07-Sep-2023

G-III Apparel Group Ltd. (GIII)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the G-III Apparel Group's Second Quarter Fiscal 2024 Earnings 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. I would now like to turn the conference over to Neal Nackman, Chief Financial Officer. Please go ahead.

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.

In addition, during the call, we will refer to non-GAAP net income, non-GAAP net income per diluted share, and adjusted EBITDA, which are all non-GAAP financial measures. We have provided reconciliations of these non-GAAP financial measures to GAAP measures in our press release, which is also available on our website. I will now turn the call over to our Chairman and Chief Executive Officer, Morris Goldfarb.

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Morris Goldfarb

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

Thank you, Neal, and thank you, everyone, for joining us. We registered another strong quarter, well exceeding our top and bottom line guidance. The second quarter caps off a strong first half for G-III demonstrating our ability to navigate what remains a dynamic environment. This gives us confidence as we look ahead to the balance of the year and, accordingly, we've raised our full year guidance.

As a global leader in fashion, we remain focused on strong execution of our business while pursuing our many opportunities for growth. For the second quarter of fiscal 2024, net sales were $650 million, an increase of 9% from $605 million last year, well above our guidance by approximately 10% or $65 million.

Non-GAAP net income per diluted share was $0.40, exceeding our guidance by $0.40. Similar to what we experienced in the first quarter, second quarter gross margins were better than last year's second quarter. Our freight costs have moderated and we're now beginning to anniversary last year's significant one-time logistics costs which primarily occurred in the third quarter.

We're very pleased with the progress we've made to rightsizing our inventory which was $805 million, down 23% compared to $1.04 billion in last year's second quarter. We remain disciplined in our approach to the future inventory buys and have appropriately adjusted our warehousing needs as our inventory levels have aligned.

Our new inventory purchases are coming in at a much lower freight cost. We're well positioned for the second half. We ended the quarter in a strong financial position with $825 million in cash and availability, which is after repaying $75 million of debt. Year-to-date, we've repurchased 1.6 million shares returning $26 million to shareholders.

Further, our board replenished our stock buyback capacity to 10 million shares. The strength of our balance sheet continues to remain a top priority and provides us with the flexibility to invest in the future growth of our owned and new businesses – on owned brands and new businesses.

Let me begin by discussing the development of our three recently announced growth opportunities, all of which remain on track to launch with first deliveries next year. These include the repositioning and expansion of Donna Karan, which will be more widely distributed in better department stores, digital channels, and our own Donna Karan website in North America and internationally. We will launch in over 200 partner doors and we will build 150 branded shop-in-shops. The new collection has been well received.

Our long-term license for Nautica in North America, which will begin with the jeans category and follow with a broad range of additional categories. Our jeans will launch in over 200 partner doors and we will build 60 branded shop-in-shops. Orders are already in from retailers who think the product looks great.

Our 25-year agreement as the master licensee of Halston for a full range of products across our global distribution network. The brand is globally well recognized but currently has limited North American distribution and almost no international distribution, presenting multiple avenues of growth. We also have the ability to act as a licensor for additional categories, creating another income stream. The agreement also includes an option to purchase the brand.

Additionally, this morning we announced our new multi-year license with HanesBrand (sic) [HanesBrands] (00:06:29) to produce outerwear for Champion, an iconic American brand that has wide global recognition. We will create quality heritage pieces that expand Champion's lifestyle offering. This license aligns perfectly with our

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core competencies and will fit seamlessly into our already well-developed outerwear division. The product will be distributed through our diverse channels in North America, as well as Champion's global network with first deliveries available for fall of 2024.

We remain steadfast in our focus on expanding our owned and licensed brands, as well as bringing in additional brands that fit our long-term vision. Supporting this growth is our well-developed corporate foundation which consists of: our high-performing, forward-thinking team and experienced senior leadership; our strong merchant expertise and product development; our dominance across a broad range of product categories; our well-developed sourcing and supply chain infrastructure across diverse geographies; and our diversified distribution network of retail partners to reach an even broader range of consumers.

