16-Mar-2023

G-III Apparel Group Ltd. (GIII)

Q4 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 Fourth 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, Neal Nackman, CFO. Please go ahead.

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

Good morning, and thank you for joining us. Before we begin, I would like to remind participants that certain statements made on today's call, and in the Q&A session may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are not guarantees, and actual results may differ materially from those expressed or implied in forward-looking statements. Important factors that could cause actual results of operations or the financial condition of the company to differ are discussed in the documents filed by the company with the SEC. The company undertakes no duty to update any forward-looking statements.

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, everyone, for joining us. I want to start by thanking the G-III team for their dedication and hard work last year. I am proud of their expertise, entrepreneurial spirit and ability to move quickly, working as a team across functions to capture opportunities in a dynamic environment.

G-III has proven track records of successfully evolving over the years to drive our business and meet the needs of our customers in an ever-changing landscape. Once thought of solely as a leather coat business, we've become a highly diversified apparel company. I am extremely proud of the G-III we've built, and I'm looking forward to sharing with you two of our newest growth initiatives.

This past year, we made significant progress on our strategic priorities. Despite a challenging operating environment, across our brands, we successfully shifted our category focus based on market demand. We expanded our portfolio with the Karl Lagerfeld acquisition, which also grew our European business and brought in new international expertise, and we advanced our digital capabilities.

Now, let's review our full year and fourth quarter fiscal 2023 results. Net sales for the full fiscal year was $3.23 billion, up 17% from $2.77 billion last year. Full fiscal year non-GAAP net income per diluted share was $2.85 compared to last year's $4.20. Adjusting for higher than planned taxes, we would have met our non-GAAP EPS guidance for the year. For the fiscal 2023 fourth quarter, net sales reached $854 million, an increase of 14% from $748 million last year. Fourth quarter non-GAAP net income per diluted share was $0.41 compared to last year's $1.06.

This past year, we experienced unique supply chain disruptions that impacted our bottom line performance. Today, port congestion has meaningfully eased, lead times from factories to our warehouses have decreased, freight costs have declined, we've obtained adequate third-party warehousing, and we've moderated our inventory levels. Furthermore, we aggressively sold inventory in the fourth quarter that would have otherwise [ph] shipped in the (00:04:54) first quarter of fiscal 2024. This enabled us to reduce inventory levels and the associated impact on our warehouse operation. We're now starting the year in a better inventory position, and created cash profitably, while avoiding the associated elevated warehousing, handling and interest costs.

We ended the year in a strong financial position with approximately $750 million in cash and availability. This is after we utilized $260 million in cash for several important investments, including $200 million to complete the Karl Lagerfeld acquisition, $27 million for stock repurchases, and $25 million for a digital opportunity. Further, we sequentially decreased our inventories by $192 million from the third quarter, ending the year with inventory levels up 39% to fourth quarter fiscal 2022. This sequential improvement compares to third quarter inventory levels that were up 100% to fiscal 2022 third quarter.

As of today, we fully paid off our revolver and currently have over $175 million of cash on our balance sheet. The decrease in supply chain lead times, and our adjusted inventory purchases should allow us to see significant improvement in our fiscal 2024 inventory levels, further providing a source of cash. Our balance sheet strength provides us the flexibility to continue to invest in the future growth of our own brands and consider acquisitions of new businesses.

Looking ahead to guidance for this coming year, with the inclusion of a full year of the acquired Karl Lagerfeld business, our top line is expected to be $3.23 billion, flat to last year. We expect non-GAAP net income per diluted share to be in the range of $2.55 to $2.65 compared to $2.85 in fiscal 2023.

Let me provide some context around how we're planning the quarters and the full year. For the first half of the year, we're taking a more conservative approach, especially in the first quarter, which will be challenged due to several reasons. First, in last year's first quarter, there was a significant surge in demand coming out of the pandemic. There were industrywide inventory delays, retailers were light on inventory and were accepting inventory as it became available. Fortunately for us, we had inventory on hands to service the demand. This resulted in significantly higher sales than we would have expected in last year's first quarter, which ended up approximately 20% up to pre-pandemic Q1 levels. We'll now be comping these strong increases in the first quarter of fiscal 2024.

Second, due to the rebalancing of our categories based on consumer demand, we're planning significant decreases in the athleisure and jeans category in the first quarter. We then expect to see these categories grow, ending the year with sales approximately the same as last year.

Lastly, as I had just mentioned, we took advantage of early selling opportunities and shipped a significant amount of inventory in the past fourth quarter that otherwise would have shipped in the first quarter of 2024. Then, in the back half of the year, as we comp the moderation in consumer demand, we expect to see normalized growth rates and importantly higher profitability. Neal will review our financial results and provide additional detail on guidance for fiscal 2024 shortly.

