



Genesco Inc.

Fourth Quarter Fiscal 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Mitch Kummetz, *Seaport Global Research*

Mantero Moreno-Cheek, *Jefferies LLC*

PRESENTATION

Operator

Good day everyone and welcome to the Genesco's Fourth Quarter Fiscal 2025 Conference Call.

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

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

Darryl MacQuarrie

Good morning everyone and thank you for joining us to discuss our fourth quarter fiscal '25 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, Darryl. Good morning everyone and thank you for joining us.

We were pleased to deliver a very strong finish to the year highlighted by revenue and gross margins that exceeded our expectations and operating profit at the high end of our forecast.

Our performance was driven by Journeys as the initial phase of our strategic plan to accelerate growth continued to gain traction, and Journeys' performance far outpaced the overall market. These results underscore the team's outstanding execution of our near-term initiatives and the strong consumer positioning and resilience of the Journeys business.

On the whole, the consumer environment remains choppy. Consumers continue to show a willingness to shop when there's a reason, like we saw during the holidays, and retreat when there's not. And they remain quite selective. In response, we continue to innovate and add freshness to our assortments to satisfy shoppers who are looking for must-have product and a reason to buy something new and passing on everything else.

We've taken major actions to evolve in response to the substantial changes in consumer shopping behavior. We've also demonstrated a strong track record of successfully evolving each of our businesses, emerging even stronger when confronted with economic and consumer disruption.

The fourth quarter is evidence of this with comparable sales increasing 10% with both stores at mid single digits and Digital up high teens, Journeys' comps accelerating and increasing double-digits for the second consecutive quarter, and comp trends at Schuh and J&M improving sequentially, gross margins expanding 60 basis points driven by strong full-price selling, operating profit increasing 24% even with a shift of an important week out of the quarter, and adjusted EPS of \$3.26 compared to last year's \$2.59.

Sandra will walk through our year-over-year comparisons in more detail, but I want to remind everyone that Q4 last year had an extra week due to the 53rd week in the retail calendar. Adjusting for this extra week, the shift of this high-volume week out of the fourth quarter into the third this year, total sales would have been up 7% versus the 1% we reported.

In terms of the full year, it's incredibly encouraging to look back and see we accomplished priorities we outlined at the start of fiscal '25 and that our work led to improved results as the year progressed.

For fiscal '25, comparable sales returned to positive territory, rising 3%, total sales were at the high end of our guidance range even as we closed more stores than initially planned, and EPS came in at the higher end of our range and was up meaningfully versus fiscal '24.

Journeys' turnaround was our number one priority as we started the year. Like the fourth quarter, our annual performance was led by Journeys along with strength in Digital, following a multiyear investment cycle in this channel and meaningful progress against several growth initiatives.

Some important highlights for the year include: we grew our Digital business by double-digits, expanding our Digital penetration to 25%, effectively doubling the size of this profitable channel over the last five years to over \$0.5 billion; we significantly grew membership in our loyalty programs to achieve the important milestone of over 10 million members, allowing to hook our data analytics and CRM programs into this first-party data to drive repeat purchases and increase customer value going forward. We further leveraged the interaction between stores and online, accelerating buy-online-pick-up in store since implementing it a year ago to a peak of almost 20% at Journeys' online sales in December. We positioned the business for better productivity and profitability with 64 Journeys store closures as we reshape our footprint to align with the

shopping patterns of today's consumer. And we achieved our target run rate of annualized cost savings in connection with the work over the last two years realigning our cost base.

We're really proud of the strides we've made driving improvements in the business. We still have a lot of work to do to recapture the operating profit we gave back over the past couple of years, but fiscal '25 was a step in the right direction.

Now for more color on our individual businesses, starting with Journeys. Fiscal '25 was the tale of two halves. Our focus in the first half was on the initial phase of Journeys' strategic growth plan. We onboarded a new president, Andy Gray, and a new Chief Product Officer at the beginning of the year, who collectively brought strong merchant backgrounds, excellent vendor relationships and expertise in brand building and product innovation, adding to the strong team in place. This phase centered on injecting the product assortment with more newness, excitement and storytelling to drive an inflection in Journeys comps. The team did an amazing job, quickly adding significant newness across several casual and athletic brands. Our key brand partners, very enthusiastic about Journeys unique teen customer proposition stepped up with tremendous support of our strategic directions to better serve this customer with a spotlight on the teen girl through elevated assortments and depth. Fueled by improvement in the product offering and the visual reset of our stores among other actions, comps improved sequentially from Q1 to Q2, turning positive in July.

