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G-III Apparel Group Ltd. (GIII)

Q4 2021 Earnings Call

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CORPORATE PARTICIPANTS

Neal S. Nackman
Chief Financial Officer & Treasurer, G-III Apparel Group Ltd.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

OTHER PARTICIPANTS

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Paul Kearney
Analyst, Barclays

Jay Sole
Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the G-III Apparel Group Fourth Quarter and Full Year Fiscal 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker host, Mr. Neal Nackman, CFO of G-III Apparel Group. Please go ahead, sir.

Neal S. Nackman
Chief Financial Officer & Treasurer, G-III Apparel Group Ltd.

Good morning, and thank you for joining us. Before we begin, I would like to remind participants that certain statements made on today's call and in the Q&A session may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are not guarantees, and actual results may differ materially from those expressed or implied in forward-looking statements. Important factors that could cause actual results of operations or the financial condition of the company to differ are discussed in the documents filed by the company with the SEC. The company undertakes no duty to update any forward-looking statements.

I will now turn the call over to our Chairman and Chief Executive Officer, Morris Goldfarb.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

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Good morning, and thank you for joining us. Also joining me today are Sammy Aaron, our Vice Chairman and President; Wayne Miller, our Chief operating Officer; Neal Nackman, our Chief Financial Officer; Jeff Goldfarb, Executive Vice President; Priya Trivedi, Vice President of Investor Relations.

For all us 2020 was a year like no other. We've had to manage through a global pandemic which has lasted for more than 12 months. The pandemic has impacted the way we live our lives and conduct our business. At the outset, the pandemic caused significant disruption to our business as retailers were required to shut their doors across the country for an extended period of time. As stores began to reopen we see the steady improvement in our business. At G-III, we powered through this tremendous adversity, adjusted our strategy and adapted to the changing conditions with determination and grit.

The resiliency and the flexibility demonstrated by our high-performing teams has been nothing short of amazing. Throughout the pandemic our warehouses remained operational and I'm grateful to the staff who manage that process. The well-being and safety of our employees has always been important to us. Our human resources team did a great job engaging our people and sparing no resources in implementing safety protocols throughout our operations.

I'm so incredibly proud and thankful to our employees who have collectively enabled G-III to emerge from this past year as a leaner and more efficient organization. Our entrepreneurial culture with a merchant-led focus on product selection and development proved to be invaluable. As the casual, outdoor and work-from-home trends took over the world, we quickly reallocated resources and revised our product lines to capitalize on the changes in consumer demand that accelerated throughout the year. We were able to provide the right merchandise to our retail partners, gain market share and further elevate our position as a key supplier of choice for a broad range of casual and comfortable clothing and accessories.

This past year we also completed the liquidation of our G.H. Bass and Wilsons Leather stores. This was a project that we were working on pre-pandemic and are pleased to have the restructuring completed. Looking ahead, we feel good about our remaining stores under the DKNY and Karl Lagerfeld Paris nameplates. Our new retail model is now positioned on a path to profitability. We ended our 2021 fiscal year on a positive note with improvement in our wholesale operations.

As we entered the 2022 fiscal year, we're managing our business with cautious optimism and closely working with our retail partners to match our product offerings with consumer preferences. We will continue to lean into the casual trends that remain strong sellers. We are already beginning to see the signs of recovery for dressier apparel. Our designers are developing great product and newness in categories like social dresses and suit separates and career sportswear. Our year-end inventories ended down 25% and are in excellent shape positioning us well going into the new fiscal year.

We are aggressively working to grow our digital business with the goal of becoming best-in-class with this increasingly important distribution channel. With a portfolio of global brands, we understand the importance of e-commerce. The pandemic has accelerated our efforts. Over the past year, our marketing, IT and logistics teams have keenly focused on supporting digital sales. Overall, our strong financial position and liquidity provides us with significant flexibility to run our overall business and again look at acquisitions.

Now, let's look at the fourth quarter and full year fiscal 2021 results. Net sales for the full fiscal year were $2.06 billion compared to $3.16 billion last year. Net sales for the fourth quarter were $526 million, down 30% compared to last year's fourth quarter net sales of $755 million, and in line with our internal expectations. Importantly, in the wholesale segment, net sales for the quarter were $488 million, down 23% compared to last year's $635 million.