This foundation has enabled G-III to unlock the value of more than 30 licensed and owned brands in our portfolio, including some of the most sought-after names in global fashion. We've built entirely new product lines for our brands across a diverse range of core categories. Our work has enabled them to reach wider audiences, realize tremendous sales growth, and is essential to elevating their lifestyle appeal.

Our demonstrated track record continues to make G-III a partner of choice for brands and for retailers. Over the years, our entrepreneurial and nimble culture has always enabled us to deliver results. Agility is at the heart of everything we do at G-III and we continue to evolve, regardless of external factors.

Since announcing changes to our Calvin Klein and Tommy Hilfiger licenses in December, we moved quickly to create the four new strategic initiatives I just discussed with more to come. In doing so, we're creating additional shareholder value.

Now, let me update you on some of our progress this quarter against our strategic priorities. Our first priority is to drive our power brands across categories. Our results continue to be led by strength in outerwear, as well as dressier categories including sportswear, dresses, and suit separates across our key brands DKNY, Karl Lagerfeld, Calvin Klein, Tommy Hilfiger, and Levi's. We also saw a strength across denim, footwear, and team sports.

Looking ahead at our third quarter, the order book looks good and our inventory is aligned appropriately. We're well positioned for the important fall and holiday seasons. As we look to the future, we think about several key brands as being important growth drivers for our business, including DKNY, Donna Karan, Karl Lagerfeld, Vilebrequin, Nautica, and Halston, each of which have unique propositions.

The varying aesthetics appeal to wide range of customer segments and lifestyle needs, creating opportunities across an even greater number of retailers. DKNY is inspired by the energy and attitude of New York. This brand provides a modern wardrobe to carry you from day to night that attracts younger consumers looking for contemporary products, while Donna Karan is a modern system of dressing created to appeal to a woman's senses on every level. It addresses the full lifestyle needs of women in search of sophisticated products from one of the most recognizable American brands.

Karl Lagerfeld, an iconic name in fashion, embodies the aesthetic of its namesake, fused with a contemporary forward-looking spirit. The product features Parisian-inspired classics with a rock chic attitude for high fashion. Vilebrequin, our status swimwear brand, cultivates a spirit of refinement and fantasy, staying true to the casual charm with perfectly tailored and always-in-style product for a top-tier clientele.

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Grounded in classic Americana, Nautica is a lifestyle brand with nautical-inspired designs that's iconic and modern with a casual fit, feel and function, which appeals to shoppers in search of a more relaxed style. And Halston, our most recent key license, stands for simple and classic elegance that will offer an easy, modern approach to dressing and appeals to consumers seeking aspirational style.

Our brands offer a range of price points, have tailored distribution strategies and dedicated teams that design for their specific positioning. Each of our core brands complement one another and bring a distinct point of view to our portfolio, which broadens our distribution opportunities. Growing our owned brands including DKNY, Karl Lagerfeld, Donna Karan, and Vilebrequin, remains a key strategic priority as they represent an important longer-term profit driver by generating higher operating margins and providing licensing income for G-III. They also enable us to further extend our global reach.

This year, with the ownership of the whole Karl Lagerfeld brand, our international sales will be up 20% to last year. With $1.3 billion in annual revenue last year, we believe we can grow this business to over $3 billion in annual revenue over time as DKNY and Karl Lagerfeld businesses registered solid year-over-year growth in the second quarter.

It has now been a year since our acquisition of the full Karl Lagerfeld brand. The integration of this business was seamless and it had a great transitional year. We launched Karl Lagerfeld jeans in Europe, a new key growth category for the brand. We will have two stores dedicated to just the jeans line, one in Paris and the second in Madrid.

