10-Dec-2024

G-III Apparel Group Ltd. (GIII)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Robert Drbul
Analyst, Guggenheim Securities LLC

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Mauricio Serna
Analyst, UBS Securities LLC

Paul Kearney
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the G-III Apparel Group Third Quarter Fiscal 2025 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 speaker today, Neal Nackman, Chief Financial Officer. 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 guarantees, and actual results may differ materially from those expressed or implied in forward-looking statements. Important factors that could cause actual results of operations or the financial condition of the company to differ are discussed in the documents filed by the company with the SEC. The company undertakes no duty to update any forward-looking statements.

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

Morris Goldfarb

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

Thank you, Neal, and thank you, everyone for joining us. I'm very pleased with our strong third quarter results, with earnings above our expectations driven by growth of our key owned brands, DKNY, Karl Lagerfeld, Donna Karan and Vilebrequin, which collectively grew over 30%. Our teams continue to demonstrate strong execution despite a challenging consumer environment, unseasonable weather, and supply chain disruptions. In fact, in the US, September and October ranked as one of the warmest on record. Had the weather been in line with historical trends, we would have captured incremental sales in the third quarter, driving further earnings outperformance.

At the start of the fourth quarter, we experienced softer sales in cold weather categories. However, as temperatures have started to drop heading into the holiday selling period, we've seen notable improvements in selling throughout – across our brands and channels. This momentum was further amplified during the critical Black Friday period, with our products strongly resonating with consumers.

Our marketing investments have driven a significant increase in consumer engagement, as best seen in the boosted traffic to our owned North American direct-to-consumer stores and websites resulting in substantial growth in both conversion rates and overall sales. Our inventories are well-positioned to support holiday and early Spring demand. We remain cautiously optimistic about the remainder of the year, as reflected in our raised earnings per diluted share guidance.

It's been two years since the unexpected announcement of the upcoming expirations of our PVH licenses. At that time, those two brands represented approximately 50% of our revenue. We immediately set out to accelerate our long-term strategies and have made significant progress in transforming our business model. The plans we laid out are working. Our key owned brands, DKNY, Karl Lagerfeld, Donna Karan and Vilebrequin, collectively grew over 30% this quarter.

We're building our complementary licensed portfolio to further diversify our business. We continue to navigate the ever changing retail environment as we gain market share across channels. International expansion remains a top priority as we continue to build our operational platform in Europe, complemented by our partnership with AWWG. Calvin Klein and Tommy Hilfiger continue to deliver strong profitability despite the challenges of the transition. And for this fiscal year, the sales penetration of PVH brands is expected to be down to nearly 30%.

I'm proud of what we've accomplished together. This transformation was a call to action, and not only has our team risen to the challenge, but we're delivering beyond our expectations. I want to thank our entire organization for helping to shape the future of G-III.

Now, let us review the financial results for the first – third quarter of fiscal 2025. Our GAAP non-GAAP earnings per diluted share was $2.59 and significantly above our expectations, driven by gross margin outperformance and lower than planned expenses. Gross margins for the quarter were better than anticipated, driven by greater penetration of our higher margin owned brands. Net sales for the quarter were $1.09 billion, generally in line with our expectations. Our inventory remains in good position, down approximately 10% from last year, third quarter.

Now, let us review the progress we've made in our strategic priorities, which include driving growth of our owned brands, building a complementary portfolio of licensed brands, expanding our global reach, and bringing our North American retail segment to profitability. As we continue transforming our business model, we're constantly evaluating our infrastructure and our warehousing footprint to drive greater efficiencies. Additionally, we're investing in enhancing our technology landscape while assessing regional competencies to allocate resources to support business growth.

This year, our existing team, combined with investments in talent, enabled us to develop and launch four new brands. As these new brands scale and our business model evolves, we remain focused on refining processes, optimizing operations, and capturing additional efficiencies to drive cost savings.

Throughout G-III's history, we've adapted to sourcing strategies in multiple countries across the globe in order to bring the highest-quality product at the most advantageous cost with on time deliveries to our customers. This approach has enabled us to build a highly agile sourcing and supply chain network while skillfully diversifying our vendor base, ensuring no material dependence on a single partner or region.

We've significantly reduced our China production from what was at one point 80% several years ago, down to just over 30% today. And excluding outerwear, the China penetration would be just over 20%. Should the potential for tariffs become a more prominent issue, we're confident in our ability and our adaptability to respond quickly in order to mitigate risks, as we've done in the past.

Capturing the long-term potential of our owned brands is one of our top priorities. With full control over design, production, global distribution, and marketing, these brands represent an important and sustainable long-term profit driver, generating higher operating margins and providing an accretive licensing income stream.

