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G-III Apparel Group Ltd. (GIII)

Q2 2026 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: Good day. Thank you for standing by. Welcome to the G-III Apparel Group's Second Quarter Fiscal 2026 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 note that today's conference is being recorded.

I will now hand the conference over to your speaker host, Neal Nackman, the company Chief Financial Officer. Please go ahead, sir.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

Good morning and thank you for joining us. Before we begin, I would like to remind participants that certain statements made on today's call and in the Q&A session may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are not guarantees, and actual results may differ materially from those expressed or implied in forward-looking statements.

Important factors that could cause actual results of operations or the financial condition of the company to differ are discussed in the documents filed by the company with the SEC. The company undertakes no duty to update any forward-looking statements.

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

I will now turn the call over to our Chairman and Chief Executive Officer, Morris Goldfarb.

Morris Goldfarb

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

Good morning. Thank you, Neal, and welcome, everyone. In the second quarter, we exceeded our expectations across both net sales and earnings. Net sales benefited from retailers responding to consumer demand for newness and fashion as we transitioned to season. Sales momentum in the quarter was driven by our go-forward portfolio, specifically at key owned brands; DKNY, Donna Karan, Karl Lagerfeld and Vilebrequin. GROSS margins in the quarter were impacted by higher-than-expected tariff costs, driven primarily by a greater volume of tariff inventory shipments that – than initially forecasted.

We're actively mitigating these pressures through a combination of vendor participation, selective sourcing shifts and targeted price increases. In the near term, we're absorbing a portion of these costs to remain competitive and capture market share. Looking ahead, we anticipate gross margins will largely normalize and ultimately expand as we exit licenses, as the penetration of our owned brands increases and as we continue to take selective price increases. As we look to the second half of the year, our retail partners are increasingly cautious on their inventory buys in anticipation of tariff increases becoming more pronounced.

Additionally, we've seen a disproportionate reduction in open to buys, specifically for the Calvin Klein and Tommy Hilfiger businesses. During the transition, we're responsibly exiting these businesses and staying disciplined in our inventory position based on the increased cost pressures and narrow selling periods. In response to the latest tariffs, including those affecting India, we've proactively adjusted our inventory positions, prioritizing margin over sales. Accordingly, fiscal 2026 guidance we provided this morning reflects all of these factors.

Now, let us review our second quarter fiscal 2026 financial results. Net sales for the quarter were \$613 million, well ahead of our guidance. Our GAAP earnings per diluted share were \$0.25, also well above the top end of our guidance range. Inventory levels were up 5% versus last year, reflecting our planned acceleration of inventory receipts due to tariffs. We remain in a strong financial position, ending the quarter in a net cash position of \$286 million after repurchasing \$25 million in shares this past quarter compared to last year's net neutral cash position.

Turning to our strategic priorities. We're actively working to maximize the full potential of our globally recognized brands. To drive growth, we've built a robust corporate foundation anchored by an experienced leadership team, world-class merchant capabilities, strength across lifestyle categories, a well-developed supply chain and long-term relationships with retail partners. This foundation has enabled us to consistently launch and scale brands with speed.

To support our long-term strategy, we're streamlining our go-to market approach, including investments in technology and infrastructure. In North America, we're optimizing network capability and implementing process improvements to drive productivity and reduce costs across materials, labor and freight. We're consolidating our warehouse network, exiting four facilities and reducing associated staff by year-end, which is expected to generate significant savings. In parallel, we're investing in systems to support product creation all the way through to our speed to market and consumer engagement strategies.

As part of our technology transformation, we're advancing digital tools such as 3D design, AI automation and other innovations to help gain efficiencies. We're further realigning the organization as we transition our business to unlock additional savings in fiscal 2027 and beyond.

Capturing the long-term potential of our owned brands is one of our top priorities. Owned brands represent an important and sustainable long-term profit driver as they generate higher operating margins and provide an accretive licensing income stream. Our strategy centers on leveraging each brand's iconic DNA to deliver a

differentiated product to a wide array of consumers in their shopping channel of choice. We are rapidly scaling each brand's full lifestyle product offering by extending existing assortments while expanding into new categories. This has enabled us to unlock accelerated growth across the wholesale channel, particularly in North America.

Through our licensing partners, the brands have expanded into complementary categories such as fragrance, eyewear and home, as well as experiential categories like hospitality, culinary and refined leisure, all broadening consumer touchpoints and deepening brand affinity.

We're investing in the brands' e-commerce presence. Importantly, our owned brands remain highly underpenetrated internationally, presenting a significant opportunity for long-term expansion. We are continuing to invest in marketing to amplify our brands' global reach. This year, in addition to Donna Karan and DKNY, we're also investing in Karl Lagerfeld. With an always-on marketing approach, we're focused on top tier talent with authentic brand resonance, enriched content and global market activations to connect with new and existing consumers and drive conversion.

