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G-III Apparel Group Ltd. (GIII)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the G-III Apparel Group's Second Quarter Fiscal 2023 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, CFO, Neal Nackman. Please go ahead.

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

Thank you. Good morning and thanks 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. Also disclosed in our press release for your reference are last year's GAAP to non-GAAP results by quarter.

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, everybody, for joining us. In the second quarter, we saw a strong demand for our brands and met our top line expectations. We continue to manage the business prudently with a keen eye towards gaining market share and building on our strengths while further expanding our global reach.

We remain confident in our strategy as the overall fundamentals of our business are incredibly solid. G-III has a culture of entrepreneurship, agility and flexibility with a world-class leadership team and proven track record of navigating through tough environments.

Despite solid top line performance, we were not immune to inflationary pressures and elevated costs in areas such as warehousing, transportation and raw materials, which led to bottom line net income per diluted share below our guidance. Given the challenging environment that has rapidly developed along with our retail partners being more cautious on the timing of inventory, we're taking a more conservative view for the balance of the year and adjusting our guidance accordingly. Neal will provide more details on this shortly.

Now, turning to the quarter's results where we continue to see significant year-over-year sales growth of our power brands: DKNY, Donna Karan, Karl Lagerfeld, Calvin Klein and Tommy Hilfiger. We experienced growth across almost all categories with particular strength in dresses and career-wear and robust growth in handbags.

Our merchant and sales teams responded to the decline in athleisure and a shift in demand toward more polished and dressy categories. They pivoted our assortments earlier in the year as consumers returned to in-person activities and to work. We continue to evaluate and align our forward production to deliver the right merchandise across categories with the right price points for the given time.

Net sales for the second quarter was $605 million, an increase of 25% compared to last year's second quarter net sales of $483 million. Non-GAAP net income per diluted share was $0.39 in the current period compared to $0.41 in the second quarter last year.

Before I provide an update on our key priorities, I want to address our inventory levels. Coming out of the pandemic last year, we were in a historically low level position and did not have adequate inventory to drive our business. As of the end of the second quarter this year, our inventory is up 108% compared to last year's smaller base. The better indicator would be to compare our wholesale inventory levels to the pre-pandemic second quarter levels of fiscal 2020, to which we're approximately up 38%.

Excluding in-transit, our inventory was up only 6%. The in-transit increase is due to our concerted effort to pull forward production by 60 days or more to mitigate supply chain disruptions. The majority of this inventory is comprised of in-demand categories like outerwear, dresses, footwear and the newly launched jeans category which did not exist pre-pandemic. Further, athleisure, a down-trending category, had an insignificant impact on inventory growth to pre-pandemic levels as we have planned for the decline in demand.

Looking ahead to the important fall season, our order book remains incredibly strong and we are in a good position to ship with inventory in the right categories. We're working closely with our retail partners to balance the timing of our product to have the right assortment on the floor at the right time.

Now I'll update you on the progress we're making against our key priorities. Our first priority is to drive our power brands across categories with a focus on our owned brands. I'm pleased to report this was another solid quarter in our wholesale business. We saw a notable strength across our power brands: DKNY, Donna Karan, Karl Lagerfeld, Calvin Klein and Tommy Hilfiger. We've developed solid businesses in our key owned brands, enabling them to realize significant growth with a strong runway ahead.

We acquired DKNY in 2016 and launched the brand under our ownership in 2017. Since then, we expect to double net sales to approximately $600 million this year. We have expanded distribution across 55 countries through approximately 1,300 retail partner doors globally, including premier department stores and digital pure play sites. Our team has increased global direct-to-consumer distribution to approximately 250 partner and company-owned stores and owned digital platforms.

Our licensing division has extended the brand with partnerships in over 20 lifestyle categories. The total DKNY business combined with the licensing royalty income has created a highly profitable brand, operating above our company's average operating margins. Continued growth in the brand is expected to enable us to further expand margins.

Our marketing efforts have created a highly engaged social following for DKNY that has consistently delivered consumer engagement. In our fall campaign, which celebrates self-expression with diverse influences that inspire customers through high-impact global outdoor placement in key cities and digital media.

In 2016, we launched the Karl Lagerfeld Paris brand, introducing it to North America and this year we expect to grow net sales to over $200 million. The brand has distribution in approximately 450 retail partner doors, including premier department stores and digital pure play sites. Additionally, we've established strong direct-to-consumer distribution with over 20 stores and owned digital platforms.

