the athletic lifestyle side than we do on the canvas side.

Joseph Civello

Got it. Very helpful. On the boots, would you say that there's like new innovations that are driving a lot of that growth for those specific brands, or is it better access on your part? What should we think about as like the bigger lever there?

Mimi Vaughn

I would talk a little bit about boots as starting with just fashion. I'll say that we don't sell fashion boots per se, we're not selling like certain looks of boots that tend to be represented by nonbranded offerings. We sell boots that are related to specific brands.

Traditional boots have become less of a part of our assortment. Over the last couple of years, we've seen the customer gravitating toward much lower shafts, more moccasin like product, a lot of fur. It gives the warmth, so there's definitely a seasonal switch, but it's been out of taller boots into shorter boots and into moccasin type boots. In addition to the customer trading into athletic.

On the boot front, as I said, it's very brand-specific. There are some iconic brands that are in demand right now by the consumer. And so that's been fueling our growth.

Joseph Civello

Got it. Then one last one for me. Can you just give any more color on like the pullback you saw in terms of income demographics or anything like that just to help us understand where we saw things flow.

Mimi Vaughn

Sure. Interestingly, we attract a broad demographic group within Journeys. What we have seen in the past is when the consumer gets squeezed, they gravitate to a lower price point product. We're not seeing that at all. We're seeing the consumer stretch up to buy what they want and paying up. Our average transaction size is up pretty significantly, but they're conserving in between.

So when we look across our demographic cohorts, we certainly see that the higher income customer is more robustly spending, but we're seeing that in general the customer is stretching up to be able to purchase what they want, when they have a reason to go out and go shopping. But the pullback really is around conserving their cash for other things that they want to purchase.

Joseph Civello

Got it. Thanks so much again.

Mimi Vaughn

Thank you, Joe.

Operator

The next questions are from the line of Mantero Moreno-Cheek with Jefferies. Please proceed with your questions.

Mantero Moreno-Cheek

Thanks for taking my question today.

You highlighted Journeys strong comp growth and the new brand launch at Nike. As you look ahead, are there any major next steps to continue expanding Journeys brand portfolio? Also, how should we think about the current momentum and how that shapes growth outlook going forward?

Mimi Vaughn

Good morning, Mantero. In terms of Journeys and the Nike introduction, I think I've talked about several of the brands that we have been introducing in Journeys over the past few months, brands like HOKA and Saucony as well. All of these are important in terms of validating Journeys and categories we haven't had historical strength in and brands that are an important part of our overall mix. So lifestyle running is a really great example of a category that's important. As I said, they don't start as major revenue plays, but they do build into top brands in our portfolio.

The key for us is that we are absolutely pursuing a strategy of more diversification, and more diversification means that when styles or brands or categories get hot, that we're well represented in that. If you go back over Journeys history, you'll see that brands rotate in and out of our top assortment. That our consumer, that our teen customer has an insatiable appetite for something new and something different and something that's next, and so our business model actually is a business model that can stand the test of time with the diversification because we can manage that rotation in and out of the brands that are important to our consumer.

So it's having the right brands, having strong relationships with these brands, building growth plans going forward and being able to navigate where the consumer takes us and where we take the consumer.

In terms of how should we think about Journeys sales momentum, we're just mindful of the fact that last year was a really strong period for Journeys as we significantly changed the assortment and drove comps well into the double digits. And while we are anniversaring those strong comps quite nicely, there's always a phenomenon where going against strong comps that we just have to be mindful about the fact that we're anniversaring those stronger comps.

I think that as we as we reset at the end of this year and we think about all the other initiatives that I talked about to attract new customers in, to grow Journeys' brand awareness, to be able to improve the execution in our stores, to attract new customers to our 4.0s, to add new 4.0s, that all of these things are those initiatives and those steps that will allow us to sustain growth for Journeys over many, many quarters to come.

It starts and it ends with the fact that we have a unique value proposition that we serve that style-led teen. When you think about competition within the marketplace, there's lots of competition, but there's no direct competition, and there's no brand out there that has the relationships that we have with our branded vendors and that can bring to bear the diversity of the assortment and the strength and the breadth of the assortment that our customers are seeking.

That's what we are leaning into and that's what will drive our growth over many quarters and many years to come.

Mantero Moreno-Cheek

Then on margins, gross margin decline, and that was primarily due to margin pressure at Schuh and then ongoing tariff pressures. And so sorry I missed this, but where do you see the greatest opportunities to improve margin from here and what are the key levers that you plan to pull to drive port expansion in the near term and in the long term?