Let me walk through the progress we've made with respect to our five strategic priorities. Our first priority is to drive our power brands across categories. Our strength across design, merchandising, sourcing, supply chain, marketing and retail relationships has enabled us to significantly grow. We continue to seize opportunities to expand our largest brands, and bring in additional brands that fit our long-term strategic vision.

Continuing the trend from the past few quarters, our performance this quarter was led by strength in outerwear, dresses and suit separates. Our category mix is shifting back to pre-pandemic penetration levels. Additionally, we've added and developed strong handbags, footwear and jeans divisions, which have all become significant contributors to our business. This is a testament to the agility and diversification of our model.

Last quarter, we announced the staggered category extensions for Calvin Klein and Tommy Hilfiger licenses, which began in January of 2024 and will continue through December of 2027. This extended timeline allows us to strategically transition out of these licenses. We've been directing resources toward several new initiatives, including further leaning into building our own brands, acquiring new businesses, developing new long-term licenses, and expanding our private label business. We already have a number of substantial growth opportunities, two of which we announced today.

First is the Spring 2024 repositioning and expansion of the Donna Karan label. I'll provide more details on this shortly. Second, our newly announced long-term license with Authentic Brands Group for Nautica in North America. Since being acquired in 2018 by Authentic, Nautica's relevance has expanded substantially and has become one of the company's most important global brands. Celebrating its 40th anniversary, Nautica is available on approximately 1,300 free standing stores and shop-in-shops globally, along with a strong digital presence across more than 30 countries. G-III will produce Nautica products across a number of categories, starting with jeanswear apparel, which includes jeans and a full range of corresponding lifestyle products, and then expanding in a phased approach with additional categories, including sportswear, suit separates and dresses.

The new five-year license, which begins in January 2024, includes three extensions of five years each with first deliveries expected to hit the floor in January of 2024. The product will be sold across G-III's distribution network, including better department stores, digital channels and Nautica stores and website in North America and franchise stores globally. The brand joins our portfolio, which includes some of the largest and most recognized American brands in the world.

A second priority is to expand our portfolio through ownership of brands and drive their licensing opportunities. Owned brands have become a critical part of the company's strategy, having expanded net sales to over $1.3 billion this year with higher operating margins than our licensed brands.

We ended the fiscal year with DKNY generating approximately $600 million in net sales. Since its launch under our ownership in 2017, we've doubled sales, and turned it from the unprofitable business we acquired into one of the most profitable brands. This expansion was achieved by building a best-in-class team with expertise and introducing new high-performing products. We achieved scale rapidly through our wholesale strategy supported by our investments in marketing, which continues to keep the brand top of mind for consumers. We see a tremendous runway for growth of this brand with a long-term sales potential with over $1 billion.

Our owned Donna Karan business is small today. We're repositioning and expanding the brand aggressively beginning Spring 2024. The new Donna Karan will be a modern system of dressing created to appeal to a woman's senses on every level, addressing the full lifestyle needs of a new consumer. It will be more widely distributed in better department stores, digital channels and our owned Donna Karan website in North America and internationally. Early reads on the product have been well received, and we have the support to roll out across our major retail partners. Our recent market research has shown that Donna Karan is widely considered a top fashion brand, and is recognized as one of the most famous designer names in American fashion. Further, it clearly indicates that consumer demand exists for the brand and reinforces our opportunity.

This, coupled with our track record of having successfully grown major brands to more than $3 billion in annual net sales today, gives us confidence in the growth potential of Donna Karan. We believe that it can approach annual net sales of over $500 million in the mid-term. As an owned brand, Donna Karan is expected to develop into a more profitable contributor to our business as we do not pay a licensing fee and have full control of global distribution. Further, we can expand the brand into additional license categories with a possibility of highly accretive royalty income stream.

Our Karl Lagerfeld business had strong growth last year, reaching $400 million in annualized global sales. This coming year, we're forecasting double-digit sales growth. We see long-term brand potential of $1 billion in net sales. Vilebrequin and the European Karl Lagerfeld brand are two additional key owned businesses with significant upside, which I will discuss further.

Licensing and partnerships of our owned brands are highly profitable, and are up strong double-digits in fiscal 2023, generating approximately $55 million in royalty income, while also broadening brand recognition. We work with best-in-class partners who produce and distribute product in specialized categories such as fragrance, home and kids. For example, Inter Parfums, our new fragrance partner, is focused on growing our iconic fragrances for DKNY, Donna Karan and Karl Lagerfeld.

Additionally, we have unique hospitality and real estate partnerships for Karl Lagerfeld and Vilebrequin. We see many licensing opportunities across our entire owned portfolio, and can leverage this capability for brands that we acquire. As we move into fiscal 2024, we are focused on capitalizing on the opportunities for our owned brands. We intend to grow then through our focus on global expansion in wholesale distribution with new categories, omni-channel and licenses.

