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G-III Apparel Group Ltd. (GIII)

Q1 2021 Earnings Call

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

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the First Quarter Fiscal 2021 Earnings Conference Call and webcast. My name is Sydney and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the call over to Neal Nackman, Chief Financial Officer. Sir, you may begin.

Neal S. Nackman

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

Good morning, and thank you for joining us. Before we begin, I would like to remind participants 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 and non-GAAP net income per share, which are both 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.

Good morning, and thank you for joining us. Also joining me remotely today are Sammy Aaron, our Vice Chairman and President; Wayne Miller, our Chief Operating Officer; Neal Nackman, our Chief Financial Officer; Jeff Goldfarb, Executive Vice President; and Priya Trivedi, Vice President of Investor Relations.

I'd like to address the recent events and related protests throughout our country over the past 10 days. We at G-III maintain a zero tolerance position against racism, inequality and injustices of any kind. We strongly believe that we all need to do our part to make a difference both internally in our company and externally in our communities. We are committing our support to UNCF and other organizations, and the effort to help eradicate social and racial injustices.

Furthermore, the corona virus pandemic has sent shockwaves throughout the world. During these difficult times, the health and well being of our employees, customers, partners and communities remain our top priority. Let me take a moment to highlight and thank the heart and soul of our company, and our greatest asset, a world class global employee base.

They've been working remotely, and harder than ever with incredible dedication, drive, compassion and care through this crisis in order to keep us operational. As this pandemic has evolved, we thought it imperative to continue to assist our community at large. We are contributing money to our philanthropic partners to ensure they continue their important work. We have leveraged our supply chain to donate PPEs to medical facilities, first responders and police departments in the United States.

The challenges we face from this pandemic are significant. G-III is an adaptive and agile organization with an entrepreneurial culture that keeps us flexible in these difficult times, has allowed us to act very quickly to address a multitude of issues. We've had to make some difficult but necessary decisions in response to the disruption caused by this pandemic.

As we announced in our prior coronavirus update press release, we closed all of our retail stores in mid March. Many of our employees have been working remotely. We implemented significant reductions in pay for our senior management and most of our other employees. And unfortunately, we furloughed a large portion of our employee base. We've also adjusted inventory receipts in response to store closures and have been forecasting – reforecasting the balance of the year.

A strong collaborative vendor base will afford us the ability to make opportunistic purchases for the back half of this year. These actions, combined with our solid balance sheet, strengthen our financial flexibility and liquidity. We are well positioned to weather the current challenges and to demonstrate our leadership position in the fashion industry, as we emerge from this crisis.

On that note, we continue to reopen our retail stores and are preparing to open our New York City corporate offices. We will do so in a responsible manner, with the health of our employees and customers as our top priority.

We are following CDC guidelines to ensure we provide a safe, socially distant workplace with ample PPE available for our associates.

Our warehouses have remained operational with a reduced workforce, observing strict social distancing and safety precautions, in order to receive inventory, fulfill orders for our online consumers, and ship product to our retail partners. We've begun to scale these operations as stores have reopened throughout the country.

Now let's look at the first quarter fiscal 2021 results. Considering our retail partners stores and our own retail stores were closed for half of the quarter, net sales were $405 million, 36% down from last year's $634 million. Non-GAAP net loss per share was $0.75, compared to net income per diluted share of $0.25. Now, turning to our own retail segment. I'm pleased to report we finalized our plan to restructure our retail store operations. As we announced this morning, we are restructuring the retail segment, and we'll be closing our Wilsons Leather and G. H. Bass stores, enabling us to greatly reduce our retail losses.

Accordingly, we've hired Hilco Global to assist in the liquidation of these stores. We've negotiated flexibility with our landlords to allow us to adjust our liquidation timeframes based on store openings. This was a difficult decision to make and we're incredibly appreciative of all the members of the retail team for their hard work and dedication over the years.

After completion of the restructuring, our retail stores will initially consist of 41 DKNY, and 13 Karl Lagerfeld Paris stores. We plan on returning these brick-and-mortar businesses to profitability. Additionally, our e-commerce site, although small and profitable, will include DKNY, Donna Karan, Karl Lagerfeld Paris, Andrew Marc, Wilsons Leather, and G. H. Bass. Neal will walk you through the financial details of the restructuring.

