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G-III Apparel Group Ltd. (GIII)

Acquisition of Karl Lagerfeld by G-III Apparel Group Ltd. Call

CORPORATE PARTICIPANTS

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Susan Anderson

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to G-III Apparel Group's Conference Call and Webcast to discuss this morning's announcement of G-III Apparel Group's purchase of the Karl Lagerfeld brand. My name is Chris, and I will be your operator for today's call. Please note that the company has posted a slide deck to the company's website that can be accessed at ir.g-iii.com, News & Events, Events & Presentations section. At this time, all participants are in a listen-only mode. At the conclusion of prepared remarks, there will be a question-and-answer session. [Operator Instructions] Please note that this conference call is being recorded.

I will now turn the call over to Neal Nackman, G-III's Chief Financial Officer. Sir, you may begin.

Neal S. Nackman

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

Good morning and thank you for joining us. I would like to remind participants of our Safe Harbor disclaimer. Certain statements made during our prepared remarks 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 our press release and the documents filed by the company with the SEC. The company undertakes no duty to update any forward-looking statements.

Before we begin prepared remarks, I wanted to let you all know that, unfortunately, Morris Goldfarb, G-III's Chairman and Chief Executive Officer, has lost his voice and is unable to speak on this morning's call. G-III's Executive Vice President, Jeff Goldfarb, will be participating in Morris' place this morning.

I will now turn the call over to Jeff Goldfarb.

Jeffrey David Goldfarb

Executive Vice President, Director-Strategic Planning & Director, G-III Apparel Group Ltd.

Good morning and thank you for joining us. Also joining me today on the call are Sammy Aaron, our Vice Chairman and President; Neal Nackman, our Chief Financial Officer; and Priya Trivedi, our Senior Vice President of Investor Relations.

Since our founding, G-III has been a business focused on profitable growth and we have done this both organically and through strategic acquisitions, each of which has brought something new and unique to our business. This morning, we are very pleased to announce another such acquisition. We have reached an agreement to purchase the remaining 81% of the European fashion brand, Karl Lagerfeld that we did not previously own. With this transaction, valued at approximately €250 million, we will increase G-III's ownership position from approximately 19% to 100% of the global Karl Lagerfeld business.

This acquisition will also result in our full ownership of the Karl Lagerfeld brand in North America, where we previously owned 49% of the brand. We are excited to add this famed and visionary name to our global portfolio of owned brands, and welcome the entire Karl Lagerfeld team into the G-III family. Karl Lagerfeld was an icon of the fashion industry. Not only was he one of the world's most renowned designers, but he was also a multidisciplinary artist whose impact and influence have left an indelible mark on modern culture.

The Karl Lagerfeld brand celebrates the iconic vision of its namesake founder, while inspiring reinvention and bringing his legacy into the future. The brand is driven by endless curiosity, a passion for collaboration, and the infinite possibilities of creative expression. As a global fashion and lifestyle brand, Karl Lagerfeld has an expansive portfolio that ranges from accessible to aspirational, and appeals to a broad range of global consumers. At the core of the business are ready-to-wear and accessories collections for women, men and children, spanning a range of price points, along with lifestyle categories, such as footwear, fragrance, eyewear, fashion jewelry, and home furnishings.

Building on the strength of the Karl Lagerfeld name, the brand goes beyond fashion with impressive collaborations with celebrities, including Kaia Gerber, Cara Delevingne, Amber Valletta, as well as brands such as L'Oreal, Puma, Barbie, Coca-Cola and more. Additionally, the brand has extended into unique product offerings, including its first hotel Karl Lagerfeld that recently opened its doors to guests in Macau, and luxury residential villas being developed in Marbella, Spain.

Karl Lagerfeld's global retail presence, including our business here in North America, includes approximately 120 company and partner-operated mono-brand stores, with locations in some of the world's major cities and fashion hubs, such as Paris, London, Berlin, Dubai and Shanghai. The brand's extensive wholesale distribution network spans across North America, Europe, the Middle East and Asia. It has a strong digital presence through its global online flagship stores at karl.com and karllagerfeldparis.com, as well as a successful presence across other digital retail platforms, including Zalando, Saks, Nordstrom's and FARFETCH.

In keeping with Karl's legacy, sustainability is a cornerstone of the brand's strategy, focusing on people, planet and partners, with greater than 50% of its in-house collections already produced with eco-conscious methods. Our relationship with the Karl Lagerfeld brand is not a new one. We forged our partnership with them in 2015 with our 49% investment in the joint venture that owns the trademark for the brand in North America and introduced the brand to the North American market.

