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# G-III Apparel Group Ltd. (GIII)

## Q3 2021 Earnings Call

# CORPORATE PARTICIPANTS

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**Morris Goldfarb**
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# OTHER PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Ladies and gentlemen, thank you for standing by and welcome to the G-III Apparel Group Third Quarter Fiscal 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker 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 to your speaker today, Neal Nackman, Chief Financial Officer. 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.*

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, our Executive Vice President; and Priya Trivedi, our Vice President of Investor Relations.

During this past quarter, we realized significant sequential improvements in sales trends from our previous quarter. Retailers are figuring out how to manage through this pandemic and consumers are buying to their adjusted lifestyle needs. Our merchants early on were able to identify the meaningful shift in consumer demand toward casual and comfortable clothing, as well as outdoor active attire. As an agile organization, our personnel are empowered to act quickly to redistribute resources and allocate purchasing dollars, enabling us to have the right inventory at the right time for the right price.

Our distribution and logistics team have also been working tirelessly behind the scenes. They've done an incredible job keeping our warehouses operational throughout this difficult period of time. We're very fortunate to have an experienced and talented global team at G-III. They've proactively met the challenges presented by this pandemic and continue to remain focused as we navigate through this unprecedented time. Even as this situation continues to evolve, we've elevated our position as a key supplier to our retailers and our power brands continue to gain market share.

Now, let's review the financial results for our third fiscal quarter ended October 31. Net sales for the third quarter were $827 million, down 27% compared to last year's $1.13 billion. Net income per diluted share was $1.29 as compared to $1.97 last year. Our third quarter sales were driven by athleisure, the newly launched jeans lines for our three power brands, Calvin Klein, Tommy Hilfiger and DKNY, as well as casual footwear and outerwear. We are tightly managing our inventory levels, which ended the third quarter down 29% compared to last year's third quarter. We remain comfortable with our inventory levels and category composition.

Looking at this fiscal fourth quarter, we expect sales to be down approximately 30% compared to last year's fourth quarter. Let me discuss our exciting and fast-growing digital business, where we are seeing strong and accelerating trends. We continue to focus and invest our resources to follow the consumer where they are shopping. To capture a larger portion of these digital sales, we're accelerating our global investments in best talent, systems, quick-response distribution networks, as well as new and creative marketing.

For the quarter, our digital sales penetration for our department store retailers approached approximately 40%, up from last year's approximately 23%. As for our own digital sites, we continue to experience increased demand with comparable sales increase in excess of 40%. In China, our digital business, although on its early stages, more than doubled in the quarter. We're really excited about the opportunities that lie ahead for us in our online business.

Let's spend a few moments discussing the product categories that drove our sales and results for the quarter. As expected, we saw demand for athleisure accelerate across all our brands. Our replenishment programs continue to represent an important sales driver both in stores and online, as we're quickly able to restock product as demand takes shape. With three of our power brands, Calvin Klein, Tommy Hilfiger and DKNY, we are known for providing some of the best fashion and technical design in athleisure and see the category as a very significant opportunity as we move forward.

Our Calvin Klein, Tommy Hilfiger and DKNY Jeans collections are focused on casual and comfortable fashion across a wide variety of woven and knit tops and relaxed bottoms, leggings and pants. We expect these lines to contribute to our growth and profitability and feel confident that each of these jeans lines can grow to be a $250 million business. Importantly, these lines have enabled us to become an important player in the denim space in a very short period of time. These businesses also allow us to engage and transact with the younger consumer and further align us with today's casual and active lifestyle.

Speaking of active lifestyles, in anticipation of the colder weather and the outdoor lifestyle of consumers, we saw better demand for outerwear this quarter. For the fall and holiday season, our outerwear collections featured expanded offerings of transitional mid-weight styles featuring puffer jackets and layered pieces consisting of various stretch fabrics as well as fake furs. We believe our outerwear business is well-positioned and consumers maintain an active lifestyle for the foreseeable future.