As for wholesale, we're anchored by our five global power brands, DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld. They will continue to be the primary sales and profit engine for G-III. We remain focused on leveraging our wholesale expertise to drive long-term growth.

Prior to the pandemic, with half the quarter behind us, we were seeing good momentum in our wholesale business, validating our strategy and the strength of our product offerings. As stores close and our shipping dramatically decreased, we reacted decisively to reduce our inventory exposure.

We are being conservative with respect to ordering future inventory. And we'll continue to work closely with our retail partners in planning out the rest of the year. Over the last 40 years, we've earned the respect of our vendor base, our retailers and our licensed stores.

We have a well-diversified distribution base across retail channels, including department and specialty stores, off-price stores, warehouse clubs and e-commerce sites. We anticipate further closures in brick-and-mortar retail, but we believe we are well positioned to ultimately retain and increase our business, whether through their brick-and-mortar stores or their online sites.

It is important to remember, that we do a significant amount of business through our partners' online sites as well as through our own sites. In some categories, online penetration can reach over 40% of total product sales. We will be actively working with our retailers in dedicating additional resources to further drive sales in their online sites.

We're also making significant investments in our own online business. As a matter of fact, over the last couple of months for our own DKNY and Karl Lagerfeld online sites, we've seen a significant comp sales increase. We ended 2020 with a sizable and growing wholesale business.

Our Calvin Klein brand approached annual sales of $1.1 billion. Tommy Hilfiger was at nearly $500 million in annual sales. And our own DKNY and Donna Karan brands were over $450 million in annual sales. And Karl Lagerfeld was at just over $110 million in annual sales.

Outside of North America, sales grew strong double digits, significantly driven by the distribution of our DKNY brand. Overall, we have a great base to continue to build on. We will be patient and make prudent decisions to preserve our liquidity as we get through these challenging times.

I'm confident that our solid financial footing and our dedicated management team will enable us to successfully navigate through this crisis. We will exit in a strengthened leadership position as a much needed supplier in our industry.

I will now pass the call to Neal for a detailed discussion on our first quarter results. Neal?

Neal S. Nackman

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

Thank you, Morris. Firstly, let me address the retail restructuring which we announced this morning and includes closing all of the 110 Wilsons Leather and 89 G. H. Bass stores. We were pleased to have reached a deal with our landlords to provide us with the flexibility to liquidate our stores as they begin to reopen. We have hired Hilco Global to assist with the liquidation, which will begin immediately as stores reopen.

As a result, the company expects to incur an aggregate charge of approximately $100 million in this fiscal year, primarily related to landlord termination fees, severance costs, store liquidation and closing costs, write-offs related to right-of-use assets and legal and professional fees. We expect the cash portion of this charge to be approximately $65 million.

Now turning to the results of our first quarter ended April 30, 2021. (sic) [2020] The coronavirus pandemic has had a significant impact on our first quarter. As Morris indicated, we ended this fiscal year with good momentum. However, mid-March, we were significantly impacted by the outbreak of the pandemic here in the US, and the great majority of our retail partner stores, along with our own outlet stores, were closed under statewide shutdown orders. So with that perspective, let me walk you through our results.

Net sales for the quarter ended April 30, 2020, decreased approximately 36% to $405 million from $634 million in the same period last year. Net sales of our wholesale operations segment decreased approximately 34% to $379 million from $571 million. Net sales of our retail operations segment for the quarter were $34 million, approximately 59% lower compared to last year's sales of $82 million.

Our gross margin percentage was 30.7% in the first quarter of fiscal 2021 as compared to 37.3% in the prior year period. Gross margin percentage in our wholesale operations segment was 29.6% compared to 34.9% in last year's quarter and was negatively impacted as a result of recognizing certain fixed costs, primarily higher effective royalty rates over a reduced sales base. The gross margin percentage in our retail operations segment was 35.9%, compared to 45.2% in the prior year's quarter.

SG&A expenses were $155 million in this fiscal quarter compared to $202 million in the same period last year. We took a hard look at our SG&A. We had to make some difficult decisions in order to preserve capital. We significantly reduced payroll by furloughing approximately 60% of our wholesale team and 80% of our retail team as well as implementing significant salary reductions for management and other employees.

