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Q3 2019 Genesco Inc Earnings Call

EVENT DATE/TIME: DECEMBER 06, 2018 / 1:30PM GMT

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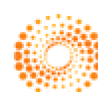

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PRESENTATION

Operator

Good day, everyone, and welcome to the Genesco Third Quarter Fiscal 2019 Conference Call. Just a reminder, today's call is being recorded.

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 to the company's SEC filings, including the most recent 10-Q filing for some of the factors that could cause differences from the expectations reflected in the forward-looking statements made during the call today.

Participants also expect to refer to certain adjusted financial measures during the call. All non-GAAP financial measures referred to in the prepared remarks are reconciled to their GAAP counterparts in the attachments to this morning's press release and in schedules available on the company's homepage under Investor Relations, in the quarterly earnings section.

I will now turn the call over to Bob Dennis, Genesco's Chairman, President and Chief Financial Officer (sic) [Chief Executive Officer]. Please go ahead, sir.

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Good morning, and thank you for being with us. I'm joined today by our Chief Financial Officer, Mimi Vaughn.

The ongoing strength of our U.S. footwear businesses again drove an acceleration in comparable sales on a sequential basis. Third quarter consolidated comps increased 4%. Our strongest quarterly comp performance in more than 2.5 years, besting the 3% gain we posted in the second quarter.

Importantly, after turning positive last quarter for the first time in 2 years, our brick-and-mortar performance continued to improve with store comps up 4%, fueled by stronger store traffic. E-commerce sales also accelerated, increasing 9% on the heels of a Q2 gain as direct continued strong multiyear run.

Our overall comp result was shaped by strong results at Journeys and Johnston & Murphy, both of which have delivered exceptional comp performances in each quarter of the year thus far. While still in negative territory, Lids comps once again showed sequential improvement as the business continues its recovery from the double-digit decline it posted in last year's fourth quarter. Likewise, Schuh's comps rebounded somewhat from their more negative levels but remained under pressure from the challenging selling environment in the U.K.

For both Lids and Schuh, additional promotional activity in Q3 generated positive consumer response, driving incremental sales and gross margin dollars and keeping inventories clean. Even with the strong comp result, total sales for the quarter were down year-over-year due primarily to the calendar shift from last year's 53rd week that moved a strong Back-to-School week out of the third quarter and in to the second.

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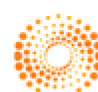

Mimi will cover the financials in more detail later in the call, but I want to highlight that we accrued significantly more bonus expense during the quarter than in the year-ago period. In addition, a shift in the timing of catalog expenses due to new revenue recognition standards also drove expenses higher in the quarter. Without these 2 items, even with lower sales, operating income would've been a little above last year's level, thanks to the cost saving measures we've implemented this year. The combination of strong comps, lower sales and the bonus in catalog expenses resulted in third quarter adjusted EPS of $0.95, which was ahead of our expectations by a few pennies.

In addition, with the Black Friday weekend now behind us, consolidated November comps have picked up a little from Q3 levels, getting Q4 off to a solid start. For the Black Friday weekend itself, starting on Thursday through Cyber Monday, we were pleased with our results overall. Comps in total were up thanks to the strong performance of our U.S. businesses led by footwear. Both our stores and e-commerce channels were up. The strength across our U.S. footwear and headwear brick-and-mortar locations in particular was noteworthy. Across the pond versus a very robust comparison from last year, Schuh's Black Friday performance was disappointing against the backdrop of apparel and footwear discounting that has existed for several months in the U.K., even bigger sale offerings were not enough to spur the consumer to purchase as much as we had hoped for.

Looking at the performance of each of our businesses in Q3, starting with Journeys, the strong momentum in August we described on our last call continued through the end of the Back-to-School season. The current product assortment, which is diverse in terms of styles, brands and franchises within the fashion, athletic and casual categories, continues to resonate strongly with Journeys' teen customers. And as the weather turned colder, post Back-to-School boot sales picked up and helped deliver a strong finish to the quarter. Both store and e-commerce comps were nicely positive, which led to a high single-digit total comp gain and a solid improvement in year-over-year profitability.

On the strength of boot sales, Journeys momentum had carried into the fourth quarter and the start of the holiday selling period against last year's most challenging comp comparisons.

Johnston & Murphy sustained its streak of strong performances by posting a double-digit comp gain, it's highest quarterly increase in more than 3 years.

Consumer response to J&M's on trend, casual footwear and apparel offerings continues to drive higher conversions and strong sell-through, both in stores and online. J&M's recent improvement stems from -- in large part from team's success pivoting from a dress footwear resource into a lifestyle brand that spans multiple categories. In fact J&M's sport-casual assortment with a variety of uppers on athletic-inspired bottoms is currently what's driving the double-digit growth of its footwear business.

Similar to last quarter, a very strong contribution from J&M's robust retail performance was offset in part by headwinds and its wholesale business. J&M's wholesale business experienced both sales and profit pressure as the business anniversary-ed some large one-time selling programs that were not repeated this year.