This fall, Karl Lagerfeld will launch the gender-neutral Cara Loves Karl capsule collection in September, designed in collaboration with the actress and model and activist Cara Delevingne. It will deliver significant brand visibility in New York during fashion week with a SoHo pop-up shop, an immersed 3D campaign in Times Square, robust digital and outdoor media and influencer partnerships. Following New York, the capsule will launch with events in Milan, Dubai and will wrap up in Paris.

Taken together, we're proud of our accomplishments with these two key owned brands and believe there is significant runway ahead for both DKNY and Karl Lagerfeld Paris.

Our license brands, for which we have distribution rights for North America only, are Calvin Klein and Tommy Hilfiger. Just as a reminder for those license brands, we pay significant licensing fees as opposed to collecting those fees from our owned brands. For the quarter, we continue to drive sales for both brands with Calvin Klein growing 14% and Tommy Hilfiger growing 5% as compared to last year. Our retail partners have responded well to our collections, which are resonating with consumers in store and online.

Our second priority is to expand our portfolio through ownership of brands and their licensing opportunities. During the second quarter, we completed our previously announced acquisition of the remaining 81% interest in Karl Lagerfeld. This further expands G-III's global presence and ownership within our portfolio. The Karl Lagerfeld brand product is sold primarily outside of North America at a higher price point with an elevated product offering and higher end distribution across premium department stores. Whereas the Karl Lagerfeld Paris brand, which we created for North America, is an approachable fashion brand at a more moderate price point that is distributed through better department stores.

This acquisition adds a fully owned brand to our portfolio. The total Karl Lagerfeld business is now approaching annual revenues of approximately $400 million. Leveraging our operational expertise, we expect to unlock additional growth opportunities through continued expansion into new categories and new geographies as well.

Our teams are working to bring Karl Lagerfeld to the United States with a number of premium department stores and to take the Karl Lagerfeld Paris brand abroad. Other initiatives, including increasing our direct-to-consumer omni-channel sales and our focus on growing the number of wholesale partners and licenses for the brand. Importantly, we see a net sales potential of approximately $1 billion for us or an excess of $2 billion in retail sales.

We continue to evaluate ownership opportunities where they may make sense in the future as we think about the makeup of our portfolio and where we can bring value to leverage our expertise to drive brand growth. Our licensing business remains a key profit driver for G-III and broadens our reach to more consumers in a capital-light way. It leverages the global appeal of our owned brands with category expansions and exciting partnerships with new customer experiences. We continue to look for opportunities to expand our licensing business with best-in-class category partners.

This year, we expect to generate approximately $65 million in annual royalty income. DKNY and Donna Karan, both have well-established iconic fragrance businesses through global licenses. This quarter, Inter Parfums began distribution as our new fragrance licensee. We believe Inter Parfums is well-positioned to expand the fragrance business for both of these brands.

We've made progress with licensing deals for our recently acquired European luxury brand, Sonia Rykiel, which authentically embodies Parisian fashion. During the quarter, we finalized several key agreements for children's wear, shoes and jewelry, and are working on other partnerships. Licensing is expected to be instrumental in supporting our global growth plan for Sonia Rykiel.

Additionally, several unique partnerships are expected to build global brand excitement for Vilebrequin and Karl Lagerfeld, creating new customer experiences. With our partners, Karl Lagerfeld has recently launched its first-ever hotel and opened its doors in Macau. Luxury residential villas are being developed in Marbella. This month, we're set to close on the purchase of our first-ever Vilebrequin beach club in Cannes, creating an immersive customer experience with a differentiated marketing opportunity that is being designed to lend itself to franchising the concept.

Our next priority is to extend our reach by expanding our European-based brand portfolio. With the inclusion of Karl Lagerfeld Europe in our results this quarter, we have expanded our global reach. Neal will provide you with an update on the financial performance.

For DKNY, we're pleased with our international wholesale business, which we expect will generate greater than $165 million in sales this year. That's a growth of approximately 250% from fiscal 2018, our first full year of owning the brand. In the second quarter, net sales for DKNY's international business almost doubled compared to last year as we continue to grow and expand our European operations. In total, our distribution partners operate 233 standing stores and concessions globally.