Our next priority is to further expand our global reach. The Karl Lagerfeld acquisition significantly expanded our European operations and accelerated G-III's global presence. The European management team of Karl Lagerfeld has made strong progress this year, having grown sales by 25%. They transitioned their digital business in-house from an outsourced model, enabling the expansion of product offerings, operational efficiencies and further global reach. They also launched jeans, which is expected to contribute nicely to their top line. With our partners, we launched the first ever Karl Lagerfeld Hotel in Macau. Branded luxury real estate concepts are in development in Spain and in Malaysia with more expected to follow.

This year, Vogue's Met Gala, fashion's most globally recognized event, along with the museum summer exhibition, will pay tribute to Karl himself. This is one of the greatest honors for the designer, and the Karl Lagerfeld name will appear in the extensive global news stories, social media and throughout the museum itself, significantly benefiting our global brand reach and our business as well. We're expanding the largest – we are planning the largest marketing campaign we've ever done for Karl Lagerfeld.

In addition, we're creating special product, have lined up a number of collaborations with celebrities and are producing content for our website and social channels. Our largest accounts around the world in New York, Paris, Milan, London and Dubai are hosting events, pop-up shops and dedicating windows. Here in New York City, Karl Lagerfeld will take over the windows of two of the city's largest department stores. This will be the most significant moment for the brand to date, and we expect the halo effect to drive awareness, interest and sales for the Karl Lagerfeld brand. Additionally, we're in the process of developing a film of Karl's life coproduced by us and starring Jared Leto, who is expected to positively impact the brand awareness.

Vilebrequin achieved a record year of sales and profitability with strong double-digit comp growth. This coming year is an exciting one for the brand. We'll continue to expand with store openings in global key markets and reinforce the luxury status of Vilebrequin with the unique partnerships and immersive brand experiences. This summer, we're scheduled to open a restaurant and beach club in the south of France that is being designed to lend itself to franchisee. Last year, we opened the branded beach Cabana Club and store in the Boca Raton Hotel. We see long-term potential of $250 million in sales for the brand.

DKNY's international growth was in the high single-digit with global sales now over 30% of the total brand. We've implemented and accelerated growth strategy for Europe with the help of great partners, who committed to open approximately 25 free standing stores in key European cities by the end of next year. This will complement our department store footprint and further penetrate the region.

Overall, the international market represents significant opportunities. We're reviewing best practices across our brands, and expect to realize cost synergies and to strengthen our international platform. Our next priority is to maximize omni-channel opportunities and leverage data. We continue to expand in digital, having grown total sales by approximately 15% in fiscal 2023 through a focus on our pure play presence across a number of partners including Amazon, Zalando and Fanatics by developing our owned global sites.

We added a dedicated team for our business with pure play digital retailers, which has helped us scale quickly. In Amazon alone, we were able to grow by 50%, despite a challenging digital environment. We're receiving more data than ever from our retail partners, enabling us to make smarter decisions.

Additionally, we made investments in our DKNY and Karl Lagerfeld sites in the US and Europe along with enhancing our CRM tools. We have a sizable business with department stores including Macy's, Dillard's, Nordstrom, Bloomingdale's and Hudson's Bay with a strong online presence. Customers returned to stores which brought about a shift from digital to in-store sales. The availability of our products across both channels at department stores and pure play retailers continues to drive omni-channel sales for [ph] us (00:24:29). The development of vendor direct shipping capabilities remains on track, and we see this initiative providing additional opportunities to grow in digital.

Our final and recent strategic priority is to continue to scale our private label business. Last year – or last quarter, I mentioned the significant opportunities we see for this area of G-III. Through our overseas office and strong relationships with the retailers and brands, we've built a solid business which increased by 50% this year alone. We currently service private label customers across the department store, specialty retailers, off-price, clubs and we have recently expanded into mass retail.

We have very strong and well-developed infrastructure where we are experts in market research, sourcing, technical design, merchandising, quality control and logistics. A 40-year relationship with best-in-class manufacturing partners and overseas offices with more than 400 employees and more than 40 markets have established a platform that enables us to sell our services to retailers. By leveraging our existing expertise across a broad range of consumer products and price points, private label product development represents another growth engine for G-III.

In conclusion, we ended fiscal 2023 in a solid financial position, and made significant progress, implementing our strategic priorities which expanded our own portfolio and grew our global reach. We've been directing resources toward several new initiatives, two of which we announced today, but long term, we're confident and optimistic about the runway for profitable future growth.

I'll now pass the call to Neal for a discussion of our fourth quarter financial results as well as guidance for the first quarter and full year fiscal 2024.