DKNY's fall marketing campaign will be focused around the theme DKNY For You, which explores the uniqueness of New York from a number of perspectives. This campaign will be amplified through a robust mix of media, including digital, premium outdoor placements, as well as social and influencer partnerships across the US and key international markets.

Coming off the momentum of the Met Gala, Karl Lagerfeld's Fall campaign will be brought to life through high-impact marketing activities around the globe. The campaign will roll out across channels with a focus on digital including innovative NFTs, augmented reality filters, creative collaborations, and more.

We continue to capitalize on opportunities to leverage our owned brands' recognition through highly profitable licensing arrangements. This quarter, we secured renewals from some of our key licenses, which is another good indicator of our brands' strength. Additionally, we are in the process of adding licenses in entirely new categories, exposing our brands to wider audience.

Extending our global reach is another important priority. We have unique partnerships for Karl Lagerfeld that drive notable international exposure. Last month, the brand officially opened its first five-star luxury hotel in Macau with 271 opulent guestrooms and a restaurant featuring a Michelin-starred chef. This project represents Karl's design vision as he personally worked on it for six years prior to his passing. The grand opening was hosted with Academy Award winner Michelle Yeoh, and attended by other internationally renowned VIPs and 2,000 other guests. This hotel is a sophisticated luxury endeavor creating another major brand experience and attracting a global audience.

In June, we announced a second Karl Lagerfeld Hotel Tower at the Sail development in Melaka, Malaysia, a UNESCO world heritage site, that is rapidly emerging as an international tourist destination. It will feature the tallest nine-tower linked structures in the world and resemble a ship.

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The official summer opening of Vilebrequin's new beach club, La Plage, has been a major success, offering guests an elevated beach experience. This summer, the club quickly became a destination for international vacationers as the brand hosted several high-profile celebrity and corporate events at the beach club during the Cannes Film – International Film Festival. This concept has enabled us to rapidly replicate the model for franchise and licensing opportunity for beach clubs. We're actively working on additional opportunities as we continue to create more Vilebrequin experiences which will increase global awareness, enhancing the status appeal of the brand.

The brand also opened two new international stores during the quarter, one in the Bahamas and a second on Paris's Rue de la Paix, which will offer a higher penetration of our luxury line enabling us to increase our store AURs by double digits.

We continue to build our DKNY international business. In Europe, our Milan office has been working to expand the brand's presence. Our franchise partners continue to open stores and have already opened three to-date with additional openings to follow. We continue to invest in resources in our digital and omni-channel expansion, which remains an important priority to drive growth for our brands.

Our North American digital business with our pure play partners and our owned DKNY and Karl Lagerfeld Paris sites was up over 60%. Our work with Amazon, Fanatics, and many sites operated by them, as well as other digital-only retailers, is paying off and these investments have created digital capabilities that we are leveraging across our entire portfolio. We're excited about the opportunities ahead with these partners and believe this is just the beginning of the digital growth that we can create.

Our brick-and-mortar business across our department stores and our wholesale accounts is a key. As customers continue to shop in-store, our teams have done an incredible job of getting the right product and the right channels at the right time to maximize sales, as evidenced by our strong performance in the quarter. We've created a differentiated business model to support our success at wholesale.

Our teams are uniquely comprised of strong planners and merchandisers, who partner with our designers to create data-driven designs which deliver desirable product. And on the sales side, they work hand-in-hand with our retailers to plan their buys, again, informed by our data ensuring the appropriate product is in their stores and is well positioned on their floors on a timely basis.

Our investments in analytics enable us to design and continually revise [ph] our lines (00:20:42) to capitalize on the needs of the retailer. Additionally, our proven formula for building each category line creates a strong mix of product that meets consumer demand, creating some of the strongest sell-throughs that ensure we drive our retail partners and our business successfully. This makes us a best-in-class partner to retailers.

Lastly, I'm pleased with our board refreshment efforts, which – with three new independent directors having just recently joined us. Overall, we have added six new independent directors over the past four years.