This is in addition to previous efforts, in which we have been reducing head count in our China offices consistent with our efforts to shift sourcing away from China, resulting in a 50% head count reduction in our China offices. We are bringing our workforce back in a thoughtful manner as stores open and we ramp up our wholesale operations.

We have also reduced other discretionary spending, which includes marketing and capital expenditures. Furthermore, we continue to have conversations with our licensor partners to seek contractual relief. Our efforts have enabled us to reduce our monthly cash expense burn to approximately $35 million.

Net loss for the quarter was $39 million or $0.82 per share compared to net income of $12 million or $0.24 per diluted share in last year's first quarter. Non-GAAP net loss per share was $0.75 for the quarter, compared to net income per diluted share of $0.25 per share in the prior year.

Non-GAAP results in this quarter exclude the impact of non-cash imputed interest and asset impairments. A full reconciliation to our GAAP results are available in our press release issued earlier today.

Looking at our balance sheet, accounts receivable were $421 million as compared to $478 million at the end of the prior year's quarter. Inventory decreased approximately 7% to $500 million. Our net debt was down to $285 million from $363 million in the first quarter of last year. Our current liquidity position remains strong and leaves us with significant financial flexibility as we work our way through this difficult disruption.

As for our guidance, the impact of the pandemic continues to be fluid, making it difficult for us to forecast results for fiscal 2021. Accordingly, at this time, we are not providing any 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 all for joining us today. I've always said that we at G-III are fortunate to have a highly skilled and experienced management team. And this pandemic has really put them to the test. I'm incredibly proud of how well they've rallied themselves and their teams to respond and create an innovative way in order to enable us to manage through the effects of this pandemic.

Our ability to quickly respond to changes in the marketplace will enable us to effectively navigate through these challenging times. We have the experienced talent, global alliances and financial flexibility to manage through this most difficult period and to continue to be a leader in our industry. We also believe that as opportunities arise, G-III will be in a position to capitalize on the ones we think will fit in our company. We will emerge much stronger and we will prosper. On behalf of the entire G-III organization, I'd like to thank all of our shareholders and stakeholders for their continued support.

Operator, we're now ready to take some questions. Operator? Neal? [indiscernible] (00:18:29) Do we have an operator?

QUESTION AND ANSWER SECTION

Operator: Yes. [Operator Instructions] And our first question comes from the line of Edward Yruma with KeyBanc Capital Markets. Your line is open.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, good morning. Thanks for taking my question and hope you and your teams are staying safe and healthy. I guess a couple of quick ones for me. First, on the retail business, on, maybe on a trailing basis, if that's easier, kind of what were the losses of the piece that you're disposing of and kind of – I know you said that you hope that the remaining piece returns to profitability, but kind of any timeframe around that. Second, Morris, any commentary on the outerwear backlog and maybe also click down a little bit on your comment on opportunistic inventory purchases in the back half. Thank you.

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

A

So, I'll take the back end of the question first, Ed. Back on our order book on the coat side of our business is down approximately 30% comp to last year, while we are in the process of re-navigating that piece. We have an opportunity to do business in excess of last year. Our retailers are now back in business. Our factories are waiting for additional orders. The mills have availability of piece goods, and we can do business in excess of last year's numbers in the coat side of the business, if all the stars are aligned. The -- I'm sorry, the second part of your question that didn't relate to the coats, Ed?

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

A

I'll take that, Morris.

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

A

Yes, go ahead.

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

A

Yes. So Ed, with respect to the retail losses, last year, the retail segment lost approximately $55 million on a -- excluding the impairment charges. A great majority of that was from the Wilsons and Bass business. As we've been -- as we've said in the past, the Donna Karan business has run losses. The combination of Donna Karan and Karl Lagerfeld has run losses, and primarily, that is a result of trying to get the formula right.

We have a very small store base. We expect to expand that store base and be able to leverage that business. In the first quarter, we continued to run losses in the retail segment. They probably doubled from where we were – just under doubling from where we were in the prior year.

[indiscernible] (00:21:26)

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. One other quick...

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

A

Yeah. [indiscernible] (00:21:26) in terms of when this business becomes profitable, it's a little bit challenging to pinpoint that. We're not really even out with guidance on the entire business for this year. So it's very difficult to assess that at the moment.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. One other quick follow-up...

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

A

Ed...