The following year, we purchased 19% of the global brand and have always had the intention to purchase the full brand. Over the past seven years, we have been working closely alongside company's CEO, Pier Paolo Righi,

who is a friend and business partner of Karl's, and is steeped in the brand's history and fashion positioning. Through the work we have done together, G-III has seen firsthand the talent and drive that the leadership team of Karl Lagerfeld possesses. This leadership team will continue to operate the Karl Lagerfeld business after the closing of the acquisition.

We have great respect for Pier and his team have accomplished, and we have full confidence in their ability to continue to guide the brand and accelerate its growth as part of G-III's portfolio. We have built a solid business in North America with a strong platform for growth, which includes a significant wholesale presence, 22 retail stores, and a robust digital site, resulting in \$175 million in sales of Karl Lagerfeld Paris products in G-III's fiscal 2022. This past year alone, the Karl Lagerfeld business outpaced our expectations in North America. The success we have experienced with this brand is one of the reasons we believe so strongly in its future global potential and led to our acquisition of the entire global brand.

Leveraging G-III's operational experience, we expect to unlock additional growth opportunities for the brand. This includes continued expansion into new geographies, growth across new categories, an increase in our direct-to-consumer sales through digital, new and existing brick-and-mortar stores, and a focus on growing the number of wholesale partners and licenses for the brand.

Given our track record of launching and growing this business and others in North America, combined for the global demand for Karl Lagerfeld products, we are confident in the runway ahead. We are at the beginning stages of tapping into the brand's growth, and believe that the combined G-III-Karl Lagerfeld business and the acquired Karl Lagerfeld business represents an approximately \$1 billion in global annual net revenue potential, or in excess of \$2 billion in sales to end consumers.

Before I end my remarks and pass it over to Neal, I want to briefly discuss how this acquisition furthers G-III's strategic priorities. First, by purchasing remaining stake in Karl Lagerfeld, we are adding yet another iconic brand that is a natural fit within our already impressive portfolio of brands. This acquisition provides significant growth ahead and also enables us to expand our own brand and our licensing opportunities. Second, with 100% ownership, Karl Lagerfeld becomes one of our key owned power brands, allowing us to more fully leverage our resources and category expertise to accelerate the business' forward trajectory.

Third, through this acquisition, we will be extending our geographic reach and further developing our portfolio of European-based brands, which already include Vilebrequin, and the recently acquired Sonia Rykiel brand. These three businesses, along with DKNY, represent a growth opportunity for G-III internationally. Fourth, the consistent growth in Karl Lagerfeld's global digital channel enhances our omni-channel business and further accelerates our company's focus on our digital priorities.

Lastly, the brand embodies creative expression, with a highly influential legacy that brings a strong, relevant fashion offering to our own brands, aligning with our goal to continuously innovate for customers. Simply put, the acquisition of Karl Lagerfeld further solidifies our position as a global powerhouse in fashion, setting the stage for, what we believe, will be long-term and profitable growth.

Neal will now provide you with some of the financial details of the transaction.

Neal S. Nackman

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

Thank you, Jeff. As Jeff noted, G-III will purchase the remaining 81% of the Karl Lagerfeld brand for €200 million or \$210 million, subject to certain closing adjustments in a transaction worth €250 million, and we will fund the

purchase with cash on hand. This acquisition is expected to add approximately \$200 million in annual sales to our results of operations. Combined with Karl Lagerfeld's existing North American revenues of \$175 million in G-III's fiscal 2022 year, this creates a business with initial annual revenues of approximately \$375 million globally. G-III expects the acquisition to be modestly accretive in our fiscal year 2023 and incrementally more accretive thereafter. This acquisition offers substantial benefits to G-III, including enhanced top line growth; earnings accretion, beginning in this fiscal year 2023; geographic diversification; and increased cash flow generation.

As Jeff mentioned, we believe that the combined G-III-Karl Lagerfeld business and the acquired Karl Lagerfeld business represent an approximately \$1 billion of global annual revenue potential which, we believe, represents in excess of \$2 billion in sales to end consumers and will expand our global reach. Taken together, we believe these benefits will in turn drive long-term shareholder value. The transaction is expected to close in either the second or third quarter of our fiscal year 2023, and is subject to certain adjustments and customary closing conditions, including the receipt of acquired regulatory approvals.