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Full fiscal year GAAP net income per diluted share was $0.48 compared to last year's $2.94. These results include the impact of operations and restructuring cost for the G.H. Bass and Wilsons Leather retail operations of $1.14 in the current year and $0.65 in the last year.

Fourth quarter GAAP net income was $0.30 per diluted share compared to $0.52 per diluted share in the fourth quarter last year. These results include the impact of $0.17 in the current year and $0.33 in last year's results related to the operating results and restructuring cost with G.H. Bass and Wilsons Leather stores.

Now, let's look at our wholesale business, and take a closer look at the product categories that drove our sales and results for the quarter. As expected, we saw demand for athleisure continue to accelerate across our brands throughout the fourth quarter. This is exactly what our customer's wearing on a day in, day out basis as she works from home or spends time outdoors. With that in mind, we've designed our athleisure collections to provide a wide range of design choices in a variety of looks and functionality. For example, our expanded sweatshirt collections included fashionable styles for that important virtual meeting as well as styles that incorporated technical functionality to support the active and outdoor lifestyle. We continue to see significant opportunities to grow athleisure for our power brands, Calvin Klein, Tommy Hilfiger, DKNY and Karl Lagerfeld Paris.

As for our new jeans collection, the recent launch for three of our global power brands, Calvin Klein, Tommy Hilfiger and DKNY, happened in an opportune time. Our significant entry into the jeans category enabled us to negotiate some prime placement in our retailers' sales floors as well as in digital sites. The jeans category lends itself perfectly to casual and comfortable fashion. Our offerings span a wide variety of woven and knit tops as well as relaxed bottoms. These lines are off to a very good start and expected to garner much more success in 2022. We are a dominant player in jeans and are well positioned to capture greater market share.

As the fourth quarter progressed and the weather turned cooler, we saw good sell-throughs in our outerwear business. As expected, the business was driven by mid-weight styles featuring packable puffer and layered jackets. The weather continued to be cold into the first quarter of this year, further fueling outerwear sell-throughs. We have a clean inventory position which sets us up well for the fall 2021 outerwear season. We believe consumers will maintain active outdoor lifestyles for the foreseeable future and we will continue to provide trend-right product to meet that demand.

Our casual offerings continue to drive the sportswear category. Our knit product lines have remained strong sellers. We also saw growth in casual bottoms featuring some great stretch fabrics that offered functionality and variety. Sneaker dresses which are essentially extended knit T-shirts that are easy to wear and comfortable also performed well.

As a matter of fact we're seeing early signs of good selling in social dresses both online and in-stores in many parts of the country. We are in good position in the casual assortment of our sportswear collections and look forward to improving trends as this year progresses.

The footwear and handbag businesses also continue to outperform based on our strategic shift to focus on casual offerings. In our footwear business we saw a notable strength and strong sell-throughs in booties and soft-soled shoes such as fashion sneakers.

As for handbags, our assortments featured a good mix of casual and tailored style with a contemporary aesthetic. The handbag collections were merchandised well and resonated with consumers also resulting in great sell-throughs.

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In both these categories higher conversions resulted in improved margins, will continue to drive growth in footwear and handbags. I'm pleased to announce that a couple of weeks ago we launched the Karl Lagerfeld Paris women's brand in 75 new doors at Macy's. We've developed a casual collection that works well with the brand's Parisian chic DNA, the early results of selling have been really good.

In Karl Lagerfeld men's where we began with just outerwear, we have now expanded the collection to include sportswear and footwear. These collections have gained good traction and have quickly found distribution at Macy's, Bloomingdale's, Nordstrom's online and Neiman Marcus.

We look forward to continuing to grow the brand's distribution in both women's and men's apparels and accessories. Our digital businesses continue to experience accelerated growth. Our power brands are also participating in the growing digital businesses of our retail partners where digital sales penetration is now approaching 40%, up from last year's approximately 25%.

Our own websites delivered another quarter of strong results for both DKNY and Karl Lagerfeld Paris, posting comparable sales increases of approximately 40%. As for G.H. Bass, although we closed the brick-and-mortar stores, we will build the brand's digital business. We remain focused on capturing market share opportunities across the digital landscape with investments in internal talent, a new CRM and loyalty program, replatformed e-commerce sites and enhanced logistics capabilities. These efforts are supplemented with increased spending on focused digital marketing to target customers where they are shopping. The CRM and loyalty programs will help us better analyze the behavior of our customers online and in-stores and will aid us in communicating with them more effectively.