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Sorry, go ahead.

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

A

Ed, I'm sorry. The second part of your question targeted at me, which was the opportunity buys. We have an innovative entrepreneurial team that lives overseas in an assortment of countries. And their challenge has been to find opportunity buys in fabric. A lot of what we're looking for today are core basics. Fashion is not as important this year going forward. But whether it be fleece or a denim or some technical fabrics that are common to many vendors, we're finding opportunity buys that we believe we can take advantage of, to enhance margin and create a suitable third and fourth quarter business. So that was my reference to opportunity buys.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks so much, guys.

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

A

Thank you, Ed. Thanks for your question.

Operator: Thank you. And our next question comes from Erinn Murphy with Piper Sandler. Your line is open.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. Thanks. Good morning. And I hope you are all staying safe as well. I guess, my first question, Morris, is for you. Could you just speak to what you're seeing at POS as your retail partners have started to open stores? And then how does traffic or how has that been looking, particularly if there's any major differences between regions?

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

Sure. Prior to the protest and more specifically, prior to the lootings, business was tracking at about 30% to 35% off, would be the closest number I could give you throughout the department store sector and even the off-price sector. Their business was on the early stages of coming back. They were – most retailers were surprised that it was as good as it was. And we were on track to recapture, what we left off with. Today, the interruption caused additional stores to be closed. So the door count, I don't know exactly, but one of our retailers closed approximately 50 additional doors, another one closed 30 doors.

So it feels like 20% of the door count was shuttered until there's clarity on what the looting situation is. Some of them will be delayed in reopening, because they were totally damaged. There was a lot of damage that was done to the physical facilities, the looting of all the inventories. So that will take a while to get back into business. But there were many stores that were shuttered in anticipation of looting that will simply open up. The traffic, it seems like traffic is down about 25% in the stores that are open, obviously. And the size of the basket has grown significantly. It seems as if the shopper that's out there truly is a shopper and not just walking through the stores. They're armed with money. And they're eager to buy.

So the sales are driven by greater conversion and a bigger basket. So we're quite hopeful. To give you an idea of what we look like. We have 60 stores in China. And for the month of May, they went through the pandemic, as we all know. For the month of May, they are comping -- they comped up, low-single digits. So we're hopeful, that we can follow that pattern. And we believe that there is a good life to come.

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

Thank you. That's very helpful context. I guess the second question I had is, just on the furloughed labor. I think you said you furloughed 60% of your wholesale labor. How do you think about the pace of bringing back labor? And are you having to currently compete with unemployment benefit for whether retail -- the existing retail you have you have left or the wholesale furloughed labor?

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

So we have a plan to begin to come back to work on the 15th of June. We will start with a skeleton crew. We've polled our associates to see who is willing to come back to work and who has a handicap to be a child care or a health issue or simply a fear of coming back to work.

And we believe, we'll open our doors with approximately 200 people that are properly spaced, properly guided with PPE equipment. We have temperature monitors in our lobby. We have control of five elevators that are exclusively used to G-III. We will permit only four people in an elevator at a time.

We'll stagger schedules. And I believe, we'll figure out what the best formula is. We're coming in with a strategy, but a strategy that given the problems that might occur that could change. The scale of the operations in on-site is a malleable number. We may permit some people to work from home for a period of time. But culturally, we're about working on site. And however long that takes, we will all be together sooner or later.

So we're looking forward to it. The off-sites have worked incredibly well. We've had committed people that dedicated all their time, probably work harder from home than they do in the office, and it doesn't go unnoticed. It's appreciated. And needless to say, most of the people that worked as hard as they did were affected by salary decreases. It wasn't about money. It was about the culture of the company. It was about passion. It's what we've always advocated.

So this is a wonderful company to be associated with, I must say. So Erinn, I guess, normality will come as soon as it comes. Next question?

Operator: Thank you. Our next question comes from Matt Gulmi with Wells Fargo. Your line is open.

Matthew Gulmi
Analyst, Wells Fargo Securities LLC

Q

Yeah. Good morning, guys. Thanks for taking my questions. I'm glad to hear you all doing well. I think e-comm is roughly 25% of the business. If you guys can just talk about what you saw at wholesale.com and DTC in the quarter, and what you're thinking about as far as the size of the remaining Wilsons, Bass business. And I think Morris mentioned it's profitable, but any additional color there, any thoughts on that business going forward?

