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G-III Apparel Group Ltd. (GIII)

Q2 2027 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 Second Quarter Fiscal 2027 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Neal Nackman, CFO. Please go ahead.

Neal Nackman
Chief Financial Officer, 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 guaranteed, and actual results may differ materially from those expressed or implied in the 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 gross profit, non-GAAP net income and non-GAAP net income per 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.

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

Thank you, Neal. And thank you, everyone, for joining us. We made good progress in the second quarter with earnings exceeding our guidance, driven by solid execution, significant gross margin expansion and disciplined expense management. We also reached an incredibly important milestone with the completion of the Marc Jacobs acquisition yesterday. We believe this is transformational for G-III and significantly enhances our portfolio of owned brands while accelerating our evolution into a brand-led global apparel powerhouse.

Second quarter net sales were $554 million, slightly below our plan, driven in a large part by our European business, which was impacted by macro softness in the region. Calvin Klein and Tommy Hilfiger delivered lower results than planned as we exit these licenses. Excluding Tommy and Calvin, our go-forward portfolio grew high-single digits in the quarter. The quality of our sales is also improving. We remain focused on full price selling, disciplined inventory management and protecting the long-term positioning of our brands. For example, wholesale sales in full price channels were up more than 20% for the go-forward portfolio in the second quarter.

Gross margin was a particular highlight, expanding 440 basis points compared to last year. The improvement reflects the benefit of pricing actions, healthy full price selling and the continued mix toward – mix shift toward our higher-margin owned brands. We also benefited from the cost savings initiatives we continue to implement across the business.

Non-GAAP earnings per diluted share for the quarter was $0.26 ahead of guidance of $0.15 to $0.25. We're operating in a dynamic macroeconomic backdrop. The American consumer remains resilient, but selective, while Europe continues to be more challenged. Despite these pressures, consumers are responding to newness in fashion, and we're encouraged by the strong sales of our product offerings.

Stepping back, we're making significant progress transforming G-III and are laying the foundation for a higher growth, higher margin business. Since PVH announced the takeback of Tommy Hilfiger and Calvin Klein licenses in fiscal 2023, we've lost nearly $1.2 billion in revenue from these businesses by the end of this year.

Excluding any contribution from Marc Jacobs, we will have replaced $700 million of these sales with our go-forward portfolio growing at a high-single digit rate annually. And importantly, we're replacing these revenues at higher margin. Marc Jacobs represents a pivotal opportunity for G-III and is directly aligned with our vision for the company. We believe strongly in the long-term opportunity for Marc Jacobs, and we're excited to work with its talented team.

LVMH has been an excellent steward of the brand. This is the second transaction where we've acquired brands from LVMH. The first brought us DKNY and Donna Karan, which have been tremendously successful for G-III and have become dominant brands in global fashion, together with generating approximately $2.7 billion in annual retail sales.

We're pleased to build on the history with the acquisition of another iconic brand. Let me reiterate the three core drivers behind our strategic rationale for the transaction. First, Marc Jacobs is a truly differentiated global brand. Founded in 1984, it has built a passionate following around the world and a deep connection with the highly engaged fashion conscious consumers.

With its premium, aspirational and fashion forward positioning, few brands today have the same combination of fashion authority, cultural influence and multi-generational appeal. Marc remains the center of the brand's creative vision and has shaped the fashion conversation for decades. His runway collections are an important reflection of what makes the brand so special. Continuing to command the attention and reinforces it's fashion authority.

His most recent show in June is a great example of the energy and excitement Marc creates, which we see an opportunity to translate across a broader commercial offering and bring more consumers into the world of Marc Jacobs. That same creative energy extends to how the brand connects to consumers through innovative storytelling. Its new campaign, the swap blends fashion, entertainment and culture through its episodic format with the next installment debuting in September 9.

Second, we see a significant opportunity to unlock the next phase of growth for the brand. Today, the business is primarily driven by handbags, small leather goods and accessories, which represent approximately 90% of revenues.