This acquisition is supported by G-III's strong balance sheet and cash flow generation. The combined entity is expected to have even greater cash flow and financial flexibility. We look forward to updating you more on our first quarter results in early June. At that time, we expect to provide you with additional details on the transaction and our updated earnings outlook.

I will now turn the call back to Jeff.

Jeffrey David Goldfarb

Executive Vice President, Director-Strategic Planning & Director, G-III Apparel Group Ltd.

Thanks, Neal. Our expertise lies in our ability to leverage a highly developed ecosystem to enable fashion brands to reach their potential. We are proud to become custodians of the Karl Lagerfeld legacy, and are confident that we can capitalize on the brand's business opportunity based on the strong corporate foundation we have created to support our entire portfolio of brands. This includes our high-performing, forward-thinking team and experienced senior leadership, our significant merchant expertise in product development, our dominance across a broad range of product categories, our significantly developed sourcing and supply chain infrastructure, and our diversified distribution network of retail partners to reach a broad range of consumers.

This foundation has enabled G-III to unlock the value of a number of renowned international brands and become a global leader in fashion. By using our balance sheet, talent and expertise, combined with the relationship we have with Pier and the Karl Lagerfeld team, we expect to further grow the brand and expand G-III's global reach. We are well-positioned to gain market share over time, and look forward to continuing to deliver value for our shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] Our first question comes from Jay Sole of UBS. Your line is open.

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you so much. So, Jeff, I just want to ask about how you think about Karl Lagerfeld's growth potential at high level. If you're talking about a \$375 million annual net revenue base, you're pointing to digital, wholesale, international, category expansion to get to that \$1-billion-plus opportunity, what are really the key drivers there, and what's the timeframe that you feel like you can get Karl Lagerfeld from where it is today to that \$1 billion goal that you've put out there?

Neal S. Nackman

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

A

Hi, Jay. It's Neal. Yeah, look, this business has been growing rapidly. We expect it to continue to grow rapidly. The nice part for us is that the growth really is across all of their areas. It will be, primarily, the licensing business will grow, wholesale will grow, and the retail channel of Karl Lagerfeld internationally will grow. And then, of course, we're focused here in North America, both in the outlet space as well as in wholesale, and we see continued strong growth. We haven't put a specific timeframe on it, but there's lots of opportunities and we expect it to happen quickly.

Jay Sole

Analyst, UBS Securities LLC

Q

Okay. And then maybe, if you can talk about, how do you want to position this brand, now that you own it? I mean, do you see this as a luxury brand, or do you see it more of a premium brand?

Neal S. Nackman

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

A

Yeah. In the States, it'll stay where it is, which is really a better resource. Internationally, it's an aspirational and an accessible brand, really leaning towards aspirational and slightly higher priced than where we would be in North America.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. Maybe, if I can ask a couple more...

[indiscernible] (00:16:58)

Jeffrey David Goldfarb

Executive Vice President, Director-Strategic Planning & Director, G-III Apparel Group Ltd.

A

Jay, just real quick. There should be no change in the positioning of the brand.

Jay Sole

Analyst, UBS Securities LLC



Okay. Got it. Understood. Maybe just on the profitability, I think you mentioned that'll be modestly accretive to this fiscal year. Given that you're paying cash, can just you talk about sort of the profitability of the business, other investments that you plan on making, and what kind of margins do you think this business can have over time?

Neal S. Nackman

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



Yeah. So, it comes to us in really great shape. And we expect that, as it grows, it will only leverage further. Right now, we're seeing, from an operating margin standpoint, it's probably just a hair below where our current wholesale model is. And then, again, similar to what we achieve in DKNY, when we have the own brands, we expect that the operating margin of a business that we own will be higher than what's traditionally in our license portfolio. And, again, that's primarily because we don't have to pay a royalty and we've got licensing opportunities around the world. So both of those things helped drive higher operating margins.

Jay Sole

Analyst, UBS Securities LLC



Got it. All right. Maybe I'll ask one more, and then I'll pass it on. But just, maybe [indiscernible] (00:18:03), what brought the deal together at this time, and sort of how do you think about valuation in terms of like price of sales, it looks like it's a pretty low price to sales multiple, how do you think about EBITDA in terms of what you're paying for this? If you could help us with those, that'd be great.

Neal S. Nackman

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



Yeah. So, look, as Jeff said, this is something that we've eyed for many years. We've been really watching the team develop the business. It's been developing nicely. We certainly have some concerns about the overall environment, but we're really planning for the future, and this seemed like a good time for us. In terms of valuation, look, we think it's a fair value to both buyer and seller. I think, when you look through comparable multiples, we feel pretty comfortable where we purchased the business at.