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

A

Let me address your last comment. The size of the Wilsons, Bass business will be limited to a little bit of wholesale with Bass, the rest of the business, the retail, brick-and-mortar is all going away, all of it. As soon as that door is open, we will go through a process of liquidating our product. We've engaged Hilco Global to assist in that process.

Our landlords have been great. They've accommodated the timeframe. If we're done quickly, we will shut our doors and go away. Our rent in the period of time that we're liquidating is either a percentage or at a very reduced rate. And we will augment the inventory that we sell through to help ourselves on inventory that sits in our warehouse, whether dated or current that was canceled.

So, we are done, again, with Bass and Wilsons. The pieces that will remain will be the online piece. There's a royalty that we derived as a licensor for Bass in several classifications, so that just sort of drops down to the bottom line. But there won't be any cost attached to operating those retail. So retail that will remain is DKNY and Karl Lagerfeld.

We're going through a good period of time. Our business during the pandemic era, when stores were closed, our online business was up approximately 60% comp to last year on both Karl Lagerfeld and DKNY. And last year was a unique year for Karl Lagerfeld. Karl, this amazing man and this iconic designer passed away, and we had amazing business during that period of time. Everyone wanted a piece of the memory of Karl, and in spite of that, our business this year, for this period of time has comped up 60%.

So, where our customers' online business has prospered as well, some of them have doubled their online business. We're the beneficiary of some of that. We provide product for it. Our warehouses were geared and made the accommodations to drop ship to the direct customer on occasions and fulfill the need of the department stores in supplying them with needed online products. So, we're controlled on retail. We recognize the significance of our online business and we believe, in the coming year, we can be as much as a third of our total business will be dedicated to online sales.

Matthew Gulmi
Analyst, Wells Fargo Securities LLC

Q

Okay. That's helpful. And then if I could just follow up with one more. There's a big focus on denim this year at three of your core brands. And given recent events, I think denim has been speculated as a less popular category as consumers are kind of focusing on things to wear at home or exercise, et cetera. Have your plans changed at all with the rollouts? Or do those remain on schedule? Or kind of how are you thinking about that?

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

A

Quite honestly, quite to the contrary, we read the same press, but we're not the recipient of poor business in denim. Our business in the denim area is exceptionally good. One of the early dedications to future inventory that we just worked on was buying a significant amount of denim for third and fourth quarter. We launched extremely well with CK, Tommy, and we had a softer launch with DKNY. It was not intended to be a big business this year. But if anything, our denim business is better than we had anticipated, so not an area to be concerned about.

Matthew Gulmi
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks, guys.

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

A

Thank you.

Operator: Thank you. And our next question comes from Rick Patel with Needham & Co. Your line is open.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Good morning and hope everyone is well. Two questions on inventory. First, can you talk about the current composition? I'm curious how much of it do you consider to be seasonal that needs to be moved right now versus product that could be packed away or held back until demand [indiscernible] (00:35:03)?

And then second, I just wanted to follow up on an earlier question and just get clarity on how you're planning the fall. Licensing opportunities in certain categories, does it mean that you're planning inventories up for those certain categories? Or does it mean that you're in a position to face it if you see demand [indiscernible] (00:35:20)

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

A

Okay. There's a level of seasonal inventory that we're trying to manage our way through as stores open. There's a level of packaway inventory that we are dealing with. The packaway inventory, in many cases, has an order attached to it. We were at the early stage of shipping our swimwear, and most of that just went to the sidelines. It was too late to ship swimwear as the stores open, and we've gotten orders that relate to resort for our swimwear. So we've solved the problem of inventory.

We accommodated the space needed to house what is considered packaway. And the bulk of our issues are – they're kind of fragmented in every area. It depends on the classification. We've always described our business operationally as fragmented by classification, so not all our classifications are equal.