Over the summer, Vilebrequin registered another solid quarter with strong double-digit growth compared to pre-pandemic levels and is on track to have its best year in sales and profitability. We also have a slate of product launches and collaborations. This quarter, Vilebrequin launched an innovative swimsuit line, incorporating woolen fabrics and collaborations with artists and brands like Palm Angels.

Since we acquired the brand, we have grown Vilebrequin's store footprint to 180 company and partner operated stores and almost 600 doors in premier department stores and vacation destinations with the product available in 113 countries. We're pleased with its trajectory and believe it can generate $200 million in sales.

Over the past year, the European team has been working on the relaunch of Sonia Rykiel. This fall, we will introduce new collection with a focus on knits and accessories, categories the brand has been known for. The team is also working to expand the brand's footprint through a number of distribution channels.

We believe there continues to be a meaningful opportunity to expand DKNY, Karl Lagerfeld, Vilebrequin and Sonia Rykiel globally and developing an infrastructure, leveraging our leadership talent and creating synergies to build the solid foundation that is expected to fuel these businesses.

Our third priority is to maximize omni-channel opportunities and leverage data. Elevating our digital experience and capabilities is an important part of our agenda. We're working to drive the demand on our own and retail partners' digital platforms and have expanded our pure play presence, which has resulted in strong growth from pre-pandemic levels.

Now with traffic migrating back to brick-and-mortar, we're ensuring that we're meeting the consumer in their preferred channel of shopping. Our new DKNY and Karl Lagerfeld websites have improved technical operations to allow seamless navigation and offer immersive brand content, which are designed to drive performance heading into the holiday season. The sites also enable us to leverage sales tools like virtual selling, CRM and loyalty programs.

Across our owned brands, we continue our brand marketing and data-driven strategies, as we build out updated lifecycle and retention marketing campaigns. We've experienced significant value in our CRM and loyalty technology instruments.

Karl Lagerfeld Europe has a strong and growing digital business. Part of the growth is expected to come from converting the website from an outsourced model to running it in-house. This will enable the expansion of product offerings, operational efficiency and furthering its global brand reach. Our team completed the conversion of the German, Austria and Dutch sites on the in-house platform. A full transition across Europe is expected in the next couple of months in time for the holiday season.

In our own retail operations, we're very pleased with the performance of our Karl Lagerfeld Paris business, which grew 80% in North America despite continuing challenges in tourism. This growth was driven by new stores, which are off to a good start, as well as strong performance in digital and our existing store fleet. Our DKNY comparisons were slightly negative in the quarter, predominantly due to the European outlets, which continue to see significantly lower tourism, particularly from China. We remain focused on driving omni-channel growth wherever the consumer chooses to shop.

In conclusion, we have brands that are in demand and we continue to execute across all aspects of the product lifecycle during this dynamic environment. We have prudently incorporated a more conservative outlook for the balance of the year. Our strategy and overall fundamentals of our business are incredibly strong. We remain confident in our ability to deliver our revised full year expectations.

I'll now pass the call to Neal for a discussion of our second quarter financial results as well as guidance for our third quarter and full year fiscal 2023.

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

Thank you, Morris. Net sales for the second quarter ended July 31, 2022 increased approximately 25% to $605 million from $483 million in the same period last year. Included in our sales for this quarter was $17 million for the one month of the Karl Lagerfeld acquisition. Net sales of our wholesale operations segment increased approximately 26% to $588 million from $467 million. Net sales of our retail operations segment were $31 million for the second quarter, up 14% compared to net sales of $27 million in last year's second quarter.

Our gross margin percentage was 37.8% in the second quarter of fiscal 2023 compared to 39.9% in the previous year's second quarter. Gross margin percentage in the second quarter was expected to be lower than the same period last year as the significant increases in transportation costs did not significantly impact us until the third quarter of last year. In the current quarter, we incurred higher freight costs and other inflationary costs which were only partially offset by the price increases we implemented for this year. The wholesale operations segment gross margin percentage was 36.2% compared to 38.3% in last year's comparable quarter. The gross margin percentage in our retail operations segment was 51.6% compared to 51.9%.

SG&A expenses were $191 million. Excluding approximately $5 million in one-time expenses associated with the Karl Lagerfeld acquisition, non-GAAP SG&A was $186 million or 30.7% of net sales in this quarter compared to $147 million or 30.4% of net sales in last year's second quarter. Included in other expenses and income is a non-GAAP gain of $31 million related to the fair value of our minority ownership in Karl Lagerfeld prior to the acquisition.