Mimi Vaughn

Thank you. That's a great question. I'll just start with some thoughts and then ask Sandra to weigh in on this.

Our margin pressure this year was driven by three major factors. You got two of them. Schuh is one of them. Tariffs is another one of them. But we are also—it's our smallest business, but we are exiting a big license with Levi's. We're excited about the license we're going to replace it with, with Wrangler, but it's going to take some time to do that. And so when you look at our overall gross margin profile in the quarter,

we took a pretty direct hit from product that we're liquidating from Levi's. That's a onetime thing. We won't repeat that. That will be out of our mix, but it was several hundreds of basis for the division itself and had an impact overall.

The second area is tariffs and we had a really, I'd say unique for a period of time situation in our wholesale business, where we had locked in wholesale pricing early in the year. and we needed to honor those prices, and so it's difficult to raise prices even though our goods came in at a higher rate of tariffs. So that squeezed us there. We will be able to manage pricing over time and do a lot of other—take a lot of other actions to manage the product cost, but over time, we see that, that we will be able to manage that.

Then on Schuh, it's probably going to be close to a couple of hundred basis points that we will give up in Schuh because the market has been really so promotional.

I think that looking into next year, we're going to do a lot of things where we're going to rightsize our inventory certainly to meet the demand that's in the U.K. market. We expect that our competition will do that as well. We will absolutely look to strengthen our overall assortment into a deeper and broader set of must-have styles, and I think that is going to help us as well. It may take a couple of quarters like it took a couple of quarters for us with Journeys to do a lot of the re assortment, but we are optimistic that we can make progress overall with Schuh. We really thought we would have a better back half of the year. We took a lot of the actions that we needed to take to be able to—when sales softened in May and June to get our inventory into the right place, but we have seen in the soft consumer demand in the back part of the year this year that our competition is actually promoting to drive sales. We typically promote to clear merchandise, but when it comes to promoting to drive sales, then that's what we've been having to match.

I think we're looking carefully at the situation. We're disappointed in the impact that it's going to have on our business for this year. but we do see that there's opportunity and there's upside into next year on all of these fronts.

Sandra Harris

Mantero, I'll just add just a little bit of color about the 100 basis points. About half of that is related to the exits of the licenses. So as we wrap up the exit of those licenses, hopefully, by the end of the year, that would be an improvement next year for overall Genesco.

Then Schuh makes up the majority of the rest of it. Tariffs has a residual impact, but I will point out that tariffs will continue to be a headwind into next year. The majority of the trend this year is really related to the exit of the licenses and the challenges we're going through with Schuh, which Mimi addressed the actions we're taking.

Mantero Moreno-Cheek

Got it. Then, I guess one more for me on marketing and ad spend. Those have been pretty topical recently, and I know that your “Live on Loud” campaign and the Peyton Manning at Johnston & Murphy has been performing well. I guess, is there anything else to note on these campaigns and how they help drive increased conversion or traffic? Also just how should we think about ad/marketing spend going forward?

Mimi Vaughn

Sure. Thinking about brand investment and brand marketing is a very important initiative across all of our businesses, and I'll come back to that. But I want to point out that our teams did an extraordinary job of managing expenses across the quarter and we ended up with 140 basis points of leverage in spite of additional marketing spend. So the idea really is, as we think about shaping our cost structure and managing our cost structure, it's in a way for us to be able to fund the investment in overall marketing.

Much of the marketing spend we've done in the past has been performance marketing to drive the growth of the digital channel, which has been quite successful, through areas like paid search and direct mail with catalogs, but we have been shifting our spend over the last year into brand marketing and more top of the funnel activities in order to attract new customers. You called out "Life on Loud", you called out Peyton. Those are two great examples that we are really thrilled about. These types of investments will pay off over time. They are aimed at building awareness and attracting customers into our brand. We think we've got the brands. We think we've got great merchandise, but our awareness is a lot lower than we would like it to be and so these are directly aimed at being able to build and drive awareness.

Mantero Moreno-Cheek

Thank you very much.

Operator

Thank you. That concludes our question-and-answer session. I'll turn the floor back to Mimi for closing comments.

Mimi Vaughn

Thank you for joining us today. I wish everybody a happy holidays and look forward to talking with you when we report earnings and also after the holidays at the ICR Conference.

Operator

This will conclude today's conference. You may disconnect your lines at this time. We thank you for your participation. Have a wonderful day.