Neal S. Nackman

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

Thank you, Morris. With respect to our results of operations, the comments I am about to make are on a [audio gap] (00:26:59). Net sales for the fourth quarter ended January 31, 2023 increased approximately 14% to $854 million from $748 million in the same period last year. Included in our sales for this quarter were $61 million in sales of the Karl Lagerfeld business, which became a wholly-owned subsidiary on May 31, 2022. Accordingly, the results of the Karl Lagerfeld business were included in our results for the entire fourth quarter.

Net sales of our wholesale segment increased approximately 14% to $822 million from $719 million last year. Net sales of our retail segment were $49 million for the fourth quarter compared to net sales of $45 million in the previous year's fourth quarter.

Our gross margin percentage was 33% in the fourth quarter of fiscal 2023 compared to 33.7% in the previous year's fourth quarter. The reduction in gross margin percentage is attributable to the decrease in gross margin percentage in our wholesale segment. The wholesale segment gross margin percentage was 31.4% compared to 31.9% in the prior year. As we have stated before, the acquired Karl Lagerfeld business operates at a higher gross margin percentage than the previously existing wholesale segment. Their inclusion in the quarter resulted in increased gross margin percentages by approximately 270 basis points.

Accordingly, excluding the Karl Lagerfeld business, gross margins are down approximately 320 basis points. While we're currently seeing relief in inflationary pressures in product and transit costs, we're still working our way through higher cost from earlier in the year. The principal reason for the decline in gross margin percentage is from a combination of higher discounting and inflationary pressures. In addition, our warehouse continued to work through the higher inventory levels throughout the quarter, which resulted in higher distribution costs. The gross margin percentage in our retail operations segment was 45.8% compared to 51.3% in the previous year. We offered higher discounts to reduce inventory levels.

SG&A expenses were $236 million or 27.7% compared to $175 million or 23.4% in last year's fourth quarter. SG&A grew by approximately $37 million with inclusion of the acquired Karl Lagerfeld business. We had significant increase in our warehousing costs, as a result of our higher inventory levels, and we also had higher digital and brand advertising expenses in the quarter.

Non-GAAP net income for the fourth quarter was $20 million or $0.41 per diluted share compared to $52.6 million, or $1.06 per diluted share in the previous year. We had higher than planned tax expenses of approximately $5 million or $0.10 per share. Adjusting for these higher-than-planned taxes, we would have met our non-GAAP EPS guidance for the quarter.

Now let us review results for the full fiscal year ended January 31, 2023. Net sales for the full fiscal year were $3.23 billion, up from $2.77 billion in the same period last year. The Karl Lagerfeld acquisition added approximately $130 million in sales for the seven months it was included on our annual results.

Net sales of our wholesale operations segment increased to $3.16 billion or 17% from $2.7 billion in the previous year. Net sales of our retail operations segment for the year were $137 million compared to the previous year's $117 million.

Full fiscal year 2023 gross margin percentage was 34.3% compared to 35.7% in the previous year. This decrease in gross margin percentage was primarily driven by the gross margin percentage in our wholesale operations segment, which was 32.6% this year and 34.2% last year. The inclusion of the acquired Karl Lagerfeld business positively impacted our gross margin percentage by approximately 130 basis points. Excluding the Karl Lagerfeld business, our gross margins were down approximately 300 basis points.

As we discussed in last quarter's call, our elevated inventory levels resulted in storage, and process capacity pressures within our distribution centers. We incurred one-time logistical costs along with additional warehousing costs, which impacted our gross margins by approximately 200 basis points. We have eliminated a great majority of these charges in the upcoming year. Additionally, inflation in a more promotional environment further negatively impacted gross margins. The gross margin percentage in our retail operations segment was 49.9% compared to 50.9% in the prior year.

SG&A expenses for the year were $844 million compared to $645 million. The full year's SG&A as a percentage of sales was 26.1% compared to 23.4% last year. This year's SG&A rate was expected to delever with the inclusion of the Karl Lagerfeld business, which added approximately $80 million in expenses. Further, warehousing costs increased significantly as a result of managing our higher inventory levels, and we incurred higher advertising expenses.

Full year non-GAAP net income was $139 million or $2.85 per diluted share compared to $208 million, or $4.20 per diluted share in the previous year. Net income per diluted share included approximately $5 million, or $0.10 per share of higher-than-planned tax expenses. Adjusting for these higher taxes, we would have met our non-GAAP EPS guidance for the full year.

Turning to the balance sheet. We ended the year with inventory levels approximately 39% above last year, where inventories raised at a historically low base due to the supply chain issues and strong consumer demand that occurred last year. This is a sequential improvement in the third quarter, which was up 100% compared to fiscal 2022 third quarter.

Our inventory increases were significantly impacted by the accelerated production calendars that were in place for most of the year. Inventory represents current purchases and will be viable into next year. With supply chain challenges easing, we have now tightened our production calendars. In addition, we have already tempered our buying into next year to account for our existing inventory levels and will continue to do so.