GAAP net income for the second quarter was $36 million or $0.74 per diluted share and non-GAAP net income per diluted share was $19 million or $0.39 per share. This compares to non-GAAP net income of $20 million or $0.41 in last year's second quarter. A full reconciliation of our GAAP to non-GAAP results are included in our press release issued this morning.

Turning to the balance sheet. As Morris discussed previously, our inventory was up 108% to last year, which was a historically low base due to the supply chain issues and strong demand during last year. A better comparison would be to consider wholesale inventory levels to the pre-pandemic second quarter in which we're up approximately 38%, driven almost entirely by in-transit inventory. In-transit inventories are up as a result of the increased shipping times, higher freight costs and the pull forward of the production calendar. From a category perspective, approximately 75% of the increase in our inventory comes from in-demand product categories like outerwear, dresses, footwear and the newly added jeans category. Having this inventory flowing into our warehouses for outerwear, which is a seasonally larger category for the third quarter, is a strength. We are already seeing the benefit with outerwear shipping off to a good start.

Additional increases in inventory were aligned with a greater demand in dresses, occasion-wear and the expansion of footwear as well as jeans, which we launched during the pandemic and had no pre-pandemic sales or inventory. As Morris indicated, we feel good about our inventory composition, and our order book remains incredibly strong.

We ended the quarter in a net debt position of $425 million compared to $8 million in the prior year. This increase is predominantly related to the Karl Lagerfeld acquisition in the quarter, which we funded with cash on hand as well as the increase in our inventory position. We also repurchased approximately 800,000 shares of our stock for $17 million. We had cash and availability under our credit agreement of over $730 million at the close of the quarter. We believe that our liquidity and financial position provide us the flexibility to take advantage of acquisition opportunities and invest in our future growth.

As for our guidance, as Morris indicated, the environment we operate in continues to be dynamic. Accordingly, we're taking a more conservative outlook for the balance of the year and revising our guidance to include the expected impact from inflationary pressures on consumers and incremental costs associated with the current supply chain conditions, including the timing of receipts.

For the full fiscal year 2023, we now expect net sales of approximately $3.15 billion and net income of between $182 million and $187 million or between $3.69 and $3.79 per diluted share. This compares to net sales of $2.77 billion and net income of $200 million or $4.05 per diluted share last year. This guidance is inclusive of approximately $130 million in net sales and net income of approximately $0.10 per diluted share in connection with the acquisition of the Karl Lagerfeld brand with the seven months of ownership in this fiscal year.

On a non-GAAP basis, we expect net income for fiscal 2023 of between $177 million and $182 million or between $3.60 and $3.70 per share. Non-GAAP results exclude the $31 million gain on the fair value of our minority ownership in the Karl Lagerfeld prior to the acquisition, $16.7 million of expenses related to the Karl Lagerfeld transaction, and non-cash imputed interest expense of approximately $6.9 million. The aggregate effect of these exclusions is equal to a negative $0.09 per diluted share. This guidance compares to non-GAAP net income of $208 million or $4.20 per diluted share for fiscal 2022.

Non-GAAP results for fiscal 2022 exclude non-cash imputed interest expense of $6.4 million, one-time expenses of $2.1 million related to the Karl Lagerfeld transaction and net asset impairment on lease terminations of $1.5 million. The aggregate effect of these exclusions was equal to $0.15 per diluted share in fiscal 2022.

Full year fiscal 2023 adjusted EBITDA is expected to be between $318 million to $323 million compared to adjusted EBITDA of $350 million in fiscal 2022.

For the third quarter of fiscal year 2023, we expect net sales of approximately $1.07 billion compared to $1.02 billion in the same period last year. Net income for the third quarter of fiscal 2023 is expected to be in the range of $83 million to $88 million or $1.70 and $1.80 per diluted share. This compares to net income of $107 million or $2.16 per diluted share in last year's third quarter.

Non-GAAP net income for the third quarter of fiscal 2023 is expected to be between $87 million and $92 million or between $1.80 and $1.90 per diluted share. Non-GAAP results exclude expenses of $3.4 million related to the Karl Lagerfeld transaction and non-cash imputed interest expense of approximately $1.8 million. This guidance compares to non-GAAP net income of $108 million or $2.18 per diluted share for fiscal 2022. Non-GAAP results for fiscal 2022 excludes non-cash imputed interest expense of $1.6 million. The effect of these exclusions was equal to $0.10 per diluted share in the third quarter of fiscal 2023 and $0.02 per diluted share in last year's third quarter.