As for sportswear, we again focused on casual offerings for the fall and holiday season. Our sportswear collections features some great colors and prints which show well on digital searches and lend themselves perfectly for gifting. Our product lines feature knit and woven tops and sweaters, as well as casual comfortable dresses and bottoms. Similar to the trends we saw during the second quarter, our DKNY footwear business saw great sales and strong sell-throughs at retail, driven by relaxed styles including canvas footwear and boots.

We're also seeing strength in our Calvin Klein and DKNY handbag offerings. Here again, our collections shifted towards softer styles, which complement our consumers' new lifestyle. Let me touch upon our growth plans for our Karl Lagerfeld Paris business. Now accelerated by the consumers' current demands, we've developed a collection of today's essential fashions that work well with the brand's Parisian-chic DNA. This spring, we expect to launch Karl Lagerfeld Paris in approximately 75 new Macy's doors.

In our retail segment, the closing of all of our G.H. Bass and Wilsons Leather stores is almost complete. As we discussed in the past, operating losses in our retail segment relating to these stores were approximately $50 million last year. We expect the restructuring to eliminate a substantial portion of these losses.

Our DKNY and Karl Lagerfeld Paris stores are performing better than we expected. We now operate 39 DKNY and 13 Karl Lagerfeld Paris locations. Although the stores are still traffic-challenged, we've seen good increases in conversion. Our product is resonating with the consumers.

Based on higher levels of conversion and cleaner inventories, we've been less promotional, resulting in increased AURs. Our store teams have also been incredibly innovative, working with customers and partnering with influencers to quickly adapt virtual selling techniques to offset traffic headwinds.

We are seeing very strong results on our website for both DKNY and Karl Lagerfeld Paris, a validation that these brands continue to resonate with consumers. We are on a path to profitability for our ongoing retail segment.

In addition to the restructuring of our retail operations that we highlighted on our second quarter call, we streamlined our global wholesale head count. Additionally, this past quarter, we further rationalized that cost base and are now on track to recognize annual savings of roughly $28 million. We're confident that current staffing is appropriately aligned to support our business needs.

I'd like to take a moment to talk about our international opportunities. Our DKNY International business was down approximately 15% for the quarter and has held up better in spite of the pandemic. We continue to develop new accounts in Europe and the Middle East, a bright spot in China, where we've just increased our ownership from 49% to 75% in our DKNY joint venture.

In the third quarter, we saw month-over-month recovery in comparable sales trends, which culminated in a positive 13% comp for the month of October. As I mentioned earlier, our digital business in China has increased substantially. We see significant opportunity to grow our DKNY business and engage with the local China market with a well-known global brand. We have a talented and experienced management team and great partners to help us achieve this growth.

We're successfully navigating through what continues to remain one of the most challenging and fluid retail environments of our time. We feel good about our product assortments and our ability to work collaboratively with our strong vendor base and retailers to successfully design and provide great product. We're well-positioned to complete the year in line with our expectations.

I will now pass the call to Neal for a detailed discussion of our third quarter financial results.

## Neal S. Nackman

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

Thank you, Morris. The results for our third quarter ended October 31, 2020, were significantly impacted by the ongoing effects of the pandemic. Let us begin with the retail segment.

The restructuring of our retail operations, which includes the closing of all 110 Wilsons Leather and 89 G.H. Bass stores, is going as planned. In connection with this restructuring, we expect to incur aggregate net costs and charges of approximately $100 million. This $100 million operating loss is inclusive of allocated overhead, some of which will remain in order to support the ongoing retail operations.

On a year-to-date basis, we have incurred direct four wall costs and charges of approximately $74 million, which exclude any allocations. We have included some relevant break-out data for the four wall retail operations in our earnings release issued this morning.

For our third quarter results, net sales for the third quarter ended October 31, 2020, decreased approximately 27% to $827 million from $1.13 billion in the same period last year. Net sales of our wholesale operations segment decreased approximately 27% to $783 million from $1.07 billion. Net sales of our retail operations segment for the quarter were $58 million, approximately 35% lower compared to last year's sales of $90 million. Retail sales included $38 million and $60 million of sales for Wilsons Leather and G.H. Bass stores in the quarter ended October 31, 2020 and 2019, respectively.