We ended the quarter in a net debt position of $428 million compared to $54 million in the prior year. This increase in debt was impacted by the $200 million in cash used to complete the Karl Lagerfeld acquisitions, $27 million of stock repurchases, and a $25 million investment in a digital opportunity. In addition, we're now higher than normal inventory levels. We expect inventory levels to normalize by the end of the third quarter next year, which should result in a strong upcoming year of positive cash flows.

We generated EBITDA of $266 million this past year, and we're very comfortable with our debt leverage. We had cash and availability under our credit agreement of approximately $750 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 guidance, for the full fiscal year 2024, we expect net sales of approximately $3.23 billion, flat to the previous year. On a non-GAAP basis, we expect net income for the full fiscal year 2023 of between $125 million and $130 million, or between $2.55 and $2.65 per diluted share. This compares to non-GAAP net income of $139 million or $2.85 per diluted share for fiscal 2023.

Full-year fiscal 2023 (sic) [2024] (00:35:35) adjusted EBITDA is expected to be between $248 million and $253 million compared to adjusted EBITDA of $266 million in fiscal 2023.

For the first quarter of fiscal year 2024, we expect net sales of approximately $560 million compared to $689 million in the same period last year. On a non-GAAP basis, we expect a net loss of between $7 million and $2 million or between $0.15 and $0.05 per share. This compares to non-GAAP net income of $35 million or $0.72 per diluted share in the first quarter of fiscal year 2023.

Let me add some context around modeling. As Morris discussed, we are taking a more conservative view for the first half of the year especially in the first quarter. We anticipate the second quarter's net sales rate of decline to be at a much lower rate than the first quarter, but still down mid-single digits as compared to the prior year. Then, as we anniversary the moderation in consumer demand in the back half of last year, we expect to see more normalized growth in the second half of the year.

As for some other line items, we expect significant gross margin improvement throughout the year, and anticipate ending the year with gross margins up approximately 350 basis points for the fiscal 2023 rate This is driven by a few factors. First, freight costs have moderated almost back-to-pre-pandemic levels, and we expect this to benefit us throughout the year. Second, we will anniversary significant one-time logistical costs primarily incurred in the third quarter of last year, which should benefit our gross margins. Lastly, the first half of the year through to June 1, 2022 will benefit – we will benefit from the inclusion of the acquired Karl Lagerfeld business, which positively impacts our gross margin percentages.

We anticipate SG&A will delever as we continue to expect elevated warehousing costs associated with higher inventory levels through the third quarter of this year as well as continued inflationary pressure on costs. Further, the addition of the Karl Lagerfeld business in the first half of the year will increase the percentage of net sales represented by SG&A expenses.

Specifically, for the first quarter, we expect gross margin percentages to increase by approximately 600 basis points to last year, primarily due to freight cost reductions, the addition of the Karl Lagerfeld business, and a benefit from promotional sales that were shifted to the fourth quarter as Morris discussed. We expect non-GAAP interest expense to be approximately $50 million. We are estimating a tax rate of 27% during 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. We have proven time and again over the years that we have been able to quickly pivot to deliver results. We feel good about the opportunities of more growth ahead at G-III including global expansion of DKNY, and the recently acquired Karl Lagerfeld brand, our new initiatives with Donna Karan and Nautica, and our plans across our entire portfolio along with our focus on developing new initiatives.

We have a strong foundation for success in place, and I'm confident in our team's ability to drive our business forward, and deliver for our shareholders. I'd like to thank our entire organization and all our stakeholders for their continued support.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We have a question from Edward Yruma from Piper Sandler. Your line is open.

Edward Yruma

Analyst, Piper Sandler & Co.

Q

Hey, guys. Good morning. Thanks for taking the question. I guess first, Morris, would love to click a little bit on Nautica. It seems like some exciting news there. Can you talk a little bit about kind of how big the brand is relative to the CK and Hilfiger brands? As you think about the positioning of the brand relative to maybe where CK and Hilfiger were historically, kind of how do you think this slots in?

And then, Neal, just a couple of quick follow-ups. I guess maybe a little bit more color on the tax expenses. And I think you guys made some comments about a digital acquisition. I would love any more color on that. Thank you.

Morris Goldfarb

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

A

Thanks for your question, Ed. Nautica today is an important brand in Authentic's portfolio. I'm not at liberty to discuss the scale of it, that's really Authentic's privilege to do. I'd tell you that it's not very large on the women's side of it, which is our opportunity. When we took on Calvin Klein, it was virtually a men's brand. Tommy was skewed towards the men's side of the business and our forte is women's. So, we're very comfortable in the brand, tucking in more toward a Tommy – toward Tommy's sort of attitude. It's an incredibly well recognized brand throughout the world. We're capable of making the appropriate product for it. We have the sourcing in place. We have design in place. We have distribution in place. And I think the odds are stacked in our favor to make this a very, very important brand in our portfolio, so we're excited about the opportunity.