The plan for the second half was to build on this strong product momentum, coupled with increasing investment in the Journeys brand and elevating the customer experience to deliver improved results during the important Back-to-School and holiday seasons. We added an exceptional marketing leader as the new Chief Marketing Officer at Journeys at this time to further augment our leadership.

After turning positive in July, Journeys comps accelerated, increasing double-digits in both Q3 and Q4, highlighting the immediate and meaningful impact this first set of changes has had on the business. In the fourth quarter specifically, increased allocations and bets on key footwear brands and styles paid big dividends and fueled strong full-price selling throughout the holiday quarter, delivering double-digit comps both in stores and online. Positive traffic and meaningfully higher ASPs helped drive these results. Both casual and athletic brand sales were up and after a couple of years of declines, the boot category leveled off. Congratulations to Andy and the rest of the Journeys team on this outstanding performance.

Staying with retail and moving to Schuh, after back-to-back years of record sales and market share gains, in fiscal '25 Schuh's top line remained relatively flat in a very challenging and highly promotional declining UK footwear market. Comp trends recovered as the year progressed, improving from down high single digits in Q1 to up low single digits in Q4. This inflection was driven in large part by Digital sales, which have remained resilient in the face of tough market conditions, accelerating high single digits to over 40% of the business. Schuh was compelled, especially in Q4, to buy a portion of its sales through discounting to match the promotional stance of its competition. The team worked hard in response to the top line softness to manage expenses despite wage pressure and store deleverage, but it wasn't enough to offset the lower store sales and gross margin pressures and profitability took a step backwards in fiscal '25.

Despite the challenging backdrop, according to Kantar, Schuh maintained the number 10 position overall in the UK footwear market, picking up share and moving up two places in ranking in the youth market, becoming more important as a key destination for this youth shopper for casual and athletic footwear.

With the promotional activity, Schuh's inventory is also in a clean position as we start the new year.

Now, turning to our branded business, starting with Johnston & Murphy, similar to Schuh after years of growth and strong comps and two consecutive years of record sales, J&M faced headwinds this past year. These earlier records resulted from the team's success at reimagining J&M from its heritage as a dress

shoe brand to a more comfortable, more casual lifestyle brand with product completely redefined for today's more casual dressing. This year, however, overall demand in the market for men's non-athletic premium footwear slowed at a high single-digit pace. Despite the slowdown, J&M continues to make inroads with more casual footwear and in apparel and accessories like outerwear and leather goods which now represent about half of the direct-to-consumer sales.

Like our other businesses, J&M sales trends improved in the second half versus the first with flat comps in Q4 representing the best quarterly performance of the year. New product introductions performed very well during the holiday season, selling through at full price and driving transaction value and gross margins higher year-over-year. This helped offset lower traffic levels across all channels to deliver higher operating profit in Q4 despite a decline in sales and operating profit declines earlier in the year.

Wrapping up the branded discussion, we achieved notable success with the repositioning of Genesco Brands Group. Efforts to simplify the licenses portfolio to emphasize key brands and channels means lower sales in the short term but considerably more profit, which was the case in both our Q4 and full-year results. Genesco Brands Group was a significant contributor to our performance this year and I'd like to congratulate and thank Rick Higgins and the GBG team.

Now turning to our outlook for fiscal '26, we are pleased with our start to the year. And although we are navigating a very fluid external environment, we plan to build on the comp and earnings momentum we achieved this past year and in general shift to a cycle of store improvement and investment for growth and higher productivity. We expect positive comps overall with higher comps in the first half as we anniversary Journeys' negative compares with total sales growth being offset to some extent by continued store footprint optimization and foreign exchange pressure. Like this year, we expect our improvement to come from better overall productivity, especially in the higher volume back half when we can more meaningfully impact the bottom line, even with lower top line growth.

All of this starts and ends with our amazing and talented people. Our unmatched ability to reinvent ourselves, evolve and grow over the years with a deep understanding of what our customer wants is our true competitive advantage and real cause for celebration as we bring our 100th anniversary year as a company to a close. Before passing the call, I'd like to thank you all for your tremendous efforts and dedication which paves the way for further exciting growth and progress ahead.