This will come to life through local influencer programs, pop-up experience and in-store events, all designed to bring our brands closer to the consumer. We see substantial potential across all growth avenues, including product, channel, categories and geographies. We're confident in our ability to scale each of our owned brands into the largest women's fashion brands over time.

I'll now review brand highlights from the second quarter. This year marks four decades since Donna Karan revolutionized the way women dress. The brand's unwavering spirit has transcended time, providing cross-generational women with a daily wardrobe that is effortless, sensual and timeless. Our strategy centers on leveraging the brand's iconic DNA with classic silhouettes, cultured hardware and sophisticated designs, while infusing it with fresh, contemporary interpretation. Its aspirational, luxury positioning allows us to establish higher price points and capture premium full price distribution in the US.

The brand's AURs and sell-throughs remain the strongest across our portfolio. As a result, Donna Karan has tapped into a whitespace opportunity not only within our portfolio, but also in the crowded marketplace. In the second quarter, the brand delivered strong results across its lifestyle offering, led by continuous strength in dresses. Our accessories business is gaining traction with premium handbags commanding AURs upward of \$500, with several styles emerging as standouts, including the Baldwin, the Glenwood and the Amagansett. As we continue to develop the Donna Karan lifestyle, we're expanding into new and existing categories with a current focus on social occasion wear and now entering more casual offerings through the upcoming launch of our Donna Karan weekend collection.

Donnakaran.com is outperforming expectations, driven by engaging content and great product that is boosting conversion and top-line growth. Digital sales are gaining strong traction with affluent neighborhoods, which are emerging as our top performing markets, further reinforcing the brand's aspirational luxury positioning. We're optimizing customer acquisition cost, while investing in retention to drive loyalty through compelling products and a seamless shopping experience, ultimately enhancing the customer lifetime value.

Turning to marketing, our Fall 2025 campaign launched yesterday and directs our focus to five icons who embody the essence of the brand. The campaign, entitled Women to Women featuring authentic casts that have a rich history with the brand, including Claudia Schiffer, Irina Shayk and Imaan Hammam among others. The fall media plan will roll out across key US markets with outdoor placements, robust digital and social programming, and high caliber VIP social partnerships to maintain brand aspiration and relevance. In its first 24 hours, the campaign has already exceeded our expectations.

Looking ahead to the second half of the year, we look forward to the soft launch of Donna Karan [ph] Weekend for Holiday (00:20:30) 2025 with a more robust collection spanning an impressive 200 points of sale in spring 2026. The newest lifestyle line will feature relaxed, sophisticated looks, complemented by the addition of casual handbag silhouettes.

This brand extension opens up opportunities for further growth in traditional channels, as well as new distribution like leisure destination shops. We just signed a licensing agreement for our fashion jewelry collection with price points ranging from \$125 to \$350. As a reminder, Donna Karan is currently distributing in the US, where we expect the brand to grow over 40% this year. We see outsized global growth potential in fiscal 2027 and beyond.

Karl Lagerfeld is building momentum globally, delivering another quarter of strong growth, led by North America. In the region, sales grew over 30%, driven by outperformance across the lifestyle offerings with margin expansion. Notably, men's sales grew approximately 20% to last year. For the fall, we expect to add approximately 150 domestic points of sale, driven by extended assortments in suit separates, handbags and footwear, as well as men's sportswear. Additionally, a North American retail business saw high-single-digit comp increases, driven by traffic and AUR growth.

Internationally, the brand delivered broad-based growth across all channels and product categories, as well as margin expansion despite a challenging macro backdrop. The wholesale business has accelerated, supported by curated product assortments to better deliver core essentials. We've also seen steady growth in our digital ecosystem. A couple of years ago, we bought our karllagerfeld.com site in-house, which is facilitated expansion of the product offerings and distribution capabilities. We are further investing in upgrading the platform to drive conversion and capture back-end cost efficiencies.

Turning to marketing. On August 27, we unveiled our Fall/Winter 2025 global brand campaign from Paris, With Love, featuring cultural icon, Paris Hilton. The campaign is another major investment in the brand, designed for high visibility to drive momentum across each touch point of the Karl Lagerfeld universe.

Paris Hilton brings her unmistakable charisma to our collection, celebrating confidence, individuality and attitude, qualities that reflect the irreverence, spirit and sharp sophistication of Karl himself. The collection highlights studio pieces, structured tailoring and timeless accessories with the K/Autograph handbag line in the heart of the campaign. In just one week, the campaign has already garnered over 1.5 billion impressions, driving strong engagements globally.