The replatform of our own e commerce sites will upgrade the technical operations as well as the visual look of the sites. The sites will fully be revamped to offer rich experiential content and better showcase our products. We're looking to create a more seamless – a seamless shopping experience and strengthening the customer connection and brand affinity for both DKNY and Karl Lagerfeld Paris. We're also working to further develop our direct-to-consumer logistics capabilities to enhance the customer's experience of receiving product from our brands.

Internationally our own brands are developing a digital presence as well. For DKNY we have a global site service for North America. In Europe, DKNY product is also distributed via premier online site such as ASOS, Zalando and Farfetch. In China, digital penetration increased sequentially each quarter this year. Our status, resort and swimwear brand, Vilebrequin, also saw significant traction in their global digital business, with digital sales up nearly 30% as compared to last year. We're really excited about the significant digital opportunities that lie ahead for us.

With the liquidation of our G.H. Bass and Wilsons Leather stores completed we expect to eliminate a substantial portion of approximately $50 million of annualized losses. We currently operate 36 DKNY and 13 Karl Lagerfeld Paris locations. Similar to trends we experienced in the third quarter, store traffic remained challenged but our product continued to resonate driving higher shopping conversion and AURs as well as expanded margins.

We added a capsule collection that is exclusive to our DKNY direct-to-consumer channel. Our store teams have begun to use virtual selling techniques which gained additional momentum in the quarter and are helping us to offset reduced traffic and improve store sales.

Our objectives are clear, improved store productivity and increased sales online to ultimately bring the retail business profitability.

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Let me discuss our international opportunities next, and start with our status swimwear brand Vilebrequin. The brand is celebrating its 50th anniversary this year and has an incredible slate of innovative product launches and collaborations plan. We're proud of the great job Vilebrequin has done to incorporate sustainable fabrics developed from recycled plastic bottles and plastics removed from the oceans. Impressively, this coming year 60% of their globally recognized swimsuits will incorporate these sustainable materials with the goal to get to 80% of total products made with sustainable fabrics in 2025.

As for DKNY, sales of our international franchisees were up 10% in the fourth quarter, predominantly driven by the Middle East. DKNY in China saw significant growth in fourth quarter sales further – as I previously mentioned, China e-commerce sales also grew significantly during the quarter. We remain very optimistic regarding our DKNY businesses in China.

Our DKNY business in Europe continues to be challenged with widespread COVID shutdowns. As DKNY is a well-recognized brand throughout Europe, or goal is to establish a substantial business in that market as well. International represents a significant growth opportunity for G-III. We're in the early stages of developing this business.

As brand owners, DKNY and Donna Karan licensing income continues to represent an important profit driver. We've created a solid licensing base with world-class partners in categories including fragrance, watches, intimates and sleepwear, bedding and bath and children's apparel. In Europe, we are now growing DKNY men's through licenses for underwear, sports and golf apparel. We will continue to strategically develop and grow our licensing business. We see tremendous opportunity to expand our reach and grow through our ability to take market share with our global power brands and diversified product offering.

For the upcoming year we are optimistic about the business, but there continues to be some uncertainty as to how the pandemic will impact shopper behavior and our business. As a result, we are only providing guidance for the first quarter of fiscal 2022. Looking ahead, for the remainder of the year, we are confident that when more opportunities open up we will be in a position to work with our vendor and retail partners to capitalize on this.

I will now pass the call to Neal for a detailed discussion of our fourth quarter and full year financial results as well as the guidance for first quarter of fiscal 2022.

Neal S. Nackman

Chief Financial Officer & Treasurer, G-III Apparel Group Ltd.

Thank you, Morris. The results for our fourth quarter ended January 31, 2021 continued to be impacted by the ongoing effects of the pandemic and the restructuring of our retail operations. Let me begin with the retail segment.

We have completed the restructuring of our retail operations and closed our Wilsons Leather and G.H. Bass stores. In connection with closing of these stores and our restructuring of our retail operations, we incurred aggregate costs and charges of approximately $100 million for the full fiscal year 2021. These costs and charges include $85 million for the four wall losses and restructuring charges for these stores, and approximately $15 million of allocated overhead. We anticipate that some of this allocated overhead will go continue on a go-forward basis to support the ongoing retail operations of DKNY and Karl Lagerfeld Paris.