Our impressive list of new board members includes: Bob Johnson, Founder and Chairman of RLJ Companies, and Founder and former Chairman of BET; Victor Herrero, the CEO of Australian brand Lovisa, and former Chief Executive Officer and director of Guess?; Patti Ongman, former Chief Merchandising Officer of Macy's, and currently a leading fashion consultant; Dr. Joyce F. Brown, President of Fashion Institute of Technology; Michael Schaefer, recently retired Chief Operating Officer and Chief Financial Officer of PVH Corp., and an external advisor to a number of fashion businesses; and Andrew Yaeger, Global Head of Jefferies' Strategic Equity Transaction Group.

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Each of them, along with our current board members and management team, provides independent, diverse, and valuable perspectives to G-III. Having new points of view during this time in our company's evolution is important to better position us for the future.

In conclusion, we've done a great job successfully executing our strategic priorities; and I feel great about our product, strength across our wholesale segment, digital increases, and our prudent inventory management, financial discipline and enthusiasm of our team.

Based on the strong second quarter performance and our order book, we have confidence to raise our fiscal 2024 outlook. We now expect fiscal 2024 net sales of $3.3 billion. We're raising our non-GAAP net income per diluted share to be in the range of $3.20 to $3.30, compared to $2.85 in fiscal 2023.

I will now pass the call to Neal for a discussion of our second quarter financial results, as well as guidance for the third quarter and full year fiscal 2024.

Neal S. Nackman

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

Thank you, Morris. With respect to our results of operations, the comments I'm about to make are on a non-GAAP basis. A full reconciliation of our GAAP to non-GAAP results are included in our press release issued this morning. Net sales for the second quarter ended July 31, 2023 increased approximately 9% to $660 million from $605 million in the same period last year, and were approximately $65 million above over guidance.

Included in our sales for this quarter were $38 million of additional sales of the acquired Karl Lagerfeld business, which became a wholly-owned subsidiary on June 1, 2022. Accordingly, the results of the Karl Lagerfeld business were included in our results commencing with the last month of the prior year second quarter.

Net sales of our wholesale segment increased approximately 9% to $639 million from $588 million last year. This segment now includes the acquired Karl Lagerfeld business results. Net sales of our North American retail segment were $34 million for the second quarter, compared to net sales of $31 million in last year's second quarter.

Our gross margin percentage was 41.9% in the second quarter of fiscal 2023, compared to 37.8% in the previous year's second quarter. The wholesale segment's gross margin percentage was 40.6% compared to 36.2% in last year's comparable quarter.

As we have stated before, the acquired Karl Lagerfeld business operates at a higher gross margin percentage than the rest of our wholesale segment. Their inclusion in the quarter resulted in increased wholesale gross margin percentages of approximately 150 basis points. The remainder of the increase in gross margin percentage is the result of a decrease in inflationary pressures in product and transit costs.

The gross margin percentage in our retail operations segment was 50.5%, compared to 51.6% in the prior year. Non-GAAP, SG&A expenses were $237 million or 36% of net sales compared to $186 million or 30.7% of net sales in last year's second quarter. SG&A grew by approximately $29 million, primarily related to the inclusion of the acquired Karl Lagerfeld business in our results for the additional two months in the quarter. In addition, we had increased – increases in compensation and warehousing costs, as well as overall inflationary pressures.

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Non-GAAP net income for the second quarter was $19 million or $0.40 per diluted share, compared to $19 million or $0.39 per diluted share in last year's second quarter. Driven by the higher sales we achieved and the associated gross margin flow-through, this was significantly above the midpoint of our guidance of a breakeven quarter.

Turning to the balance sheet, we made good progress with respect to our inventory levels. As compared to last year's second quarter, inventory levels were $805 million decreasing approximately $236 million or 23% from last year's $1.04 billion. We have tempered our buying this year and are well set up for the fall and holiday shipping season.