Sandra will now cover the financial results for the fourth quarter and details of our outlook for the coming year after which I'll provide more specifics on the key initiatives that will drive our businesses forward.

Sandra Harris

Thanks, Mimi.

Overall for the quarter, we grew revenue including comps up double digits, improved our gross margin, leveraged SG&A and delivered adjusted EPS of \$3.26, \$0.67 higher than last year, finishing the year at the higher end of our guidance range and achieving consensus for the full year adjusted EPS of \$0.94.

Revenue of \$746 million was up approximately 1% with one less week of sales in the current quarter and fewer stores. The increase in revenue was attributable to total company comps, up 10%, with stores up 6% and direct comps up 18% with all measures showing sequential quarterly improvement throughout the year.

All of the businesses delivered improved comps in the quarter, led by Journeys up 14%. J&M, even with traffic shortfalls, had flat comps and Schuh comps were up 2%, driven by e-commerce and promotions.

The positive contribution from comps were partially offset by lower revenue due to closed stores and the impact of the 53rd week shift.

For the year, the 53rd week negatively impacted sales by \$25 million, whereas the impact on the fourth quarter was approximately \$15 million higher due to the shift of key retail weeks between the quarters.

Overall, gross margin improved 60 basis points compared to last year. Journeys' gross margin was higher by 60 basis points on fewer markdowns. J&M improved by 90 basis points on strong full-price selling and better cost. And Genesco Brands Group delivered higher gross profit dollars on lower sales and improved gross margin. The continued promotional environment in the UK resulted in 170 basis points of lower gross margin in our Schuh business.

Moving down the P&L, SG&A expense was 40.5% of sales, 60 basis points better than the prior year. The improvement was from better occupancy costs and various cost savings initiatives that were partially offset by increased marketing investment to drive sales, as well as from the rebuilding of our bonus expense.

We continued our store optimization efforts, ending the quarter with 63 net fewer stores versus a year ago, which was an increase over the 46 that we had previously anticipated. The closures overall represented 6% of the fleet, 5% of the square footage, but only 2% of sales, and closing these stores was accretive to operating income. For many of these stores we have also seen positive sales transfer rates that have helped offset any operating income loss impact.

For the 16 new 4.0 Journeys remodels opened since we started the program in October, we've seen well above average performance in comp, traffic, conversion and transaction size. We will continue to optimize the fleet to better support the consumer's preference to shop those in-store and online, and to enhance and improve the in-store experience across our fleet.

In addition to the four-wall savings related to rightsizing the fleet, we have achieved the higher end of our target run rate range of \$45 million to \$50 million of total expense savings before reinvestment through the cost reduction program that began in fiscal '24. The savings were from reduced rents, optimizing cost in warehouse, freight and logistics; and labor and other procurement efficiencies. The strong performance throughout the fourth quarter resulted in adjusted operating income of \$47.9 million compared to \$38.5 million for fourth quarter last year.

This all resulted in adjusted diluted earnings per share of \$3.26 for the quarter versus \$2.59 last year.

Turning now to capital allocation and the balance sheet, we generated approximately \$103 million of free cash flow in the fourth quarter, ending the year in a positive net cash position. We ended the year with clean inventories, up 12% from last year, as we changed distribution models in our Genesco Brands Group that resulted in overall cost savings and as we rebuilt inventories and positioned Journeys to have more of the key items that consumers are seeking, a strategy that paid off in the fourth quarter. Our strong cash flow, balance sheet and liquidity under our revolving line of credit provides a financial capacity to support all of our strategic efforts.

Capital investments in the fourth quarter were \$14 million, primarily directed to retail stores and our digital and omnichannel initiatives. We opened four stores in the quarter and closed 28, ending with 1,278 total stores.

Lastly, we didn't repurchase any shares during the quarter but bought back 3% over the year, and our current authorization remains at \$42 million. Over the past six years we've repurchased almost 50% of our outstanding shares.

Now, turning to guidance, we are excited about our momentum in the back half of fiscal '25 and look forward to continuing to build upon that in fiscal '26 as we transition during this year toward investing for growth with a main focus on Journeys.

While reducing costs will continue to be important as we rebuild operating income, we must drive the top line to reverse the deleverage on our largely fixed expense base in recent years. In this transition year, the bottom line grows more than the top line as store optimization and closures offset positive comps.