At the same time, the shift to catalog expenses, I mentioned earlier, also had a negative impact on third quarter profitability. J&M's momentum has continued in Q4 against last year's most challenging comp comparisons.

While Lids negative comp trend persisted in Q3, the decline was an improvement over Q2, which has moderated substantially from Q1 and last year's Q4 levels. The 5-game Red Sox World Series win over the Dodgers did not match the success of Houston's 7-game win last year, nor was the overall playoff line up as beneficial to sales in 2018 as it was the previous season.

Compared with a year ago, however, our NFL business has improved. Specifically in Q3, NFL sales were up a bit over last year and Q4 sales have accelerated further as the season has advanced and exciting teams and players have strengthened the lineup. This improvement has been driven by headwear, including the well-received debut of the NFL Logo Element series, and more recently, jersey sales. We are encouraged by this momentum and there is still significant opportunity for sales to grow before reaching historically higher levels.

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Lids, particularly the hat business, continues to struggle from a lack of store traffic. In an effort to improve upon this, Lids increased its promotional activity during Q3 and it had the desired effect, although we did give back some of the benefit in margin rate.

All in all, Lids' business remains challenging. However, thanks to increased merchandise discounts, some of the hit to gross margin was mitigated, and SG&A deleverage on a negative comp wasn't as pronounced as it would've been without store closings and aggressive efforts to manage costs.

As we've noted before, headwear is currently between trends, which we believe is the major driver of the lower traffic. We also believe Lids, as the category leader, positioned for the type of strong rebound that Journeys is now benefiting from once a new fashion driver emerges.

Our long history with Lids hat store shows over more than a decade and a half store 4-wall profit in the teens during the fashion troughs and in the 20s at the peaks, which demonstrates great ability to cycle through trends successfully. History points to a rebound when headwear again becomes a fashion driver and it is a matter of time until that happens.

And now just a word about the process of exploring the possible sale of Lids. We are still working diligently and believe we still have a reasonable prospect of accomplishing a sale. It goes without saying that this process has taken longer than we anticipated at the outset. If we ultimately determined we are not able to complete a sale on acceptable terms, we will announce that decision. We do remain convinced of the potential of the core of the Lids business, and therefore, in the event we don't sell, we'll be immediately focused on the plan to realize that potential and significantly enhance profitability of the business. But as we've said before, this is all we will be able to say about this process on the call today.

Now turning to Schuh. The continued negative comp results, although better than recent quarters, reflects what remains a challenging selling environment for footwear and apparel in the U.K. The U.K. consumer continues to be very price conscious and motivated to purchase mainly items that are on sale. Full-priced selling has been limited to a handful of specific products that are in high demand. In response, Schuh has stepped up its promotional activity to help drive traffic to its stores and website and liquidate inventory. One example is the mid-season sale, Schuh ran in the last 2 weeks of October. Not only did this sale turn what had been a negative store traffic to a positive, but the Lids saw sell-through of sale merchandise that exceeded expectations underscoring how much appetite from the consumer there is for sale product in between typical promotional periods. Like Lids, this tactic benefited Q3 comps but pressured margins.

In addition, certain vendors' decisions to pursue a scarcity model, limiting supply of some top-selling styles continued to impact Schuh's business. Although U.K.'s retail sales in general were good this summer, they were concentrated in basic categories, like food and drink, while many fashion retailers on the High Street struggled with the sluggish demand for footwear and apparel amid heavy discounting. A sharp slowdown in consumer spending this fall with a transitory pickup in inflation that affected household discretionary income and a drop in consumer confidence as Brexit progress faltered, cooled retail sales and put even more pressure on the already struggling footwear and apparel category. As a result, we anticipate a challenging and promotional holiday season in the U.K. and Black Friday results have already validated this expectation.

So in summary in Q3, we delivered our strongest quarterly comp gain in more than 2.5 years, fueled by the continued strength of our U.S. footwear business. This performance allowed us to deliver EPS a few cents ahead of our internal plan.

Now with respect to outlook, as I said earlier, Black Friday results in total were positive and November comps overall have given us a really good start to Q4. While we are optimistic about continued strength in Journeys and Johnston & Murphy, the persistent negative comps at Schuh and Lids keep us cautious for the balance of the year with a greater part of holiday shopping still ahead of us. We are narrowing our adjusted earnings per share range to $3.10 to $3.40 and reiterating our belief that something close to the middle of the range continues to reflect where we would come out for the year. This guidance includes the impact of Lids as if it were owned by us for the entire year. Mimi we will talk further about some of the upside and downside potential in this range.

And with that, let me turn it over to her to go over the financials and guidance in more detail.

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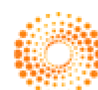

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

Thanks, Bob. Good morning, everyone. We've posted more information in a brief presentation summarizing results and guidance in our CFO commentary that you can access online at our website. Journeys' strong performance in Q3 helped moderate decreases in our other businesses to deliver adjusted EPS of $0.95 versus $1.02 last year.