We expect to have lower inventory levels this year, as compared to the prior year at both the end of the third and fourth quarters, we ended the quarter in a net debt position of approximately $268 million, compared to $424 million in the prior year. This decrease in net debt is primarily a result of cash flows from operations, as well as the large decrease in our inventory levels, offset by $36 million used for stock repurchases.

We had cash and availability under our revolving credit agreement of approximately $825 million at the close of the quarter. This was after we repaid $75 million of debt in the quarter. We expect strong positive cash flows this year that will continue to reflect our normalization of inventory levels. We believe that our liquidity and financial position provides us the flexibility to invest in our future growth.

As for our guidance, I will provide non-GAAP guidance. Again, a full reconciliation of GAAP to non-GAAP results is available in the press release we issued this morning. Based on our performance in the second quarter and our current view of the second half of the year, we are raising of our guidance.

For the full fiscal year 2024, we now expect net sales of approximately $3.3 billion. On a non-GAAP basis, we expect net income for the full fiscal year 2024 of between $152 million and $157 million or between $3.20 and $3.30 per diluted share. This compares to non-GAAP net income of $139 million or $2.85 per diluted share for fiscal 2023. Full-year fiscal 2024 adjusted EBITDA is expected to be between $284 million and $289 million, compared to adjusted EBITDA of $266 million in fiscal 2023.

For the third quarter of fiscal year 2024, we expect net sales of approximately $1.13 billion, compared to $1.08 billion in the same period last year. On a non-GAAP basis, we expect net income between $96 million and $101 million or between $2.03 or $2.13 per diluted share. This compares to the non-GAAP net income of $66 million or $1.35 per diluted share in the third quarter of fiscal year 2023.

As a reminder, last year's third quarter included significant one-time demurrage charges of approximately $27 million or $0.40 per diluted share. We do not expect to anniversary these costs in this year's third quarter.

Let me add some context around modeling. We expect continued gross margin improvement during the balance of fiscal year 2024 and anticipate ending the year with gross margins up approximately 450 basis points, compared to the fiscal 2023 rate. The second half of fiscal 2024's gross margin will benefit from a few factors. As I just mentioned, we do not expect to repeat significant one-time logistics costs and, additionally, freight costs have significantly moderated.

While we are anticipating improved operating margins in both the third and fourth quarter, we anticipate SG&A will de-lever as we continue to expect elevated warehousing costs, as well as continued inflationary pressure on costs. We expect non-GAAP interest expense to be approximately $45 million for the full year. We are estimating

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a tax rate of 28% for the balance of the year. We have not anticipated any potential share repurchases in our guidance.

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. And thank you all for joining us today. We're seeing the results of our performance. Closing out the second quarter well exceeding our top and bottom line guidance and our order book gives us confidence in our raised outlook for the full year. The strength of our balance sheet affords us tremendous financial flexibility to invest in our business and consider additional opportunities.

Our diversification is a testament to the stable business model and solid foundation we've created, enabling us to navigate any environment. I'm very excited about the new opportunities we've secured, which our team is working hard to bring to market. We have strong plans in place to drive G-III with our focus on our strategic priorities and these new growth drivers.

I'd like to thank our entire organization, our many partners, and all of our stakeholders for their continued support. Operator, we're now ready to take some questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from Will Gaertner with Wells Fargo. Your line is open.

Will Gaertner

Analyst, Wells Fargo Securities LLC

Q

Hey. Hey, guys. Thanks for taking my questions. Maybe we could talk a little bit about the guidance. So, you guys beat by $65 million, but the flow-through was only $10 million on the top line. Can you just – is that just a matter of being conservative or can you just kind of give some more color around that?

Neal S. Nackman

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

A

Yeah, Will, that's us looking at the order book, we go through a very thorough process throughout the company in terms of the future forecast. We speak to every division. Again, we look at the order book that's in place. So, those are just refinements. Most of that really came out of the – out of our internal fourth quarter expectations.