We see considerable opportunity to build a ready-to-wear business and create a more complete expression of the Marc Jacobs lifestyle while maintaining the brand's positioning and creative integrity. This aligns perfectly with G-III's core strengths and our track record of developing and scaling apparel businesses.

Marc Jacobs also has a strong global licensing business providing another important avenue for growth and value creation. Fragrance is an established and successful category for the brand through its long-standing partnership with Coty, including the Daisy franchise. The recent relaunch of Marc Jacobs' Beauty is off to a very strong start and the brand also has established businesses in categories like eyewear and children's apparel.

There's also considerable potential across channels. Marc Jacobs generates approximately two-thirds of its revenue through direct-to-consumer with over 100 company-operated stores and a robust digital platform. The majority of its stores are in the outlet channel and generate healthy four-wall profitability. G-III, meanwhile, brings extensive wholesale capabilities and longstanding relationships with leading retailers globally, creating an opportunity to broaden distribution thoughtfully.

Internationally, we see additional room to grow through both existing operations and strong local strategic partners. Together, these opportunities across products, channel and geography provide a significant multi-year growth runway.

Third, the structure of the transaction provides G-III with multiple avenues for value creation. G-III owns a 100% of the Marc Jacobs operating company including retail, wholesale and e-commerce, and will lead product development, sourcing, distribution and marketing and provide global licensing services.

Together with WHP Global, we also own the Marc Jacobs intellectual property through a 50% joint venture, giving G-III a 50% partnership in the earnings generated by the licensing business. WHP will lead the global licensing strategy, while G-III will provide ongoing brand marketing and licensing services to existing and new partners and helping to ensure the products and consumer experiences remain consistent with the Marc Jacobs brand globally.

WHP brings significant global licensing experience with its portfolio generating over $9.5 billion in annual retail sales across more than 80 countries. We look forward to working together to expand Marc Jacobs into an additional license category and geographies. We also plan to invest meaningfully in the Marc Jacobs brand for marketing and product to digital, stores and broader consumer experience. As both an owner and an active steward of the brand, we will bring our capabilities and resources behind both and directly operated and licensed businesses while preserving the brand's desirability and creative independence.

Let me briefly touch on our balance sheet, which remains an important strength of G-III. We ended the second quarter with nearly $530 million in cash and approximately $1 billion in available liquidity. Our cash position benefited from the receipt of approximately $134 million in tariff refunds, including interest during the second quarter.

Following the close of the Marc Jacobs transaction, our balance sheet remains very healthy with ample liquidity and financial flexibility to continue investing in our brands and strategic growth initiatives as well as return capital to shareholders. During the second quarter, we returned more than $12 million through share repurchases and our dividend. Inventory remains in excellent shape, down approximately 13% compared to last year, reflecting our continued disciplined approach to inventory management.

Now, let me walk you through some highlights from our owned brands. Donna Karan remains one of our most powerful growth opportunities with sales increasing more than 45% in the second quarter and momentum continues to build. The brand is benefiting from solid consumer demand, healthy full price selling and its aspirational positioning. Digital performance also remained strong with growth across traffic, conversion and AURs.

The consumers reacting favorably to newness in the offering. Donna Karan Weekend, which launched last November is performing well while the dress business was a standout in the second quarter. We're also seeing growth across lifestyle categories as the mix of the business becomes more diversified. Handbags delivered double-digit growth through the quarter, while footwear also performed well with distribution expanding this fall through additional doors at Nordstrom's, Macy's and Dillard's.

The business' growth is supported by digital first marketing efforts with engaging social content, custom storytelling and strategic VIP partnerships throughout the summer season. And I'm excited to share that today, we're launching Donna Karan's Fall 2026 global campaign with Kendall Jenner as the new face of the brand. Kendall brings tremendous global reach to the brand and embodies Donna Karan in a fresh and modern way. We believe this campaign provides a powerful opportunity to introduce the brand to new audiences around the world.