The rollout includes high impact activations across our key global markets, from an immersive pop-up at Galeries Lafayette in Paris and unmistakable billboards in New York's Times Square and Los Angeles' Sunset Boulevard, to major media features, branded taxis in Las Vegas and a strong local influencer presence worldwide.

Digital storytelling also plays a central role with bold social first activations to connect with new audiences. The momentum will build toward a high-profile Paris Fashion Week event with Paris – with Paris Hilton in the center of an unforgettable late-night party, as well as store events planned for London, Berlin, Paris and Munich during each city's Fashion Week.

These efforts further solidify a cultural impact and a global presence. We're capturing further market share in Europe and North America, as well as building out our business in Asia, where today, the brand has a small presence. DKNY draws inspiration from the energy and attitude of New York, offering a modern wardrobe

designed to seamlessly transition from day to night, appealing to a younger consumer seeking contemporary assortments.

The brand delivered a solid second quarter led by North America. Outerwear saw outsized growth, with sales nearly doubling. And North American retail business experienced positive comp sales increases, driven by AUR growth, showing that our refresh product is resonating. Internationally, the brand is gaining traction. In Europe, we experienced nice wholesale expansion across DKNY jeans and accessories. We're pleased with the improving sell-through trends despite the challenging consumer environment.

In the Middle East, our business is mostly accessories where we saw a solid sell-through. This year, we will open three new DKNY mono-branded boutiques in the Middle East. We're excited about our fall marketing campaign, launched September 2, with global style icon, Hailey Bieber. Born in New York, Hailey has an authentic connection and affinity for the brand and comes with a highly engaged global fan base of over 72 million social followers. Rooted in New York street style and redefined through Hailey's lens, the collection is timeless, versatile and effortlessly cool. In just 24 hours, the campaign has already delivered an overwhelmingly positive response, garnering over 2.3 billion impressions and reaching over 22 million users over social media.

As we enter the second half of the year, our expanding product assortments, including extended sizing, we're well positioned to capture an incremental market share across premier and North American department stores. DKNY will roll out a series of global pop-ups and activations to promote its best-selling handbags, which are expected to drive traffic and conversion.

We deepened our relationship with the New York Yankees with a limited edition collaboration, featuring fashion forward sports apparel. Drawing inspiration from the Yankees game-day gear, each piece has subtle hints of embroidery as well as DKNY and Yankee co-branding. This collaboration is an extension of DKNY's strategy to build brand visibility and connect with a broader audience in new ways, while also leveraging our well-developed sports licensing capabilities. Internationally, we're focused on brand expansion through new and existing partners across wholesale, digital and franchise stores to increase global accessibility and awareness of the brand. We see outsized growth potential for the brand globally.

Vilebrequin, possibly the world's most recognized men's swimwear brand, showed solid improvement in the second quarter with positive sales growth this summer season, driven by Europe and the Caribbean. Our flagship store in Cannes, where we also opened our first ever beach club, has become the most productive store in our fleet. Several of our other stores are breaking all-time weekly records. To celebrate the start of the summer season in style, we teamed up with Fiat to create the Fiat Topolino Vilebrequin Collection (sic) [Collector's] (00:29:55) Edition, which sold out. The special version of the most coveted microcar is a celebration of style, spontaneity and that timeless sensation of never-ending summer by the sea, and a fabulous example of the brand's lifestyle reach.

Vilebrequin beach club has further extended the brand's lifestyle offerings, seamlessly blending beach culture, elevated culinary experiences and refined leisure. After launching our first-ever beach club in Cannes over two years ago, we've perfected the beach club concept and developed a successful license model. Through a licensed partner, we opened our second beach club at the St. Regis in Doha, which is doing well. This summer, a third beach club launched in Crete, bringing Riviera charm and radiant sophistication to one of the most – Mediterranean's most exclusive resorts, the Domes of Elounda. We have two more exciting launches in the pipeline this year in Miami and Oman.

Coming out of a strong summer season, we see many more opportunities to further drive the business in summer 2026 and beyond with significant global potential for the brand over the long term. Investing in and expanding a complimentary portfolio of licensed brands continues to be a key driver of our long-term strategy. We take a thoughtful approach to partnering with brands, ensuring that each new edition complements our existing portfolio while offering unique propositions that strengthen our business. Licensed brands are also a capital-light way to grow and leverage our powerful corporate foundation.

Our team sports business is growing with the expanded rights for several of our major sports league licenses. This business historically limited us to just outerwear. With our newly negotiated renewals, we'll expand our offerings to include activewear and athleisure as well as kids. We have several other exciting initiatives in the pipeline for next year.