As Bob mentioned, in spite of strong comps, total sales were down largely due to the calendar shift that dropped a strong week of Back-to-School sales out of the quarter. Stronger sales and more leverage than expected and higher gross margins than last year helped to offset the higher bonus and catalog expenses, and we achieved earnings that surpassed what we had planned.

Q3 consolidated revenue was down 1% to $713 million, including the move of out of the quarter of the Back-to-School week, which represented around $20 million of sales. Our top line was also impacted by lower foreign exchange rates versus the dollar, net store closures and lower wholesale sales. Consolidated comps were up 4% with store comps up 4% and direct comps up 9%. Store comps were nicely positive for Journeys and J&M and overall accelerated from positive 2% last quarter to positive 4% this quarter. Direct as a percent of total retail sales in Q3 was 10.6%, up 70 basis points year-over-year, validating the progress we have made driving e-commerce.

Journeys posted improved results, comps were positive 9%, marking the sixth consecutive quarter of increases and including double-digit e-commerce comps.

Highlights of Q3 in stores included mid-single-digit growth in traffic, higher conversion and improved average ticket size, representing an extension of the trends we've been seeing all year long. Average ticket was boosted by an increase in footwear ASPs, however, the stronger driver of Journeys' improvement was more footwear unit sales.

In addition, with the cold weather that came earlier this fall, while still a small part of the mix, Journeys' boot sales were up nicely in the quarter. Better in-store conversion and higher average ticket size drove J&M's solid store comps.

In Q3, store traffic also turned positive from negative levels earlier in the year, which contributed to these strong results.

Not only were store sales strong but J&M's well-penetrated digital channel posted gains well into the double digits for an overall J&M comp of 10%. Sales of the both footwear and nonfootwear were up as were ASPs and units.

For Schuh, while both traffic and conversion were negative, they were offset in part by higher ASPs, which in total delivered a negative 4% comp, another successive improvement over the more negative levels of Q1 and Q2.

While store comps were negative, direct comps were positive, boosted by the mid-season sale as bargain hunters flocked to the Internet in search of good deals.

Like Journeys, while still early in the season, boot sales for Schuh were bright spot and were up in Q3, driven by both fashion and colder weather, which helped contribute to the higher ASPs.

Lids' store traffic continued to be challenged in Q3, but conversion was improved and transaction size was higher. While the NBA branded business and NFL were up on a comp basis, a shorter World Series and headwinds from the MLB playoff and Red Sox win were a drag-on performance. Without this MLB impact, comps would have been flat. With this MLB impact, Q3 comps were negative 2%, an improvement over Q2's negative 5%, Q1's negative 7% and Q4's negative 14%.

Q3 consolidated gross margin increased 10 basis points to 49.5%. While merchandise margins were up, Journeys' gross margin decreased 10 basis points, due in large part to higher DC bonus and a depreciation expense

At J&M, gross margin was up 30 basis points, due mainly to mix of more retail sales, which have a higher gross margin than wholesale.

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Gross margin was down 80 basis points at Schuh as a result of less full price selling and more promotional activity. At Lids, gross margin was up 10 basis points even with the additional promotional activity. Finally, higher IMOs offset by higher-margin reductions drove a Licensed Brands' gross margin decrease of 20 basis points.

Total SG&A as a percent of sales increased 90 basis points to 45.9%, with leverage from rents and other areas and flat selling salaries, but with higher bonus and increased catalog expense from the shift in timing that we've discussed. The impact of these 2 was 100 basis points. In addition, the loss of sales from the loss of the BTS week in the quarter contributed to deleverage. Without this higher bonus and catalog expense, total expense dollars would have decreased by 1%. While we're pleased with the growth of our e-commerce sales and the returns we're seeing from digital investments, positive store comps, like we had this quarter, significantly helps our overall profitability due to the high fixed expense base in our store channel.

On the e-commerce side, one of the major drivers of cost is shipping expense. Given that we renegotiated our carrier contracts last year with meaningful decreases in several tiers of delivery categories, we got out ahead of the pressure that many retailers are experiencing and are currently benefiting from lower shipping expense in our direct P&L.

So in summary, Q3's net result was adjusted operating income of $26 million versus $31.3 million a year ago. Adjusted operating margin decreased 70 basis points to 3.7% for the quarter, Journeys' total alignment was up, other businesses were down.

Turning to the balance sheet. Inventory is in good shape as we drive to improve by 0.1 of a turn this year. Q3 total inventory was down 5% on a sales decrease of 1%, not adjusting for foreign exchange. Journeys' inventory was down 5% on the sales increase of 4%. J&M's inventory was up 7% on a sales increase of 8%. Lids' inventory was down 5% on a sales decrease of 4%. And finally, Schuh's inventory was down 8% on a sales decrease of 4% on a constant currency basis.