As for a breakdown of sales, full fiscal year 2021 net sales for the retail segment were $170 million, of which $92 million came from the Wilsons Leather and G.H. Bass stores that were closed. The remaining $78 million were

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generated from the ongoing retail segment operations. We have included some relevant data relating to the four wall retail operations in our earnings release issued this morning.

Net sales for the fourth quarter ended January 31 2021 decreased approximately 30% to $526 million from $755 million in the same period last year. Net sales of our wholesale operations segment decreased approximately 23% to $488 million from $636 million. Net sales of our retail operations segment for the quarter were $44 million, approximately 66% lower than the last year sales of $131 million. Retail sales for the Wilsons Leather and G.H. Bass stores were $15 million in the quarter and $86 million in the previous year's quarter.

Our gross margin percentage was 35.6% in the fourth quarter of fiscal 2021 as compared to 33.3% in the prior year's period. This increase in gross margin was primarily driven by the gross margin percentage in our wholesale operations segment which was 35.5% compared to 30% in last year's quarter. Wholesale gross margin percentages were positively impacted by the reversals of higher royalties that were previously accrued as a result of favorable negotiations with our licensors.

In addition, inventories were clean resulting in lower promotional activity and lower markdown accruals. The gross margin percentage in our retail operations segment was 32.2% compared to 45.9% in the prior year's quarter, and this decrease was primarily as a result of the final stages of store liquidations for the Wilsons Leather and G.H. Bass.

SG&A expenses decreased by 20% to $151 million in this quarter compared to $187 million in the same period last year, as a result of cost reduction efforts undertaken in response to the pandemic and reductions in sales.

Net income for the fourth quarter was $15 million, or $0.30 per diluted share, compared to $25 million, or $0.52 per diluted share, in last year's fourth quarter. Net income per share included a four wall loss of $0.17 and $0.33 per share for the Wilsons Leather and G.H. Bass store operations in the current and prior year's quarters, respectively.

Net sales for the full fiscal year ended January 31, 2021 decreased approximately 35% to $2.06 billion from $3.16 billion in the same period last year. Net sales of our wholesale operations segment decreased approximately 33% to $1.92 billion from $2.86 billion. Net sales of our retail operations segment for the year were $170 million, approximately 56% lower than the last year's sales of $386 million. Retail sales for the Wilsons Leather and G.H. Bass stores were $92 million in the year ended January 31, 2021 and $251 million in the year ended January 31, 2020.

Full year gross margin percentage was 36.2% in fiscal 2021 as compared to 35.4% in the prior year's period. This increase in gross margin percentage was primarily driven by the gross margin percentage in our wholesale operations segment, which was 35.9% compared to 32.7% in the previous year. Full year wholesale gross margin percentages were positively impacted by the reversal of previously anticipated markdown accruals due to our reduced wholesale sales volume. The gross margin percentage in our retail operations segment was 33.6% compared to 46.7% in the prior year and resulted from the liquidations for Wilsons Leather and G.H. Bass.

SG&A expenses for the year were down 27% to $605 million compared to $832 million in the same period of the previous year. Current year's expenses were significantly reduced by cost reduction efforts in response to the pandemic. These reductions resulted from expense savings initiatives implemented to preserve cash and included employee furloughs, layoffs and other payroll reductions, reduced discretionary spending for marketing and travel, as well as lower variable expenses associated with reduced sales. As part of our cost reduction efforts, we streamlined the head count in our global wholesale operations.

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Full year net income was $24 million or $0.48 per diluted share compared to $144 million or $2.94 per diluted shares of the previous year. The full year's net income per share included a four wall loss of $1.14 and $0.65 per share for the Wilsons Leather and G.H. Bass store operations in the current and prior full year respectively.

Looking at our balance sheet, accounts receivable were $493 million, down 7% as compared to $530 million at the end of the previous year. Inventory decreased approximately 25% to $417 million from $552 million and we ended the new fiscal year in a clean inventory position.

We ended the year in an improved net debt position of $160 million compared to $200 million as at the prior year end. We had cash and availability under our credit agreement of approximately $825 million.

We ended the year with a stronger, liquidity and financial position which is a, which is truly a testament to our managing through a year like no other.

As for our guidance, we are still uncertain as to the continued impact of the COVID-19 pandemic to our results. Accordingly, we are only providing guidance for the first quarter of fiscal 2022 which ends our April 30, 2021.