We expect overall comp sales for fiscal 2026 to be up 2% to 4%, driven by Journeys, with total comps higher in the front half of the year as Journeys anniversaries negative comps last year, and we are more conservative about comps in our other businesses.

This comp growth is offset by roughly \$30 million from the impact of net store closures and approximately \$14 million from a weaker Pound Sterling, leading to total sales growth of flat to up 1%. We do expect first quarter comps to be at the higher end of annual range due to the easier compares to last year.

By division, total year-end sales compared to last year are expected to be a low single-digit increase for Journeys. For Schuh, we expect slightly positive comps but sales to be down low single digits, largely as a result of the FX headwinds. For Johnston & Murphy, we expect total sales to be up low single digits, and for Genesco Brands, we expect sales to be down low single digits as we manage through the expiration of certain licenses.

For gross margin, we expect the year to be down 20 basis points to 30 basis points. This is driven by lower margins at Genesco Brands as we clear inventory related to the exit of licenses, product mix at Journeys, and channel mix at Johnston & Murphy, partially offset by improvement at Schuh after a year of heightened promotional activity. We do expect more pressure on gross margins in the first quarter, almost double as compared to the remainder of the year, largely due to product mix shift at Journeys.

With regard to tariffs, we estimate that only about 15% or less of our fiscal '26 cost of goods sold are exposed to China and our gross margin outlook includes and incorporates the higher tariffs that are currently in place for China and elsewhere.

We expect SG&A expenses as a percent of sales to leverage 50 basis points to 70 basis points, which is largely driven by our store fleet optimization and cost saving efforts over the past two years, partially offset by the operational investments to grow our businesses. We expect a similar trend in the first quarter.

Overall, we expect higher year-over-year sales growth in the first half with less growth in profitability as leverage in SG&A is not enough to offset the gross margin pressures. As we enter the higher sales volume back half of the year, we expect that year-over-year profitability accelerates from better productivity, lower occupancy and operating expenses associated with the fleet optimization and the anniversary of the incentive comp. This results in a fiscal year earnings per share range of \$1.30 to \$1.70 with only a few cents of EPS improvement in the first half paired with more upside in the back half, primarily in the fourth quarter.

We expect total capital spend of between \$50 million and \$65 million, led by investments in store remodels to fuel Journeys' growth, of which we are planning approximately 70 remodels or 7% of the Journeys fleet. The plan also includes capital to invest in new stores and remodels for Johnston & Murphy as we see market conditions improve. Finally, we will continue to invest in technology to enhance our customer experience and drive sales growth, particularly in our Digital channel.

Our guidance assumes no additional share repurchases resulting in a fiscal '26 average share count of approximately 11.3 million. And we expect the tax rate to be approximately 29%. The tax rate reflects higher

volatility associated with the valuation allowance for deferred tax assets which are contingent upon operating earnings in our various regions.

In closing, as we look to fiscal '26, we will continue to reshape each of our businesses and invest in the top-line to drive overall leverage as we look to rebuild the Company to historical profitability levels and further unlock value for our shareholders.

I will now turn it back over to Mimi.

Mimi Vaughn

Thanks, Sandra.

Fundamental to our footwear-focused company strategy are five strategic pillars to drive growth and meet the evolving needs of our consumers, and to improve our cost structure in response to the dynamic changes in our industry. These pillars across both our retail and branded platforms are: accelerate digital to grow direct-to-consumer, maximize the relationship between physical and digital, deepen consumer insights to strengthen customer relationships and brand equity, intensify product innovation and trend insight, and reshape the cost base to reinvest for future growth.

We're also looking forward to making major advances in our talent initiatives, accelerated by the recent addition of our new Chief Human Resources Officer. We have in the past added a sixth pillar, pursue synergistic acquisitions. While we believe this is an important pillar longer term, for now, we're intensely focused on driving profitability and growth in our current portfolio.

While these pillars form our overall Company strategy, and I highlighted in my opening comments progress we have made against them, each business has its own important slate of initiatives for fiscal '26, and I'll go into more depth on the Journeys strategic growth plan.

The initial phase I've talked about this past year was to quickly inject the assortment with more newness and storytelling and expand our leadership position across athletic, canvas and casual categories. The next phase is execute a robust plan to serve a larger addressable market of teens, sharpen Journeys brand positioning and offer an assortment of even more premium product.