As previously mentioned, we made outside investments in marketing this year to support the launch of Donna Karan and further drive brand engagement for DKNY. With an emphasis on campaign content, including talent and featured product, our investments are directed from top of funnel marketing to social media to SEO, all to better align with our product as it hits retailers' floors.

Additionally, we're working more closely with our licensees to coordinate our marketing efforts and further amplify their impact and reach. We continue to see these investment results in the outside – outsized growth of our brands. Our key owned brands, DKNY, Karl Lagerfeld, Donna Karan and Vilebrequin, along with the rest of our go-forward portfolio, generated approximately $1.8 billion in net sales last year and are expected to grow strong double-digits this year. And together with our new launches, we see over $5 billion in long-term net sales potential.

I will now walk you through some of the brand highlights from the quarter. Donna Karan offers a modern system of dressing, serving the needs of women in search of sophisticated product. We meticulously analyze thousands of archival looks and vintage details to craft a collection that honors the legacy and essence of Donna Karan. Every element, from the refined jewelry like hardware to the contemporary design touches, reflects a seamless blend of heritage and modernity to meet the demands of today's consumer.

Donna Karan delivered another standout quarter. On a year-to-date basis, retail sales have exceeded our expectations by double-digits, while driving some of the highest AURs and sell-throughs across our portfolio. Our elevated product is resonating with consumers and generating healthy profitability for both our retailers and G-III. Our retail partners expanded floor space and doors in the Fall and have allocated further expansion for Spring 2025. Our Spring launch in North America spanned across 900 points of sale, which grew to 1,200 in the Fall, and is expected to reach over 1,600 in Spring of 2025.

In addition, our digital business is performing incredibly well, with particular strength on donnakaran.com, which has significantly outpaced our internal expectations. The successful reintroduction of Donna Karan is a testament to the brand's enduring legacy and a beacon of sophistication for all women. Our powerful Fall campaign, Reflections on Women, featuring a group of eight iconic models, delivered major brand awareness globally, as well as demand for celebrity styling, including Kelsea Ballerini, Kaia Gerber, and Kate Hudson, among others, all of which resulted in significant earned media value.

Alongside our launch, our fragrance partner, Inter Parfums, unveiled the new Donna Karan Cashmere Collection. This collection of four new fragrances is off to a solid start, and was just awarded this year's Best Fragrance Collection at the Marie Claire US Fragrance Awards. A new scent is planned to be released next year.

For the holiday season, we expanded our social dresses and handbags collection and added new elevated layering pieces, all of which are seeing strong sell-throughs while driving AURs even higher. For example, AURs in social dresses are approximately 50% higher than our other brands.

In support of these product initiatives, our digital marketing content is keeping the brand top of mind and driving demand during the important holiday shopping season. Notably, given this was just the North American launch, the strong sales performance, product resonance, and marketing impact give us confidence in a significant global expansion opportunity. We continue to expect over $1 billion in annual net sales potential for Donna Karan in the long term.

DKNY draws inspiration from the energy and attitude of New York, and offers a modern wardrobe designed to seamlessly transition from day to night, appealing to younger consumers seeking contemporary, stylish pieces. The brand delivered another strong quarter, with sales increasing over 30%, driven by North America.

Retailers are expanding floor space across key categories, with over 700 new points of sale added in the Fall. Our owned North American direct-to-consumer business is benefiting from our recently implemented turnaround initiatives, which drove solid comp increases in line with the brand's sales growth this quarter.

We're leveraging unique partnerships and brand-building experiences to help deepen our connection with the consumer and fuel continued desire for the brand. In partnership with Kaia Gerber, we launched our Fall New York Stories campaign with book activations across New York City, London, and Milan during each city's Fashion Week.

The Fall campaign captured the attention of global audiences garnering significant press attention and social engagement, while helping us tap a younger consumer segment. Further, a prominently featured DKNY billboard at Yankee Stadium surpassed our expectations, enhancing the brand's visibility as the team made it all the way through the World Series. The Fall marketing campaign, combined with our Yankees partnership brought the full lifestyle appeal of DKNY to life, delivering an impressive earned media value.

The global launch of our new DKNY 24/7 fragrance in the Fall aligned well with the timing of our Fall marketing campaign. The fragrance launched in over 35 countries and was backed by robust marketing around the world with an emphasis on key markets including the US, Germany, UK, Spain, and travel retail. The new fragrance was advertised across large outposts in over 100 key points of sale and prominently displayed in travel retail locations, including 70 screens at the Madrid Airport.

Perhaps most exciting was the extensive takeover of multiple high traffic subway stops in Madrid, which were wrapped wall to wall with fragrance campaign – with our fragrance campaign. All of these efforts were capped off with a splashy launch event. The fragrance is off to a good start and Inter Parfums is expanding geographic distribution to new markets. Partnerships like this help expand the brand's global reach to a broader consumer across additional lifestyle categories.