For the first quarter of fiscal year 2022, we expect net sales of approximately $460 million, an increase of 14% as compared to $405 million in the same period of the previous year. Excluding net sales of $19 million from the closed Wilsons Leather and G.H. Bass stores in the first quarter of fiscal 2021, our forecasted net sales would be approximately 19% higher.

GAAP earnings per diluted share for the first quarter of fiscal year 2022 are expected to be in the range of $0.05 to $0.15 per diluted share. This compares to a GAAP net loss of $0.82 per share in fiscal 2021's first quarter which included net losses per share of $0.33 associated with the Wilsons Leather and G.H. Bass stores.

I also wanted to provide a modeling point. In the first quarter, gross margins will significantly improve as compared to last year's first quarter, primarily as our wholesale gross margins in the prior years were negatively impacted by the royalty reserves which are not expected to occur in this year.

That concludes my comments. I will now turn the call back to Morris for closing remarks.

Morris Goldfarb

Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

Thank you, Neal. At G-III, we pride ourselves on our proven track record of success. An important part of that success is the strong relationships we've developed and fostered throughout the industry. We've built a powerful entrepreneurial culture and have the most talented group of passionate and loyal individuals in our industry.

As I stated at the beginning of this call, I'm very thankful and grateful to all of our employees who worked tirelessly throughout this year to help us preserve shareholder value.

I have never been more confident than I am today in the ability of our teams to weather any situation thrown their way. We've thrived as a company for decades, holding and growing our dominant US wholesale position. We've only just begun to tap into the opportunity and white space we see internationally.

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Our diversified portfolio anchored by our five global power brands, DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld Paris, will continue to fuel our growth and market share across all our major classifications.

We see numerous possibilities for continued revenue and profitability growth. To that point, our Donna Karan International acquisition has proven to be successful. As you may recall when G-III re-launched the brand, it was a Macy's exclusive. Now we've expanded the brand to have a well-balanced distribution across major retailers here in North America and, importantly, with an owned brand we're just beginning to grow globally. We are in a strong financial position which we believe will fund our growth domestically and internationally and enable us to take advantage of other opportunities including acquisitions.

On behalf of the entire G-III organization, I would like to thank all of our stakeholders for their continued support.

Operator, we're now ready to take some questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Now first question coming from the line of Edward Yruma with KeyBanc Capital, your line is open.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, guys. And congrats on navigating a really difficult year. First, just a quick housekeeping question for Neal. I know you said gross margins will improve in the first quarter because of the reserve, any kind of more context behind that.

And then, Morris, kind of bigger picture question. We've heard a lot about vendor-managed inventory drop-ship by a lot of wholesale partners. I know you guys have some of those capabilities. If that grows in interest like what does that do to your margin structure [ph] balance sheet piece (00:34:04)?

And then finally, as it relates to jeans kind of how big was the business last year and how big could it be this year? Thank you.

Neal S. Nackman
Chief Financial Officer & Treasurer, G-III Apparel Group Ltd.

A

So, as with respect to gross margins, look, we had significant things happened last year that sort of moved our wholesale gross margins up – up and down. In the first quarter, one of those that moved it down was that we did see significant reductions for the full year in terms of sales, we had not fully renegotiated our license agreements at that point and therefore we were in a position where we had to accrue up higher royalty expense in the first quarter. Ultimately, we were successful in negotiating more reasonable arrangements with our licensors and those did reverse throughout the year.

Overall, when you look at the prior year our gross margins were up most significantly because of the reversal of markdowns.

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I think that with that question it's important for me to give you a little bit of a sense of what we're thinking about as we go into this year with respect to gross margins on the wholesale side, and that story is a little bit different than what I've really been saying in the past which is that I expected to get back to anniversarying previous – the two prior year ago gross margin percentages. We're now feeling a bit more bullish and thinking that we really will see lift in the gross margin percentage in the wholesale business that's relative to two years ago. So, we're feeling that we will be trading a little bit tighter and be able to avoid some of the promotionality that did hit us in this past year.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.
A

Ed, this is Morris. Your question, I believe, related to drop-ship, and how we manage through that business today and how it might affect us on our balance sheet, if I heard you correctly. Is that correct? Is that where you want to go?