This broader plan centers on Journeys' unique market proposition to reach the underserved teen girl in the mall. While this customer is well served with fashion apparel, our recent market research underscored that Journeys has an even greater opportunity to serve this customer's fashion footwear needs. We've talked about expanding our consumer segmentation, building off the independent style customer base we currently serve to reach a wider teen audience who is also interested in style and trend that is 6 times to 7 times bigger.

Today's teens want to express themselves in different ways from one day to the next and footwear is a key enabler of this. At the same time, the marketplace is quite segmented among athletic, casual and fashion with no concept that goes across all footwear categories in the mall for the style-led team. This is the opportunity and no one is better positioned than Journeys to win with this customer.

In fiscal '26, you'll see us focus on four key areas. Starting with product and diversifying our footwear leadership, our efforts here are focused on strengthening further our product leadership, inventory position, differentiation and scale across a number of existing in-demand brands. We plan to drive growth in both casual and athletic and further elevate the assortment this year, building on our longer-term strategic partnerships with our best-in-class premium footwear brands, driving ASP increases through outpaced premium growth, and enhancing our incubation strategy for new brands and new model launches.

Second is investing in our Journeys brand, bringing our updated brand positioning to this expanded group of teen customers. Our focus here to significantly boost customer engagement is on increasing investment in brand media, more unique and identifiable in-store and website marketing and enhanced social engagement; launching a new brand platform and campaign for back-to-school; and leveraging further our investments in data insights, CRM and our all-access loyalty program where we more than doubled membership in fiscal '25.

Third, elevating our customer experience. We are elevating our customer experience online with improved site content, editorial features and online storytelling, and accelerating our store remodels. Sandra has discussed the success we're having with the initial pilot group of 4.0 stores, which retains the Journeys energy and DNA in a fresh, new and compelling environment. We've been very pleased with these initial results. This elevated setting is essential to attracting these new customers and showcasing our more premium brands and product. We expect that we will have 70-plus stores with the updated design by year-end and have developed a tiered remodel strategy to reach a higher percentage of stores over the next few years.

And finally, unlocking the power of our people. Among other initiatives, we're investing in top-performing, high-tenured managers in key markets to strengthen leadership and drive the absolute best shopping experience in the mall. We believe in stores, the ability to differentiate based on store experience, and we're putting investment behind this.

All together, we're excited about Journeys' evolution and the tremendous growth ahead. We're broadening our reach and bringing new customers to the brand; they'll be coming for the premium curated assortment that's just right for them, delivered in an amazing new in-store and upgraded online experience. We will invite them to connect deeper with us through all-access and other offerings, and we'll grow from there.

Schuh will have a similar focus as Journeys this year with the goal of driving share gains in a challenging consumer market. The team is leaning into its work on product elevation and brand access to the top brands and styles, sharpening its customer focus and intensifying the messaging around the Schuh brand with encouraging initial results from tests in fiscal '25 giving us confidence this will continue to attract new customers, and rolling out digital and loyalty enhancements for greater customer engagement and sales.

Turning to our branded platform, Johnston & Murphy's primary focus will be on delivering fresh and distinctive product and accelerating its brand repositioning. On the footwear front, J&M will deliver a 15% increase in new footwear constructions in the front half and 60% in the back with some distinctive new introductions. On the apparel front, the brand will bring more XC4 Performance programs into apparel and introduce new fabrics and design details in several categories. J&M will promote its renewed brand platform to build awareness and acquire new customers and will launch a limited edition collection of shoes and apparel in celebration of its 175th anniversary as a brand this year.

Rounding out the brand positioning work, J&M will introduce an updated brand book and shift marketing spend to brand building while optimizing Performance marketing using its extensive customer information and the J&M Insiders program.

Finally, as the business improves, J&M is evaluating opportunities to grow its distribution and open new stores in key markets.

In closing, we're looking forward to fiscal '26 and building off the momentum we created this past year. We recognize this year has begun with some challenges in the consumer markets with uncertainty about the economy, tariffs and other factors, but we're confident in the strong strategic positioning of our businesses, our ability to evolve and meet the needs of our consumers, and our execution to make our brands the

destination for our consumers' favorite fashion footwear, all of which will allow us to grow and unlock the considerable earnings potential we know exists.