We believe there is significant runway ahead for DKNY as we further enhance our lifestyle product assortment, drive consumer engagement, and fuel brand heat around the world. We expect further growth to be driven by continued momentum in North America as we extend our relationship with key retail partners, expansion into new geographies, and increased engagement across a wider consumer audience. We're in the early stages [ph] of boom (00:17:53) – of international expansion and continue to expect over $1 billion in annual net sales potential for DKNY in the mid-term.

Karl Lagerfeld, an iconic name in fashion, captures the essence of its namesake designer's timeless aesthetic seamlessly blended with a contemporary forward-thinking spirit. The collection showcases Parisian-inspired classics infused with a rock chic attitude delivering a bold take on high fashion. In North America, Karl Lagerfeld delivered another impressive quarter with sales growing over 30% to last year, also driven by continued momentum in North American wholesale.

Our expanded lifestyle offering contributed to the addition of nearly 600 points of sale for a total of over 3,000 across North America. Our owned North American direct-to-consumer business is seeing sequential improvement with the stores delivering double-digit comp sales growth and the website continuing to outperform with comp sales nearly doubling over last year. Internationally, Karl Lagerfeld continues to gain momentum and relevance in overseas markets as we expand distribution through new store openings and new geographies, as well as introduce additional lifestyle categories.

Since the acquisition, the Karl Lagerfeld men's business has grown substantially, serving as a nice complement to our women's business and offering additional growth avenue for us to lean on. Our men's product is resonating with the consumer and driving a nice lift to sales. Last year, our men's business represented approximately 17% of the brand's international sales, and we expect it'll grow to over 20% this year with continued momentum into next year.

In the Fall, we launched our new KL Studio Collection featuring premium products showcased in our retail stores, as well as pop-ups in renowned European department stores. The collection drove significant press attention and engagement and has been well received by international customers. While the line is narrow and distribution is limited, collections like this help reinforce the powerful brand halo and ignite fashion excitement.

Our newly launched Karl Lagerfeld premium jeans line further extends the brand's offering, featuring a full product assortment to complement the denim lifestyle. In its second year, this line delivered solid growth in the quarter and we're focused on expanding our presence online by working with our digital pure play partners to make the full jeans line accessible to a broader consumer.

Karl Lagerfeld saw strengthening sell-throughs coming out of Summer into the Fall season. As we look to next year, the Spring 2025 order book in Europe tracked well ahead of plan and we expect to be well-positioned for next Fall. Momentum in North America demonstrates the brand's substantial opportunity to unlock future sales in international markets. We expect over $1 billion in annual net sales potential for Karl Lagerfeld globally.

Vilebrequin, our status swimwear brand, cultivates a spirit of refinement and fantasy with perfectly tailored and always-in-style product for a top-tier clientele. The brand continues to demonstrate powerful global brand awareness and engagement while building on its status appeal through enhanced experiences and premium lifestyle product that meet the needs of our aspirational customer.

We're navigating the challenging environment with retail softness impacting sales in the quarter, particularly in France, one of our largest markets, partially offset by stronger sell-throughs in digital. We're driving further brand desirability and are seeing strong demand for premium products such as our embroidered swimwear line. Expansion of our lifestyle offerings through new licenses and collaborations further diversify our product mix and create memorable brand experience for our customers. As an extension to our hospitality business and inspired by our beach club concept, we're building a new line of outdoor furniture with a partner that will launch on our site Summer of 2025.

Over the past few months, we've expanded Vilebrequin's retail store footprint with four new locations in Macau, the US, and Brazil. We opened our first ever flagship store and beach club in Cannes; and our second beach club, operated by our partner, just opened in the St. Regis Hotel in Doha, Qatar. Our Miami Beach rooftop restaurant will open next, with several other projects in the pipeline for 2025 and beyond. We're on track to open approximately 15 partner-operated beach club concepts by the end of 2027. These clubs, along with our expanding store footprint, underpins our confidence in the long-term global expansion opportunity.

Our next strategic priority is to further buildout our complementary portfolio of licensed brands. We're thoughtful in our approach to partnering with brands, ensuring that each new brand complements our existing portfolio while offering unique propositions that further bolster our business. We seek brands that offer a differentiated range of lifestyle product with varying aesthetics that further diversify distribution across channels and geographies and appeal to a broad range of consumers.

Importantly, licensed brands are also a capital lightweight to grow our business and leverage our powerful corporate foundation. This foundation includes our experienced management team, best-in-class merchant expertise, dominance across a range of lifestyle categories, a well-developed global sourcing and supply chain infrastructure, and our strong relationships with retailers across a diversified distribution network.