Uniquely, most of the categories sat in the hands of SPARC which is in an arm of Authentic. And we were able to aggregate multiple categories that we will launch as appropriate for our relationship for PVH. So, the first launch will be the jeans launch, which we're developing as we speak. We'll ship product at the beginning of calendar year 2024, and we've got support from our existing partners, our retail partners, so no reason that this brand can't be a significant piece of G-III's business.

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

A

Thanks, Ed. This is Neal. With respect to your questions for me, on the tax expenses, just a recap, through the third quarter we were anticipating an effective tax rate at about 23.3%. We ended the year on a non-GAAP basis with an effective tax rate at about 26.6%. We're forecasting about a 27% tax rate go forward. The refinements in the fourth quarter really were about in three general areas. First, most significantly, related to the acquisition. Secondly, there were some restructuring was done that caused some extra taxes. And lastly, just year-end adjustments that impacted the final results.

With respect to our digital investment, which is actually the second smaller investment that we've made, we've made these investments to kind of facilitate getting a little bit smarter. These are companies that we have some interactions with. We're able to learn from some of the best-in-class processes that they're doing on the digital side, and there are some other opportunities that we have with these entities.

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

A

I guess for clarity sake, we probably should define at this point our investments. We have an investment in pure play aggregator of digital businesses. Composed in there is four unique situations. All are profitable and strategically we're sourcing products for them as well, so it's sort of a strategic relationship as well as, call it, a learning experience, as Neal described. And the other one is, we own a stake in Saks OFF 5TH's digital business as was negotiated with Saks a couple of years ago. It's almost two years at this point, so we own a stake in that, and that's tucked into that dollar value as well.

Edward Yruma
Analyst, Piper Sandler & Co.

Q

Thanks so much.

Operator: Thank you. One moment for our next question. Our next question comes from Paul Kearney with Barclays. Your line is open.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Hi, everyone. Good morning. Thanks for taking my questions. I guess, first, can you quantify the size of the pull forward of sales into Q4 from Q1? And then second, good progress on the inventory, the sequential movements from Q3 to Q4. Can you help us think about when you see inventory growth being fully re-balanced withs sales growth, and just the timing about this year? Thanks.

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

A

Sure. Thanks for your question, Paul. It's hard to specifically identify the exact items. Our challenge come the fourth quarter was again to try to take advantage of opportunities, reduce inventory that provided relief to the warehouse operation. It also enables us to convert that inventory into cash quicker. I think if you were just thinking about generally a size parameter, I think if you look at the size of our excess, we really were on plan essentially in the fourth quarter and if you thought about the beat, it would have been some reasonably large portion of our sales beat that would have been associated with that pull forward.

With respect to your second question on inventory levels. We're carrying inventory, some of it is seasonal in our outerwear area and that is why I referred back to the third quarter, where I really expect it will get to a more normalized inventory level. Historically, we would turn inventories around 4 times a year. We really have always been a relatively quick turn in terms of inventory. Again, the production calendar has really stretched that out. We needed to do that for a whole host of reasons, which we thought was prudent during this past year, and we will work our way through it. You will see sequential decreases compared to the prior year, but in fairness, we are up against now with very large inventory increases this past year. But in terms of getting to a normalized inventory that starts to look a lot closer to a 4 times turn, we expect that to be at the end of the third quarter.

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

A

Well, our order book supports the projected shippings that we have. We've pretty strong order book. The bulk of it supports moving our existing inventory, which is something we're very happy with. So, we should be able to rationalize our inventory levels by the end of the year. There is, I guess, a price to pay for holding all that inventory. Part of it is our freight cost associated with those inventory and, with that inventory level, they're all freight costs where we were paying as much as $17,000 or $18,000 a container. So, that resides in our inventory, the new deliveries are somewhere around $3,200 a container.

So, there is a vast difference to old margin versus new margin, and we're trying to make the best estimate that we can, so we will call this – we call this a little bit of a cleaning-up year. We had more issues than we expected last year in logistics. They came out as every which way caused by the environment, caused by cancellations, caused by retailers appropriately managing their business, then taking the pain off of their shoulders. So, it all fell on us and we are who we are. We will get over it and we will get back to a normalized G-III in the near future.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Thank you. We have a question from Jay Sole with UBS. Your line is open.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Hi. This is Mauricio Serna from UBS. I want to ask a couple of questions. Sorry, I don't know if you have already talked about this. I was able to join now. Maybe you can talk about what are you thinking about the quarterly cadence for the year, just looking at the implied 1Q sales. I think it implies like a high-teens decline, but you're guiding to flat sales. So, how are you thinking about the sales progression throughout the year? And, if you could also elaborate a little bit more on what you are seeing on the potential growth or the potential long-term revenues that you could generate from with Nautica now and with the new strategy on Donna Karan? Thank you.