Our gross margin percentage was 36% in the third quarter of fiscal 2021, as compared to 35.4% 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 33.2% in last year's quarter. Wholesale gross margins were positively impacted by the reversal of previously anticipated markdown accruals that are no longer necessary due to the reduced wholesale sales.

The gross margin percentage in our retail operations segment was 33.9% compared to 49.3% in the prior year's quarter and was primarily impacted by store liquidations for Wilsons Leather and G.H. Bass stores. We continue to watch overall our expenses very carefully. SG&A expenses were down 28% to $178 million in this quarter compared to $247 million in the same period last year. We further streamlined the head count in our global wholesale operations, and as a result, we now expect approximately $28 million of annualized savings.

Net income for the third quarter was $63 million or $1.29 per diluted share, compared to $95 million or $1.97 per diluted share in last year's third quarter. Net income per share in the quarter included a four wall loss of $0.25 for the Wilsons Leather and G.H. Bass store operations. Last year's earnings per share included an $0.08 loss for the Wilsons Leather and G.H. Bass store operations. Net income also includes a non-cash charge of $6.5 million in this quarter associated with the write-off of deferred financing costs primarily related to our prior term loan facility, which was refinanced and replaced with bonds in August 2020. The effect of this charge is equal to $0.09 per diluted share in the quarter.

Looking at our balance sheet, accounts receivable was $721 million as compared to $899 million at the end of the prior year's quarter. Inventory decreased approximately 29% to $462 million from $651 million and in line with sales expectations. We ended the third quarter in a very strong net debt position of $359 million as compared to $620 million in the prior year. Our third quarter ended with cash and availability of approximately $800 million. Our current strong liquidity and financial position will enable us to navigate through the current environment.

As for our guidance, we continue to expect the COVID-19 pandemic to negatively impact our results in the fourth quarter of the year. Accordingly, we continue to anticipate a decline in net sales of approximately 30% in the fourth quarter as compared to the same period last year. The impact of the pandemic continues to be fluid, making it difficult for us to provide additional guidance for fiscal 2021.

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. This quarter was further validation that G-III's entrepreneurial culture built over almost 50 years can weather any challenge put in front of us. We took proactive measures early in the pandemic to strengthen our financial position and quickly collaborated with our retail and supply chain partners to align our businesses for future success.

Our agility combined with our wholesale expertise and strength across a broad range of apparel and accessory categories has proven to be a winning formula. Our strong financial condition positions us well to further increase our market share, drive long-term growth and take advantage of the right opportunities as they present themselves. On behalf of the entire G-III organization, I'd like to thank all of our stakeholders for their continued support.

Operator, we are now ready to take some questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Our first question comes from Edward Yruma with KeyBanc. Your line is now open.

**Edward Yruma**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah. Hi. Good morning. Thanks for taking the questions. I guess first more of a housekeeping question. Some really constructive comments around athleisure and performance. I know you have it across multiple brands. How big is the business today and kind of how should we think about kind of medium-term growth? And then, as a follow-up, Morris, I know you're starting to think about second half of 2021, vaccine hopefully by then. How are you positioning your business against what could be much stronger apparel demand? Thank you.

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

A

Thank you, Ed. Thanks for the questions. This isn't really a topic of athleisure as a category. It's a lifestyle, and athleisure flows into almost everything that we do. There are elements of casual dressing, as I spoke to, in our sportswear business that emanate from the new consumer way of dressing or the current consumer way of dressing. So, our entire product mix reflects what the consumer is looking for today. It's not simply the athleisure category. That said, our athleisure category is a category of size. It's one of our bigger pieces of business. Calvin Klein is our largest piece, followed by Tommy Hilfiger and DKNY, and positioned in department stores, I would say, they could be classified as the largest piece of the department store athleisure offering.