Donna Karan will also be featured in a first of its kind Macy's celebration of American fashion. As part of the campaign, there'll be a limited edition capsule collection reimagined from some of the iconic pieces that define Donna's legacy, reinforcing the brand's place in fashion. We're still in the early stages with Donna Karan and see significant opportunities to grow the brand meaningfully over time.

Turning to DKNY. We continue to build momentum at DKNY and remain focused on strengthening the quality of sales with healthy full price sell-throughs in North America and continued strength across our direct-to-consumer channels. Our retail partners are also allocating more space to the brand. We're seeing increased store counts for Fall 2026, Spring 2027 and key retail partners in North America.

Internationally, we're expanding DKNY with our existing partners and see significant opportunity to grow distribution across Europe and other key markets. On dkny.com, we saw mid-20% growth versus its prior year driven by increased conversion and healthy AUR growth, while DKNY stores delivered a solid mid-single digit comp during the quarter. Licensing is another important growth avenue for DKNY with strong performance in fragrance led by the iconic Be Delicious franchise.

We're also expanding into additional lifestyle categories, including a new sock and hosiery license in North America launching next spring. Our investments in talent and marketing continue to drive strong visibility and engagement, broadening reach and strengthening the brand's connection with consumers. Building on the success of our year-long partnership with Hailey Bieber, Fall 2026 marks a new chapter for DKNY with Iris Law and Amelia Gray, both are influential voices for a new generation of style. The campaign builds on our effort to broaden DKNY's reach with younger consumers while remaining rooted in the energy and attitude of New York.

We are focused on building DKNY's momentum through product newness, continued growth in direct-to-consumer and expanding the brand globally over time. With Karl Lagerfeld, the brand delivered strong growth in North America, led by our wholesale business. While European sales continued to be affected by the challenging consumer environment. Despite this, gross margins expanded in Europe, supported by pricing channel mix and sourcing execution. We see significant opportunity across the Karl Lagerfeld brand.

In North America, Karl Lagerfeld Paris is expanding across both men's and women's with strong momentum in categories, including dresses and footwear. Internationally, Karl Lagerfeld Jeans continued to outperform and remain an important growth engine, particularly with younger consumers. We're building Karl Lagerfeld as a global lifestyle brand, leveraging our licensing and hospitality business to broaden the brand's reach and create new ways for consumers to experience it. As part of this, we opened the first ever KARL LAGERFELD Café in Amsterdam. Brand Ambassador, Paris Hilton visited the café while in town, generating additional visibility and engagement around the opening.

In hospitality, the Karl Lagerfeld Residences in Lisbon launched in June. The development is positioned among the city's most prestigious residential projects and aligns well with the brand's aspirational positioning. Today, the brand has one hotel and one residential project opened with five additional projects in development, further demonstrating the opportunity to extend Karl Lagerfeld world beyond fashion. Looking ahead, we expect strong marketing visibility in the second half, supported by the third season of our partnership with Paris Hilton and the launch of our new global Not Karl campaign. With its distinctive global identity and significant growth opportunities, we remain confident in Karl Lagerfeld's long-term potential.

Vilebrequin delivered positive growth in the second quarter with resilient performance across key markets including Europe, the Caribbean and Asia. We're pleased with this performance, particularly given the challenging consumer backdrop in Europe. Margin for the brand exceeded our target in the quarter, supported by higher AURs and healthy consumer demand for the brand. Building on the success of our first collaboration with Fiat last year. In June, we teamed up again to launch a second limited edition Topolino Vilebrequin collection edition. Demand has been very strong and the collaboration is another great example of the brand's reach and its unique connection to summer. On the hospitality front, the Vilebrequin La Plage Miami Beach Club launched in July, further extending the brand's luxury lifestyle positioning beyond swimwear.

Turning to our licensed business. Our sports and lifestyle platform remains an important area of opportunity and delivered healthy growth in the quarter. We believe – we feel very good about the business and where the business is positioned. As consumer trends evolve beyond the recent focus on athletic footwear, we're seeing opportunities across other areas of sports and lifestyle. We're focused on bringing together iconic heritage brands with relevant moments across sports, fashion, music and culture.