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

A

So, the volatility in comps this year versus last year, part of it was a unique anomaly. If you go back a year ago, our business was off the charts. Anything that we had had a home. We were able to ship inventory and inventory was in high demand, deliveries were late, retailers were not canceling late deliveries. They continued to take them in, which caused some of the problems through the course of the year.

So, we had open windows, we had sufficient inventory, and we shipped. If you go back to the prior year, you go back to pre-pandemic, last year was more than 20% greater than the pre-pandemic years. So, we're back to a cadence that's similar to pre-pandemic. We're managing through the inventories that retailers are trying to maintain. There is a high level of focus. As we all know, retailers have had an overabundance of inventory, and have been busy rightsizing their inventory levels as we are. So, the first quarter of this year is close to flat to pre-pandemic. This year being fiscal 2024, will be close to pre-pandemic levels. And we see the year balancing out, where we believe that our business will be pretty much flat to this past year.

So, Q3 and Q4 shipping levels will be accelerated to last year, and at that point, we believe that we will have right-sized inventories. We'll have right-sized real estate as we make adjustments in the real estate that we hold, and it will take us a few months to put our business, where it needs to be, operating with a couple of new brands, going toward eliminating a couple of owned brands, and trying to maintain SG&A that's appropriate for our business. So, we're okay with where we are. We've done aggressive assessments as to what we need to do, and we're on a path.

As far as it relates to Nautica and Donna Karan, Nautica won't be a business of scale until 2025 or at least 2026 as we enter into additional categories. The first category is going to be the denim business, which is the first category we give back – the jeans business, which is the first category we give back to PVH and Tommy Hilfiger. It's not a very large business that we're giving back and we should as a minimum do far better with Nautica than what we have done with the jeans side of Tommy for an assortment of regions.

And Donna Karan, we're launching Donna Karan, it's open to us in all categories. We own the brand. We've evaluated the merit of the brand. We've outsourced data to make us comfortable that our belief is reality. And we're going to be aggressive on the marketing side. We have retailers that have given us commitments to launch the brand and put it in a place that it needs to be. So, we believe long term it's easily a $0.5 billion business, and that's not even long term. I would say that's probably around three years from now, three to four years. And beyond that, it's a $1 billion brand, there's no question. So, they are both amazingly well-recognized brands throughout the globe.

Donna Karan, if you were to think of the American designers, Donna Karan is near the top of the list. So, it's well-recognized. And, again, true to who we are, we produce appropriate product for the venues that we ship to. So, comfortable that we can produce it, comfortable that we can source it and comfortable that we can sell it. So, there's again no reason that Donna Karan won't be significant in our portfolio.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Got it. Thanks so much.

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

Thank you for your question, Mauricio.

Mauricio Serna
Analyst, UBS Securities LLC
Q

Okay, thank you.

Operator: One moment. Our next question comes from Noah Zatzkin from KeyBanc. Your line is open.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.
Q

Hi. Thanks for taking my questions. Just on Donna Karan, I was just hoping you could maybe expand a bit maybe as it relates to where the business stands today, so kind of if you could just remind us how large that business is today, general channel positioning, the number of doors it's in, and then how you expect it to evolve off its current base.

And then, just on the model, on incremental costs associated with the higher inventory levels that's contemplated in guidance, hoping you could help quantify the impact of that ideally from an EPS perspective, but just generally how we should think about the cadence of that impact as you continue to right-size the inventory position through the first three quarters? Thank you.

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

Thank you, Noah. Donna Karan and DKNY were acquired at the same time. They're two separate brands. Most of the world doesn't really recognize that DKNY is a derivative or owned by Donna Karan. We realized that early and we decided to launch DKNY in 2017 to serve our channel of distribution, which as you know is Macy's, Dillard's, it's the department store sector. We didn't position it as luxury. We took it down a notch from where LVMH had had it, and it worked incredibly well for us. When we took it on, we were criticized for paying too much money for a brand that provided no profits. So, we didn't look at the profit as we bought the brand. Fortunately for us, we recognized that there was always a potential that our licensor would take back as brands and we needed stuff of our own. So, we plugged in the plan that spoke to our strengths with a great brand, more so than the brand and where it was positioned. And quickly, we found that we made an amazing decision. It worked well. And today, I'd say, we're in a comfortable level because of that acquisition.