Let me add some context around modeling of the line items. The acquired Karl Lagerfeld business will be included for a full six months in the back half of the year and is expected to increase our gross margins and SG&A percentages as it has a higher direct-to-consumer penetration. Accordingly, our gross margin percentage of sales in the back half of the year will be higher than the last year's gross margin percentages. For the full year, we expect SG&A to delever with the inclusion of the acquired Karl Lagerfeld business. Additionally, we're now anticipating higher warehousing costs.

We're anticipating interest expense to be approximately $55 million, which includes approximately $7 million of non-GAAP non-cash imputed interest. We're estimating a tax rate of 26% for the balance of the year. We have not anticipated any potential share repurchases in our guidance.

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

Morris Goldfarb

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

Thank you, Neal, and thank you all for joining us today. G-III's power comes from the significant diversification we've developed across multiple facets of our business, including our portfolio of globally recognized brands, our base of distribution partners and our dominance in producing a broad range of product categories. Our diversification combined with our well-developed design, sourcing and production infrastructure and high-performing teams creates a versatile and balanced business model. We believe we have a significant runway for growth. The sales opportunities of just our power brands alone: DKNY, Donna Karan, Karl Lagerfeld, Calvin Klein and Tommy Hilfiger remain very powerful.

We're financially strong and can use our balance sheet to capitalize on opportunities. We remain focused on our strategic priorities to deliver continued long-term profitable growth, which includes driving our power brands across categories; further expanding our portfolio through ownership of brands and their licensing opportunities; extending our reach by developing our European-based brand portfolio; maximizing our omni-channel opportunities and leveraging data; and continuing to innovate to stay relevant for our customers.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And our first question will come from Edward Yruma of Piper Sandler. Edward, your line...

Edward Yruma

Analyst, Piper Sandler & Co.

Q

Hey, good morning, guys. Thanks for taking the question. I guess, first just to unpack the guidance revision a little bit. How much of it – I know you said gross margins are up because of Lagerfeld. But are you assuming higher market allowance, kind of how does that fold into gross? And then, Morris, wanted to step back a little bit and talk about outerwear. I know you had some encouraging commentary. I guess, what are you seeing in terms of potential markdowns in the space, how clean was inventory from last year? And as you think about the reorder business, I guess, kind of how are you positioned? Thank you.

Neal S. Nackman

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

A

Yeah, Ed. So, with respect to gross margins, we are taking a more conservative view in the back half. As I mentioned, the inflationary pressures on the consumers we expect to put pressure on our top line sales. Obviously, that's less significant than really the impact on the gross margins. And in addition, the inventory increases that we've got will be putting some pressure on the second half gross margin percentage as we have warehousing and receipt costs, we're expecting to be higher.

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

A

And in regards to your question on outerwear, as you know, outerwear is our middle name. We started as a pure play outerwear company. We know how to manage through the outerwear sector. It's the most profitable segment of our business and generally it's the highest margin performer for our retail partners as well. So, if you measure the level of inventory that we brought in that today feels as if it's substantial and it is, the biggest piece of it is outerwear. We know how to manage through inventory issues. We started out the year incredibly clean. During the pandemic, we were able to monetize a good deal of our dated inventory. We're in a fabulous position as it relates to old inventory.

So, our quota inventory is all new, fresh, with solid bookings attached to it with some support inventory that we believe we could manage through for the year. That I believe will be a highlight for the year when we report the year-end earnings. I think we'll be in a position to report back to you assuming that nature is aligned with us and assuming that the consumer is out there and there is not another war somewhere in the world, we're prepared for just an amazing outerwear year.

Edward Yruma
Analyst, Piper Sandler & Co.

Q

Thanks so much.

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

A

Thank you, Ed. Thanks for your question.

Operator: Thank you. One moment. And our next question will come from Will Gaertner of Wells Fargo. Will, your line is open.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Thanks for taking my question. Could you guys just speak to – this is for Neal. Could you guys speak more on the cadence of gross margin and SG&A into 3Q, 4Q? And do you expect improvement from 3Q into 4Q, can you just kind of frame that out for us?