Starter is a good example. We're finding new ways to expand the brand beyond traditional sports. This includes new partnerships and collaborations such as our limited edition Pokémon jacket with Target. By connecting Starter's iconic heritage with cultural moments, we believe we can create unique, collectible products that resonate strongly with consumers.

Converse also continued to scale as we expand distribution following our initial launch last year. We remain in the early stages of developing the brand and continue to see significant runway. Levi's was a highlight in the quarter and saw a meaningful expansion during the period. The brand is aligned with current fashion trends as consumers shift from performance outerwear into a more casual lifestyle that plays directly to Levi's heritage.

Our contemporary platform is gaining momentum with French Connection and BCBG, both launched within the last year, performing well during the quarter. This fall, we will launch Joules, the premium British lifestyle brand owned by Next, one of the UK's largest fashion retailer and approximately 400 doors across North America. Our licensed portfolio remains an important growth platform, expanding our reach across consumer segments and lifestyle categories where our market share remains under-penetrated.

Let me now turn to outlook. We're reiterating our previous guidance for fiscal 2027 net sales of approximately $2.71 billion and increasing our non-GAAP earnings per diluted share guidance to $2.20 to $2.30 reflecting the upside in second quarter earnings. Importantly, this guidance excludes the financial impact of Marc Jacobs.

Let me provide some context around this. We completed the transaction yesterday. Given the timing of the close, we do not believe we yet have the appropriate level of visibility to incorporate Marc Jacobs into our formal fiscal 2027 outlook. We expect to update our fiscal 2027 guidance to include Marc Jacobs when we report our third quarter results in December. To provide some additional color. We expect Marc Jacobs' operating business generate approximately $350 million in global sales this year.

This figure excludes licensing revenues generated through the intellectual property joint venture, which is 50% owned by G-III. Looking to next year, we expect meaningful top line growth as we expand into new categories, including the launch of ready-to-wear. Long-term, we believe Marc Jacobs can generate $1 billion in annual revenue for G-III.

As we discussed when we announced the transaction, we expect the acquisition to be dilutive in the first 12 months of ownership and to be accretive thereafter. We expect slight dilution for the remainder of the fiscal 2027. Beyond the initial years of ownership, we believe the opportunity for Marc Jacobs is significant. We look forward to partnering with Marc and preserving the brand's unique creative ethos as we build the business for long-term growth.

In closing, I'm pleased with the progress, we're making as we transform G-III. We delivered earnings ahead of our guidance driven by strong margin expansion and expense management. Our go-forward business is growing at a healthy rate and Marc Jacobs significantly expands our long-term opportunity. As we integrate the business, we will also execute on our previously mentioned cost saving initiatives while identifying additional efficiencies to drive greater profitability over time. We have a powerful portfolio of globally recognized brands, strong merchant and sourcing capabilities, deep retail relationships and a very healthy balance sheet. I believe these strengths position G-III to deliver significant value for our shareholders.

I'll now pass the call to Neal to discuss our financial results in more detail.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

Thank you, Morris. Net sales for the second quarter ended July 31, 2026 were $555 million, down 10% compared to $613 million in the same period last year. Net sales of our wholesale segment were $531 million, compared to $589 million in the previous year. The decrease was primarily due to the anticipated reductions in Calvin Klein and Tommy Hilfiger net sales partially offset by healthy growth in our go-forward portfolio. Net sales of our retail segment were $40 million for the second quarter compared to $41 million in the previous year second quarter, driven primarily by the transition of our G.H. Bass digital business to a licensee. Comparable store sales increased for Donna Karan and DKNY compared to the prior year.

Turning to gross margins. Second quarter gross margin was 45.2% compared to 40.8% in the previous year, an increase of approximately 440 basis points. Gross margin benefited from the continued mix shift to higher-margin owned brands as well as selective price increases. The wholesale segment's gross margin percentage was 43.3% compared to 38.9% in the previous year, reflecting pricing increases as well as the mix shift to higher margin owned brands. The gross margin percentage in our retail segment was 50.6% compared to 52.4% in the prior year, with the current quarter impacted by increased promotional activity.