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

Operator

Thank you. We'll now be conducting the question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press star, two to remove yourself from the queue. For participants that are using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. One moment, please, while we poll for questions. Thank you.

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

Mitch Kummetz

Thanks for taking my questions. I've got maybe a handful; I hope you'll indulge me.

Mimi, in your prepared remarks, I think early in your remarks you said you were pleased with the start to the first quarter, but then kind of in wrapping up you mentioned uncertainty around the macro. I don't know if you can elaborate a little bit more on what you're seeing quarter-to-date. I know that as other retailers have reported, there has been talk about how difficult February was, partly from a weather standpoint, too. Maybe if we could start there?

Mimi Vaughn

Sure, Mitch. Thanks for your questions.

As I said, we're pleased with our start to the year overall. February has been a bit of a roller coaster. It started with snow and cold weather in places that snow isn't supposed to be, you know, in the South across Florida and Louisiana and other places. But during the month, it has also been ups and downs in terms of Valentine's Day was incredible. When the consumer is ready to come out and shop, we are seeing them come out in force and really buying and spending. The third week had delayed taxes and the fourth week was a huge rush in from the consumer as those tax payments really caught up.

The bottom line is that when there's a reason to shop the consumer is turning out in force. We've got some great assortments for them to purchase. When you wrap up the whole start to the year, we're quite pleased with where we began.

Mitch Kummetz

Okay. That's helpful. Thank you. Just to drill down a little bit more on the Journeys outlook for fiscal '26, I know that you're seeing sales up low singles and then you gave a comp outlook for the enterprise of 2% to 4%. Just wondering what you're thinking in terms of Journeys comp. Obviously, you're closing some stores there, so that's a pressure point on sales. Are you looking at, like, 3% to 5%, 4% to 6% Journeys comp growth, and how should we think about that kind of first half versus second half given the comparisons? Is it fair to kind of think about the year on a two-year stack in order to kind of come up with comps for the quarters this year?

Mimi Vaughn

Mitch, let me start, and then, I will ask if Sandra has anything to add. Our plan is to build on the comp and the earnings momentum from this past year. We're excited about the initiatives to acquire new customers and drive sales and that is important.

I think we talked about higher comps in the first half as we anniversary the easier Journeys compares, but we also know we have the ability to drive comps in the back half for Back-to-School and Holiday, so we're going to be anniversarying some pretty great comps for Journeys in the back part of the year, so we're expecting positive.

I'll remind you—you're right, we left off with negative front half comps from Journeys from last year and the compares and we plan to continue this great Journeys run that we've been on, bringing the incredible back half into the front half of the year. We are not expecting at the double-digit levels but expecting some very strong comps to begin the year with Journeys. You're right, we are offsetting that with some store closures, which at the end of the day, we think that the optimization of the store fleet makes us stronger over the long term and that does pressure the top line but it brings more to the bottom line.

Net-net-net, stronger comps for Journeys in the first part of the year, continued positive comp in the back part of the year, and then offset with some overall store closures.

Sandra Harris

Mitch, the only thing I would add to that is you're right, we guided 2% to 4% for the overall company. We talked about our conservative comps within our other businesses, so that can help guide you with Journeys. Then, to reiterate, we are definitely seeing higher comps for the higher-end of our range in the first quarter, just due to the easier compares to last year. There is about a \$30 million impact from the net store closures on revenue, which brings the total sales down into that low single-digit range that we quoted.

Net-net, we also have on the total sales the FX impact for Schuh, but for the comps, definitely in the first half and the first quarter, the higher end of the range.

Mitch Kummetz

Mimi, you talked about the strategic pillars, particularly around Journeys. I'm just trying to better understand. I know these aren't—this is not just about fiscal '26. This is more of an intermediate longer-term plan as well, but I'm just trying to understand how some of those items are likely to have an impact on the business this year. The first of the pillars has to do with product, I think. I know we've obviously already seen a lot of the benefit of the changes there. But in terms of customer engagement and elevating the consumer experience and unlocking the power of the people, how does that impact this year and what's kind of the runway of some of those strategic pillars?

Mimi Vaughn

We are so excited about the opportunity for Journeys. We are in absolutely the early innings of what we are going to do with this business. I think the bottom line is that we are taking Journeys to a place that it's never been before. It's always been the place to go discover footwear for teens, but it is going to an even better place than it's ever been before.