The licensed team sports business is [ph] experiencing (00:25:18) a strong year of growth. We have successfully renewed our NFL license and secured expanded rights for distribution of select product categories within big box retailers like Walmart, Target, and Meijer.

This Spring, we will further expand our reach by distributing select product through the club channel. The Detroit Lions' recent success has been a positive driver for business, especially in their home markets where we've increased – where we've seen increased opportunities. We anticipate continued growth in this business moving forward. This year, our team has brought three differentiated brands, Nautica, Halston, as well as Champion outerwear, to the market in record time.

Nautica offers iconic modern and nautically inspired designs with a casual fit, feel, and function. We launched Nautica Jeans this Spring, which already replaced the sales of our Tommy Jeans business we exited last year. We plan to expand the brand's distribution, as well as introduce additional categories over the course of this multi-year license.

This quarter, we launched Halston and Champion outerwear, both of which performed as expected for their first season. Halston's simple and classic elegance offers an easy, modern approach to aspirational style. While Champion, a brand borne from sport, offers iconic athletic apparel with a strong appeal amongst the younger customer.

Last quarter, we announced our newest global licensing agreement with Converse, Inc. for men's and women's apparel. Owned by Nike, Converse is an iconic American youth lifestyle brand with global recognition and a long-standing legacy across multiple sports and creative communities that meets the ever-shifting demands of the younger consumer. The brand allows us to extend our active lifestyle offerings beyond our team sports business and with product that is differentiated from our fashion brands.

It also enables us to sell across multiple tiers of distribution, including big box, better department stores, sports retail and sporting goods stores. And with certain rights to distribute the brand globally, we see a tremendous growth runway ahead. We're excited to see the product we've designed come to life. We will continue to seek opportunities to work with brands that further complement our portfolio as we drive our vision forward and evolve for the future.

G-III has a proven track record of growing potential brands into significant businesses, as demonstrated by our success with Calvin Klein and Tommy Hilfiger. Before we assumed the licenses for both brands, their women's business in North America wholesale was virtually non-existent. We singlehandedly built the women's lifestyle categories for these brands and grew these businesses to a combined $1.5 billion at their peak. As we transition out Calvin Klein and Tommy Hilfiger businesses back to PVH, we're working aggressively with our retailers to maintain budgets and shelf space in order to maximize the potential of these brands under G-III as PVH builds their Spring 2025 order book and their plans for the future.

Expanding our global reach, our brands outside of North America remains one of our largest opportunities over the near and long term. Vilebrequin, along with our acquisition of Karl Lagerfeld, has helped accelerate our international presence. We're in the early stages of global expansion for DKNY, and just beginning with Donna Karan. Importantly, most of our newly added licenses, including Converse, Nautica, and Halston, provide an opportunity for international distribution. We continue to actively invest in and build upon our capabilities to support our international business.

Our partnership with AWWG is in its early stages as we work to unlock synergies between our companies. In fiscal 2024, just over 20% of our sales were from outside the United States. With our go-forward portfolio of owned and licensed brands, we see significant untapped potential to scale globally.

In conclusion, we delivered a strong third quarter with earnings per diluted share exceeding our expectations while making strategic investments in our brands and business. Looking at the remainder of the year, we remain cautiously optimistic as the power of our transforming business model, driven by our owned brands, is delivering margin expansion and bottom line outperformance.

However, we remain grounded in the realities of the current macroeconomic and consumer environment, as well as the unseasonable weather during the first month of our fourth quarter. For fiscal 2025, we're updating our net sales guidance to $3.15 billion, and importantly raising our full year non-GAAP earnings per diluted share guidance to be in the range of $4.10 to $4.20. This raised guidance reflects our significant third quarter earnings outperformance and commitment to driving long-term sustainable growth and shareholder value as we make progress on our strategic initiatives.

Our proven track record of success and our strong balance sheet gives us ample flexibility to invest in long-term opportunities to expand our business. The plans we've laid out over the past two years are working. We've done a great job improving what we own, building on our infrastructure, cutting the North American retail segment losses by more than half, and adding what we need for the future. The new G-III is already stronger and better than ever before.

I'll now pass the call to Neal for a discussion of our third quarter, as well as our fiscal 2025 outlook.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

Thank you, Morris. Net sales for the third quarter ended October 31, 2024 were $1.09 billion compared to $1.07 billion in the same period last year and in line with our expectations. Net sales of our wholesale segment were $1.07 billion driven by strong growth of our owned brands in North America, offset by a decline in Calvin Klein and Tommy Hilfiger businesses. This compares to $1.05 billion in the previous year.

