06-Jun-2023

G-III Apparel Group Ltd. (GIII)

Q1 2024 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 First Quarter Fiscal 2024 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 turn 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.

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. We had a good start to the year. In the first quarter, our team worked hard to successfully navigate what remains a challenging environment where we exceeded both our top and bottom line guidance. For the first quarter of fiscal 2024, net sales were $607 million, above our guidance by approximately $45 million. Non-GAAP net income per diluted share was $0.13, exceeding the midpoint of our guidance by $0.23.

As expected, gross margins were significantly better than last year's first quarter. We made strong progress rightsizing our inventory position by reducing future bias to account for the product that we're carrying. We sequentially decreased inventory from last quarter by $80 million and ended with balances up approximately 15% to last year or up 8% excluding the acquired Karl Lagerfeld inventory.

Further, as port congestion and lead times have normalized, we adjusted our warehouse space appropriately. Importantly, we expect this trend to continue throughout the year driven by freight cost moderating and not needing to anniversary significant logistical costs primarily incurred in the last year's third quarter.

We ended the quarter in a strong financial position with approximately $800 million in cash and availability, including returning $17 million to our shareholders through stock repurchases. Our balance sheet continues to provide us with the flexibility to invest in future growth.

Last quarter, we announced two new substantial opportunities, which include the spring 2024 repositioning and global expansion of Donna Karan and a long-term license for Nautica in North America. We've already begun executing against them.

Today, we're pleased to announce a new licensing agreement for the Halston brand as a third new initiative. We have entered into a 25-year agreement with Xcel Brands to design and produce all categories of product with the option to buy the brand at the end of the licensing term. As the master licensee for Halston, we have the ability to sublicense additional lifestyle categories that we do not produce, providing another share of licensing income. First deliveries are expected for fall of 2024.

Halston is an American heritage brand with a rich legacy of glamorous designs across a range of price points. Currently, the brand is sold through a number of distribution channels with a focus on top-tier department stores and live streaming. With our best-in-class design and merchandising teams, retail relationship, and distribution expertise across stores and digital platforms, we'll make the brand more widely available to consumers across a broad range of touchpoints. At G-III, we're known for our success with American heritage brands and believe there is tremendous opportunity to grow Halston by leveraging our proven model to unlock its potential. I look forward to sharing updates with you as we made progress on bringing this exciting brand to market.

Development for Nautica and Donna Karan is well-underway. We've spend time studying the archives of these brands to ensure we create lines with authentic brand messages while [ph] running (00:05:50) their appeal. Product development and merchandising are a foundational strength of our company, and our experience teams are moving quickly. For Nautica, we are hard at work bringing the spring 2024 jeans line to life, having built highly successful and differentiated jeans businesses for Calvin Klein, Tommy Hilfiger, and DKNY, we're confident in our approach to Nautica jeans.

With a strong understanding of the architecture of this category, we're creating a line that we believe will be successful from the start. With Donna Karan, we're leveraging the brand's classic, contemporary, and elevated feel and working to [ph] run (00:06:38) this appeal to a wider consumer base. The collection looks incredible, and the initial response from our retailers has been positive.

The new Donna Karan, Nautica, and Halston opportunities, along with our focus on our strategic priorities, will continue to drive growth for the company. Our strategic priorities remain: drive our power brands across categories, further expand our portfolio through ownership of brands and their licensing opportunities, extend our global reach, maximize omni-channel opportunities by leveraging data, and continue to scale our private label business.

Now let me update you on some of our progress this quarter. Our power brands DKNY, Karl Lagerfeld, Calvin Klein, and Tommy Hilfiger outperformed our expectations. Our results were led by dressier categories including dresses, sportswear, and suit separates. Consumers are responding to our latest product offerings across all of our distribution channels. Our diversified expertise enabled us to pivot quickly to these categories from athleisure, which has declined in demand. We continue to be able to make quick transitions where necessary to deliver the right product at the right time. Owned brands are key strategic priorities for us. This includes a focus on DKNY, Karl Lagerfeld, Donna Karan, and Vilebrequin, as well as our other owned brands which continue to perform well and represented an aggregate of $1.3 billion in annual net sales last year.