Capital expenditures were $16 million and depreciation and amortization was $19 million, as we took steps to bring the two in line with each other. We did not repurchase shares in the quarter and have $24 million remaining under the current $100 million repurchase authorization. Total debt at the end of the third quarter was down 63% or $142 million versus a year ago, reflecting much lower seasonal borrowings and much stronger cash flow generation.

Moving now to guidance. Since we're in the final quarter of fiscal '19, we're narrowing our adjusted earnings per share range to $3.10 to $3.40, and reiterating our belief that something close to the middle continues to reflect where we would come out for the year. Though we anticipate landing in roughly the same place, the biggest change in the underlying assumptions is for better results from Journeys and J&M that offset challenges at Schuh, and to a lesser extent, the more limited headwinds at Lids from baseball. This remains a wide range because although 3 quarters of the year are behind us, around 70% of our earnings are ahead of us.

There are few variables to consider in connection with this guidance.

Number one, whether the strength in store comps will continue at the pace we've been seeing. Store comps underlying our guidance for the year now range from up 1% to up 2%. Number two, what Journeys' trend will be given the most difficult comp comparison of the year in Q4, we are now more optimistic about comps for Journeys in Q4 since November is running very nicely positive against mid-single-digit increases last year. Number three, how the NFL season finishes for Lids and whether the acceleration continues. And number four, how the holiday selling season unfolds in the U.K. and what happens to Schuh's trajectory.

While Schuh's fourth quarter comp comparisons are the easiest, given the challenges in footwear and apparel and uncertainty in the consumer environment, we now expect comps to become more negative as we end fiscal '19 for Schuh.

For the year, we continue to expect consolidated sales will range from down 1% to up 1% on the basis of 53 weeks last year versus 52 weeks this year with consolidated comps, including direct, now ranging from up 2% to up 3%. We plan to open in the neighborhood of 45 new stores, not including Macy's, just under half of these new stores are for Journeys and Journeys Kidz. We plan to close over a 100 stores for square footage decrease for the second year in a row. We expect gross margins to be up around 20 basis points overall, down from our prior expectation of up 30 basis points due to a little more promotional activity in Q4, particularly in the U.K.

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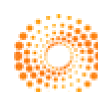

We expect SG&A expense will delever in the 30 to 50 basis point range, which is 10 basis points better than our prior expectations due to the higher comps.

This all results in an operating margin percent at or few tenths below last year's level and EPS that ranges from down a little to up high single digits. One call-out relating to anticipated results is that we expect bonus expense to be around $20 million this year versus the bonus reversal last year. Not including this bonus expense, this year's results, would show a significant improvement.

Our fiscal '19 tax rate is now estimated at close to 27%. We still expect foreign exchange will hurt earnings by about $0.04 per share, assuming exchange rates stay where they are today.

A final reminder about guidance is last year's 53 weeks versus this year's 52 weeks, which means 1 less week of revenue and earnings in Q4 this year. In addition, after running below last year's level throughout the year, we now expect year-end inventory to be higher than last year, due primarily to a large Lids' inventory buy to bring in core product ahead of tariff increases plus some additional buys to fuel our positively comping businesses.

Capital expenditures will be around $60 million, the lowest level in more than 5 years and down from original estimates because of fewer new stores and less extensive remodels due to shorter lease life. We'll spend about 40% of this capital on digital, IT and other projects, while investing the balance in refreshing our store fleet and opening new stores. We estimate depreciation and amortization at $77 million.

Lastly, we assume 19.5 million average shares outstanding. This guidance assumes no stock buybacks, but we can use repurchase availability opportunistically going forward. We've talk about success managing down capital spend, and we'll finish by updating on our high-priority initiatives to decrease cost. We must reduce the store cost structure and improve efficiency in e-commerce to combat profit dilution from the expense of operating 2 channels and driving traffic to stores.

Earlier this year, we launched a profit enhancement program to take out $35 million to $40 million of annual expenses. We announced last time, we had identified initiatives that exceed the top end of our target of $40 million and expected the timing of realizing the full benefit to be the back half of this year and first half of next. We've recently been focused on execution and making sure that we capture the savings that we've identified.

As part of this, we continue to have very good success with rent reductions. We've negotiated over 220 renewals so far this year and achieved in total an 18% reduction in cash rent or 12% on a straight-line basis. As a refresher, other top areas of savings are renegotiation of our freight contract, DC and warehouse expense, targeted headcount reductions already made and credit card fees among many other opportunities.

To put the cost savings in perspective, we've been battling expense increases of 3-plus percent per year, and without action, we'd have likely seen the same level of increases again this year. Excluding bonus expense, since we had none last year, we're expecting a decrease in expenses of 1% this year. This is the beginning of a multiyear effort to reshape our cost structure and allow for continued investment in stores and in digital.

And now I'll turn the call back over to Bob.