Nautica, Halston and Champion, which launched last year, delivered solid results in the second quarter. Our newest licenses for Converse and BCBG are just getting stores and we're excited to see the product building momentum. BCBG launched here in North America with over 300 points of sale and is doing well. Converse also accesses a differentiated consumer and distribution network where our fashion brands have little or no presence. This includes big box, sports specialty and sporting goods stores, as well as internationally, in Western Europe and through the brand's global network Converse stores.

In North America, our launch spans across a rapidly growing wholesale business in addition to existing Converse brick-and-mortar online stores – and online stores. Internationally, we've partnered with Converse partners throughout the – throughout Europe, Latin America and Southeast Asia, enabling us to service both Converse stores as well as wholesale partners in those regions. The launch is already exceeding our expectations.

Looking ahead to fiscal 2027, we're proactively preparing for the expiration of several key PVH licenses, including Calvin Klein outerwear and athleisure and Tommy Hilfiger outerwear, sportswear and athleisure. At peak, we built Calvin Klein and Tommy Hilfiger into \$1.5 billion business in reported wholesale sales. After this year, following the expiration of the categories that I just mentioned, we expect remaining PVH sales to represent approximately \$400 million in fiscal 2027. As PVH transitions these categories to themselves or new licensees, we strongly believe this will create a meaningful product void in the market which we see as a strategic opportunity to capture additional market share, while continuing to deepen our partnerships with retailers.

Our owned brands, along with our growing licensed portfolio, will help offset lost sales from the PVH brands. With a solid balance sheet, we're poised to unlock our global growth potential and pursue future license and acquisition opportunities aligned with our long-term growth strategy.

We're focused on enhancing our omni-channel capabilities by improving our North American retail segment store operations and strengthening our digital ecosystem. In North America, we've made significant progress in our turnaround efforts. We remain on track to almost breakeven this year, eliminating approximately \$10 million in operating losses.

On the digital front, in the second quarter, our global digital business was up mid-single digits. As our digital business continues to expand, we're strategically investing in our [indiscernible] (00:36:03) technology and processes to enhance the stream – and streamline our global go-to-market capabilities. We remain focused on delivering a more robust and visually compelling product catalog across our owned and third-party partner sites.

By elevating the quality of imagery, descriptors and video content, we aim to provide an enriched consumer experience that drives conversion. Our owned websites delivered strong double-digit growth this quarter,

underscoring the significant value and long-term potential of the channel. This momentum further enables consumers to engage with our brands seamlessly, wherever they choose to shop.

In closing, we delivered solid second quarter results as we executed on our strategic priorities. Looking ahead, we've provided fiscal 2026 guidance to reflect the current macro environment, a more cautious outlook from our retail partners that affected most of our portfolio, especially Calvin Klein and Tommy Hilfiger, ahead of the transition as well as the impact of tariffs on our top and bottom lines.

We now expect net sales of approximately \$3.02 billion and non-GAAP diluted earnings per share between \$2.55 and \$2.75. With a clear strategic path, we're confident in our ability to unlock the full potential of our go-forward portfolio, globally recognized brands, while successfully navigating a difficult environment.

Our strong balance sheet and dynamic business model provides flexibility to invest in our brands, as well as pursue strategic opportunities. We will also consider opportunistically returning capital to our shareholders through stock repurchases. I'm incredibly excited about the transformation journey we're on, driven by our commitment to delivering long-term growth and shareholder value.

I'll now pass the call to Neal to walk through the financial results for the second quarter and provide guidance for the third and full year 2026.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

Thank you, Morris. Net sales for the second quarter ended July 31, 2025 were \$613 million, compared to \$645 million in the same period last year, well ahead of our expectations, driven by our wholesale segment. The decline in sales compared to the prior year is primarily attributable to the exit from Calvin Klein jeans and sportswear license businesses.

Net sales of our wholesale segment were \$590 million compared to \$620 million in the previous year. Net sales of our retail segment were \$41 million for the quarter compared to net sales of \$37 million in the previous year. This growth is a direct result of our turnaround initiatives, despite the decrease in store footprint in our North American outlet business.

Our gross margin percentage was 40.8% in the second quarter of fiscal 2026, compared to 42.8% in the previous year's second quarter. The wholesale segment's gross margin percentage was 38.9%, compared to 41.2% in the previous year. The gross profit percentage in the current period decreased 230 basis points due to higher-than-expected tariff costs, driven primarily by a greater volume of tariff inventory shipments in the quarter, as well as an unfavorable product mix. Gross margin in our retail operations segment was 52.4%, down from 54.4% in the prior year. This decline primarily reflects the liquidation of the G.H.BASS branded product, which is previously shared this past spring, is transitioning to a license arrangement with the ALDO Group beginning January 2026.