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.
Q

Yeah. That's correct.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.
A

Okay. So, currently our digital business as it relates to our key customers, in many cases, is north of – 40% of digital business, a small percentage of that is handled internally through drop-ship. We are now in the process of evaluating – we're very close to signing a contract, quite honestly, to provide drop-ship for many of our customers. We're going to do it slowly because it involves a great deal of training, new systems, new hardware, new warehouse, new employees. So we are not going to let it all flow in immediately. We're still going to request that our customers taken only – the inventory to drop ship to their customers. We will take on initially our own internal sales as well as certain categories that involve less handling. We believe it will be a major advantage. There is a need for this company to be best-in-class to provide every bit of service that the customer is looking for. We'll be in control of our product is presented when it arrives, we'll be in control of how it's distributed, we'll have the appropriate analysis, that enable us to do – to enhance our profitability.

As it involves our balance sheet, Neal, to that end, what effect is all of this going to have – we believe it's fairly balanced. We're not taking on an acquisition of the building, we're leasing for a term that is somewhere around five years and will appropriately, and we have the ability to terminate our lease over a period of time if the partnership is not what we believe it will be with our warehouse and logistics partners.

Neal, do you want to add to that?

Neal S. Nackman
Chief Financial Officer & Treasurer, G-III Apparel Group Ltd.
A

Yeah. The only thing I would add is that we're not anticipating any significant increase just yet in terms of impact on the inventory carry. As Morris said, we're going to get into this slowly, so I think we'll be fine.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.
Q

Got it. And just – I kind of think kind of more broad-based to that, if the vendors ask you – excuse me, the retailers ask you to carry more inventory, do you think you'll be able to get a better margin for it than may be the traditional kind of wholesale relationships. Thank you.

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Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.
A

Yes. Ed, currently, there is a service charge that we impose on drop-shipping for our vendors and in the future, the fact that we will be taking part of the inventory risk, yeah, that – that certainly will enhance our margins and we are dealing with a couple of our retail partners and as much as they are creating a marketplace where we're sharing on the retail revenue. So that's coming into its own form in the coming months. That is a little bit outside of what I was describing but it's another initiative that we're taking on that we believe will be accretive to our earnings.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.
Q

Thank you, guys.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.
A

Thank you, Ed.

Operator: And our next question coming from the line of Erinn Murphy with Piper Sandler, your line is open.

Erinn E. Murphy
Analyst, Piper Sandler & Co.
Q

Great. Thanks. Good morning. My first question is around what you're seeing on the global logistics front. I mean, port congestion and logistics have just been on the forefront of lot of conversation. So I would love to know if you are seeing any delays in product getting here to the United States and kind of on the floor at your retailers, if that impacted any of your Q1 revenue guidance. And then how you're expecting that, if at all, to potentially impact Q2 just given that typically a replenishment or a re-orders quarter.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.
A

Erinn, thank you. We've incurred some delays, nothing monumental, nothing that I would tell you is critical to – or was critical to Q4 or currently in Q1. We've moved a lot of our receipts into the East Coast which is working much better than the West Coast. We've accommodated for traffic on the West Coast by taking on another port. And we've put some of the liability of timing on our vendor base, which is not the norm. Generally, they're not responsible for the logistics part of how we handle life. In this case, we saw it coming and we made them play an active role in how product – and when products left ports.

So we were malleable. There were some additional costs incurred. We contracted for pretty much our entire year's needs for containers and traffic and we had to modify that. We either stood firm and said [ph] no, we (00:41:49) can't deviate from our contract and face the reality of life which would have been further delays, or supplemented the contract and enabled our people to get product onboard and here on time.

So internally, I would say we are really in good shape and we're clearly aware of the issues. We're not faced with the drama that surrounds us.

Erinn E. Murphy
Analyst, Piper Sandler & Co.
Q

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Great. That's helpful. And then my second question is really around your comments, Morris, during the prepared remarks on what you're seeing in social occasion dressing, it sounds like that you're seeing a little bit of traction in certain regions in United States as kind of vaccinations or measures are starting – vaccinations are rolling out or measures are relaxing. So, can you share a little bit more about kind of your optimism on some of these kind of green shoots in these categories.

And then, bigger picture, at least in 2021, how are you planning the mix of business between some of the athleisure that you've developed into the denim versus some of the going out again categories? Thank you.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

Good question, Erinn. As I walked in this morning, an email was forwarded to me [ph] – I guess a text. (00:43:05) Let me read it to you. It's from one of our largest accounts. It says, get ready, swim is on fire and dresses is right behind it, need product. Haven't said that in a year, it feels good. That's from one of our largest retailers. And quite honestly, I'm in the same form, I haven't heard a lot of that and – we see it coming. We've seen it for the last few weeks. One of our other accounts who's got a huge prom business, all of a sudden is selling an important piece of his inventory in prom, some of it carry over, very little of it was newly bought product and there seems to be a pent-up demand in some of the classifications that we were concerned with, all for very good reason.