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Thanks, Mimi. The recent performance of our U.S. footwear businesses highlights the importance of brick-and-mortar retail in executing a successful multichannel strategy. In addition to our results, results from many of our industry peers paint a similar picture. They also show a growing divergence between companies that have invested in building the necessary physical and digital infrastructures to compete and win in today's consumer environment and those that have not. This is the time of the year when the recent initiatives we've implemented at our operating divisions, Journeys in particular, provides significant benefits. As such, we would like to call out a few areas within Journeys where we are seeing nice returns on our investments.

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The largest investment of capital in the past year related to the expansion and upgrade of the Journeys' distribution center. This included a customized module for e-commerce picking and marrying up multiple items, among other new features, all aimed at increasing the DC's speed and efficiency to get product out to the customer faster and more cost-effectively. With these upgrades, we've been able to better optimize both store and e-commerce shipping simultaneously.

On a year-to-date basis through Q3, with a much higher volume of shipments, the Journeys' DC has shipped almost 65% of all web and store orders versus less than 55% in the same period last year, while shipments from stores have decreased to similar amount over the same time frame. Shipping directly from the DC is the most efficient way to process e-commerce orders and it allows us to keep a stronger inventory position in our small footprint stores, where we have the opportunity to sell it, while also freeing up our store people to focus on selling instead of packing up orders to ship.

The separation of e-commerce and store fulfillment in the distribution process, also enabled by the DC upgrade, has allowed for improved store shipping speed as well. The expansion also enhanced speed to market by dramatically expanding the footprint and capacity for receiving and Journeys' lowered shipping cost per pair by significantly increasing the number of cross-dock case pack shipments.

On the stores' front, Journeys started the hiring process for holiday sooner and rolled out more advanced video training programs on selling and operations to give associates all the tools necessary to capitalize on each opportunity that walks in the door. In a very tight labor market, we had no problem filling the extra store employee slots we needed. In addition, we are in the final stages of completing a network upgrade across Journeys' store fleet that enhances the speed of the checkout process at the register as well as searches for product on the web complete with 4G backup.

Finally, Journeys invested in an upgraded call center that has better technology and more capacity to handle the holiday rush. As a result, calls answered within 30 seconds were up 83% on Cyber Monday. It also includes a state-of-the-art training facility that utilizes new methods like online training that allow customer service reps to be trained on order taking in 1 week versus 3 weeks last year.

And at the same time, Journeys experienced a 20% to 30% decrease in calls from customers looking for their order, thanks to the increased efficiency in the DC and the speed of getting the e-commerce orders out. This has allowed Journeys to redeploy resources at the call center to bolster our proactive chat capabilities, a revenue-driving activity that we believe will really pay off. So we view Journeys as an example that can point to other investments and initiatives across our divisions that are having similar meaningful impact.

So to conclude, I'd like to express my thanks and salute our employees throughout the company for their hard work, their talent, their dedication, which we see every quarter, but which we're especially appreciative of in this the busiest of quarters. And I particularly want to recognize our employees in the stores, in the field, in our distribution centers and in our call centers that put in extra hours so we can help our customers find the special items they're looking for and provide them with excellent service across the board. I am gratified to witness the tremendous effort and see so many great examples of excellent execution. I am truly proud to have such a great group of colleagues. My thanks to you all for what you do for Genesco. Happy holidays to everyone, and we look forward to talking to you next time.

And operator, now we're ready to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Mitch Kummetz with Pivotal Research.

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

I guess I got a few. Bob, I think you mentioned in your remarks that November comp was running ahead of Q3. Correct me if I'm wrong on that, but could you elaborate on that? I think last quarter when you kind of gave that information, you talked about sort of how all

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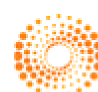

concepts were running ahead. Any color on kind of how that looks on a concept-by-concept basis? I'm guessing maybe they're all up except for maybe Schuh, but you tell me.

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Well, overall it's a little bit better. So I don't want to exaggerate it. It is higher, but not a big, big difference. And I also want to [admire] it just a little bit by pointing out weather. So we've had particularly good run with boots, given the early winter weather here. In terms of specific businesses, let me ask Mimi to cover that.

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

Yes, so I think that the leader in the Clubhouse is Journeys. Journeys has been on a strong run and -- versus last year when the weather was very warm in the U.S. at this time, Journeys boot sales were up. And so that is propelling some nice increases. Johnston & Murphy also is taking along quite well. They had a 10% comp last quarter, so that's a pretty stout comparison. And the most challenging of our businesses is in the U.K., and that continues to be more challenging. In my guidance remarks, I talked about the fact that we expect a dip in comps, which have been negative for the balance of the quarter just given how difficult the consumer environment is there.

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

And the dynamics at Lids are worth calling out. Mimi mentioned, I'll just repeat, the fact that they had a minus 2 comp in the third quarter. But we do something called a hot-market analysis, so we pick out all the teams that were in the playoffs this year and last year and we look at how that moved the needle up or down and that was tough this year because of the Red Sox versus Houston. If you eliminate the hot-market analysis, then the rest of the Lids business was running flat, which was an improvement. And so the baseball business does have a tail on it. But as you go into the fourth quarter, the NFL and NBA will become more important than MLB proportionally a little less important. And as we mentioned, we see actually some positive momentum in our NFL business, and that's driven by some of the teams that are making nice comebacks and some players that are exciting the fan base.