SG&A expenses were $231 million in the second quarter, which is similar to the $227 million in the prior year after the exclusion of $4 million of expenses related to the Marc Jacobs acquisition. As expected, we saw expense deleverage as we continue to make investments in our people, technology and marketing offset in part by warehouse expense efficiencies as we began to see the benefit of our efforts to optimize capacity.

GAAP net income for the second quarter was $20.2 million or $0.46 per diluted share compared to $10.9 million or $0.25 per diluted share in the previous year. Non-GAAP net income for the second quarter was $11.5 million or $0.26 per diluted share compared to non-GAAP net income of $11.2 million or $0.25 per diluted share in last year's second quarter.

Turning to the balance sheet. We ended the second quarter in a strong financial position with $529 million in cash up from $302 million in the prior year. Our cash position benefited from the receipt of approximately $134 million in tariff refunds, including interest income during the second quarter. Our liquidity position remains very strong and we ended the second quarter with approximately $1 billion in available liquidity.

Inventories are healthy and are down 13% compared to the prior year. Subsequent to the quarter end, we funded the Marc Jacobs transaction with a combination of cash on hand and borrowings under our ABL. Following the close, our financial position remains very healthy with ample liquidity and significant financial flexibility.

Now, let me discuss our outlook. Our fiscal 2027 guidance excludes the financial impact of Marc Jacobs. For the full fiscal year 2027, we are reiterating our guidance for net sales of approximately $2.71 billion, down approximately 8% compared to the prior year. This reflects approximately $460 million of lost sales from Calvin Klein and Tommy Hilfiger products partially offset by the growth of our go-forward portfolio, which we continue to expect to grow high-single digits.

We are raising our guidance for non-GAAP net income to between $97 million and $101 million or between $2.20 and $2.30 per diluted share reflecting year-to-date results. Full year adjusted EBITDA is now expected to be between $174 million and $178 million. For the third quarter of fiscal 2027, we expect net sales of approximately $870 million compared to $989 million in the third quarter of fiscal 2026.

The comparison reflects the continued exit of the PVH licenses with the third quarter representing the largest year-over-year reduction in PVH revenues this fiscal year. We expect non-GAAP net income in the third quarter of between $59 million and $64 million or [ph] $1.34 (00:41:26) to $1.45 per diluted share. This compares to non-GAAP net income of $83.4 million or a $1.90 per diluted share for the third quarter of fiscal 2026.

Let me add some context around modeling. In terms of gross margin, we continue to expect close to 400 basis points of gross margin improvement for the year. The outlook reflects strong first half margin performance, price increases and the continued mix shift to higher margin owned brands. Our guidance assumes the tariffs for the remainder of the year will approximate current rates. As a reminder in the fourth quarter of fiscal 2026, SG&A included $17.5 million of bad debt expense, primarily related to the bankruptcy of Saks Global, which will not repeat this year.

On interest, we now expect net interest income on a non-GAAP basis of approximately $5 million for the full year. We are estimating our non-GAAP tax rate to be approximately 32.2% for the year. We expect capital expenditures to be approximately $40 million. Our guidance does not anticipate any additional share repurchases for the balance of fiscal 2027.

With respect to Marc Jacobs, as Morris mentioned, we expect slight dilution to G-III's forecasted earnings in fiscal 2027. We expect the acquisition will be dilutive for the first 12 months of ownership and accretive thereafter. Looking to next year, Marc Jacobs will be an important contributor to G-III's growth, reflecting a full year contribution from the business as well as the additional growth we expect, as we expand into categories such as ready-to-wear and others.

As you think about G-III's overall revenues in fiscal 2028. It is also important to remember that approximately $370 million of Calvin Klein and Tommy Hilfiger net sales we expect to generate this year will not recur into next year. Even with this transition, the underlying growth of our go-forward business together with the addition of Marc Jacobs, positions G-III well for the future.