So, again, it's not – it's no longer a start-up. It's fairly well-developed. What is – addressing what is likely to grow significantly in its second year of offering is the jean business. This is our first year in the jean business, which also reflects a casual lifestyle look, and we penetrated the business aggressively with CK Jeans, again followed by Tommy Hilfiger and DKNY. And we're beginning to make our mark in the jean business very, very quickly. You'll see us in all the retail venues that we serve. It's not limited to one retailer. It's fairly well-distributed. And as I said earlier, we believe those three businesses can individually be $250 million in size.

As far as the second half of the year – or calendar 2021, there's lots to learn. What we emphasize is that we're an agile organization. We kind of proved that out just recently. We believe we know where we're going for Q2 in product mix. We're aggressively designing and creating and building collections of product that are suitable for what the consumer is looking for. We've been under pressure with our social dresses and our dress business this year. They're highly profitable traditionally for us.

We've altered the styling and we believe we've corrected the path, and even the dress business will be much more casual for the back-end of the year, as well as Q1, Q2. So, we're addressing it with styling. We have a resource structure globally that's supporting all of our needs and we're intact. We're an aggressive company that figures it out, and we've got a talent pool that is very much in line with home office and does the unimaginable to accomplish success. So I hope I've answered a little bit of what you've asked.

**Edward Yruma**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Sure. Thank you. And maybe one other quick follow-up, if I might sneak it in. We've heard more retailers talk about why they lean on vendors for drop-ship inventory. I know you do a little bit of that. But kind of how comprehensive is your infrastructure to support the dot-coms of your retail partners? Thanks.

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

A

It is not comprehensive. We do it on a spot-by-spot basis. We're not structured for drop-shipping, but we will be. We've hired talent. We're searching for the appropriate real estate. We're putting systems in place to accommodate drop-shipping to the direct consumer and taking some of that responsibility away from our department store partners and as well as an Amazon to some degree. So, given the appropriate time and the appropriate investment that we're making, we should become great in that aspect of the business. It's an essential need. We recognize it and we're all over it. We've staffed for it, and now we're searching for the appropriate distribution center that can accommodate it. Our distribution is – as you know, we started as a coat company. A lot of what we do is product that is shipped hanging, and it's a far cry from what needs to be done to efficiently handle the cost structure that entails drop-shipping to the consumer. But we're on it. Come back to me in a year and I'll have an answer for you that is a little different than today.

**Edward Yruma**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Thank you.

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

A

Thank you.

**Operator**: Thank you. Our next question comes from Erinn Murphy with Piper Sandler. Your line is now open.

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

Q

Great. Thanks. Good morning. Morris, it sounds like in the third quarter, trends for outerwear were good. Can you just speak a little bit more about what you're seeing and how did outerwear order books end up for the season?

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

A

So, we're – as you know, we're predominantly a wholesale company, and thus, our orders are written before the weather reacts. So, our third quarter was good as far as shipping is concerned. Retail, retail in Q3 – for most of Q3 in outerwear was good. The tail-end of it slowed down, weather didn't cooperate, and the beginning of Q4 is not what we would like it to be. It's acceptable. But weather cures all those ills.

The outerwear that we're producing is again – or produced is basically a derivative of the outdoor trends that people are looking for. There has been outdoor eating, people are spending more time in activities outdoors, and our outerwear reflects it. We produced an unimaginable amount of filled and unfilled breathable fabrics for our puffer jackets. Most of them had stretch in them.

We have unique fabrics, unique to G-III, that have sold incredibly well. And our fake fur business was quite good. And where we lack is where we were born, which was the leather business and some of the wool business that we were successful with years ago. That's not in play right now. So it's mostly puffer and stretch fabrics that are driving our business.

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

Q

Got it. And then maybe just for Neal, in the fourth quarter when you think about sales down 30%, is some of that just kind of what Morris was just speaking about, a slightly slower start to the sell-through season this fourth quarter? Just help us think about kind of the wholesale decline that's embedded in, in the fourth quarter guide.