I did talk about the pillars and the first part of this year was just to rapidly inject the assortment with new and fresh product. We did a lot in the back part of the year, and our Chief Merchant, our team at Journeys did a lot to really, really move the assortment, which you can see when you go into our stores. We'll continue that momentum through the front part of the year.

But what is important are a few elements out of the plan that I discussed. The first is this aspiration to serve a much larger customer group with a much larger addressable market. We have been serving the independent-styled customer—self-expression has been really important to this customer—and the work we've done has said that there's a much larger customer base out there. Focused on that teen girl, because that's our point of differentiation within the market, but when you broaden the market by 6 times to 7 times, then that's a really important element of the strategy, so it's a broader customer group that we are targeting.

The important way to be able to serve those customers are, first of all, by the assortment. I've talked a lot about elevating the assortment and we did that this year. Elevation means that we've got a diversified set of brands, that we've got the right models and styles that that customer is looking for, that we have access to them, we've got great brand partnerships that we are bringing together to elevate the overall assortment. Elevation also means higher average selling prices. You think about a broader customer group, you think about higher selling prices, you think about an assortment altogether that is appealing to this teen customer.

I'll come back and say that we would then wrap that up in overall outreach and marketing to be able to touch this consumer. It is so exciting to see the changes that we've made online and in our new 4.0 stores that I'll come back and talk more about. But it's a visible difference, it's a really visible difference in this outreach to customers with this more elevated assortment in a more elevated environment that is reaching out to more new consumers.

The all-access loyalty program is important because once we get people into our ecosystem, we are seeing that there is more purchase frequency and higher overall transaction size, which is a real positive. We'll drive those repeat purchases and get those customers to keep on coming back.

Then finally, this new store is driving comps well in excess of what we saw in the back half of the year, which was really strong.

It's a formula all together to say that we're serving a broader customer base, we are doing it with a great assortment that has even better product than we've been able to offer up before, and there are just so many elements of this plan that will come together that give us a long runway and a multiyear cycle of opportunity for Journeys.

Sandra Harris

Mitch, how that comes to life through our P&L in '26, specifically related to the new store format, just as Mimi said, it's early innings that we've seen since we've launched the first prototype of about 16 that we're seeing double-digit improvements in all areas, whether it's comp, conversion, average transaction size, traffic. We're seeing really great results. We're targeting 70 stores by the end of this year, which we're really excited about, and that represents 7% of the fleet. All of that, our comps are higher than our market right now at 2% to 4%, but we're excited that these store formats will help support that higher-than-market-average comp.

Mitch Kummetz

Great. All of that was very helpful. One last one for me. Just trying to better understand the margin outlook for '26. I guess, maybe the two pieces in particular I was hoping you could elaborate on is, on the gross margins, help me understand what the pressure is in the first half of the year. It felt like maybe some of that had to do with mix, at least in the first quarter, but maybe just a little bit more color there.

Then, secondly, on incentive comp, I know that was a hit to the fourth quarter. How should we think about that in '26? More normal in '26, and if so, how much do you get back as a result of that?

Mimi Vaughn

I will start and then hand it to Sandra. On gross margins, I'll just say that for Journeys, with the significant shift in the assortment that we enacted in the last part of the year last year, that then also carries over into the front part of the year this year. Canvas product, vulcanized product is at a higher initial margin than some of the product that we have shifted to, but overall average selling prices are much higher. So, gross profit dollars per pair of shoes is much higher and so there is a mix shift as a result of that. That's what we were calling out specifically. We also are going to be shifting out of some licenses at Genesco Brands Group and that puts just a one-time disproportionate effect on overall margins, but we will recapture that going forward after we anniversary some of that clearance.

Just to call out specifically, Mitch, incentive comp in the SG&A line, I will hand over to Sandra to just talk about the impact of that.

Sandra Harris

Yes, I can start there, Mitch. With the incentive comp, we talked about rebuilding as we had the performance come back for Journeys and also for Corporate in the fourth quarter, so we do expect to anniversary that based upon the performance. In our SG&A, not too much anticipation of any additional impact from the incentive comp program.

I do want to highlight a few other things in margin. We are facing some initial inflationary impacts in the first half that obviously impacts our productivity in our stores and how effective and profitable they are. Specifically in the UK business, we have inflationary impacts driven by the national insurance increases and statutory wage increases that are occurring. Also here in the U.S., the minimum wage pressures and higher rents are starting to start to come back into our P&L. So, in Q1 where we have the lower sales, it's a little harder to cover from a margin perspective.