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. I'm incredibly excited about the future of G-III and the opportunities ahead. I want to thank the entire G-III team for their hard work and dedication and warmly welcome the Marc Jacobs team to G-III. Operator, we're now ready to take some questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And our first question will be coming from the line of Bob Drbul of BTIG. Your line is open.

Robert Scott Drbul
Analyst, BTIG LLC

Q

Hi. Thanks. Good morning. I was wondering if you could expand a bit more just on the sales this quarter in terms of, how you felt about the progress, but also when you look at the reiteration of the sales for the second half, just like your comfort level around the sales outlook sort of wholesale specifically? And then can you expand with more performance in Europe, the declines that you saw in Europe and sort of how much that impacted this quarter and what your assumptions are in the back half? Thanks.

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

A

Thanks, Bob. Thanks for your question. The sales in the second quarter, although, we missed guidance by a little bit, there are so many factors that enter into our lives at the end of the quarter that are not necessarily negative long term. They're certainly not negative long term. There's a delivery delay caused by weather or container miss.

And we always – we're on such a tight timeframe with allocations from our retailers that it's hard to process, get everything in on time and occasionally, if we miss a container or two, it's not monumental as far as we're concerned. Generally it flows into the next quarter, which is why, you see no change in our – or a positive change in our fourth quarter year-end results. So we don't – although it is disappointing and everybody faces the same objectives.

We don't view this as a critical miss at all. It's not a miss. It's a shift into another quarter and literally it's a day or two away. There's a cutoff that's the midnight of the end of the quarter and the following day it's quite possible that we've made it up. So we don't dwell on a miss that is not pivotal for the company. It doesn't affect us. It does sometimes affect stock view. Unfortunately, we can't control that.

As far as the decline in Europe, traffic in Europe is down dramatically and the economics as we see and we all read the same papers. London goes through changes. Some of the important department stores are struggling in England. The important streets in London are garnering less traffic. The Middle East is not travelling to the extent that they have historically and promotional elements that impact our business.

We again – and on top of it, they probably have the warmest second quarter they've had in their history. I was in London during the early part of June – late part of May and June and there were record breaking days. Days that you really couldn't go out, which had impacted business dramatically as well. So there's an assortment of reasons I believe. I don't believe there is a result of mismanagement or misdirection of what we're accomplishing. Quite honestly, I like the product. I like the organization and the people that are challenged to grow the business in Europe.

I like them better every day. So to personally grade, what we're doing? I'd say, we get high marks. And we're even expanding on it. We believe that we can impact that business much more positively than we have historically. We grow as a percentage of sales every year. And that comes with a comfort level and a better understanding of geography that's relatively new to us. So we're comfortable with where Europe sits and what we can control to affect our business.

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

A

Bob, this is Neal. Just to add to that, in terms of comfort level with the rest of the year. Look, the wholesale drives our business. We've got a wholesale order book that's comparable to where we were last year in terms of forecasting. While we don't have the entire year completed, we're about 90% of an order book that's complete for the year. So that combined with the fact that the go-forward portfolio has been performing well. Performing well in retail. Performing well at wholesale. Both those things give us comfort with the balance of the year forecast.

Robert Scott Drbul
Analyst, BTIG LLC

Q

Thanks. Thanks, Neal. And I guess, can you also spend some time on the gross margin, I guess, tariff implications and sort of how you're utilizing them? But also just US wholesale, the promotional environment, what you're seeing and how back to school has trended so far for you guys? Thanks.

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

A

Yeah. Look tariffs hit us by really in a shocking way last year. I think we adjusted for them this year. We probably had the benefit in the early part of the year that there has not been increases from where we started. We still have some exposure to that as the rest of the year winds out. But we think that we've priced our product appropriately at this point.

And therefore we reflect a pretty significant increase in the gross margin percentage this year versus last year. That's probably our main driver. And, of course, as we shift to the more business into our go-forward portfolio that portfolio does have a higher gross margin percentage especially the owned businesses. And that's really kind of those – that combination is what drives this strong gross margin.