Net sales of our retail segment were $42 million for the quarter, compared to net sales of $33 million in the previous year's third quarter. This increase was driven by strong double-digit comp sales increases in the quarter, despite the closing of seven stores. We are pleased with the progress we are making in our retail segment transformation since the recently implemented management, footprint, merchandising, and brand experience changes.

Our gross margin percentage was 39.8% in the third quarter of fiscal 2025 compared to 40.6% in fiscal 2024. The wholesale segment's gross margin percentage was 38.4% compared to 39.6% in the previous year's third quarter. As anticipated, gross margins were lower than last year due to a mix of programs, including a greater concentration of sales of our licensed brands. However, gross margins in the third quarter of fiscal 2025 were slightly better than our expectations. Gross margin percentage in our retail operations segment was 52.3%, compared to 49.1% in the prior year, driven by the positive impact of all merchandising changes.

Non-GAAP SG&A expenses were $259 million, compared to $234 million in the previous year's quarter. As you'll recall, we had guided a higher investment in expenses for this year primarily associated with the marketing for Donna Karan and DKNY and the expansion of our operational capabilities through talent and technology investments. The marketing expenses were weighted to the first and third quarters, in line with the Spring and Fall marketing campaigns. Non-GAAP net income for the third quarter was $116.3 million or $2.59 per diluted share, compared to $129.6 million or $2.78 per diluted share in the previous year's third quarter. These results were significantly better than our expectations.

Turning to the balance sheet, inventory levels remain in good shape. Inventory decreased 10% to $532 million at the end of the quarter from last year's $592 million. Our inventory is well-positioned to meet our holiday and early Spring orders. We ended the quarter in a net debt position of $119 million, compared to a net debt position of $265 million in the previous year. This improvement is after our investment of approximately $80 million in AWWG and approximately $60 million in stock repurchases. We have had good cash flow from operations and reduced inventory levels.

This quarter, we retired our $400-million 2025 senior secured notes. After this repayment, the only outstanding debt is primarily seasonal borrowings under our revolving credit facility. We have a strong financial and liquidity position, which provides us with the flexibility to make investments to drive our business, as well as return capital to shareholders.

Furthermore, we have a solid credit profile which provides us ample optionality to make additional investments by accessing the capital markets. As for our outlook, we are pleased with our third quarter results. We remain cautiously optimistic about the remainder of the fiscal year. Our current outlook for fiscal 2025 contemplates the challenging consumer environment and unseasonable weather.

For the full fiscal year 2025, we are now expecting net sales of approximately $3.15 billion, representing approximately 2% growth to the previous year's net sales, driven by growth of our owned brands and the launches of our new initiatives, which more than offset the decline of approximately $200 million in net sales this year of the Calvin Klein and Tommy Hilfiger brands, as we transition out of those licenses. For fiscal 2025, we continue to anticipate sales of our go-forward portfolio to approach approximately 70% of our total net sales.

Importantly, on a non-GAAP basis, we are raising our outlook and now expect net income for fiscal 2025 to be between $186 million and $191 million or between $4.10 and $4.20 per diluted share. This compares to non-GAAP net income of $190 million or $4.04 per diluted share for fiscal 2024. Fiscal 2025 adjusted EBITDA is expected to be between $309 million and $314 million, compared to adjusted EBITDA of $324 million in fiscal 2024. As previously mentioned, we expect incremental expenses of approximately $55 million primarily related to marketing expenses to support the launch of Donna Karan and further drive brand engagement for DKNY, as well as investments in talent and technology to expand our operational capabilities.

Let me provide some additional context around modeling. As we have previously mentioned, we continue to expect fourth quarter gross margins to be up to last year. We now expect to end fiscal 2025 with gross margin rate expansion reflecting the outperformance of our owned brands.

Regarding SG&A, for the fourth quarter of fiscal 2025, we expect the SG&A dollars to increase by approximately the same dollar amount as the increases in the third quarter. Non-GAAP interest expense is expected to be approximately $19 million for the full year. We continue to expect capital expenditures of approximately $50 million. This is higher than our spend in previous years, principally driven by the buildout of shop and shops through our new brand launches and new technology to support our business. We are estimating a tax rate of 28.5% for fiscal 2025. We have not anticipated any future potential share repurchases in our guidance.

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

Morris Goldfarb

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

Thank you, Neal, and thank you all for joining us today. I'm proud of our team's work this quarter, and I'm confident in G-III's future as a global leader in fashion. I would also like to thank our entire organization, our many partners, and all our stakeholders for their support.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment while we compile our Q&A roster. Our first question is going to come from the line of Bob Drbul with Guggenheim. Your line is open. Please go ahead.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Hi. Good morning. It's impressive to see in the outlook increase in light of the environment. Can you talk a bit more just about the third quarter outperformance and maybe just walk us through the puts and the takes for the remainder of the year?