Our performance, the activewear, leisurewear area of business is very strong. That's all anybody has worn for the last three months. So, clearly, there are no inventory issues. There have been significant reorders and that area is virtually clean of inventory. Where our inventory strife really exists are we do have a prom business. We do have a social dress business. So the first thing that we did as this pandemic occurred and we realized stores were going to be closed, and there were not going to be very many social gatherings. We tried to cancel every bit of product that we could. We didn't catch it all. So we're sitting with a little bit of social dressing. We're sitting with some career suits. We're sitting with some day dresses. But short of that, we're okay on the inventory side. The packaways and the -- as somebody described it, we're going to put a ribbon around some of what was created and not fragment it, not sell it off, just bring it back into next year. The product is great. It's first-class product. It's not problem product. So we're working toward solving the -- maybe some of the dress businesses.

Our shoe business is good, the casual shoe business. The dress shoe business, which has not been a very big part of our total footwear side is more problematic. The canvas shoe is strong. This is a flip-flop era, literally in the descriptive form. The flip-flops are strong. Sandals are strong. So we're fine with that.

And a lot of our handbag business is more casual than has been [ph] at start. (00:39:05) So we're okay on the inventory side of it. We have a great vendor base that has accommodated, holding some piece goods into next year, if needed. And as Neal has described, we're in great shape as far as cash is concerned. We didn't have to go to the markets to borrow. We're in good shape on inventory. And as soon as warehouses, our retailers warehouses open, our inventory levels will come down. We have orders to ship. And we'll generate more receivables. And there's been a little bit of a delay in payment, on very well balanced retailers that there are no credit issues with.

And we're looking forward to getting back into business. So long-winded -- sorry about the long-winded questions, as we operate – the distance from our associates, nobody is here to wave me off, so anything else?

Rick B. Patel
Analyst, Needham & Co. LLC

Q

No, it's great. And just to clarify the statement you made earlier on outerwear. I think the order book is down 30%, but you see the potential for that business to be higher. Are you planning inventories up for outerwear? Or do you think that you're just in a position to chase, if you see that demand manifest?

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

A

It's kind of a better question to ask of me unfortunately, in a couple of weeks. We have this window of opportunity to still execute third and fourth quarter that only goes a few more weeks. And we hesitate to be too aggressive. We don't know what's coming our way, in a second round. We don't know, how quickly all the stores that attempted to be opened, will open. So as we do the analysis, I'll have a better idea, as to how we manage our inventory. And the last thing I want to do is have excessive inventory going into next year. We like the story of we have plenty of cash. And we're fine. I don't want to come back to you and say, we have plenty of inventory and we're fine. I'd rather be with the cash.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thank you, Morris, all the best.

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

A

Thank you, Rick. Thanks for your questions.

Operator: Thank you. And our next question comes from Heather Balsky with BOA. Your line is open.

Heather Balsky
Analyst, Bank of America Merrill Lynch

Q

Hi. Thank you very much. I am glad everyone is doing well. I was hoping, Morris you talked a little bit about potential consolidation in the industry on the wholesale side and ability to retain those customers. I was hoping you could talk about over the past few years, as you've seen stores close, what you and your partners have been able to do to retain those customers, whether it's online or another store? And I guess, maybe a little more color on, how you see the industry change over the next year or so, given what's happened. What do think your wholesale [ph] pace (00:42:16) will look like? Thanks. Oh, and just [ph] throwing in also (00:42:19) what it can mean for margins as some of these more underproductive stores close? Thanks.

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

A

Thank you, Heather. So, having five power brands is an amazing advantage. When a retailer takes their magic wand and says, everything is cancelled. It hurts for a minute. They sit back. They recalculate and say, we can't survive unless we have the brands that draw our customers when our doors open.

So the first thing – the first level of business that were corrected after the first cancellations were the brands, the brands are what draw customers through the door. There's -- whether it's a club, an off-price channel or a traditional department store, what the customer really is looking for is value for product.

It's not necessarily the cheapest product out there. They want to know that the product that they're buying has got intrinsic value that generally is attached to a brand. So we got a huge percentage of our orders reinstated. We're almost on a normal process, and we believe that – not we believe, the orders that we got reinstated were not at discounted rate. We didn't permit that to happen.

We have alliances with our retailers that go back many years. And in most cases, we're either the first, second or third largest vendor to those retailers. So there's a respect. There's a need, and which goes both ways to make the accommodations, and we're fine on the margin side. The dilution is not what one would expect during this crisis period.