This year, our owned brands are expected to generate approximately $1.5 billion in annual net sales. Our team is focused on these businesses through expansion across categories, distribution channels, geographic regions, digital penetration, and new licensing opportunities. These brands have strong resonance and significant potential to grow while generating higher operating margins than in company's historic averages.

Our North American DKNY and Karl Lagerfeld Paris businesses exceeded plans and are off to a good start to the year. DKNY has shifted much of its market efforts through a digital-first approach, focusing on both performance and brand awareness campaigns. The brand continues to build relationships with influences across all key social platforms and participated in the second annual Metaverse Fashion Week in March.

Last month, Vogue and the Metropolitan Museum of Art hosted the annual Met Gala, the largest and most prestigious event in global fashion. The event celebrated the opening of the museum's new exhibition, Karl Lagerfeld: A Line of Beauty, which revisits Karl's extraordinary career at Chanel, Fendi, Chloé, and his own Lagerfeld brand to explore his impact on fashion and culture. It's a great honor for Karl Lagerfeld, and we're thrilled that our brand is central to all of the activities.

The celebrity-studded gala was widely watched with spectacular red carpet arrivals. Many celebrities were at Karl Lagerfeld including Academy award actress, Michelle Yeoh and Jared Leto, in addition to Amber Valletta, Cara Delevingne and Carla Bruni-Sarkozy.

To capitalize on the significant Met Gala present activities, we focus on our marketing investments on brand-building strategies that connected with customers. We rolled out our largest global marketing campaign for the brand to-date, which included dedicated windows at Macy's and Bloomingdale's flagship stores in New York City. We also launched capsule collections, events, media partnerships, pop-ups, and Metaverse engagement. These activities resulted in an impressive 5.1 billion impressions. This is global and created increased demand for the brand. Our largest retail partners in our own retail sites saw significant spikes in the period around – at the Met Gala. The branding halo from the Met, coupled with a strong performance we've seen as a result, reinforces the power of having Karl Lagerfeld as part of our portfolio.

Additionally, we're looking forward to the Karl Lagerfeld movie with Jared Leto, who is starring in and coproducing with us. We expect that these investments will increase long-term brand affinity.

Extending our global reach is another key priority. In addition to Karl Lagerfeld and DKNY, Vilebrequin continues its positive sales trend and opened three new stores this quarter. The brand is known for exciting collaborations that drive newness, excitement, and differentiated product.

Last week, we officially opened the Vilebrequin La Plage, our first beach club in Cannes, signaling the brand's association and ability to grow all things vacation. Having just returned from the grand opening, I can tell you that it embodies the spirit of the brand. It is clear that there are many more opportunities to broaden the Vilebrequin experience and further solidify our position as a leading luxury resort brand.

Our focus on developing sales across multiple distribution channels is yielding good results. In particular, our digital business had strong growth of over 20%, an increase that outperform the industry overall. This is primarily attributed to our focus on building our Amazon business, which was almost triple last year's first quarter led by outerwear, dresses, and shoes.

Our growth with pure play digital retailers offset traditional digital channels, which, as expected, have moderated with customers returning to stores. This diversified mix is serving us well as we continue to invest in expanding our digital distribution channels, including our own sites, retail partner sites and pure plays, and ensuring that appropriate product is also available in the stores.

The re-platform of our own DKNY and Karl Lagerfeld Paris e-commerce sites are boosted by a new look and feel, new loyalty programs, enhanced CRM capabilities, and upgraded technical operations. These are powerful consumer engagement tools that are resulting in strong increases in traffic, as well as strong double-digit increases in sales and increased average order value.

We're unlocking data in more effective ways than ever before to acquire new customers, drive incremental conversion, and foster a more seamless shopping experience for our brands. This work has resulted in the strong performance of our digital business. We continue to take on initiatives to enhance our operations, which will further improve our profit margins in the future. This includes hiring a consultant to help us optimize our warehousing infrastructure.

Lastly, I'm pleased to mention that we had a good start to the new fiscal year, we beat our top and bottom line guidance, we made solid progress aligning our inventory to forward demand, and we signed a new long-term global licensing agreement for Halston, furthering our focus on developing new opportunities.