So, there is hope, there is good hope and there's a reality. We all watch TV if we're in regions where we're careful with our lives, we watch it on the screen and we see life as normal in many parts of the country, and those parts of the country are opening up most on social dressing. And the rest – hopefully, the rest is yet to follow. We can't totally bank on it but the rest seem to be better than they were 60 days ago.

And the athleisure piece of the business is taking on its own life. It's a category on its own. Every one of our brands has a component in it. We leverage our manufacturing to enable us to produce fairly and productively and competitively. And in many cases, there's the – those factories are full. We dominate many of those factories – many of the larger factories. And supply's not been a problem, demand has not been a problem and it's an area that we are aggressively growing.

So the casual way of life is a way of life. The outdoor living is a way of life. And we're geared up for the prom as we are for the mountains. We're a company that's well diversified – a kind of – a friend of mine used to describe CEOs as wartime and peacetime CEOs. I believe, we're profiled as a wartime company and we've done it. We believe we've come out on the other side and we're positioned for growth in the future and prosperity that comes with it.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. Well, thank you and all the best.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

Thank you.

Operator: And our next question coming from the line of Susan Anderson with B. Riley. Your line is open.

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Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Hi. Good morning. Nice job managing through a really tough year. I was wondering if maybe you could give some color on DKNY Europe business and how that has performed in the fourth quarter. And just curious, is it similar to the US or are you're seeing different performance there? And then also what are your expectations for that business in the first quarter [ph] then this year, are you (46:43) expecting similar improvement? Thanks.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

Susan, thank you for your question and, again, it's a good one. And quite honestly, and as much as we view that as white space and opportunity for growth, I would tell you it's probably the worst piece of our businesses. Countries were totally shut down, Q4 was not good, Q1 is worse than Q4, but again fortunately for us it's a tiny piece of our business. It's an area that we cite as a significant opportunity but fortunately it was not a big plan. Yet today we're seeing – same thing I was just describing on our dress business and some of our other categories, we see retailers in Europe teeing up for what they believe is a pent-up demand that will be taken advantage of by the retailers that have sufficient inventory to serve it. So, our backup for inventory there is really teed up for success. Not in Q1, maybe parts of Q2 but certainly in Q3 and Q4. So, and it is an area that we're concentrating on, on growth and repositioning and the digital side of the business there is quite good.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Great. And then, yeah, just a follow-up on the digital side of the business for DKNY and Karl. I guess, I'm curious where you're at with investment there, and what are your investment plans for this year, and then also are you expecting that business to continue to grow this year as stores are open at least in the US and then also as consumers kind of get out more.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

So, the investment in digital for us is quite significant. We're building the appropriate distribution centers in logistics teams, in-house we have top talent that's been engaged to focus on our digital business for DKNY and Karl Lagerfeld. I've reminded our investors in the past that many of our brands – several of our brands, we are not in control of the direct-to-consumer that – that emanates from our building. We supply it to places like Amazon and our brick-and-mortar accounts, but we can't do direct shipping on licensed product. So, DKNY and Karl Lagerfeld, and we shouldn't forget about Bass, those are three platforms that we are building aggressively, the investment is significant and talent, space and technology. So, we're trying to provide the best customer experience. And I would suggest that, if you have the time, look at our sites, look at DKNY and Karl Lagerfeld, and if you've seen them before, this is a good reference to where we're going – where...

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Great.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

...we believe strongly in that business.

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Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Great. And then if I could just add one last one. Not sure if you could give some color just on your updated mix of wholesale partners versus, say, three to five years ago. How much has that moved to more online players or even specialty retailers versus your traditional department store?

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

Our departmental store business is – customer wise it's shrunken, we no longer do business with Lord & Taylor, we no longer do business with the accounts that have left us, the Stein Mart and some of the specialty chains. But quite honestly, the wholesale business overall is growing for us. We're a dominant wholesale provider. We're not a vertical retailer. And we like that business. It's a profitable business for us, relationships are excellent in all of our department store partners.