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

And then just as a follow-up to that, any sort of preliminary views on the NBA season? I mean, it sounds like NBL -- I'm sorry, NFL was getting the quarter and has gotten better. You just mentioned that NBA matters in Q4, how are you thinking about that?

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Very strong. Couple of things about the NBA. First, all hail LeBron, the jersey is -- it makes the Lakers one of the strongest teams for us right now, so his move is a positive effect for the business. But the overall assortment in NBA is very compelling for the consumer. And then Nike who have license has done a nice job with distribution. And so with some narrowing of the distribution, we feel like we're beneficiaries of all of that. So overall, it's really hot category for us right now, and as we said, it gets more important as we roll into the fourth quarter.

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

And then last one, just on Journeys, to drill down a little bit there. Maybe I think you said that November was strong, but against a mid-single-digit increase in November last year? I know the Journeys comps plus 11% for the quarter, just remind us where the tough comparison is in the quarter? And was it really like boots in December, like were -- exposure for you guys last year and that's where it's tough to lap, just kind of the details on that?

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

Yes. So what we are most delighted about is that Journeys business is running strong positive comps against positives last year. And so I talked about November and I talked about the mid-single-digit increase. Our business last year got stronger in December and then even stronger in January. For the quarter altogether, you'll remember that Journeys had a plus 11% comp. And basically what unfolded is that the weather got colder as we got deeper into the fourth quarter and the sell-through of boots actually accelerated. In January, it was good and that carried over into the first quarter. And so the comparison in November is strong, but it's the easiest since we got stronger into December and to January.

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Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

While we're on the subject, one of things we're calling out, again, Mimi mentioned it, but it's -- a point about this is, the shape of our comps is very positive in the sense that brick-and-mortar has found its legs again. And so over the past 2 years or so, we've been calling out the fact that comps that tilt too heavily digital are dilutive simply because there's more variable cost in the digital business and it's more of fixed cost business with small-box retailing in particular. So the fact that we are seeing some really nice brick-and-mortar gains. If we can sustain that, that's a plus. It makes the sales increase that much more effective on the bottom line.

Operator

And we'll take our next question from Janine Stichter with Jefferies.

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

I just wanted to ask a little bit about Schuh. Probably there are couple of things going on there, the bigger one being the environment, and then to a lesser extent, there are some issues with product scarcity. Is there any way you can kind of parse out how much you think is the environment and then how much is some scarcity from some of these vendors and how you see that progressing? I think you have thought that by the time year -- by the time we got to the kind of the fourth quarter, some of these scarcity issues would be getting a little bit better. Just kind of the progress you're seeing there, and how we should expect that to unfold?

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Yes. So the macro environment, and you can view all the data is public, that's coming out. It is really starting to show that the economy in the U.K. is getting affected by the uncertainty. And it's not just will they get to a deal, it's what will that deal do in terms of commerce and incomes in the U.K. and nervousness around those themes generally hit a discretionary spending, which is where we sit. And so reports across the board from the High Street have shown that it's been a difficult environment. So that is the factor that is the bigger variable, the one that represents the unknown. In terms of product, look, the hottest product in everybody's retail fashion chains sold out, so we're subject to that. In the athletic space, there are more brands that try to manage down supply and keep it scarce to keep the demand up, that's the marketing strategy that works. To extent that it's a narrow distribution, that's helpful for us. But when demand gets very, very focused on certain brands, then it can be an impediment because everybody wants one thing and they're willing to wait until they can get that 1 or 2 things. And so we're still subject to a little bit of that, but the thing that we are most attentive to at the moment is the overall nature of the U.K. And the last thing is that all that uncertainty also hits the exchange rate. And so we're exposed to variations in the pound versus the dollar, which have not been our friend lately. Mimi, anything to add to that?

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

No, I think that's right. I think the scarcity issues have gotten somewhat better and it's just the consumer environment that is gotten worse.

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

Okay, great. And then I just wanted to clarify. I think you said ASPs were up for Schuh, is that just a function of mix?

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

Yes, they were up and they were helped by boots. So it's colder in the U.K. this time this year too and so that is -- that's helping ASPs overall.

Operator

And we'll take our next question from Jonathan Komp with Baird.

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

Maybe just a higher-level question, but I want to maybe first ask on this year, with the comps strengthening in a little ahead of plan, but not a lot of change in the earnings outlook. I just wanted to maybe ask more specifically kind of a difference between those?