Non-GAAP SG&A expenses were \$226 million compared to \$229 million in the previous year. This decrease was driven by lower compensation expenses, resulting from decreased profitability, as well as reduced advertising expenses related to lower net sales of licensed products in the period. These decreases were partially offset by higher supply chain expenses, reflecting the acceleration of inventory receipts, as previously mentioned.

Non-GAAP net income for the second quarter was \$11 million or \$0.25 per diluted share, compared to \$24 million or \$0.52 per diluted share in the previous year. The impact of lower sales and additional tariff costs were the primary drivers in our reduced profitability.

Turning to the balance sheet. Inventories are in excellent shape at \$640 million at the end of the quarter, increasing 5% from last year's \$610 million. We remain in a strong financial position, ending the quarter in a net cash position of \$286 million after repurchasing \$25 million worth of shares this past quarter, compared to last year's net neutral cash position. Our total availability remains very strong at approximately \$830 million. Our financial strength provides us flexibility to invest in our business and other strategic opportunities to drive future growth.

Turning to guidance. We issued updated guidance this morning for fiscal 2026, which reflects a more cautious outlook resulting from both the retail landscape and consumer environment, as well as the impact of tariffs on our top and bottom lines. We now expect fiscal year 2026 net sales of approximately \$3.02 billion, a decrease of approximately 5% to the previous year, driven by first, the expiration of the Calvin Klein jeans and sportswear licenses as of December 31, 2024, which contributed approximately \$175 million in sales in the previous full year.

Second, the cautious stance from retail partners reflected in reduced open to buys in our order book, particularly in the second half of the year as consumer impacts from tariffs become more pronounced. This affected most of our portfolio, especially Calvin Klein and Tommy Hilfiger, ahead of the transition. Third, we are responsibly planning our exit from the expiring Calvin Klein and Tommy Hilfiger licenses and staying disciplined in our inventory positions based on the increased cost pressures and narrow selling period. Additionally, we are foregoing sales due to the recent 50% tariff rate on India. This decision was made to protect margins. It is important to note our key owned brands, DKNY, Donna Karan, Karl Lagerfeld and Vilebrequin continued to show healthy growth and are expected to grow at a mid-single-digit rate this year.

I want to take a moment to discuss our estimated tariff impact. We expect the total incremental cost of tariffs to be approximately \$155 million, up from the \$135 million original estimate. And this is based on the latest tariff increases implemented for Vietnam, India and Indonesia among others. Through a combination of vendor participation, strategic sourcing shifts and targeted price increases, we have successfully mitigated a portion of these costs. Our updated outlook for fiscal 2026 reflects an unmitigated impact of tariffs of approximately \$75 million, with the majority expected to be incurred in the second half of the year.

As a primarily North American wholesale business, we had limited flexibility to adjust pricing on inventory already sold into retailers for the upcoming seasons. As a result, in the near-term, we are absorbing a larger share of these costs to remain competitive and protect market share. Looking ahead, we expect gross margins to normalize and ultimately expand, driven by the exit of lower margin licenses, from the increased penetration of our higher margin owned brands and from continued selective price increases.

Non-GAAP net income for fiscal 2026 is expected to be between \$113 million and \$123 million or diluted earnings per share between \$2.55 and \$2.75. This compares to non-GAAP net income of \$204 million or diluted earnings per share of \$4.42 for fiscal 2025. Adjusted EBITDA for fiscal 2026 is expected to be between \$198 million and \$208 million compared to adjusted EBITDA of \$325 million in fiscal 2025.

Let me discuss a few points related to our guidance. As for the gross margin rate, we expect the full fiscal year 2026 gross margin rate to be down approximately 300 basis points. We expect third quarter gross margin rate to be down slightly less than the fourth quarter as the fourth quarter sales will have the highest penetration and impact from tariffed inventory.

Regarding SG&A, as we look ahead, we are actively pursuing initiatives to optimize our business model and drive cost efficiencies across our operations. We believe that continued investments in our brands and infrastructure

will be key to supporting our business transformation and unlocking the full potential of our portfolio. For example, we are aligning our warehouse footprint and capacity to our needs and are making the appropriate investments in technology in our corporate platform.

Further, we will continue to support our brand investments through marketing in line with last year. We expect interest expense to be approximately \$5 million for the full year, benefiting from the \$400 million debt repayment. We expect capital expenditures of approximately \$40 million, principally driven by the build out of shop-in shops for our new brand launches and implementation of new technology to support our transforming business model. We are estimating a tax rate of approximately 30% for fiscal 2026. 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. I'm proud of our team's work this quarter, and I'm confident in G-III's future as a global leader in fashion. I'd also like to thank our entire organization and many partners and all our stakeholders for their support.