Based on the strong first quarter, we're raising our fiscal 2024 outlook. We now expect fiscal 2024 net sales of approximately $3.29 billion, slightly up to last year and including a full year of the acquired Karl Lagerfeld business. We're raising our non-GAAP net income per diluted share to be in the range of $2.80 to $2.90 compared to $2.85 in fiscal 2023.

In conclusion, I'm pleased to mention that our board has nominated three new directors: Dr. Joyce Brown, Michael Shaffer, and Andrew Yaeger, who will stand for election at our annual shareholder meeting this Thursday. We look forward to having their expertise and valuable perspectives in supporting the future of G-III.

I'll now pass the call to Neal for a discussion of our first quarter financial results, as well as guidance for the second quarter and full year – full 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'm about to make are on a non-GAAP basis. And, again, a full reconciliation of our GAAP to non-GAAP results are included in our press release issued this morning.

Net sales for the first quarter ended April 30, 2023 decreased approximately 12% to $606 million from $689 million in the same period last year and approximately $45 million above our guidance. Included in our sales for this quarter were $60 million in sales of the acquired 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, commencing with the last month of the prior year's second quarter.

Net sales of our wholesale segment decreased approximately 14% to $587 million from $681 million last year. This segment now includes the acquired Karl Lagerfeld business results. Net sales of our retail segment were $30 million for the first quarter, compared to net sales of $28 million in last year's first quarter.

Our gross margin percentage was 41.2% in the first quarter of fiscal 2023 compared to 35.7% in the previous year's first quarter. The wholesale segment gross margin percentage was 39.9% compared to 34.1% in the prior year's comparable quarter.

As we have stated before, the acquired Karl Lagerfeld business operate at higher gross margin percentage than the rest of our wholesale segment. Their inclusion in the quarter resulted in an increased wholesale gross margin percentages of approximately 250 basis points. The remainder of the increase in gross margins is a result of a decrease in inflationary pressures in product and transit costs, as well as increases in our prices.

The gross margin percentage in our retail operations segment was 50.9% compared to 49.9% in the prior year's quarter, also benefiting from a decrease in inflationary pressures in product and transit costs.

Non-GAAP SG&A expenses were $226 million or 37.3% of net sales compared to $183 million or 26.6% of net sales in last year's first quarter. SG&A grew by approximately $43 million, primarily related to the inclusion of the acquired Karl Lagerfeld business in our results for the quarter. In addition, we had an increase in warehousing cost as a result of our higher inventory levels and increases associated with overall inflationary pressures.

Non-GAAP net income for the first quarter was $6 million or $0.13 per diluted share compared to $35 million or $0.72 per diluted share in last year's first quarter. This was significantly above the midpoint of our guidance of a net loss of $0.10 per share.

Turning to the balance sheet, we made good progress with respect to our inventory levels, which sequentially decreased by $80 million from last quarter. As compared to last year's first quarter, inventory levels were up approximately 15%. Approximately half of the inventory increase is attributable to the acquired Karl Lagerfeld business. The remaining increase is related to increases in outerwear that we carry into this year and expect to ship in the fall and holiday season.

Just as a reminder, we have tempered our buying this year in all the categories to account for our existing inventory levels and expect our levels to be down significantly compared to the prior year at the end of the second quarter and continue to normalize our inventories as we go through the third quarter.

We ended the quarter in net debt position of approximately $250 million compared to $83 million in the prior year. This increase in net debt was impacted by the $170 million in net cash used to complete the Karl Lagerfeld acquisition and $44 million used for stock repurchases.

We had cash and availability under our revolving credit agreement of approximately $800 million at the close of the quarter. Post quarter-end, we repaid $75 million of the $125 million of note outstanding to LVMH. The remaining $50 million of this note will be repaid on December 1. We expect strong positive cash flow this year that will be enhanced as our inventory levels normalize. We believe that our liquidity and financial position provides us the flexibility to invest in our future growth.

As for our guidance, a full – based on our performance in the first quarter, we're raising our guidance. For the full fiscal year 2024, we now expect net sales of approximately $3.29 billion, slightly ahead of last year. On a non-GAAP basis, we expect net income for the full fiscal year 2024 of between $132 million and $137 million or between $2.80 and $2.90 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 2024 adjusted EBITDA is expected to be between $267 million and $272 million compared to adjusted EBITDA of $266 million in fiscal 2023.