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

A

So, our third quarter shined fairly nicely in spite of some warm weather. And quite honestly, toward the end, we were a little bit disappointed. We thought we could drive even more business in the third quarter. We left a little bit on the table because of logistical issues. Although the port strike lasted for a bear moment, that bear moment probably cost us $20 million to $30 million in shipping. It was all ready to go, containers were ready to be picked up. So, we kind of slipped for that – for Q3.

And the follow-up question might be, did it go into Q4? Part of it did, most of it did. And Q4 is shaping up nicely where our sales for the last ten days have been very good. The weather is broken. Our outerwear sales are good. Reorders in pretty much every classification of product. Our handbag business opened up a little bit. Our footwear business is good. Our sportswear business is good. So, it's all done. It's all beginning to shine.

The Q3 sell-throughs, go back to Q3 for a minute, we're good. We did amazingly well in our owned retail. Historically, we've struggled and – in our owned retail and we're close to – this year, we're planned on being pretty close to breakeven. And next year, for the first time in a decade, we will be profitable in owned retail, shrinking it to an appropriate size, and now evaluating how we now grow it to something significant in our world.

So, Q3 was a great learning period for us. We had new initiatives. We launched – early in the year, we launched Donna Karan, and Q3 was great for Donna Karan. We did a little bit of shipping for Champion for the first time, that worked out well. And we've developed – now, we have a developed line pretty much ready to go for Converse. So, we don't expect very much out of Converse until Spring of 2025, but we're all geared to go.

And I think it all began in – the energy was all kind of put in place in Q3. We're working very hard to replace the sales of what we're giving up. We should cite as well the fact that we gave back Guess as a license, which is approximately $60 million in annual sales that we don't get go-forward. We lose a little bit in Q3 and in Q4 shipping if you look at Guess. We've brought down our Calvin business or the retailers have brought down the scale of that business by a couple of hundred million bucks, and we've compensated for it. So, I'd say we've done better than what you might even see. So, little worry to your question, Bob. I apologize if I've left anything out. Give me a follow-up.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Fair enough. I think that's good. I mean, on the Converse side, just the timing of when that is shipped, when you start the ship? And then, I guess the other piece on there, Neal, the EPS bridge sort of Q3, Q4, the updated guidance, can you just give us a little more just around some of the puts and takes there?

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

A

So, let me start with the Converse piece. Converse will have touches of product going out in Spring. We'll have pretty good penetration globally, hopefully globally, for Fall of 2025. We're putting our distributors in place. We're opening regional offices. We've got an amazing talent pool that was put together that's very much experienced in this sector. And we've got great support from the Converse team.

This was not a license we assumed from another licensee, this was owned and operated by Converse. And they saw us as a suitable partner to build their – the men's and women's business globally. So, we're excited by the partnership. And this is – we believe this is scalable. The opportunities they've put on the table for us are impressive. So, that's the Converse piece of it.

Neal, the response?

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

A

Yeah, Bob. So, in terms of the puts and takes between Q3 and Q4 and just bridging you on EPS, so let's start at the top line. I guess, compared to where we were before, we're probably about $15 million off in our model on the third quarter, about $35 million off in the fourth quarter. The real story there is outerwear, plain and simple. The other categories are performing reasonably well. We did see some unusually warm weather, that certainly hurt us in addition to the supply chain issues that Morris was talking about. And while it's broken now, right now, we feel we've got a reasonable feel for what's going to happen in the fourth quarter.

In terms of going back to the third quarter, very strong performance in the bottom line despite being slightly off on the top. Gross margin percentage came in stronger than we expected. Our SG&A, we continue to manage very prudently, so we've got some nice efficiencies in our warehouse that help a little bit to our low inventory levels. We did have a small amount of advertising spend that probably slipped from Q3 into Q4's period, but a very strong performance overall with respect to Q3 results. And that really leads us into a very strong performance for Q4 results.

So, despite taking down top line sales, we're still looking for 6% top line growth in the fourth quarter. We're looking for over 25% EPS growth. So, we fine tune what we expect our gross margin percentages to be in the fourth quarter. Those are up strong and nice. And we continue to monitor our SG&A [ph] position judiciously (00:47:39).

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Thank you very much. Good luck.

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

A

Thank you for your questions, Bob.

Operator: Thank you. And one moment, as we move on to our next question. And our next question's going to come from the line of Ashley Owens with KeyBanc Capital Markets. Your line is open. Please go ahead.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks and good morning. Just wanted to keep on the subject of gross margin really quickly, with it expected to be up in the fourth quarter. Can you just talked about the magnitude of expansion, puts and takes there, and then just some insight into how holiday promotions are panning out relative to your expectations, let's say, three months ago?