Jay Sole

Analyst, UBS Securities LLC



All right. Thank you so much.

Operator: Thank you. [Operator Instructions] Our next question comes from Susan Anderson of B. Riley. Your line is open.

Susan Anderson

Analyst, B. Riley Securities, Inc.



Hi. Good morning. Thanks for taking my question. I'm curious, where do you see most of the growth coming from as we kind of look forward, Europe, Americas, or other international geographies, or do you think it's going to look kind of equal across the geographies, and then maybe, if you could also talk about where you see the other international opportunity?

Neal S. Nackman

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

A

Right now, it's broadly distributed across the world, significant strength in Europe, and we see that continuing. There are certainly pockets to continue that growth in those areas. There are some new geographies that we're going to attack and there's some new product categories that we're going to launch. So, we see plenty of opportunities across the platform that they're in now.

Susan Anderson

Analyst, B. Riley Securities, Inc.

Q

Great. And then, how are you thinking about marketing and distribution, I guess, what channels of marketing do you expect to use now that you have full control? And do you think the growth will come from more wholesale, or do you expect to expand the retail stores? I think it has 120 right now. And then maybe, if you could talk about where most of the stores are located, if it's international or some of them in the US? Thanks.

Neal S. Nackman

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

A

Yeah. So, with respect to the store base, we're just over 20 in the United States. We're about 50 stores that are owned by the owned business internationally. Retail growth will be an important part of the growth that we've been looking at. And specifically, direct-to-consumer is also a big part of it. It's a little bit different than the business that we run with respect to DKNY and that this business is significantly more direct-to-consumer and retail based, and we expect plenty of opportunity to continue to grow that, in addition to a wholesale business that proportionally is not as significant as what we have in DKNY.

Susan Anderson

Analyst, B. Riley Securities, Inc.

Q

Got it. And then just the marketing of the brand, how do you expect to market the brand, do you expect to use more social media, traditional marketing, is there opportunity to get influencers involved in the brand?

Jeffrey David Goldfarb

Executive Vice President, Director-Strategic Planning & Director, G-III Apparel Group Ltd.

A

Hi. This is Jeff. Pier and the entire team have done an amazing job at positioning this brand. And I think they'll continue to do this in the same manner that they're currently doing this. They have amazing collaborations and social media initiatives and that will definitely continue, and likely to be at the forefront of what we do to push this brand forward from a marketing perspective.

Susan Anderson

Analyst, B. Riley Securities, Inc.

Q

Great. And if I can just add one more on, you mentioned expanding the brand into new product categories, maybe if you could talk about kind of where the bulk of the brand is now, and then also where do you see the opportunity for new product categories to expand into?

Neal S. Nackman

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

A

Yeah. The strength of the business today it in ready-to-wear. There's a very strong footwear component. There's a nice eyewear opportunity. There's, certainly, international placement. We expect to enter into the jeans category shortly. And more categories to come after that.

Susan Anderson

Analyst, B. Riley Securities, Inc.



Great. Thank you so much.

Operator: Thank you. [Operator Instructions] And next, we have Dana Telsey of Telsey Advisory. Your line is open.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC



Hi. Can you please tell me exactly how you're thinking about M&A going forward, what opportunities do you see? And then in the scale of Karl Lagerfeld, how do you see the accretion to the overall business, what percentage should it be, and how does this dilute some of your existing licensing relationships? How does that change in the midst of this? Thank you.

Neal S. Nackman

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



So they're just starting with the end source. We don't see any dilution. In fact, we think that there are synergies when we go out and talk to partners about our brands, where we're really able to speak to a few of them across the platform in that we actually find that helpful. In terms of accretion, we expect modest accretion this year. Of course, we don't know exactly when the transaction will close, but the business is performing well. As I mentioned before, in terms of operating margins, there's good growth on the top line, so we expect that the earnings drop from this business will continue to increase incrementally. With respect to forward M&A opportunities, we continue to be well-positioned from a financial standpoint. Debt levels are very much under control relative to our current EBITDA. Lots of strength in terms of capabilities of what we can finance, and we'll continue to look for good opportunities.

Do we have any more questions?

Operator: Thank you. I see no further questions in the queue. I will turn the conference back over to Jeff Goldfarb for closing remarks.

Jeffrey David Goldfarb

Executive Vice President, Director-Strategic Planning & Director, G-III Apparel Group Ltd.

Okay. Thank you for your time this morning, and we look forward to reconnecting on our next earnings call.

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