For the second quarter of fiscal year 2024, we expect net sales of approximately $595 million compared to $605 million in the same period last year. The prior-year second quarter reflected only one month of the acquired Karl Lagerfeld business.

On a non-GAAP basis, we expect operating results of between a loss of $3 million and net income of $2 million or between a loss of $0.06 per share and net income of $0.04 per diluted share. This compares to non-GAAP net income of $19 million or $0.39 per diluted share in the second quarter of fiscal year 2023.

Let me add some context around modeling. As Morris mentioned, we expect gross margin improvements during fiscal year 2024 and anticipate ending the year with gross margins up approximately 350 basis points compared to the fiscal 2023 rate. This is driven by a few factors.

First, freight costs have significantly moderated, and we expect this benefit throughout the year. Second, we do not expect to repeat significant one-time logistical costs primarily incurred in the third quarter of last year. Lastly, the first five months of this year will benefit from the inclusion of the acquired Karl Lagerfeld business, which positively impacts our gross margin percentages. The results from the acquired Karl Lagerfeld business were reflected commencing June 1, 2022.

We anticipate SG&A will de-lever as we continue to expect elevated warehousing cost associated with higher inventory levels this year, as well as continued inflationary pressure on costs. Further, the addition of the Karl Lagerfeld business in the first five months of this year will increase the percentage of net sales represented by SG&A expenses. We expect non-GAAP interest expense to be approximately $50 million, and we're estimating a tax rate of 28% 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. G-III continues to successfully navigate what has remained a challenging operating environment. We're off to a good start in the new fiscal year. We remain focused on driving our key strategic priorities and continuing to develop new opportunities. We have the financial flexibility to invest in our business and take advantage of appropriate opportunities that may come our way. I'd like to thank our entire organization, our many partners, and all of our stakeholders for their continued support.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Edward Yruma from Piper Sandler. Your line is open.

Edward Yruma
Analyst, Piper Sandler

Q

Hey. Good morning, guys. Thanks for the time. I guess first, Morris, on Halston, exciting news. Can you talk a little bit about the white space now that you have a couple of owned brands in that space and licensed brands? Kind of how does it fit in relative to DKNY and Karl Lagerfeld?

And then as a follow-up, Neal, I know you have lots of excess demurrage costs in the back half of last year. Kind of are they already rolling off? And could you just maybe remind us for modeling purposes kind of when they were – when they fell in last year and how we should model appropriately this year. Thank you.

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

A

Thanks for your question, Ed. Halston, for us, is a brand that we will have full control of and basically servicing the demands of where the consumer wants to be. We're developing a collection of a little bit more glamorous than we historically have done product. We've staffed it with talents that is premier in our organization. We didn't have to go outside to find new talent. We have talent that follows basically the beat of G-III, does it well. Sourcing is not a problem. And we're excited about the opportunity of building a global initiative with Halston. It's a brand that very much is classified as an owned brand. And as much as we'll share some licensing royalty with Xcel, they seem to be great partners and we've got a strong plan for this in the coming years.

The white space that your question refers to, in product I assume you're asking, is more existing in our portfolio than out there in the world. It's a brand that partners well with Lagerfeld. In a sense, they're contemporaries. One has got European appeal and the other is more of an American Heritage brand that we've proved out to be quite proficient in developing brands such as Halston.

We're not so concerned about filling white space. We're a little bit more concerned about filling our own space. And as most of you do know, we're in a process of exiting both Tommy and Calvin. So, this is a shore-up to our assets. And as I said before, we're excited by the opportunity and the great partners that we have.

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

A

And on the logistical costs, we incurred about $40 million in total last year, about – just under $30 million was in the third quarter, and then about $10 million was in the fourth quarter. And you could pretty much exclude those figures almost entirely as we roll this year.

Edward Yruma
Analyst, Piper Sandler
Q

Thank you.

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

Thank you, Ed

Operator: Thank you. One moment for our next question. We have a question from Will Gaertner from Wells Fargo. Your line is open.