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

A

Yeah, Erinn. When we look at it, we didn't really see a huge decline from what we were anticipating, to tell you the truth.

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

Q

Okay.

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

A

I think what we experienced was actually a stronger Q3, but really not necessarily a weaker Q4 than what we were expecting. And I think Q3 was boosted by the shortfall of inventory of retailers, which really helped in terms of our demand needs.

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

Q

Okay. And then, just last question. It's just on the SG&A front. You guys have been very disciplined this year, and I know there is another $28 million in cost savings that you're in the process of realizing. But how do you think about, as we go into next year, the kind of key areas of reinvestment for some of the savings that you've been able to ensue this year? Thank you.

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

A

Well, look, we'll have a more normalized year, and yet it still won't be completely normalized, right? So the big savings that we had this year, we furloughed a significant number of people. We are taking pay cuts. We've now taken all the furloughed people back. That started at the last month of the third quarter. So we will have that pressure on us in the fourth quarter, and we'll have some of that pressure going into next year. Marketing expense, we will start to do slowly as we see business continue to expand.

And, overall, there'll be certainly still a slower business activity in the first half of the year. We get benefits throughout some of the SG&A items as a result of that as well. But I think the big pressure spots when we normalize will be in people, will be in marketing. And let's not forget that we did have some pretty good pain points this year. We took a very large charge this year for bad debt expense as a result of bankruptcies. We've taken some inventory reserves. So there'll be some offsets, some natural offsets to some of the savings. But that's where the puts and takes that I see going into next year's SG&A.

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

A

Erinn, our head count reduction is north of 400 people in North America, about a dozen people in Europe ultimately, and over 100 people in Southeast Asia. So, collectively, there is a head count reduction that's in place of over 500 people globally. So that's an area that we probably will expand on as we refine our business and we better understand these solutions to prosperity.

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

Q

Great. Thank you all.

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

A

Thank you, Erinn.

**Operator**: Thank you. Our next question comes from Heather Balsky with Bank of America. Your line is now open.

**Heather Balsky**
*Analyst, Bank of America Merrill Lynch*

Q

Hi. Thank you. I guess, first question, I'd be curious to hear your perspective of the fourth quarter promotional environment, what you're seeing with regards to holiday, what that might mean for the fourth quarter. And then, as a separate question, just curious, with Donna Karan being your remaining retail business, how you're thinking about that in 2021 and especially with the some of the real estate opportunities that are opening up with the stores of other competitors closing?

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

A

Thank you, Heather. It's quite strange. One might think that this is a highly promotional period because of the pandemic. But, quite honestly, we're seeing less promotions than we would have expected. There are retailers that are achieving success by driving bottom line rather than top line. And then, there are others that are heavily inundated with inventory that needs to move because some of it's seasonal. But, all in all, it's not incredibly promotional out there. The retailer is garnering acceptable return on their investment and on the inventory. So it's okay.

As far as DKNY and the beginning of success at retail, we are left with two primary brands that will expand over time. This is a good time to expand on real estate because the real estate offerings are abundant, and they're much more fair than then they have been historically, at least that we might be able to sign. It could be a percentage lease with kick-outs. So we're not coupled with 10-year leases that we would have to buy our way out of, that learned our lesson. We paid dearly for real estate mistakes just recently as we're closing Bass and Wilsons. We're not likely to go down that path again.

We're fairly aggressive on some of the opportunities that are affording themselves in Europe. We are considering opening in – on the high street areas of the UK with DKNY. There is great demand for it there. Our store in the UK – we're in an outlet center in the UK, which is our single best store in the world. And we have two other stores in Europe that are performing exceptionally well compared to North America. So, we're likely to expand in Europe. We cannot expand Karl Lagerfeld in Europe. We have a joint venture partner that's domiciled in Europe and their region of expansion is the globe other than North America. Ours is North America. So, we are pursuing retail very, very cautiously and opportunistically. It's got to be a great offering for us to jump in and grab it. Thank you, Heather. Thanks for your question.