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

QUESTION AND ANSWER SECTION

Operator: Thank You. [Operator Instructions] And our first question coming from the line of Ashley Owens with KeyBanc Capital Markets. Your line is now open.

Ashley Owens

Analyst, KeyBanc Capital Markets, Inc.



Hi. Good morning and thanks for taking our questions. So, just to start on the gross margin, I appreciate the color there. Just anything else we should be mindful of weighing on the balance of the year? How you're approaching promotionality, just as you balance elasticity with some of these price increases, given the mixed consumer signals we're getting? And then, moving into next year, I know it's early, but do you foresee further pressure in the first half of the year or should some of these mitigation strategies be fully in motion by then? Thank you.

Morris Goldfarb

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



Thank you for your question, Ashley. On price increases, we're targeting areas of our business, where it's appropriate and acceptable to raise prices, as I said in our script. A lot of what we do is – maybe I didn't say it in the script, is art. We don't sell a dozen eggs. We don't sell tonnage of steel.

And art, if it's done appropriately and you target your consumer, you get paid well for art and you create demand with great art. We're doing great art. We have demand for our collections and the consumer has accepted some price increases that we've implemented at the tail end of Q2. And currently, the month of August, we had product that was elevated in price point and there was no consumer resistance. Back to school is very good. The consumer is resilient.

We're looking at it closely. The areas of business where we need to be competitive, we're competitive. Where we believe there's elasticity, we'll implement it. We'll implement price increases. We have a unique situation. Tariffs are not for us and not solely the cause of margin deflation and top line dilution. You need to remember that we are exiting PVH's assets. And when tariffs are implemented and prices need to be increased to come out alive, you modify your plan. You have retailers that are not certain about acceptance of price increases. They know there's a transition of management and supervision of the brands. And we offered our plan for PVH on the exit.

We have a limited time period to dispose or sell-through of our inventory in the PVH assets and we decided that it was not worth the risk with the pressure of price increase and the lack of support that we were getting on the exit of the brands.

So, the tariffs influence, the level of inventory we bought, and all said, we're comfortable that as we transition out of the PVH brands and get into the coming year, we believe that at all levels out, we've got some very strong initiatives that are now being shipped into the stores, new licenses, as well as the maturity of Donna Karan and Karl Lagerfeld and DKNY for that matter. And we see growth in every one of our brands. And as I stated earlier, owned brands provide a better return on margin than licensed brands. So, as a percentage of our owned brands increases, you'll see margin improvement over the coming year.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

A

Ashley, this is Neal. With respect to the first half of next year, look, it's a little early for us to give you any kind of specific guidance. Let me give you a little bit of background in terms of what we're looking at. Certainly, we end this year, January, the beginning of our spring shipping, and then, of course, the first quarter will be the robust part of our spring shipping. The spring season, the latest set of tariffs really happened sort of midstream with respect to our go into market. We've been able to correct some of those prices and incorporate those, as Morris mentioned, not entirely. So, we'll have a little bit of pressure. But I think, overall, the big thing for us is that if we see the tariffs coming ahead of time before we go to market, we can appropriately price our product and get back to the kinds of margins that we expect to have and have had in the past.

Morris Goldfarb

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

A

Thank you, Ashley.

Ashley Owens

Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Yeah. That's super helpful. Maybe just one more quickly to follow-up. I think with the mix of owned and licensed, and just talking about PVH, when you last spoke to the portfolio strategy about six months ago, I believe it was mentioned that Calvin and Tommy were expected to represent about 25% of total sales at the end of this year. But just given the reduction in open to buys that you highlighted for some of these brands, is that still how we should be thinking about the full year mix shift? I guess better way to word that is the reduction there driving an acceleration in kind of mix step down from PVH for the balance of the year. Thank you.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

A

Yeah. No dramatic change in terms of percentage. Pretty similar to where we've been before. We really – we've been impacted certainly across all the brands as far as the pullback in our sales as a result of the consumer pressures and the impact of tariffs.

Ashley Owens

Analyst, KeyBanc Capital Markets, Inc.

Q

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

Morris Goldfarb

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

A

Thank you, Ashley.

Operator: Thank you. Our next question coming from the line of Mauricio Serna with UBS. Your line is now open.