Will Gaertner

Analyst, Wells Fargo Securities LLC

Q

Got it. And just one more follow-up. On Champion, is this going to be similar economics to the other licenses you've had previously? And maybe just frame out how big you think that this licensing deal could be for you.

Morris Goldfarb

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

A

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So, yeah, the framework of the Champion licenses is very much the same as our other coat license. The added feature is, for Champion, there is demand in the athletic stores for the brand in the outerwear sector. Dick's and Foot Locker are potential opportunities for us where our fashion brands really don't have that audience in those venues.

So – and it is not – it won't be our largest business, but it will be an important business in our portfolio and it'll function alongside with approximately the same sales volume as our other brands that include Calvin Klein, Tommy Hilfiger, Levi's, and DKNY, and Karl Lagerfeld. So, it's in the same scope, same scale. That's the plan.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Just the economics are the same from like a – from a EBIT margin perspective, is it similar economics?

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

A

It is. And [ph] we're afforded (00:35:08) yet another – I'm sorry, what I left out is Hanes has agreed to give us exposure in most of their global venues. So, hopefully, we can build an international business out of that; whereas Calvin and Tommy, we were limited to just North America.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you. I'll pass it along.

Operator: Please standby for our next question. The next question comes from Mauricio Serna with UBS. Your line is open.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Great. Good morning and thanks for taking my question. I just wanted to get a little bit more detail on – I think like the implied growth for the second half of the year is around 5%, 6%. So, just want to understand like how much is that driven by wholesale versus retail? And in general, like during this quarter, like what can you tell us about the performance of the key brands? Like which ones have like a stronger performance, which ones maybe you saw some underperformance? And I don't know if you mentioned this, but do you provide like any like long-term expectations on how much the Champion business could reach over time in the long term? Thank you.

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

A

Thank you, Mauricio. Thanks for your question. I'll start with the last one. We generally don't provide a dollar value or a dollar number for our classification brands, but it fits right in the mix of our other brands and with additional opportunity. But we're planning it similar to all our co-brands.

Your question on the growth, the growth is primarily through the wholesale distribution that we have, which are department stores and the typical distribution that we have. It is not – it doesn't have an aggressive retail plan; retail will be flat to last year and we have a very small retail business.

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As it relates to your question on brand's performance, we don't have any losers. We have – a standout might be considered Karl Lagerfeld. Karl has gotten great exposure. We're growing it very well in the United States as well in Europe. We have opportunities that still haven't surfaced, door counts have increased, product has gotten better, and the consumer has gotten more interested in the brand.

So, we're seeing great appeal digitally, our own retail and the distribution that we have for the product. The rest remains pretty much the same. Our brands are operated with amazing teams that bob and weave relative to the market needs, and I do not have a brand today that is under – that I would classify as underachieving.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Got it. Very helpful. And congratulations on the results.

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

A

Thank you, Mauricio.

Operator: Please standby for our next question. The next question comes from Paul Kearney with Barclays. Your line is open.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Hey, good morning. Thanks for taking my question. I think just asked as a little bit differently, relative to 90 days ago, what brands or categories drove revenue upside in the quarter compared to your expectations? And then, could you comment on what you're seeing on channel inventory levels, whether you're seeing continued conservativism in wholesale ordering or are you starting to see them need to replenish their inventory levels? Thanks.

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

A

So, what we have really in category call-outs, our coat business, as we shipped it, responded very well. We shipped – historically, we shipped coats in late June, early July. As soon as coats dropped into the stores, we got immediate reorders, which helped our inventory levels.

We're doing well in the athleisure performance side of our business. The belief early on was that the pendulum was going to swing all the way to the right and our business would suffer. As creativity generally got distributed, all the wonderful product that was created that's new and appealing, that business grew quite rapidly.

Suit separate business is kind of a sleeper, but it generates amazing profits for the company, as well as amazing reorder activity. And our dress business came back stronger than ever. Those are rather – I guess, I'd make those the call-out features.