We have to remember that brick-and-mortar is not what it looks like, our largest customer is Macy's and Macy's, as Jeff Gennette had stated, will be a $10 billion digital business in a couple of years. I can't name very many $10 billion digital businesses. So as they grow digitally, so do we grow. And our brick-and-mortar business, as they close stores, they're the poor performing stores, so we're not impacted dramatically as store count shrinks, we focus on the better stores, we better penetrate those stores and we're happy to support it. It has worked for us historically and I have no reason to believe that the future is not consistent with part of the past. It's just the mix is a little bit different. There's clearly a digital focus that we still believe brick-and-mortar needs to support. So...

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Great.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

...I guess, maybe that's a long answer to what might have been the short question, but the stores that are left, we play a greater role in our percentage of their overall business. I would tell you, I can't think of a case where we're not increasing in penetration in the remaining well-balanced department store businesses.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Great. That's good to hear. Thanks, so much.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

Thank you, Susan.

Operator: And our next question coming from the line of Paul Kearney with Barclays. Your line is open.

Paul Kearney
Analyst, Barclays

Q

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Hi, guys. Thanks for taking my question. Just a quick one, as you continue to shift to digital and your wholesale partners continue to shift to digital, can you help us think about how we should kind of model out or think about the change in profitability between your existing business and that shift over the long term? Thanks.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

So, the profitability in digital as we build our own sites we're attaining retail margin versus the wholesale margin that we ship into department stores. So, clearly digital should be accretive after we get the – past the hurdle of getting the tweaks out of our business. We are currently profitable, so that's a good thing. And as it relates to the digital business for our customers, part of that's a little problematic, I prefer to ship the inventory for digital sales to our department stores and let them hold and distribute to their unique customers, but there's going to be a hybrid where we'll have to hold some of that inventory which is not my favorite position in the world. But for that we will be bonused in margin. So, at the end of the day there should be a margin enhancement on the unique ways that we're going to handle digital.

Paul Kearney
Analyst, Barclays

Q

Thank you.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

Thank you, Paul. Operator?

Operator: Thank you and our last question coming from the line of Jay Sole with UBS, your line is open.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

Jay, are you with us? Did we lose, Jay?

Jay Sole
Analyst, UBS Securities LLC

Q

No. Can you hear me now?

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

Yeah. Now we can hear you.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Sorry about that. So, thanks for taking my question. My question is on the first quarter guidance. It looks like that the sales guidance applies that sales in the first quarter should be down about 27% versus the first quarter of calendar 2019. Can you just walk us through some of the puts and takes – some of the – obviously the stores that have been closed, then there is some of the growth opportunities and then the power of five brands. Can you just give us an idea of like where the biggest drivers of the guidance are for the first quarter compared to 2019?

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Neal S. Nackman
Chief Financial Officer & Treasurer, G-III Apparel Group Ltd.

A

Look, we see the business really in the first quarter was driven by the power brands, it's a spring business and we see it across all of them fairly evenly.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. And then, is it possible to talk about – you mentioned that swim is on fire, dresses is not far behind, that was the comment that you got in the text today, if you could just talk about sell-through in general like what you're seeing in terms of like the movement of the product, especially in the last week since stimulus started getting distributed across the country. What have you seen from your sell-through and what does that sort of tell you about what the progression in the growth rate versus 2019 might look like as we get into 2Q and beyond?

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

So, we are evaluating it right now and clearly there's always a connection with the level of inventory and the sell-throughs. So we're tracking a better turn on inventory than we did in 2019, quite honestly. But the inventory levels are lower than they need to be. So the adjustments need to take place to rightsize the inventories and our retailers and we'd have a better analysis that we could go through. So right now we can look at the digital side of our business because nobody knows if there is one garment in the warehouse or a thousand garments when they're buying it online.

When they walk into a brick-and-mortar location they are looking for what the retailer or what the buyer or designer thought was right and if it's displayed aggressively and there is the commitment from the retailers that this is what to buy, that's what you buy. And that's not in place right now. All that is, I believe – not I believe, I know our trading partners are working on rightsizing the inventory as business opens up. And we're in a position in many categories to provide for that, not a lot of people are at that same level on the wholesale side. So, we believe we'll be one of the companies that can take advantage of that.

Jay Sole
Analyst, UBS Securities LLC

Q

Understood. Thank you for your answer.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

A

Thank you, Jay.

Morris Goldfarb
Chairman & Chief Executive Officer, G-III Apparel Group Ltd.

And, thank you all, I wish you good day and hopefully there will be a greater normality coming our way. Thank you.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.

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