**Heather Balsky**
*Analyst, Bank of America Merrill Lynch*

Q

Thank you.

**Operator**: Thank you. Our next question comes from Jim Duffy with Stifel. Your line is now open.

**Jim Duffy**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Thank you. Good morning, everyone.

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

A

Good morning, Jim.

**Jim Duffy**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

I wanted to dig in some on the SG&A line. Can you isolate the four wall SG&A associated with the Wilsons and Bass stores that you expect to eliminate with the 199 store closures?

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

A

Yeah. Jim, if you look at the – well, I'd say we give you a summary in the press release. I think if you look at the segment information, you'll be able to get that better when we come out with the third quarter Q.

**Jim Duffy**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. But we don't know what the gross margin on the Wilsons and Bass stores were versus the retail segment. So, there's not sufficient disclosure to figure that out, Neal.

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

A

Let us look at that and see if we want to expand upon that, Jim.

**Jim Duffy**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

And then, it looks like the retail profitability disclosures year-to-date suggest that maybe you added back some profitability to the Wilsons and Bass stores in Qs 1 and 2, because the previous disclosures along with what you have given for the third quarter don't total?

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

A

Yeah. Jim, the big difference there is the tax rate. We've got a pretty high tax rate, and we use the effective tax rates. So, if you focus on the pre-tax numbers, you should see a steady increase to the operating losses over time. There was no add-back.

**Jim Duffy**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. I'll take a closer look at that. And then, I'm curious within the retail segment, what's the residual component of retail SG&A that will remain in the model for next year, that overhead plus the four wall SG&A of the remaining stores?

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

A

Yeah. I think in terms of – let me speak a little bit about the trapped overhead. We are thinking that this year we'll probably run about $20 million of trapped overhead that we'll have to continue to absorb. We're thinking that that from a trend line, it's probably down to about $15 million today, and then we'll continue to look at that and probably hope to make some more improvements in that as we go into next year.

**Jim Duffy**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. That's helpful. And then, I guess building on Erinn's question, with the remaining wholesale business, how much of that SG&A savings do you expect to be able to keep? You mentioned the $28 million annualized savings from the head count. The run rate SG&A for this year well below that in terms of savings. Just trying to understand how much of that comes back into the model.

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

A

So keep in mind, the other part of our SG&A that does move is certainly the variable portion of it. And so, as we have sales, we'll have variable lift. That variable lift comes in the form of really advertising that we refer to as national advertising associated with our license businesses, and then of course our third-party shipping is in our selling and general expense category as well. So, those are the two variable expense components that you'll see go up and down with sales for the most part. And then, as I mentioned, we'll have increases back on the payroll side and then advertising will be the two main drivers of increase, offset by the some of these bad debt expenses that we've had in the periods.

**Jim Duffy**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. Thanks for the detailed responses. One more for me and then I'll move on. But I'm looking back to the wholesale gross margin fiscal 2020 roughly 33%, would you expect to be able to improve on that based on category mix and brand mix as you look out to next year?

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

A

No. I think, Jim, that's a pretty good margin for us, and I think this year we've gotten benefits in the wholesale gross margin as a result of these markdown reversals. So, I think if you went back to the prior fiscal, that's probably where we'll start to anniversary our gross margins, and those gross margins are fairly strong. Keep in mind, we've got licensing partners for about 60% of the business. So, we operate at a pretty high gross margin when you add that back in, and I think that that's probably where you should think about anniversarying us going forward.

**Jim Duffy**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. Thanks for all the help, Neal.

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

A

Yeah.

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

A

Thanks, Jim.

**Operator**: Thank you. Our next question comes from Jay Sole with UBS. Your line is now open.

**Jay Sole**
*Analyst, UBS Securities LLC*

Q

Great. Thank you so much. Just wondering if you'd give us a little bit more color on the 4Q, you mentioned the sales you're thinking down 30%. But as far as gross margin and SG&A, any puts and takes that we should be thinking about for those line items looking into the fourth quarter?