On the footwear and handbag side of the business, we were over-skewed on canvas footwear. We've corrected that. We've improved on our canvas leisure footwear, and that's working better. And our handbag business is not as good as I would like, but we've moved designers and sourcing locations and we see it improving drastically. So – but the quarter itself was not a standout in handbags and footwear.

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In channel reorders, we're getting from typical customers. We're department store-driven and that's where our reorders are coming from. And our support is consistent, our new brands are getting all the support we expected. We're dropping products soon. We're building out shops as they've been allocated to us. The real estate is prime real estate that we've negotiated for, and we're on our way. You haven't seen the impact of Donna Karan yet, Nautica, Halston or Champion, and they're soon to come.

Paul Kearney
Analyst, Barclays Capital, Inc.
Q

Thank you.

Operator: Please standby for our next question. The next question comes from Noah Zatzkin with KeyBanc Capital Markets. Your line is open.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.
Q

Hi, good morning. This is Ashley on for Noah. I guess, just curious on how you see the promotional environment playing out, relative to three months ago when you were looking out and maybe how your expectations have shifted. And then, if you could provide some additional color on what is driving your holiday expectations, that would be great. Thanks.

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

So, as far as promotions, there are fewer promotions in retail today than there were pre-COVID, quite honestly. Everybody has found that the right product is accepted by our consumer if you design it appropriately, put the right quality into it, present it appropriately; the consumer is willing to pay. There are less promotions around in – whether it be Macy's or Dillard's and Belk.

The belief – the common belief is, if you're sitting with an aggressive amount of inventory, you're going to have to take monstrous markdowns to move it. As we proved out, our inventory is down 23% and our gross margins are up. That's a testament to we're not giving it away. When our inventory has got great value, our retailers are appreciating it and the consumer is buying it.

So, as it relates to – I can't speak for the future, the political environment, the economic environment is something that we're not in control of. But as it sits today, we don't have a concern for an aggressive markdown cadence that would be unexpected. And our order book as it sits is in line with our guidance. We sit with – our order book's similar to what it's been historically as a percentage of our budget, and the holiday expectation is actually a good one in our categories and in our product mix.

We're seeing everything all of you are seeing as far as guidance coming down. We – we're comfortable with where we are today. We're adjusting guidance. We've got appropriate inventory. We've got great partners that support our needs. And we're looking at what we believe is a really good year, and a good future.

Thank you for your question, Ashley.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.
Q

Awesome. Thanks so much. Yeah, thank you.

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Operator: Please standby for the next question. The last question comes from Dana Telsey with Telsey Advisory Group. Your line is open.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Hi. Good morning, Marcus – good morning, Morris, Neal, and Priya. Congratulations on the nice progress. As you think about the portfolio that is continuing to evolve and grow, are there categories that you want to focus on in adopting new licensing deals that we should be thinking about?

And then, as you think about the current wholesale environment with the improved order book, what's changed? Is – how's AURs, what's happening with the promotional environment, and how do you envision holiday? And then I have one last follow-up.

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

A

Thank you, Dana. Thanks for your question. We don't have a need for new licenses or new acquisitions. As you listen to our story, we have sufficient tools to build a huge business. We've got not just classification licenses where the company sat in the 1990s and the early 2000s, we have brands that afford us the ability of producing all categories, and they're major brands that are recognized globally that we have an audience that is hungry for the launch of these brands, as well as the brands that we continue with.

The – I guess, the elephant in the room is PVH. We're not concerned. We might not be happy, but we're not concerned about the future of this company. I think we have the tools to do better than we have done historically with the licenses. Owning is far better than renting, and we – we're in control of our own destiny, which is an amazing luxury.