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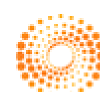

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Yes. So look, Mimi had called it out, again another thing worth repeating is we have a big bonus accrual being put together this year. So if you took last year's scenario where we actually had some bonus reversals and you're familiar with how our bonus banks work, so we had reversals last year, not a big one, but meaningful. And then this year, we are accruing a lot of bonus, given that this will be our first -- if you take the midrange of the guidance, this is our first increase in 4 or 5 years. And so we are finally, thankfully, being able to reward more of our employees with bonus. I think that's very important for us to do. So if you added that bonus difference back, then you do have a very meaningful improvement in earnings, and that's the distinction. Mimi, anything else you want to add to that?

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

Yes. And so John, I think the other thing specifically to add on to what Bob said is that, in the fourth quarter, we are anticipating a bit more promotional activity for Lids and for Schuh. We are determined to make sure that inventories are clean at the end of the fourth quarter. And given some of the softness in sales, we're going to take the action necessary. So that will drive comps and help comps, but we're going to give up a little bit on the margin line. We will regain some by a little bit less deleverage. But to Bob's point, the bonus expense this year does cause the deleverage. If I said otherwise, we expect that expenses would be down, but that is a one-time event going against no bonus for last year.

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

Okay, that's very helpful. And then maybe just a follow-up. As you look forward to next year, it's a little hard just to know the exact pacing of some of the rent reductions and the broader corporate expense actions. Are you intending to signal that there could be kind of a step change in the cost outlook for your business? Just thinking about kind of the ability to leverage different levels of sales growth, do you see a big change ahead as you look forward to next year?

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

So as you look forward to next year, the big themes are of -- it's all about comp sales. I mean, we can play expenses all day long. But driving sales is the key to really expanding on our profitability at our company, given the small-box nature of our business and the heavy fixed cost component. And so we like the trend that we're on. We like the trend that's going on in the mall. If you look at ShopperTrak information and you look at traffic into apparel and accessory stores, this year, it has finally flattened out roughly versus last year versus 4 years of pretty significant decline on top of decline. So there's something going on in the marketplace where people are saying, I'm willing to go back to the store. And so we look at that and we look at our current comp trend and we say, what we -- maybe we have turned the corner, that would be the huge plus. And then as I mentioned before, comps are great, store comps are really great for us because of the cost structure. And then layered on top of that, of course, is what you referred to was expenses. And we think what we will be able to continue, particularly, in the rent world to go after improved rents, because we still have rolling leases, we've got our lease life shortened up nicely. So we revisit rents more frequently, but we don't get to see everyone every year. And so we have still multi-years of rent reviews coming up, which give us the option to either get the rent settled down to where it needs to be or to close that store because it's underperforming. So we think we still have a lot of potential on the rent line, and then beyond that, we're going to continue on the cost program looking for other opportunities.

Operator

And we'll take our next question from Laurent Vasilescu with Macquarie.

Laurent Andre Vasilescu ***Macquarie Research - Consumer Analyst***

I think your net closures are shaking out to be around 50 locations for this year. Do you have any high-level thoughts on the number of store openings and closures anticipated for next year and possibly by concept as well?

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Let me give you sort of the themes here, and then I'll pass it to Mimi. The theme is that, first of all, we're -- right now the structure of our business overall is, we're equally profitable across A malls, B malls and C malls. So when we get in the room with a landlord, we're taking every store on its own and saying, can we get to a deal more often than not with a short-term lease that allows that store to earn its cost of capital. And if we can, we keep it open. And our experience so far has been that we have more opportunities to keep it open than generally we expected. And so -- and we don't think that pattern is going to change a whole lot. So it's a little uncertain as to therefore

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how many stores we'll keep open, and that is all hooked to the theme, which we've mentioned before, that if we have a store, and we do close it, we don't make an assumption that we pick up a lot of that business with the closure of that store by other stores in that market or by digital business. And so our theory is that if we can make money in any individual store with an attractive rent deal, then that's what we're going to do. And I'll also just highlight as part of that, what's interesting in this whole dynamic is that we are still also opening some new stores. So the number that Mimi gave you was net, and we're doing that because we're seeing for some of our concepts opportunities to get in the malls that really weren't available to us or not available to us at the rent structure that we really believe we need to have, and we track those very carefully. And those new stores in aggregate are returning their cost of capital nicely. So the other factor that's affecting the net number is that we actually do open some stores.

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

So, I think that's right. Bob's got those things right that we have some nice opportunity with our Journeys Kidz concept. We have fewer than 250 stores, and we think there is more growth available there. And then the balance of our opportunity right now in concepts like Journeys that are well penetrated are these opportunistic fill-ins. And believe it or not, there are more than a handful of locations in really strong A malls that we haven't been able to get the rent deals to work out before and we are now able to get them to work out. So I'd anticipate that next year -- the shape of next year's opening is going to look very much like this year's.

Laurent Andre Vasilescu ***Macquarie Research - Consumer Analyst***

Okay, that's very helpful. And then I want to follow up on the licensed business. I think in the CFO commentary, it talked about termination of a very small brand. I'm just curious to know what the size -- revenue size is for that business? And then, yes, any further thoughts on the licensed business with regards to Dockers?