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

A

And Bob, as it relates to the promotional activity, as we stated, our business in full price retail is up with our owned brands over 20%. The promotional environment in department stores is not as aggressive as it's been historically. Natural margins seem to increase every year. There's better product. There's better care. There's better service. As we look at our department store landscape, investments in the last couple of years have been fairly aggressive to protect the integrity of product and better service the consumer. So the experience in department stores seems to have gotten much better in the last couple of years.

As far as the off-price channel. Again, we've seen some of the earnings releases of off-price retailers and they seem to be somewhat under pressure, which I don't understand the reason. The expectation is, as the consumers concerned about gas prices and housing, you would assume that, that business would be better, at least for the quarter. And that might be a result of weather where people are simply not going out. It could be a result of the World Cup. There are many factors that enter into it. So my money is on the fact that the off-price channel prospers. They're incredible on how they find solutions for their business. They find amazing product and they offer value to the consumer and I think there's a life for both.

Robert Scott Drbul
Analyst, BTIG LLC
Q

Great. And congratulations on the Marc Jacobs and closing that. And we look forward to hearing much more about it and seeing it in your portfolio.

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

Thank you, Bob. Thanks for your questions.

Operator: And our next question will be coming from the line of Ashley Owens of KeyBanc Capital Markets. Ashley, your line is open.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.
Q

Hi. Great. Thanks. Good morning. So maybe to start, appreciate the highlight here for some of the 3Q declines with the PVH pressure that will be occurring in the quarter. But are there any other nuances we should be aware of for 3Q, such as any headwinds embedded for further pressure in Europe? Any weather-related conservatism you may be factoring in with regards to outerwear? And then with 4Q, I think the guide implies low-single digit decline, so some decent improvement there from the third quarter. Is that primarily a function of some of the freight timing that you highlighted earlier?

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

So, let me answer your last question first. There are some unique situations as it relates to weather in transporting our containers. We seem to have some concerns, nothing that is critical today, but, could be a factor going forward. There are storms throughout our traffic routes and we look at it every day. We review where the miss might occur in delivering on time. And to date we seem to be okay, but we watch it very, very carefully.

Your question on weather, we're all also reading the fact that this could be an alert for an incredibly warm winter. Our business in outerwear is decreased. Today, it's barely north of – not that it's barely because it's a large business, it's a little more than 25% of our overall sales. And if you came to 10 years ago, I would have told you, it was 100% of our sales. So I guess, we've hedged our bet. We are a major factor in swimwear. We're one of the major factors of dresses. So, if there's a demand for swimwear any time of the year, we're in business. Dresses are less seasonal and offer less of a concern for us in a warm weather environment.

So, we're appropriately hedged. And the coats, in many ways, has become more of a fashion item than a weather item. Our outerwear is lighter and more fashionable and appropriate for wearing indoors than ever before. So I don't think there's a concern for the weather in our business. Should there be a storm and we're all locked down because of snow that would be a concern.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. Thank you. That's helpful.

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

Okay. Thank you, Ashley.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Just a follow-up. Sorry, really quickly, but maybe on Marc Jacobs, because you did provide, I think, some additional color on this call and just talking about that long term path to $1 billion in revenue, maybe a little bit more in detail. But what portion of the opportunity do you believe could be achieved through some of those broadening of categories in channels that exist today already versus entirely new product areas such as ready to wear? Thanks.

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

A

So, Ashley, there's nothing that's entirely new because Marc Jacobs has touched on all categories, but is not – the company is not focused on anything other than handbags, small leather goods and accessories. That's basically been their focus justified by the dominance they created in several handbags and their focus on retail. Their stores are relatively small. They have limited product categories. And we have a different headset. We have a template that has worked incredibly well for us, as you see with Karl Lagerfeld and DKNY and now Donna Karan.