Alongside of that acquisition came Donna Karan, and we were in the thought process of creating a halo brand out of Donna Karan, and doing pretty much what many companies do. They take the halo piece and create derivatives out of it in the future, and the halo generally is an expense, it's not a profit-making situation. So, we looked at it. We had our thoughts. We interviewed marquee designers in our industry and thought about spending $20 million to $25 million a year on creating the halo. We stepped back and said no, we don't need that halo, we'll just softly launch Donna Karan, brought down from designer to the opening price points for Saks and Bloomingdale's and Nordstrom. And we've kept it alive in a small scale with the knowledge that if something happened with Calvin Klein, it would be a great brand to supplement their business and position a notch lower than it is now. So, that is the strategy.

We have the tools to not only maintain our business, we have the tools to grow our business and we have the appetite to – we would be more aggressive and acquire additional or license additional products to, again, show our stakeholders what they've invested in and how aggressive and productive this company can be.

We're not sitting in defensive mode. We're aggressive in our positioning our business. We believe and we know we're one of the premier suppliers of product to the department store sector in the United States. We plan on maintaining that status, and we plan on growing in various other ways. It's a hungry, aggressive team that is driven by success.

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

A

An, Noah, with respect to the warehousing and logistical challenges, just to give you a little more color throughout the last year and just sort of re-explain what happened last year again, the single largest hit we had really was in the third quarter of last year and that had to do with the demurrage expenses we described, which was getting inventory off the ports in a situation where we really had significant inventories in our existing warehouses. So, that item should prove to be a pretty good boost for us as we don't incur those costs again in this current third quarter.

With respect to the other parts of having higher inventory, it really impacts us both in cost of goods sold as well as in SG&A. We run a what's been designed as flexible warehousing scenario where we use third-party warehouse providers. Those expenses we put into the SG&A line item, we do run about one-third of our own warehousing. Those expenses we put into our cost of goods sold. And to the extent that inventory levels are high, and sought to reach very high levels within the existing buildings that we run, you really run into operational efficiencies in all aspects of the operation, receiving, shipping as well as picking in the warehouse operation.

In addition to that, you run into additional storage costs. So, what we expect as we go into next year is that we will still have high inventory levels for the first quarter, still have somewhat high inventories in the second. We really don't start to eat into those – the inventory carryover levels until the third quarter. And so, we'll have additional charges in the first half of the year as it relates to these warehousing expenses. And then, of course, in the third quarter, we'll start to see that mitigate and get the benefit of not having those demurrage charges. Fourth quarter should be a much more normalized event for us.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Very helpful. Thanks.

Operator: Thank you. And our last question – one moment. Our last question comes from Dana Telsey from Telsey Group. Your line is open.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Hi. Good morning, everyone. Morris, as you think about the portfolio that you have at G-III and the next evolution of the business, what are you seeing out there in terms of attracting whether it's new licensing opportunities, new brand partners, the mix of whether it's international or domestic, what are you seeing out there? I know it's only been, what is it, three months or so since we heard the news about Tommy and Calvin. But as you architect the next evolution, what's coming your way and what do you think that's in the portfolio structure that continues to drive sales and margins? Thank you.

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

A

Great question. Thank you. Thanks, Dana. Number one, it's only been three months, and then it's not as if we – it was a planned event. It came a little bit as a last-minute shocker as one might say. But again, as I described G-III format, I guess we move on, and we move quickly. You might imagine that when the industry realized that we had a couple of open lanes coming, we got some amazing calls and amazing opportunities. Some of them are still under consideration, some are eliminated, because they don't fit our profile, and some just don't work in our eyes. So, take that as one lane of opportunity.

And the other, we've been talking about expanding our global reach by aggressively building our business globally. So, the minute this occurred, we retooled, we went to Dubai, we went to Eastern Europe, we made different alliances or additional alliances than we've had historically. They don't all come to prosperity over night, it takes a little while. But as we mentioned in scripted form, there are 25 new stores planned for Europe. That's an aggressive number for franchising and pretty much a new initiative or a new focus.

So, there will be many hundreds of additional stores open. We've spoken about opportunities that we found in licensing hotels and communities that are going to be important to us as we go forward. The names that we have are well suited for luxury housing or luxury hospitality and we've been sought out and we've made three deals with the fourth coming on board as well, all in different parts of the world, all with a good deal of money behind them.

So, we're happy with what's opening up for us, and there is a long way to go. As I said, this is not defense time, this is offense. We've got – we're signing opportunities. We have support of our retail community. We are a pretty good vendor. Our retailers have prospered with our efforts. And I think a brand is part of what you buy, when you make an acquisition of product. And the other [audio gap] (01:07:57) of product and design of product that's delivered. So, I think our retailers are comfortable that we provide sufficient comfort that what we take on will prosper, it's worth an opportunity. So, we have that opportunity and we think we can grow significantly in our world in the coming years.

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 question.

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

So, with that, I wish you all a great day. Thanks for sticking with us, and more to come.

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