I'm happy to see. I was concerned, obviously, going into it. But we're okay. We have our challenges, but the partnerships that we've created over -- this company has been in business actually since 1956. And some of the alliances are 30, 40 years old, and they do look out for our longevity. There is a high dependency on us. And the retailers that we trade with, in most cases, are not high risk. We don't provide product for J.Crew. We're not stage stores provider. We don't do Forever 21. What we do, there is a risk at Lord & Taylor. We were hurt slightly with the JCPenney and Neiman's, but nothing astronomical.

And the doors that we have a high dependency on don't seem to be greatly affected. Macy's is our largest customer. There's talk of their door count decreasing. If it does, if their door count does decrease, it will be their [ph] d-doors (00:46:14) that generally don't affect us to any degree of it. If there is an effect, sometimes it's positive, because we do participate in helping them on margin assistance. So those are the stores that historically have been the culprits in our world.

So we see Dillard's maintaining their business. We see Kohl's becoming a better retailer. Stepped into a Kohl's and saw how they've re-assorted their mix. And needless to say, there is a Walmart business to address. And we've cited some opportunities through all of this that we've never realized we had, and we're pursuing those. So we're excited about our time in this industry going forward. Heather, thank you. Thank you for your question.

Operator: Great. Thank you. Thank you.

Heather Balsky
Analyst, Bank of America Merrill Lynch

Q

If there is time for follow-up, I was just wondering, was there any, I guess, reserve for future markdowns or markdown dollars in the first quarter gross margin? Just wondering if there's anything there? Thanks.

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

A

Neal?

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

A

Yes. We continue to provide markdown support and accruals, and we did that in the first quarter as well.

Heather Balsky
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Operator: Thank you. And our next question comes from John Kernan with Cowen. Your line is open.

Krista Zuber
Analyst, Cowen & Co. LLC

Q

Good morning. This is Krista Zuber on for John. Thank you for taking our questions. Just to kind of a follow-up on that, the $100 million Neal that you outlined for the onetime restructuring for the retail segment restructuring, just kind of wondering in terms of the cadence, or how that will be spread out through fiscal 2021? And then, just on the follow-up question with really just sort of in response to liquidity and cash flow generation. Can you provide us with an insight of how the run rate of CapEx could be expected to change? And do you foresee any paydown of a portion of your ABL or your term loan before their maturities in 2021 and 2022? Thank you.

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

A

Sure. So with respect to the cadence of the liquidation charges that will hit us significantly in the second quarter and the third quarter. With respect to CapEx, we did about $6 million, down from about $13 million in the first quarter. We've really clamped down on really almost a little capital expenditure. So, I would expect that that will continue to stay that way for a good balance of the year.

With respect to paying down the term and the ABL, again, it's very hard to look into the future of the year and what sales will be, what profitability will be and therefore what cash will be. So, at this point, I wouldn't suggest that we'd be paying down the term. Again, we look at what we've got on hand and feel very comfortable stepping into what we hope will become the new normal and see business start to rise, and then we'll have a better sense of what we're really looking at as the year unfolds.

Krista Zuber
Analyst, Cowen & Co. LLC

Q

Thank you.

Operator: Thank you. And our next question comes from Dana Telsey. Your line is open.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Good morning, everyone, and glad everyone is safe and healthy. Morris, as you think about the promotional environment going forward, as these stores reopen, what are you expecting and what do you think it looks like? And then just secondly, if I may, on digital, given that digital was the only thing that was open during the time period of store closures, what insights did you take away from digital, whether your own or your wholesale partners and the margin characteristics and customers, on the insights that you learned from it? Thank you.

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

A

Thanks for your question, Dana. Stores are opening with Easter inventory, quite honestly. There's inventory that was staged for an Easter selling period. And those goods are going to be highly promotional. There's – it's time to get rid of it, it's not going to get any better. And if we see product that looks really, really cheap, it's inventory that should be out of the store.

As they replace that inventory with more current goods, we're seeing a normalized margin. We're not seeing product that's highly promotional and sales are quite good attached to it. So, we don't see this as just a gift giving. This is – literally just the stores giving away product. We see it as a profitable period of time as soon as the dated inventory is put out of the way.

We learned on the digital side that we don't spend enough money to be important on digital, whether it's our own site or our customer site. So we've created a budget that we implemented part of it that relates to our customers, and we've gotten a pure benefit of it. You see it almost immediately. So, as I said earlier, Dana, if you were on the call, we believe that our overall business as a percentage of sales, digital will be this year in the vicinity of a third of our overall business.