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

A

Yes. I think in terms of gross margin, keep in mind, we're going to be at the last part of our Wilsons and Bass liquidations. So, that will put a little bit of pressure on us. As you can expect, when the liquidations reach their end, you get lower gross margin achievement to get rid of your final product. I think in terms of the SG&A, the only thing to again keep in mind is that we did start the furloughs – bringing people back from furlough. So, we'll have that full impact for us in the fourth quarter as well. So, while we did a very good job of really reducing SG&A almost completely in line with our wholesale – with our total sales drop, we will have some deleverage pressure going into the fourth quarter on SG&A.

**Jay Sole**
*Analyst, UBS Securities LLC*

Q

Got it. Okay. Thank you so much.

**Operator**: Thank you. Our next question comes from Susan Anderson with B. Riley. Your line is now open.

**Susan Anderson**
*Analyst, B. Riley Securities, Inc.*

Q

Hi. Good morning. Thanks for taking my question. I guess I wanted to touch a little bit more on the lifestyle or athleisure product that you've rolled out or increased in penetration. I guess I'm curious just relative to the average sales decline of 26%, how is that performing? Did you see any pockets of positive growth or close to positive growth? And then, just on the dress side, it sounds like you've definitely casualized those dresses. But I guess are those dresses also down in penetration as a percent of the mix, too, for the back half? Thanks.

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

A

So I'll hit kind of the second comment first. Our dress business is down for the second half of the year, being calendar 2020. Hopefully, we recover for 2021. The common belief is the women's wardrobe is getting old and she's going to go out there and aggressively buy dress as soon as she is able to commute, to go out and have dinner and socialize with her family and friends. The common belief is the dress business comes back fast and furiously, so – and we believe that to be the case.

As far as performance in athleisure – in our athleisure areas, they're performing significantly better than any other category that we have. So, there is – we have our Calvin business that is – for the last month is comping almost flat to last year. Had we been prepared with the level of inventories that we needed, we would have comped up. It wasn't about demand. It was more about supply. And for Q4, we believe that it'll track in similar form. We're finding that – take all three power brands, DKNY, CK and Tommy, and compare the active lifestyle piece to the rest of the company, we're tracking at missing by high-teens for the quarter comp to the 27% as comprehensive category mix.

**Susan Anderson**
*Analyst, B. Riley Securities, Inc.*

Q

Thanks. That's very helpful. And then I'm curious, just for spring 2021, what you're seeing in terms of orders from your wholesale partners, I guess particularly department stores, are you seeing any improvement at all from the second half?

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

A

Yeah. Still see improvement. I would tell you that the order book looks like it's down about 20% for the spring book, and we're comfortable that that'll show improvement certainly to this fiscal year. And that's the type of sequential improvements that we would hope to continue to see as the year rolls out.

**Susan Anderson**
*Analyst, B. Riley Securities, Inc.*

Q

Great. That's helpful. And then, lastly, I'm just curious how you're thinking about the promotional environment for fourth quarter and over the holiday, I guess, relative to last year. And then also what you saw in the third quarter, which I guess sounded pretty tight, especially for those products that were in high demand?

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

A

I guess, it all depends on the effect of the pandemic. Clearly, we're all aware of the spike-up that's occurred, which results in store closures. It extends the period of time that tourism is back in our world. So it's a hard one to forecast as far as the promotional level. There's a period of time, there is intent and then there is reality. The intent is not to be highly promotional. But reality is, if there is no traffic and there is a need to create liquidity, the retailer will become highly promotional. We've seen it before and we'll see it again.

So it's a hard one to forecast. It's not based on fashion. It's probably not based so much on weather as it is the consumer desire to go out and shop and her ability to get everything she might want on the digital side of the world. That clearly has had an impact, but it doesn't cure all of it. So, again, a little complicated of an answer. It's not a cut-and-dry one, but it's the best that I can do for the moment.