Will Gaertner
Analyst, Wells Fargo Securities LLC
Q

Hey. Good morning, guys. Thanks for taking my questions. Neal, maybe you could just talk a little bit about inventory levels that – and Morris too, I guess, what you're seeing at retail partners. Are they still heavy with inventory? Are they beginning to order or [ph] receipts (00:30:14) coming back? And then secondly, maybe can you speak to the work stoppages at the West Coast ports and how that might impact your business? Thanks.

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

Thank you for your question, Will. Inventories are a major issue for our customers today. There's a clear focus on managing their inventory differently than they have historically. Turn on product is a focus there, which is a natural. If you're not turning your inventory, you have no need to buy it. Fortunately for us, we're on the good side of that. Our inventory is turning well. Our inventory is in demand. We've – fashion and our inventory is in demand. And what we've done is adjusted our inventory into the in-demand categories that we have.

We've – we're in a good position on the performance or athleisure side of our business. We have a fair amount of orders that go forward that support the initiative. The space is not being given up. If there's an overabundance of product in the marketplace, we're adjusting our flows to accommodate that. And the areas that are flourishing at retail are our specialty. Suit separates and dresses are areas of demand that we dominate. So, it's not necessarily how the retailer is managing their inventory, it's how we're managing fashion and the right product for our retailers to create demand in our classifications.

So, we don't see a problem. Our orders support that. Our reorders support that. But there is a focus on coming in with low inventories by quarter. We have done an amazing job of bringing down our inventory levels to – at least what you're seeing is Q1, which was not a problem quarter for us last year, our problems came in Q2 and Q3 in spite of the fact that you're seeing an 8% increase in inventory levels. It's at a period of time that our inventory levels were not an issue at all. You'll see major, major decreases in inventory levels with Q2 and Q3, which will enhance our cash. And it will mitigate some of the logistical issues that we had last year. So, inventories are very much in control.

As far as the West Coast, we're not incurring any issues. Not at all. Not been forewarned that we have a potential issue. We're flowing our inventory appropriately. We have inventory in-house to support a good percentage of what we need going forward. So, there's no crisis on our horizon.

Will Gaertner Q
Analyst, Wells Fargo Securities LLC

Thank you.

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

Thank you, Will.

Operator: Thank you. We have a question from Mauricio Serna Vega from UBS. Your line is open.

Mauricio Serna Vega Q
Analyst, UBS Securities LLC

Great. Good morning, and thanks for taking my questions. Just wanted to ask about the Halston brand agreement. So, just following on the previous question, what kind of revenue potential do you see in the long term from this brand? And also, I noticed, like in other release – press release, mentioning that there was like an upfront payment in May 2023 for this, an advanced payment. Is that, like, an amount – could you share the figure for that? And how many [indiscernible] (00:34:43) it is for your guidance this year? And then lastly on the gross margin, how should we think about the rate of expansion in upcoming quarters compared to what we saw in Q1? Thank you.

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

Thank you, Mauricio. Addressing the Halston question, I'm not free to give you the cost of buying or giving an upfront payment to Xcel. It's not my decision to – my own decision to give it to you. It was a minor payment in the scope of G-III. Doesn't affect us in any way at all. It gives us freedom. It gives us growth. And if I were to put a target on it, I would tell you within four years, it's a $250 million business. It is global. It is in demand. We didn't just pick the brands without doing our diligence. We have customer support for it. We – globally, quite honestly. I was a little surprised there for the fact that it has a global appeal, particularly in Europe.

So, we're excited by the opportunity. We have an added feature. We share licensing royalty and licensing income that comes to us when we license categories that we choose not to do or not able to do for any reason. So, besides our own income, we get licensing income, and it's long-term at a discounted royalty rate, as well as a nominal purchase 25 years for now, should we care to purchase the company. It's all done – it's not a major event from a financial output story.

As far as gross margin, what we've told the Street and what we're experiencing is – and you can see it – there's a margin enhancement when you get to ship your our own brands without paying a serious royalty on it. The royalties all in that we pay for a product is somewhere between 10% and 12%. Eliminating that and spending our own money on advertising and maybe a little bit of added infrastructure, we still have a significant margin enhancement done in our business by shipping our own brands versus licensed brands.

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

And, Mauricio, just to help you with some of the phasing, we expect pretty strong increases compared to the prior year for the second and third quarter. And then, of course, in the fourth quarter, that will probably tail off, but still be ahead of the prior year.