Operator

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

Mantero Moreno-Cheek

Thank you for taking my call today. My first question is you're investing a lot in Journeys remodels and I think you said like 7% of your store base expected to be remodeled this year. The stores that you did remodel did witness better comps. I guess, just any more color you can provide us on these remodels and how we should think about it for the rest of the year?

Mimi Vaughn

Good morning, Mantero. The remodels are an essential part of Journeys' strategy. We're really excited about this element of our plan. With our new consumer positioning and our product assortment, we need an aspirational environment to showcase more premium product. What is exciting here is that the average selling prices, while they're up across our whole business, they're up even more in these stores because we are attracting a different customer that is willing to spend more on this product. It's designed for a style-led teen. It's a cleaner environment. It's a more neutral aesthetic to showcase the footwear. It's really exciting. If you haven't seen it, we invite you to Nashville. There's also a new store in Garden State Plaza, which you can go check out. It retains the Journeys' energy and its DNA and its attitude. We've opened 16 so far, as Sandra said. It's early, but we are very pleased with the results.

We've got 70 planned for the coming year, but we can accelerate as the results come in. We have an opportunity because we've got a tiered set of remodels where we can do 100 stores the following year and then 100 beyond that. We have an opportunity to really be able to change the look of the fleet in a pretty rapid period of time.

What I would absolutely underscore here is that our aim is to drive the productivity within our existing stores, to drive the overall volume of these stores, to invest in our best locations because we know that we can move the needle significantly within our best locations. We're seeing that in terms of the well-above average performance in comp, in traffic and conversion, and again, the transaction size is really essential.

So, when you think about how we are going to be rolling this out, 7% this year, more next year and the following year, then that gives us leverage to be able to continue to drive comp for Journeys.

Sandra Harris

Mantero, from an investment standpoint, depending on the location and square footage size of the store, this can be half the cost of opening a new store, but yet it has a much quicker payback because we're already in the market and the consumer knows us and they see the new style of the store, so a much quicker payback on less investment.

Mantero Moreno-Cheek

Thank you. Turning to modeling, how should we think about the shape of sales and earnings by quarter this year? Also, how should we think about your inventory positioning exiting fiscal '26?

Mimi Vaughn

I'll start with inventory, and I'll give some color on the shape of sales and then just turn it over to Sandra.

Overall, our inventories are in a great position. Our gross margins were higher by 60 basis points in the quarter. We began the year at low inventory levels. I think we were close to 20% down as we began the year. We knew we needed to do a huge push on Journeys' re-inventorying, and we've been chasing that all year.

We intended to build back inventories and we are up on inventories, but it is fresh product in order to drive sales in the front part of this year. When you look at our inventory levels, it is increased with Journeys in order to drive overall inventory for this year.

We also had a distribution shift in one of our other businesses and for the time being it brought more product onto our balance sheet but we expect that that will level out as we go forward. We need the inventory to drive the level of sales that we have, and that inventory is really clean.

We talked about the shape of sales and margins, and I'll turn it over to Sandra to talk about that.

Sandra Harris

Mantero, our comp guidance is 2% to 4%, largely driven by Journeys. As we noted earlier in the call, we do expect the first half to be much stronger as we anniversary the softer comps from the prior year and we expect Q1 to be at the higher end of that comp guidance.

But I do want to remind you in regard to total sales, we have three factors that will impact our total sales, the first of which is store closures which is estimated to be a net impact of \$30 million for the full year. We do have the FX headwinds for our Schuh business. Then, as Mimi talked about earlier, we have lower revenue coming from our Genesco Brands business as we work through the exit of those licenses.

So, sales flat to up 1% for the year, but we do expect that earlier in the year from a comp perspective it will be the higher end of the range.

Mantero Moreno-Cheek

Thank you.

Operator

Thank you. At this time, I would like to turn the floor back to Mimi Vaughn for closing remarks.

Mimi Vaughn

Great. Thank you for joining us today. We are looking forward to talking with you again when we report our first quarter results.

Operator

Thank you. This does conclude today's teleconference. We thank you for your participation. You may now disconnect your lines at this time and have a wonderful day.