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

A

Yeah. So, look, we know and expect that as we shift to our owned brands, we don't pay a royalty on those brand, we've got the ability to generate licensing income, we've got a wider penetration – distribution network, and we expect to have higher gross margin percentages as a result of that shift. We've been seeing that this year. Freight increases have been moderate, that's been helpful.

So, overall, we're really kind of a little bit ahead of where we had expected to be in the early part of the year. With respect to promotionality, there – it's been out there, it has not been very extreme in our businesses, it is something that we build into our process, and we really haven't seen any extreme pressures beyond what we have anticipated.

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

A

The retailer is not promoting aggressively. I think the consumer is out there buying. It's not – there's nothing unique that has gone on. Conversely, it appears that margins aren't the issue. There's – it doesn't appear that there is dumping throughout the world or through the fashion community. We certainly [ph] aren't (00:49:34) promoting heavily to move our product, there's no need to. And the retailers overall are in check, they're doing seasonal promotions that are not abnormal.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Great.

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

A

Thank you, Ashley. Thank – go ahead.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Yes, just one more on bigger picture. Sorry. So, bottom line [ph] just growing (00:49:57) slightly above the projected sales growth for this year. Obviously, last year, you had significant margin expansion and bottom-line growth flow-through. Would just be curious to gauge your confidence levels in the bottom line momentum next year, should the growth continue to outpace the sales line, and then any buckets of opportunity you've identified for additional leverage going into next year?

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

Yeah. So, look, a little bit too early for us to give you the specifics on next year, but we're very bullish about what's going on in our business. We're very bullish about how our brands are performing, very excited about the new launches for the new – for all the new brands that Morris was discussing.

I think in terms of where we land from a gross margin standpoint. Again, the shift to our owned brands continues to be a positive lever. We're now launching a few launches – licensed businesses. Those, obviously, I think perform at about the same levels that we would have been in our portfolio before.

In terms of leveraging on SG&A, we did have the big spend this year on advertising. I think that sets a good baseline for us. I think, prospectively, we've got some new businesses that we're still launching. So, we'll look into the advertising spend for those, but we'll certainly start to lever the base of a higher level of spending on the Donna Karan and DKNY business as we continue to see sales grow from those two brands.

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

Thank you, Ashley.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc. Q

Okay. Great. I'll pass it on. Thank you.

Operator: Thank you. One moment as we move on to our next question. Our next question's going to come from the line of Mauricio Serna with UBS. Your line is open. Please go ahead.

Mauricio Serna
Analyst, UBS Securities LLC Q

Hi. Good morning. Thanks for taking my question. I just wanted to get a little bit more details on the Donna Karan brand and Nautica, but mainly Donna Karan since it's one of the biggest launches you've had in a while. Maybe could you tell us more about like how should we think about the contribution of that brand to this year's revenues?

And then, on the gross margin, it was nice to see the outperformance. I remember like the guidance called for some contraction because of the shift within brands, but just wanted to understand what was really, like even stepping – taking a step back, what drove the outperformance in Q3? If it was just like healthier margins on brands in a like-for-like basis? And as we think about 2024, is it – sorry, fiscal year 2026, calendar year 2025, is it fair to assume like gross margin could continue expanding just on a revenue mix – or on a brand mix shift? Thank you.

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

So, thank you for your question, Mauricio. The Donna Karan launch was perfectly executed. The marketing married incredibly well with the product mix. The talent pools that we have at G-III, as their time was beginning to open up with the elimination of some of the categories for PVH, there was the ability to focus and study the archives of Donna Karan carefully and bring them to an affordable price point at least affordable for where we were positioning it. Although elevated, it's a surprise to most women walking into the store to see a Donna Karan dress or sportswear or a sweater or a handbag or a pair of shoes at the price point that we're putting it out. Although 50% higher in most categories than our other brands, it's an absolute bargain. So, we make friends with the consumer, we made friends with the retailer, and we were quite happy with the margins that it provided us.

So – and what – now that we're more entrenched in it, there's an amazing amount that you learn as you launch a brand. There is some product that's better than others, some colors that shine, some prints that are worthy of further development. And you begin to eliminate the lesser performing areas. So, you can only expect better from what we've put out with Donna, it's – we should be going through a major growth period. Every retailer that has bought the product has expanded their door count, expanded categories. And let's use the term of quality of sales, the quality of sales is absolutely up there. There's careful distribution, careful analysis of price points, and continued marketing to support the needs of the brand. So, we're very, very excited by it.