Mauricio Serna Vega
Analyst, UBS Securities LLC
Q

Great. Thank you very much. Congratulations on the results.

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

Thank you, Mauricio.

Operator: Thank you. One moment for our next question. We have a question from Janet Joseph Kloppenburg from JJK Research Associates. Your line is open.

Janet J. Kloppenburg
Analyst, JJK Research
Q

Good morning, everyone, and congratulations on a good quarter. I got on a little bit late, so forgive me if you answered this. But I was wondering, with the addition of the Halston brand and the development of DK and bringing on Nautica, if you now feel that the revenues that will eventually diminish from Tommy and Calvin have been recouped, I just wondered how that outlook look. And I know Halston will be licensed brand, and I wondered about the margin profile of that and how it may impact your business next year. Thank you.

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

So, Janet, the prior question, we addressed on Halston and I'll give it to you again. We...

Janet J. Kloppenburg
Analyst, JJK Research
Q

Thank you. I'm sorry for the repeat.

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

No, no. Quite all right.

Janet J. Kloppenburg
Analyst, JJK Research
Q

I'm sorry for the repeat. Yeah. Yeah.

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

It's quite all right. I like telling the story. Halston is a great fit for us. It was not a major cash output. And it's signed as a global initiative, it's signed as a discounted royalty rate, and it's signed as an opportunity to buy the brand at termination with – of the license, which goes out should we choose to go out. It's got kick out periods. But should we have this brand in 25 years, we buy it for – we buy the entire brand for a nominal amount.

So, great acquisition for us. It fits into our portfolio. We know how to produce American heritage brands. And we have built in demand for the brand. We have built in space as we wind down our Calvin and Tommy licenses. And I believe within four years, this is $0.25 billion business for us with enhanced margins.

Janet J. Kloppenburg
Analyst, JJK Research

Q

Thank you. Could you also talk about the career wear business. It seems to be leading your strength. And if you look for that to continue through the remainder of the year, or do you think there would be some reversion back to casual? Thank you.

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

A

So, good question. Career wear is performing very well. We dominate that sector at the wholesale level. Our business is very good. Our margins are good. Our inventories, if I were to cite an area where we have low, low inventories, it would be the career wear side of our business. Demand was high, sell-throughs were very strong, and we see it continuing as it always has to the future. As far as the athleisure business, that's not gone away. There was an overabundance of inventory in the marketplace. Everybody during the pandemic decided that that was the area to address. They either expanded their offerings, initiated new collections, or bought brands and classifications that they thought they could build.

So, all of a sudden, from a small business, it became a giant business. So, now it's correcting itself. It's an important business as – and as the inventory – the old inventory clears out, new offerings are given to the consumer, we're just fine. We believe that that business does come back, and it comes back appropriately. The woman is not giving up on athleisure apparel. It's a way of life. So – and I don't see that way of life changing at all. And it's pretty much all demographics, and it's pretty much every age. So, we've got – the two initiatives that you speak about are both incredibly strong in different ways, in different time frames.

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

A

Thank you, Janet.

Janet J. Kloppenburg
Analyst, JJK Research

Q

Thank you.

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

A

Thank you for your questions.

Janet J. Kloppenburg
Analyst, JJK Research

Q

Thank you.

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

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Hey. Good morning, everyone. Thanks for taking my questions. My first question is on kind of the SG&A cadence through the year. I think relative to where we had you in consensus was, 2Q looks a little higher than we were thinking. I'm just wondering just if there's anything behind why SG&A would be higher in 2Q or how we should think about though the year.

And then second, as we lapped the Karl Lagerfeld acquisition in this coming quarter, can you just give us a sense or just remind us the organic underlying growth of that business and how we should model that going forward? Thank you.

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

A

Yeah. So, Paul, on – as far as SG&A, pretty comparable with the first quarter. Little more advertising spend. So, I think maybe the models were a little bit light. But if you look compared to what we're doing in the first quarter for our volumes, nothing too unusual there. Like I said, we will have challenges for the year in terms of even the core business with respect to warehousing cost and inflationary pressures in general.