And on top of it, we're getting the expected support from our business partners, our trading partners with the knowledge that we know how to produce product and it's not necessarily the brand that drives it. It's a talent pool underneath it, it's the culture of the company; and we're transitioning to where we need to, to bring prosperity to ourselves as well as our stakeholders.

So, we're quite happy with where we are and it's amazing that our margins are increasing, our staff. An easy way to get Wall Street excited is to make an announcement that we're eliminating 20% of our staff and saving money. And with this transition of PVH and all the new brands, it's amazing to me that we have stable SG&A, we've not added people, we've not fired people.

We believe that the talent pool that has built G-III and not just an individual brand remains on and brings their talent to whatever brand they work at. That's great. It's not a new culture that has to be indoctrinated to new employees. So, we're really – I hate to get off a tangent, but I always feel that's the elephant in the room, and let me address it.

So, new – our AURs are up pretty much in all of our brands, which would even include, as I said in our presentation, Vilebrequin, which is a high AUR. We're even taking an approach where we have a €450 swim trunk that we concentrate on for a handful of doors to see how well we do with it. It's a nice percentage of our business, but we're opening stores that will have that as the biggest percentage of their business. So that's working well.

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And our retailers' AUR in all classifications have gone up. They've gone up somewhere around 10% and performing well. We don't see any slippage because of price increase. So, we're really doing nicely.

And if you look at – go back to our presentations, probably our last half a dozen presentations, we speak about our desire to grow Europe because Europe is the golden territory if you listen to our competitors speak about their performance. And the US is a non-performing area for – or a poorer performing area for our competition. We prosper in the US. We do a great job of tending to the needs of the US retailer. And our numbers show it, and they have historically.

But the opportunity for us is Europe, and we grew our European business somewhere around 23% this year comp to last year. So, we're on every tentacle there is to find the best opportunities for this company for the future. Not sure I answered all your questions, but I probably answered some, Dana, if I missed one...

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

You answered most.

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

Okay.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Just the last thing. What's your outlook on holiday, how are you thinking about it? And given the diversification of wholesale accounts of Champion, how do you see wholesale evolving? Thank you.

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

So, the remainder of the year, I guess, our guidance tells you how we feel. We're not aggressive on inventory ownership, we kind of learned our lesson. We weren't able to manage as well as I would have liked the logistics crisis that occurred, and money is more expensive today than it was yesterday. So, our inventory levels will be adjusted fairly dramatically. We'll manage a different type of business which doesn't give us the upside opportunity.

If you own the inventory, you have a good opportunity to sell it. So, our guidance has got some upside opportunities, but not as huge as they had been historically because our inventories are managed differently. As far as what occurs for the future, that's political, it's economical, and it's the economics of our country and our world. It's not all targeted as to whether we have the right fashion at the right price. We have all that embedded in our business. We're doing all the right things. Not in control of what we can't control, so...

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Thanks.

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

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And we do consider the inflationary issues and the politics that evolve around us when we do give guidance. So, there is some level of conservativism that's factored into our guidance that considers what we can control.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

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

A

And Champion – Champion is wholesale, it's not retail for us. We – believe it or not, license was just signed, negotiations have been in place for a couple of months. But there was a confidence level that we would get there, and there's a complete collection ready-to-go and there's excitement that surrounded it.

We previewed with some of our customers, including Hanes for their own needs, for their global business distribution, and were applauded for just creating this amazing product with an athletically-inspired – athletic-inspired attitude that really doesn't exist in the form that we created it. And in the timeline, it's just amazing that this company achieved it.

And that goes for everything we have done. There's – where do you get notified that you're losing half your business six, seven months ago and you've replaced collections that are applauded the way our new collections have been, that would be Donna Karan, that'd be Nautica, that is not yet Halston but we're very close to getting Halston ready for market, and Champion. That's not imaginable, and this company has achieved it. We're armed and ready to go with assets that are, in our eyes, going to replace everything we lose, and more efficiently and more profitably.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

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

A

Thank you.

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

Thank you all. Have a great day.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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