And you brought out Halston, when we took on Halston from ABG, who's basically an IP company, we needed Halston as a possible replacement for Tommy Hilfiger as elements of Tommy fade off. As categories slip, we'll tuck in Nautica to try to replace some of the Tommy business. We've done it effectively on the jeans side, as we gave back Tommy Jeans. We more than replaced the scale of the Tommy Jeans business utilizing Nautica. It speaks a lot to the power of the company managing the brand. It's not always the brand, it's the management team – that management, design, and care and integrity that really is the guardian of the brand. So, I'd say we did a great job with Nautica, and we continue to believe that a good deal of what we would give back with two PVH with Tommy can be replaced with Nautica and maybe a couple of other brands.

So, scale of business seems to be consistent with consideration for some of the givebacks we're evaluating, and this is – a lot of this has to do with really the retailer's view. We're not vertical on our businesses. We have a high dependency on department store cooperation, on budgets and space. So, we work hard at retaining space and expanding space with new brands. It's not an easy period for G-III. Everybody's on a full-time vocation of making it work in all facets.

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

And just to follow-up a little bit, Mauricio, on your question as far as the financial contribution, I think, look at what we've accomplished this year, we've got improving gross margins for the year. As I just said before, it certainly is possible for us to continue that. It's going to be a function of how those – that – our owned businesses mix with the licenses that the new licensed businesses that we're launching. And the current year, we got an SG&A spend that was rather unusual. So, I think if you strip that out, we're really very pleased with the performance, not to mention that our retail performance has also now improved as well, which just gives us an additional arrow in the quiver for the future.

Mauricio Serna
Analyst, UBS Securities LLC
Q

Got it. Understood.

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

Thank you.

Mauricio Serna
Analyst, UBS Securities LLC
Q

Thank you so much.

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

Thank you, Mauricio.

Mauricio Serna
Analyst, UBS Securities LLC
Q

Congratulations.

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

Thank you.

Operator: Thank you. And one moment as we move on to our next question. And our last question is going to come from the line of Paul Kearney with Barclays. Your line is open. Please go ahead.

Paul Kearney
Analyst, Barclays Capital, Inc.
Q

Hi. Good morning. Thanks for taking my question. Can you speak to the current inventory position of the go-forward portfolio compared to the total? And on the 30% exposure to China manufacturing, how much lower do you think that can go, and how quickly? And if you could provide any thoughts on how you're planning inventory for next year, if tariffs become more of a reality, do you anticipate the need to potentially bring inventory in early? Thank you.

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

So, thank you for your question, Paul. It's a good one. It's an unknown, quite honestly. But, I would say, we're as prepared as anybody is to bring down the scale of our business in China or whatever country that aggressive tariffs are imposed that are not manageable for us. And we've done it before. You might be aware but we come from a factory-based, not really a design-based company. The founder of the company was an entrepreneur who was an immigrant. It wasn't about fashion for him, it was about his ability to his need to make money.

So, he built a factory, produced product in New York City, of all places. And when I joined his company, it was my dad, we were all about New York City, everything was produced here on the West Side. And as time evolved, fashion brought us to South Korea. We brought our entire business basically to South Korea. From South Korea, we went to Indonesia. We were in Mongolia. And today our home office is in Northern China, overseen by a gentleman that's been with the company for over 30 years. And we're very flexible.

If we were – if there was a need to move out of China to Caribbean-based countries, we have a footprint there. We're in Jordan. We're – basically, anywhere there's a sewing machine, you'll find our presence. And we have a team of people that have been with the company, the leadership in China has been with the company for – since 1984, most of them. And they're very, very flexible. They're [ph] very company (01:00:58). They're not suit and tie. They're boots on the ground. And where do we go next, and what do we need to do? So, I think that's about as secure as I can be.

I believe that that's a major advantage for our company in the competitive landscape. I don't think anybody can do it better than we can. It's not something we look forward to, but it's something that I believe we can manage. And as I said in the script, we were 80-some-odd percent China several years ago, brought down to 30%. And if you eliminate our coat business from China, we're at about 20%. So, I would say, it wouldn't take us very long to accommodate what is thrown at us through tariffs and political strife. On the...

Neal Nackman — A

Chief Financial Officer, G-III Apparel Group Ltd.

Yeah, just in terms of inventory levels compared to where they've been and the go-forward brands and the non-go-forward, the inventory levels are in excellent shape. That's across the portfolio. I think prospectively, we would expect not [ph] the size (01:02:15) decreases that you've seen for the first three quarters, we're probably more in line with future sales growth prospectively.

Paul Kearney — Q

Analyst, Barclays Capital, Inc.

Thank you very much. Happy holiday.

Morris Goldfarb — A

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

Thank you, Paul. Thank you for your question.

Operator: Thank you. And I would now like to hand the conference back over to Morris Goldfarb for any further closing remarks.

Morris Goldfarb

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

Thank you for – thank you all for your interest, your support. And we wish you an amazing holiday season. Thank you very much.

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