And prior to that the monster that we built with Calvin Klein and Tommy Hilfiger that was virtually non-existent by creating classifications that have multiple exposures in department stores. We probably coined the classification categories for the department stores. They're highly profitable us, and they provide scale to our business. So that's sort of untouched with Marc Jacobs. That's the big opportunity. It takes a little bit of time to identify exactly where you want to be and what categories you want to launch first. And we're going through that as we speak. The doors were just open to us yesterday.

We've spent the greater part of, I guess the last three, four months negotiating with two partners, LVMH, who is now out of the mix and WHP and understanding our zone and explaining what we want to accomplish. And with not a lot of access to the existing strategy or the talent pool that LVMH has built. It is simply their way. We accepted it. Then we closed, respecting the desires or more so the demands of LVMH. And we're getting our arms wrapped around it as we speak. There was lanes that we understood clearly. And you'll be surprised as to how fast we create and ship product in classifications that were clear to us. We were under development of classifications before we even closed on the business.

So – and as I've said multiple times, the transition of the PVH assets afforded us some of the best talent in the world that sat in our organization that was going through transition into other areas of our business. So having the talent pool at G-III and adding this tremendous talent pool that exists at Marc Jacobs, I think we can do this transition relatively quickly and become a dominant player in all sectors of fashion, not only handbags and accessories. And beyond that, Marc is amazing as far as the media is concerned. Our commitment to – and what we've learned in the last few years about marketing and the results of great marketing, we're going to apply to Marc Jacobs as well.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, great. Thank you. Maybe just one final question here for me. One modeling clarification, but I think the language around tariffs this quarter was changed a little bit from assuming rates consistent with the prior i.e., the tariff. Last quarter assuming current rates, did the embedded tariff assumption actually changed within the model for the second half? Thank you.

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

A

Yeah. At this point, we did change internally and we are viewing the current tariffs as opposed in our modeling process.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, great. Thank you. I'll pass it on.

Operator: [Operator Instructions] And our next question will come from the line of Dana Telsey of Telsey Advisory Group. Your line is open.

Robert Rosenhaus
Analyst, Telsey Advisory Group LLC

Q

Yeah, hi. This is Rob on for Dana. Thanks for taking our question. I know you guys aren't go into any specifics on the Marc Jacobs acquisition, but I guess maybe higher level, if you could talk about some of the near-term opportunities you're seeing in the second half here or maybe some of the seasonality of the business that we should be mindful of? And then on the synergy side, anything immediate that comes to mind near-term that could help benefit both the brand and your current portfolio of brands? And how that will impact the overall margin profile of the portfolio going forward? Thanks.

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

A

So there are certainly synergies where – as I said before, the gates have just been opened. We know what we know quite honestly and how we can leverage our systems, our real estate, our talent pool into lesser efficiencies quite honestly that exist in Marc Jacobs. Marc Jacobs has been through a process where there have been many empty spaces. We don't have to hire for that. I don't believe, we have a lot of the spaces filled with the G-III talent pool. And beyond that we haven't really touched on what WHP and their licensing capabilities are.

We reviewed yesterday at and just post-closing all the opportunities that WHP has on their plate, which will be – which will provide income for G-III. There are licenses that are going to be signed relatively quickly. There are areas of the world that have been under-penetrated that will now be penetrated, whether it be through our offices or businesses that will oversee the segment of business for us through licensing and it's an exciting time for G-III and I believe for WHP as well.

And the executives of WHP and G-III, Jeff Goldfarb, traveled extensively to lay the groundwork down for our licensing. And I think that's a huge opportunity for us. So that's the reason for the investment. We could have sat by and been a licensee and paid a royalty. And we see great opportunity into the brand value of Marc Jacobs.

Robert Rosenhaus
Analyst, Telsey Advisory Group LLC

Q

Great. Thank you.

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

A

Thank you, Rob.

Operator: And I would now like to turn the call back to Morris for closing remarks.

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

Thank you all for listening to our story and stay tuned. Next quarter, we'll talk about what we've achieved with Marc Jacobs. Thank you.

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