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

A

Yeah, Will. Unlike the first half of the year where we really had good margins but we were really up against great margins in the prior year, the prior year did not have the traffic cost increases as far as freight is concerned, and we really started to experience that in the back half more robustly of last year. So, we do expect that as a result of that compare, as a result of adding in the Karl Lagerfeld transaction, which I mentioned increases our gross margins, we really will have a turn in terms of the consolidated gross margins and will be positive to the prior year as opposed to the negative for the first half.

As it relates to Q3 and Q4, there will be increases in both. I'd probably lean to the fourth quarter being slightly heavier, but only marginally so.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Great. And just one more for me. It looks like you took down guidance for Karl. I think you said it was going to be at $140 million in [indiscernible] (37:55). I mean, it looks like [ph] you are taking time of (37:57) $130 million. Just curious what happened there.

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

A

What had happened was we had a plan for opening additional stores. And we were cautious on the store expansion. So, a big part of that is the reconsideration of opening stores and the timing of when we'll open stores.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Understood. Thank you. I will pass it on.

Operator: One moment. And our next question will come from Jay Sole of USB (sic) [UBS] (38:36). Your line is open.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. Morris, I have a two-part question. First, last quarter, my sense is that you felt like when you walked through department stores, the department stores were not moving inventory fast enough, not reducing markdowns quick enough. If we fast forward to now, I mean, how do you feel like the department stores' position is towards the environment? And are actions being appropriately taken? Is it still a bit slower out there? Is it faster? And then, secondly, just on September. What have you seen thus far in September and most recently what have the trends been like?

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

A

Thanks for your question, Jay. I believe that the department stores have begun to take the appropriate inventories to move season goods. In my view, they were late in cleansing the floor and making space for new inventory. But as that began to happen, new inventory we shipped, it's on the floor and selling quite, let me call it, briskly, and the floor appearance is much more current. So, I believe we're in a much better place as it relates to presentation and performance on the department store floor, and I think we'll begin to see that. We've gotten reorders as new product hit the floor. We were a little bit anxious to get all the hard work in production and design showcased on the floor. And it was delayed a little bit. But as it gotten on the floor, I think we're [ph] reporting (40:25) the performance as it relates to the – I guess, it more relates to the beginning of Q3 than it did for Q2.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. Okay. Thank you so much.

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

A

Thanks for your question, Jay.

Operator: One moment. And our next question will come from Paul Kearney of Barclays. Your line is open.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Hey, thanks for taking my question. My question is on the gross margin guide for the back half again. Just a clarification. Excluding Karl Lagerfeld, what's your expectation for kind of the organic gross margin? And then also, what are you assuming for increased levels of promotion across the industry? Thanks.

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

A

Yeah, Paul. Thank you for the question. With respect to – if you excluded the [ph] KLB (41:25) transaction, we would have been still up against the prior year, but certainly flat to the second half if you combine Q3 and Q4, and there's a little bit of a change there in terms of the cadence. In terms of promotionality, we've not anticipated significant amounts of promotionality for the back half of the year. We believe that our inventory is very good value, that our brands are in good stead. As Morris mentioned earlier, if the consumer is strong, we've got support inventory for it; and if it's not, we'll feel comfortable carrying over some of the more long-lived styles that we have.

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

A

There will be a level of promotion, as we always discuss, on the retail floor and it's not a forever situation. It's inventory that still resides that needs to be moved and the prudent retailer will move that inventory and adjust for the in-demand fashion product. That is, really, the right product is never a hardship in selling. And we start out with reasonable margins. Our retailers have enjoyed better margins than they have in many years. So, I'm not anticipating a disaster on moving inventory at all. I think both the retailer and the supplier are going to be in good shape. And at the end, there'll be a happy consumer as well.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Thanks. And a quick follow-up. Just to level-set our expectations. What do you envision inventory looking like at the end of the year? When do you envision it normalizing to be more in line with sales? Thanks.

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

A

Yes. Again, the main driver to the increase is this in-transit – is significantly in-transit inventory. The production calendars have been moved up and I expect that that will stay for quite some period of time. The guess as to when in-transit inventories get better is really anybody's guess. We're seeing improvements in a lot of that infrastructure now. So I think as that continues to improve, I think our compares will be better. I am still expecting pretty fairly elevated inventory levels for both Q3 and Q4. And again, they will be significant driven by the in-transit figures.