It is profitable. We're learning a little bit on the distribution side. We're trying to find accommodations to not use third-party providers for it because it is costly. We're doing some of the distribution through our own warehouses, and we're searching for a large facility that will accommodate drop-shipping directly to the customer. So the future is clear. Digital is going to be an important part of our business. And we are hiring for it. We will have a CapEx budget that we're preparing that is specific to digital, and it will absolutely be a way of life.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

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

A

Thank you, Dana. Thanks for your questions.

Operator: Thank you. And our next question comes from [ph] Adrienne Yih. (00:53:24) Your line is open.

Q

Good morning. And nice to hear that everybody is well. Morris, just to actually follow up on that, the digital comment that you just made. Pre-COVID, what percent of your digital was your own versus B2B or wholesale digital? And then in that one-third, I guess, over the course by the end of the year, so what will be your own brands, digital versus B2B? Thank you.

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

A

So our own brands, you need to remember that of our power brands, the two that we have autonomy with are Karl Lagerfeld and DKNY. We own those brands, and we have the right to do as we need to build site, build product and service the consumer directly with the use of our brands. With the Calvin Klein and Tommy Hilfiger, the flow of product to the consumer is the right of CK on their own sites or our retailers, and we provide the product for both. So it's hard to disengage the pieces from what we service retailers with and what we do on direct through our business.

Clearly, the pieces that we do on a direct basis through our own brands, we margin out much better. We get retail margins. But there's clearly an advantage as well to accommodate the needs of Macy's, Dillard's, of Belk on their sites or Nordstrom's. So, again, I'm being cloudy as to the pure – the dollar separation. Our customers' online sites are significantly larger than our own site. But we're building it. We've hired talent for it. And as I said, we're aggressively trying to become significant on the marketing side.

We're using – besides the two power brands, Bass is an important brand online, and in spite of the fact that we're closing our stores. And Vilebrequin is beginning to pickup some pace, both domestically and internationally. And we operate the sites. And we operate both sites, the international piece and the domestic site.

So again, to finalize it, I'm not giving you a clear picture of the dollar separation. But they will both be significant in the future, as they are today. As I stated, they're about a third of our business today combined. And I'm sure that the pace of our company-owned brands will increase.

Operator: Thank you. And our next question comes from Steve Marotta. Your line is open.

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

Q

Good morning. Neal, earlier on in the call, you mentioned that international was up double-digit, in the first quarter. I want to make sure, a, that was correct. B is, – can you remind us what international penetration was in the last fiscal year? And lastly, are there any blueprints from the reopening of international markets that can be applied here in the US. Thanks.

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

A

Listen, Steve, the international business represents about 15% of our total business. I think with respect to the -- whether or not it's a decent blueprint for us is probably not -- it's probably challenging in that, it really is a different segmented business than what we have here in North America. So we're learning and exploring that business significantly with DKNY. The business grew significantly last year at the DKNY side up strong double digits. And I don't believe that it necessarily translates for us back here in North America just because of the -- again, segregation in store.

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

Q

Helpful. Thank you.

Operator: Thank you. And our last question comes from Susan Anderson. Your line is open.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Hi. Good morning. Thanks for all the details on the call this morning. Neal, I was wondering if maybe you could talk about, the cost reduction flowing through to second quarter and the second half of this year. How we should think about that versus the first quarter? And then also, what you're expecting for cash burn in second quarter versus first quarter? Thanks.

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

A

Yes. So look, the second quarter has begun as the first quarter sort of ended. We had a totally dead month of May. We had a totally dead month of April. Fortunately, we put in a lot of our cost-cutting quickly. And we started to realize that in April. So again, we continued to see that in the month of May.

And now we're hoping that businesses start to open up. And as businesses open up, we'll certainly bring back people to fulfil our stores. We'll bring back people to work with the -- with our -- on our wholesale side as far as directly supporting store business. So, the hope would be that our SG&A cuts start to become reduced. And we see top line growth. And we'll bring those both on as we see the revenues coming on.

Operator: Thank you. And I'm not showing any further questions.

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

Thank you, operator. So, thank you all for spending time with us today. Stay healthy and stay safe and stay tuned. We'll talk to you soon. Thank you very much.

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