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Well, we've had the small brand that we terminated. We had the license for Bass, which we thought we could grow into a really attractive business that didn't work out anywhere near as well as we'd hoped and so we terminated that license. So you see the shrinking of the revenues there is primarily related to the wind-down of the Bass license.

Laurent Andre Vasilescu ***Macquarie Research - Consumer Analyst***

Okay. A point of clarification on the question was, I think your license agreement with Dockers that $70 million business was coming up for renewal. Any thoughts on that business going forward?

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

Yes. So we have renewed the Dockers license, and look, we have a great infrastructure in the Licensed Brands business. We have had a lot of success over the years plugging in new brands over the recent past and continue to believe that there are good opportunities to add on to the Dockers infrastructure.

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Absolutely. So we are in the business of trying to find other licenses that can add to what we have on that platform.

Operator

And our next question comes from Erinn Murphy with Piper Jaffray.

Christian Michael Yonkoski ***Piper Jaffray Companies, Research Division - Research Analyst***

This is Christian Yonkoski on for Erinn today. Just to touch on Journeys quickly. Yes, Journeys posted a pretty impressive comp this quarter, but it doesn't seem like really solid flow-through on operating margin line. Can you maybe talk about whether that was just strictly the bonuses and some of these investments in like the call center? Also if there's any other factors we should think about. And then also how to think about the leverage point going into next year?

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Well, easily the biggest factor is the increased bonus.

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Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

Yes. No, I think that's right. The bonus is -- Journeys booked several million dollars of bonus and but for that. And again that's against no bonus for last year and there is also a shift in the timing of catalog expense and that shift in timing also affected Journeys in the quarter as well. I think without those two things, Journeys operating margin and flow-through would have been quite good. I mean on the strength of those comps, plus the combination of the cost reduction, which has absolutely taken root at Journeys, there is some very nice depository route side of those items.

Christian Michael Yonkoski ***Piper Jaffray Companies, Research Division - Research Analyst***

Okay, that's very helpful. And then in terms of promotional activity for Lids and Schuh, how should we kind of think about the promotional levels going forward? I know you mentioned that they'll likely be very promotional in Q4. But is this the level we should expect for the foreseeable future? Or how should we think about this in the future quarters?

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

They're going to be more promotional, and they're going to do what they need to do to compete in the marketplace. So in the case of Schuh, that very much depends of the nature of the economy and how the High Street is reacting to that economy. So like any good retail, you're going to do what you need to do in a situation like that. Lids is more promotional, but interestingly the margin isn't taking as big a hit because one of the other -- the offset to that which they're doing very well is the discipline on when we take our markdowns for a lot of general clearance, and Lids has significantly improved with a positive effect on margins. The theme there basically is taking earlier discounts on teams that are not going to make the playoffs, which is usually the pivot point for a falloff in demand. And so what we've gotten better at doing, we have a terrific merchandising team there, is recognizing when to take our first hit and to get significant liquidation at better margin to keep overall margins in better shape. So that's the offset, and it's the same story. We're going to do what we need to do to compete in the marketplace.

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

Yes. I think that's right. Just on Lids specifically and then on Schuh specifically for the fourth quarter, I think we found some creative ways to promote to really drive the Lids business and we'll continue to do that in the fourth quarter. And as Bob said, it has -- the net effect of it has been to -- accretive to gross margin dollars. So that's the story with Lids. On Schuh, if you'll recall, last year's fourth quarter was extremely promotional after a really solid year last year, the U.K. market that was really the turning point and the tipping point, and we had more inventory because we had expected a stronger sell-through -- stronger sell-throughs in the period. So versus last year, we're in much better shape on the inventory front. We have inventories planned for a challenging market. The most recent turn in the market has shown us that it's going to be a little bit more challenging than we expected. We still expect that Schuh's gross margin will be up versus last year, which was quite challenging. And so that just helps get some perspective and then going into next year, when you can anticipate a tough consumer environment, you can moderate your inventories to accommodate that, and that's what we'd intend to do for next year.

Christian Michael Yonkoski ***Piper Jaffray Companies, Research Division - Research Analyst***

Okay. And then just the last one from us today. Is there any update on the search process for a new CFO or anything you can share there?

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Yes. We're still on the plan for Mimi to move to COO. As we went through the sale process at Lids, we wanted to settle that out to try and get the CFO process in a better situation. And so that is still on our agenda.

Mimi Eckel Vaughn ***Genesco Inc. - Senior VP of Finance & CFO***

But we had a bit of hiatus on that.

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

But we had a little bit of a hiatus because we've got other -- we had some other things going on.

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Operator

As it appears, so we have no further questions at this time. I would now like to turn our call back over to Bob Dennis for any additional or closing remarks.

Robert J. Dennis ***Genesco Inc. - Chairman, President & CEO***

Well, thank you, everybody, for being with us, and we look forward to talking to you early next year about our holiday results.

Operator

And that does conclude today's conference. Thank you for your participation. You may now disconnect.

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