Mauricio Serna

Analyst, UBS Securities LLC

Q

Great. Good morning. Thanks for taking my questions. I wanted to ask if you could provide a little bit more detail on the sales update for the year. Maybe could you give us more – a bit more detail of like how much of that attributed to like much lower revenues from the PVH brands and versus your go-forward business, particularly given the comment that you expect the go-forward brands to be up mid-single-digit, it kind of implies the deceleration versus like the double-digit growth rate you've seen like in previous quarters. Thank you.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

A

Yeah. Thanks, Mauricio, for the question. Look, you're right on. We've actually got challenges this year, both first and foremost, really from the transition of the businesses. It's not just the businesses that are falling off [ph] where really (00:55:18) all of the Calvin product is in a transition mode for us and that does present some selling seasons, selling problems into the marketplace. I think when you combine that with the tariff pressures, as Morris was mentioning before, it's nearly a perfect storm. So, we've got certainly deceleration in the Calvin and PVH brands and we've got some deceleration in our own. And you're right, the mid-single digit is what we're expecting this year, down from where we've been a little bit more robust.

Morris Goldfarb

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

A

We also see a little softness in some of that categories. And footwear has been soft for us. So, there's an internal miss on what we projected to do in footwear. There's the confusion of exiting most of our production out of China did not help us, moving into new factories and getting your trading partners to comply with how you produce, when you produce, and the quality of what you produce is not seamless. So, we were affected by transitioning from country to country as well as a softness in the general consumer demand for footwear as we see it.

Mauricio Serna

Analyst, UBS Securities LLC

Q

Got it.

Morris Goldfarb

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

A

Thank you, Mauricio.

Mauricio Serna

Analyst, UBS Securities LLC

Q

Just a quick follow-up on the Q2 result. Maybe could you tell us like how much was the tariff impact that you had on the second quarter? And I guess just like – is this just like mainly because you were taking product with the 145% China tariff, just trying to understand like how, I guess, is this like will be actually like probably like relatively – relative positive in Q2 next year just as you lap this headwind. Thank you.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

A

Yeah. Mauricio, if I were to look at our reduction of just over 200 basis points, I would say it was probably half tariffs and half product mix. So, relatively speaking, a pretty small tariff impact in the quarter. But certainly as a percentage, it was a significant part of the fall off from the prior year. We do not have tariffs at 145% rate, China tariffs were 30%. And we did receive some of that with tariff product that flowed through in the second quarter, slightly more than we would have expected when we did the original forecasts.

Morris Goldfarb

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

A

To be clear, we were not impacted on the 145% tariff. That was a moment in time we responded by rerouting product to Europe, where we marketed potential problem and we held in bond another batch of product as tariffs became more realistic and we brought the product in. So, if the assumption is the dilution of product, profit was 145% tariff, it was not.

Mauricio Serna

Analyst, UBS Securities LLC

Q

Got it. Understood. Understood. Thank you so much.

Morris Goldfarb

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

A

Thank you, Mauricio.

Operator: Thank you. Our next question coming from the line of Paul Kearney with Barclays. Your line is now open.

Paul Kearney

Analyst, Barclays Capital, Inc.

Q

Good morning. Thanks for taking my question. I was wondering if you can just help size the amount of product that was coming from India. I'm just trying to gauge the impact from the foregone product post-tariff from India versus the reduction in order to buys from Calvin and Tommy. Thank you.

Morris Goldfarb

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

A

Well, the amount – thank you for your question, Paul. The amount of product that we bring in from India, historically, is not been very much. It's a low-single-digit percentage of our total production. This quarter, the third and fourth quarter, as we moved some product into India, is greater than the low-single-digit number. But it is not impactful to the future. It is impactful for the year. We plan on taking some of the product and again marketing it in Europe if we can. And if not, it will be held and dealt with our Indian partners. And I'm happy to give you the top-line FOB number. It happens to be somewhere near \$30 million, which does affect our fourth quarter, our year-end top line results, should we have [indiscernible] (01:00:38). And it's factored in as we give that.

Paul Kearney

Analyst, Barclays Capital, Inc.

Q

Thanks.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

A

And just to clarify, Paul. The \$30 million is the sales impact of the [ph] Indian (01:00:49) production.

Paul Kearney

Analyst, Barclays Capital, Inc.

Q

Okay. Thanks. My quick follow-up and I think you touched on it a little bit. But in the past, you've spoken to some very strong pricing power for the right products. And I'm just curious, as you look to mitigate the tariffs into next year, do you – are you starting to see any resistance on price, whether through your owned brands or through what your retail partners are saying? Are we starting to push against the limit of what is possible on price? Thank you.

Morris Goldfarb

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

A

So, we are seeing some resistance. And the resistance is not because the consumer is not willing pay. It's basically retailers wanting to see comp prices in the field. So, for example, the off-price channel is about value, price value relationship. And for them to be comfortable that they can afford to pay increases, they need to see price increases in the department store level. They've not yet felt comfortable enough to get behind it in full force. They're buying their needs. And my belief is that there's a treasury waiting to be spent when prices are rationalized.

Paul Kearney

Analyst, Barclays Capital, Inc.

Q

Thank you very much.