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

A

We can't forget about the state of our order book as it relates to inventory and the flow of inventory. We have a very solid order book that keeps growing every day. So, it's the way we plan our business. We accelerated receipts by at least 60 days; in some countries, greater than that, more like 75 days. So, there is kind of a spin on inventory levels. It's not a number that can really be comped to pre-pandemic. During the pre-pandemic, we were bringing in inventory and we were structured as a quick response type retailer. That doesn't exist anymore. So, we changed our model. We're always considering our order book when we anticipate inventory. So, we're a little skewed. You need to comp when you evaluate our levels of inventory. You need to comp the order book aligned with the inventory status. And when we look at the back end of the year, it flows into fiscal 2024. We're beginning to buy and receive product that won't be shipped until Q1 of 2024. So, it's a moving target. It's one that's not that difficult for us to rationalize, and we're comfortable with the inventory levels.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Thank you. Best of luck.

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

A

Thank you. Thanks for your question.

Operator: Thank you. And our next question will come from Noah Zatzkin of KeyBanc. Your line is open.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi guys. Thanks for taking my question. I was just hoping if you could provide any color on the revenue guidance as it relates to your order book for the rest of the year as well as how any cancellations kind of are shaking out or shook out versus expectations baked into prior guidance? And then any color on how the brands are kind of performing internationally versus domestically and how that's progressing would be helpful. Thank you.

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

A

So, our order book is about 94% to plan, which really encompasses the cancellations that we got through Q2. Those are behind us. We managed through the adjustments we made. Some adjustments were cancellations, some adjustments were moving deliveries into another quarter. So, we managed through it and don't anticipate a crisis going forward on cancellations. We have partners both on the supply side and on the retail side that depend on our existence and there is a sensitivity to – you can't kill a supplier, and it goes both ways. It goes the retailer toward us and ourselves toward our vendor base. So, there is almost an acknowledgment that needs to be worked collaboratively to get through a difficult year.

And the brand performance, internationally, DKNY has done great on the wholesale side. We've grown our business and we've more than doubled our size in a couple years. And it's just the beginning. We've made some changes in our Milan office. That will be announced in the next day or two. And the Karl Lagerfeld business, which we've just acquired, has a solid footprint with an amazing team that continues to grow and prosper, and with the appropriate financing, call it G-III's bank, they're geared for growth. The demand is much better known in Europe than it is in the United States. It's got a luxury [ph] air (49:56) to it and it's got a distinct fashion that the consumer identifies with.

So, those attributes are going to help dramatically in the growth of Europe. And alongside of Vilebrequin, although not a giant piece of our business, it's an important piece, it's great margin, it's a management team as well that is well-versed on the European market. Most of the management team of Vilebrequin comes out of Hermès, they were senior people at Hermès that typically challenge to build this brand and they've done just a miraculous job. And as you've heard, it's expanding into unique type of licenses, whether it's hotels or villas or building our first platform of the Vilebrequin club, which is not a major investment, but it's a unique situation. It's in Cannes and in a very important location and we were able to brand the club, which is unique for Cannes. Branding on the beach is not typical.

So, with that, we built our first club with the intent to franchise to the rest of the world. We do not want to be club owners or club operators, but it was essential that we build the first one, and there's a second one coming that is kind of a hybrid, that will be in Michael Dell's Boca Beach Club. So, we're doing unique things that add spirit to Europe and it feeds into the US as well. I hate to be wordy, but we're excited about where we are and where we're positioned for Europe and the rest of the world.

And in the US, the brands, as we've stated and the retail customers we have will contest to, we're as good as it gets on the women side of the business where I believe we might be considered the largest wholesale provider to the department store sector, and nothing seems to lead me to believe that should change. As I said earlier, we do need to start the line. There is so much that's gone on in that world, I don't want to be repetitious, we've heard it on every call, we read it in front page of every magazine and newspaper, we search it. We're well aware of what's gone on and I think we've done an amazing job of weaving through it and having the spirit that we're going to grow and prosper going forward. This is a difficult year clearly.

Operator, we have time for one more, the wordiness, but it's an important piece of my life.

Noah Zatzkin Q
Analyst, KeyBanc Capital Markets, Inc.

Not at all. Thank you very much.

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

Operator, we have time for one more question. Okay?

Operator: I'm showing no further questions.

Morris Goldfarb

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

Thank you, all. Thanks for interrupting your day to listen to our story, and talk to you next quarter.

Operator: Ladies and gentlemen, that concludes today's conference. Thank you for your participation. Have a wonderful day.