**Susan Anderson**
*Analyst, B. Riley Securities, Inc.*
Q

Okay, great. Thanks so much for all the details and good luck this holiday.

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

Thank you, Susan. Thanks for your questions.

**Operator**: Thank you. Our next question comes from Steve Marotta with CLK Associates (sic) [C.L. King & Associates]. Your line is now open.

**Steven L. Marotta**
*Analyst, C.L. King & Associates, Inc.*
Q

Good morning, Morris and Neal. You mentioned digital penetration within the department store channel in the third quarter was 40%. That's up from 24% last year. With the exception of increasing drop-ship capabilities, how else can you support that department store digital effort?

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

We can support it by having replenishment inventory. This was kind of a chase year. But if it's a go-forward model, our responsibility in the mix would probably be to hold on to replenishment inventory, which is not something we would love to do. But it's a necessary evil for our way of doing business.

And marketing, which we're spending a good deal of money on, both collaboratively with our retailers and independent of our retailers, will help drive that digital business. So those are probably the solutions that I have for greater penetration on the digital side of our business.

**Steven L. Marotta**
*Analyst, C.L. King & Associates, Inc.*
Q

Very helpful.

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

And further to that, internationally, we're having success in the Middle East. We're having some successes in – although early stage for us, we're having a good deal of success in China, and we believe we can grow those businesses – those areas of the world where they do hit the charts in coming years. So the expansion of the globe would be another element of further success in digital.

**Steven L. Marotta**
*Analyst, C.L. King & Associates, Inc.*
Q

Helpful. Thank you.

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

A

Thank you.

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

A

Thanks, Steve.

**Operator**: Thank you. And our last question comes from Dana Telsey with Telsey Advisory Group. Your line is now open.

**Dana Lauren Telsey**
*Analyst, Telsey Advisory Group LLC*

Q

Good morning, everyone. As you think about shipping and capacity or surcharges and what's happening, where are you on shipping and getting goods when you need it for this upcoming holiday season? And going into 2021, any update on manufacturing in China and how you're positioned? Thank you.

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

A

Thanks for your question, Dana. Shipping, it really depends on the day. If there is a hurricane, we lose a few containers as the container ship topples. If there is a pandemic and the ports are closed, we're backlogged. There's high demand for container space, and we have been impacted from pretty much every area of the world, whether it's Vietnam, Jordan. This week, Bangladesh has got its displacement issues of our freight.

So it is a challenge. We're paying surcharges. We're doing what we need to do or what we – the best that we can do. We're not in full control. There were times where we're provided with bill of ladings and then we find that the freight was off-boarded and is on a 10-day delay. This is a very, very unique year. So, shipping is a problem. Despite of it, our third quarter was fairly good, and I believe we can figure out the fourth quarter. But it's not a perfect world. If all the shipping routes and container ships were aligned and we got what we had planned on getting, it would be a better plan.

So – and as far as our development of product and production in China, we're not really focused on it quite honestly. It's come down significantly. We're focused on producing in the right countries and the appropriate product. We've done a masterful job of bringing down our China production from possibly 85% of this company's production several years ago, down to what's hovering around 30% today. So, it's not a test to bringing – I'm not in politics quite honestly, unless I have to be. We're in a business of providing product at an appropriate price with appropriate quality, and China has always been a good partner as it relates to that. There are areas that we have figured out that are more competitive and equal in quality and less in duty, and we've gone to those areas. But I'm not on a mission to stay clear of China. I'll stay clear of cotton mills that aren't compliant with what the world expects. We are very cautious as to where we produce, how we produce. We've got an office overseas that's actually based in China that is clearly focused on making China comply with everything that we ask for, so – and they do a really good job of it. So, again, bottom line, it's not a race to leave China for G-III.

**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, Dana. Thanks for your questions.

**Operator**: Thank you.

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

A

Operator, one more question and – okay. Operator, we are finished. Thank you.

**Operator**: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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

Thank you.