Operator: Thank you. And our last question coming from the line of Dana Telsey with Telsey Advisory Group. Your line is now open.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Hi. Good morning, everyone. As you think about the future, which is the future of your owned brands, can you expand on the performance of your owned brands for the remainder of this year or this quarter and this up – this third quarter? And then, Morris, can you talk about the other potential license opportunities? I think Converse gets you into new places. BCBG, with obviously what we have going on now, it's a point in time, but if you think about

the go-forward, what do you see as the brand opportunities both for licensing and any changes to your existing expectations? Thank you.

Morris Goldfarb

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

A

Thanks for your questions. Our brands are retailing very well. You can tell pretty much every call we talk about door expansion. You don't get door expansion without performing. So, initially, as you launch a new brand, you get a handful of doors to test it. As sales begin to surface, the door count increases. And today, every retailer we trade with has seen the merit of carrying Donna Karan. They've seen outsized performance relative to the inventory that they've carried in door count. So, we're getting not only greater door count, we're getting better penetration per door. And we ourselves are expanding classifications within those brands as I stated before, weakened, which is yet to be shipped, is built incredibly well. And I believe will be in almost 300 doors for spring that's not been shipped yet. So, there's a soft launch coming in the next probably 45 days and then we get further penetrated as it retails.

And with Karl Lagerfeld, basically, the same way, if you're a store shopper and you do shop in department stores, you'll see great penetration of DKNY, Karl Lagerfeld and Donna Karan. They're clearly leaders in the department store sector as far as penetration. You wouldn't know this, but as far as performance as well, there was a call out from Macy's and several brands. I believe there are four brands that Tony Spring called out as performing well. And Donna Karan, again, I believe this might have been the third time you cited good performance with Donna Karan. We're proud to hear it. We're proud to see it. And we have no distribution outside of the United States.

We have no off-price distribution. It's a pure brand that has pricing power that we believe we can take advantage of. And we just ship product into [indiscernible] (01:06:04) for the first time in Donna Karan. And so, we're hopeful that it will retail and we'll have another department store group that'll support the brand. And our owned retail and Karl Lagerfeld has been very good. We're looking at outlet expansion now. We're shopping for more stores as we logically and carefully maybe – maybe – maybe conquer the retail space on our own, which is essential to some of our brands. We do not have a store for Donna Karan. We're likely to open a couple of flagships and we're beginning to get significant interest in licensing Donna Karan.

As I stated, the first license was jewelry and the jewelry looks great. It – parts of it come from Donna's archives and we're getting great support, great marketing, great talent that underpins it all in Q3. So, I talk about Donna Karan, the Donna Karan today is, let's say, if we talk about the triplets; Donna Karan, DKNY and Karl Lagerfeld, Donna Karan is the smallest of the group with great potential. It's quite large for a launch. It's far better than we anticipated scale wise, but there's a long way to go. We believe it can be a \$1 billion brand in the coming years. So, as we post that, margins will improve, top line will improve and diversity will also improve. Will be better balanced for pricing elasticity.

And I'm sorry to be so wordy, but as you can tell and very proud of what this organization has accomplished in difficult times, not only tariffs, PVH, the consumer, if there was a perfect windstorm, we were hit with it and we're coming out rock solid. From a financial point of view, we're in great shape. From a balanced portfolio, I haven't even touched on your question of BCBG and Converse. Those are globally recognized brands. Who doesn't know Converse, is supported by Nike. It's owned by Nike. And we're challenged to take on pretty much globally. There's North America. There's Western Europe. And most of our licensees do not include anything out of North America. This one does.

And the abundance of orders that are coming in, we've shipped very little. We're about to get our product out there, but we have great global distribution. We've been given accolades for how great the product looks. I don't

want to speak for the Converse organization, their team. But as they come through, they're much more than satisfied and maybe surprised as to how fast we brought it to market, utilizing identified factories that are unique for Nike production. They need to be approved. We got that accomplished. We got product produced and ready to be delivered and the product looks great. So, I think we have a big brand in the horizon and BCBG covers another piece of our business or not our business, newly entered into the business, which is contemporary.

There's an effort to balance assortments in department stores with more contemporary brand and BCBG covers that. We shipped a fair amount of product just recently and the sell-throughs this past week were excellent. So, we see growth in two emerging brands that, I think, will hit the radar screen. And maybe we'll talk about how important, again, our license business is as we exit PVH.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC



Thank you very much.

Morris Goldfarb

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

Thank you, Dana, as always. And thank you, all, for your participation and wait and see. We've got some great stuff on the horizon. I'm eager to share it with you in the coming quarters. Thank you, all.

Operator: This concludes today's conference call. Thank you for your participation and you may now disconnect.

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