With respect to the Karl Lagerfeld acquired business, on a comp basis, we see nice double-digit growth in that business. And as Morris said in his prepared remarks, there's lots of exciting things happening around that brand that it will [indiscernible] (00:44:49) to the benefit in both the current year and the future year for that brand.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Thank you. One moment for our next question. We have a question from Noah Zatzkin with KeyBanc Capital Markets. Your line is open.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi. Thanks for taking my questions. Now that you've got Nautica and Halston signed up, just wondering how you're thinking about additional opportunities moving forward. Would you look for an owned opportunity versus licensed? You're kind of agnostic there. And then, second, just hoping you could speak to your level of comfortability with the order book today as it relates to the decision to raise full year guidance. Thanks.

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

A

Thanks for your question, Noah. We're consistent. Our first choice is to acquire brands. The features of owning brands are almost self-evident today. The risk of losing a license after you've developed it for the years that we have with Calvin and Tommy have taught us a lesson. Owning, in this case, is better than renting. The margin enhancements are incredibly important to us. And being able to guide all our people as to where the brand goes, how it's marketed, and the attributes that we care to impose in a owned brand are different than our ability to have influence on licensed brands.

So, we like – in this case, we like owning better than renting. As far as what we're – are we out there looking for brands? We are. In the last few months, I've traveled the world to have meetings on opportunities that we believe are actionable. None has surfaced to a must buy today, but we do have the availability and bank support. And as much cost of money is a little richer than I'd like to pay, if the opportunities is there, we have the ability of buying a major acquisition. So, we've not put that to the side because we have Nautica, Donna Karan, and Halston. We're still searching for an important acquisition.

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

A

And then, Noah, with respect to the order book, that is – it's coming along nicely. Obviously, this time of year, we don't have – we have not shown all of the seasons that will ship during the year. So, probably about 75% of the year looks like it's pretty well-reflected and we feel is pretty supportive of the – of our forecast.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks a lot.

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

A

Thank you, Noah. And our last question?

Operator: Yes. Our last question comes – one moment. Let me – our last question comes from Dana Telsey from Telsey Advisory Group. Your line is open.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Hi. Good morning, everyone. As you think about Karl Lagerfeld and the significant press that you've had over the past quarter, what – was there any additional contribution to revenues or margins that you saw as a result of it? And through the balance of the year, is there any additional uptick that we should be expecting from the Karl Lagerfeld brand as you move forward?

And then, Morris, just your view on the wholesale channel right now, what you're seeing in terms of promotion, and what the setup looks like for fall and for holiday would be helpful. Thank you.

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

A

Thanks for your question, Dana. We – as it relates to Karl, we have a spike in business. Margins were good going in. We've positioned the brand in an area where it just can't get too deep into the customers' wallet. It's an affordable brand. It is not top-tier luxury. Yet, we're – there is pricing power left in that brand. We've got great demand. I was amazed when I was given a number yesterday that there were 5.1 billion eyeballs on the brand during the Met Gala.

So, it's clearly brand building that you don't get the immediate – and I can't tell you that we had an immediate impact that was as glorious as 5.1 billion eyeballs. But clearly, there are eyeballs that are now paying attention to it. So, the future is bright. The present business is very good. The future is better than the business today. Although, the business is at the top tier of what we're doing at G-III, both internationally as well as domestically.

So, we're excited by the ownership of the brand. There's so much more to come, whether it's retail, whether it's wholesale distribution, whether it's licensing, and licensing in classifications that were unexpected. So, the calls and curiosity of where to take this brand are just mind-boggling. So, we're more than thrilled to own it all.

And as far as wholesale, wholesale is going through its difficult periods. There's a hate to do this, and everybody says the same thing. Weather had its impact for Q1. It was unseasonably cold, so spring inventory didn't move nearly at the rate that we all expected it to. I'm expecting markdowns to be – I'm not going to say aggressive, but there is a need to markdown products to make room for appropriate seasoned goods; and the retailers are recognizing that. I don't think you're going to see a crazy amount of marked down product. I think everybody, for the last six months, has been focused on inventory correction. So, nobody is really top, top-heavy on inventory. So, I think we're all okay. And it takes a little time to course-correct with all that's gone on in the world in the last couple of years. And I think we're on that path.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

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

Thank you, Dana. And thank you, all, and speak to you soon. Have a good day.

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