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G-III Apparel Group Ltd. (GIII)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the G-III Apparel Group Fourth Quarter Fiscal 2020 Earnings Conference Call. My name is Jackie and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note that this conference is being recorded.

I would now like to turn the call over to Mr. Neal Nackman. Mr. Nackman, you may begin.

Neal S. Nackman

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

Good morning and thank you for joining us. Before we begin, I would like to remind participants 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 share, and to 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, and thank you for joining us. Also joining me remotely today are Sammy Aaron, our Vice Chairman and President; Wayne Miller, our Chief Operating Officer; Neal Nackman, our Chief Financial Officer; Jeff Goldfarb, Executive Vice President; and Priya Trivedi, Vice President of Investor Relations.

As we are hosting this call remotely, please bear with us and stay on the call if we have technical difficulties. We'll be right back with you. The coronavirus outbreak has become a national and worldwide crisis. Our top priority is to ensure the health and well-being of our employees. In that regard, we've closed all our retail stores and corporate offices. We continue to work remotely where appropriate to remain operational.

I want to remind you that one of our core competencies in our well-developed supply chain infrastructure – is our well-developed supply chain infrastructure, and we are working to leverage our strong vendor relationships. As I mentioned during the tariff wars, we did not abandon these well-financed and loyal vendor relationships built over the past 40 years. It is these relationships that are providing us the ability to manage our receipt flow over these difficult times. Based on current updates of factory operations in China and other affected areas, we now anticipate only minimal delays in production and transit times.

That said, sales for both our retail partners and our own retail stores are being impacted. This is a very fluid and evolving situation. We're in a daily contact with our retail partners and vendors. We will provide additional information when we report the results of our first quarter earnings in early June.

We continue to work towards the restructuring of our own retail operations, which would greatly reduce the number of stores and losses we're incurring. We see upside potential for the DKNY and Karl Lagerfeld Paris nameplates. Both businesses posted positive comparable sales for the fourth quarter and the full year. The effect of the coronavirus is negatively impacting sales. The new product where DKNY and Karl Lagerfeld developed and curated at under our new leadership is working well.

Our e-commerce business for all of the brands are doing well with DKNY and Karl Lagerfeld leading the way with strong double-digit sales increase. As soon as we finalize our restructuring plans, we'll report back to you. We're confident our strong wholesale business, along with a more streamlined retail operation, creates a solid foundation for continued growth and improved profits for the future.

Our success remains anchored by our five power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld. We have the flexibility and the ability bolstered by our strong financial condition to adjust and adapt to the challenges and opportunities that lie ahead.

Fiscal year 2020 was another year of growth for G-III. Calvin Klein, our largest brand, continued to take market share. DKNY and Tommy Hilfiger both had strong growth, benefiting from expanded distribution with significant opportunities ahead. This year, we've also broadened our product expertise in the denim category as we launched the collection under the CK jean brand. This coming year, we're adding comprehensive denim collections for three of our power brands – CK Jeans, Tommy Hilfiger Jeans and DKNY Jeans – which will make us a significant player in the important denim space.

Now let's look at the full year and fourth quarter fiscal 2020 results. We reported another year of growth in net sales, adjusted EBITDA and non-GAAP net income per share. For the full fiscal year, net sales of our wholesale and retail segments were $3.16 billion, up 3% from last year's $3.8 billion (sic) [$3.08 billion]. Importantly, the wholesale segment's net sales grew over 5% to $2.86 billion from $2.72 billion.

Our non-GAAP net income per diluted share was $3.19, up 12% from last year's $2.86. Our adjusted EBITDA for the year increased to $285 million, up 6% from last year's $271 million. Fourth quarter non-GAAP net income was $0.75 per diluted share, up 37% compared to $0.55 per diluted share in the fourth quarter last year.

Now let's turn to some details of our wholesale business. Our sales growth for the year was led by Tommy Hilfiger, DKNY and Calvin Klein. In the fourth quarter, net sales fell short of our expectations, primarily due to the warmer weather during the important holiday selling season and in the month of January. This negatively impacted our sales of cold weather apparel including outerwear. However, we were able to offset most of that impact of the net sales mix, primarily through good expense controls, and non-GAAP diluted earnings per share was above our guidance range.

Calvin Klein is our largest business with net sales approaching $1.1 billion this past fiscal year. The brand remains a dominant resource in the women's apparel market. We were pleased with the soft launch of CK Jeans this past quarter. We believe we've built the right combination of fashion and basics into the line and will remain flexible to tweak the mix as we move forward.

Our Tommy Hilfiger business ended the past fiscal year with net sales of nearly $500 million, an increase of 25% from the past year. Although the fiscal fourth quarter growth was impacted by the warmer weather, our Tommy Hilfiger business was up mid-single digits. Importantly, for the past fiscal year, the strong growth was broad-based across all categories. Tommy Hilfiger Jeans line also launches this spring. As we continue to broaden our product offering and distribution, we remain confident that we can meaningfully grow and expand our Tommy Hilfiger business over the next several years.

Our Karl Lagerfeld wholesale business ended the fiscal year with net sales of just over $110 million, only slightly up from the prior fiscal year, largely due to the changes at Lord & Taylor. For the Karl Lagerfeld brand, we continue to build the lifestyle appeal and will further work to expand product distribution.

Our own DKNY and Donna Karan brands registered another solid year with net sales growth of nearly 25%. These businesses now generate over $450 million in annual wholesale sales and licensing revenues and are a significant profit contributor to G-III. This spring, we're introducing our new DKNY Jeans line with a soft launch. The line has been well received by our customers. For this past quarter and year, we saw strong sales increases in our DKNY international businesses, which include better department and specialty stores in Europe as well as distribution around the world.

In February, we kicked off our spring 2020 advertising campaign for a second season with artist and global mega musician Halsey. We'll continue to have a digital-first approach to our strategy, especially now, focusing our resources to increasing social media messaging to continue to engage and excite the consumers, keep the DKNY brand top of mind, as we work to amplify the brand's awareness.

Licensing is another important part of our DKNY and Donna Karan business profile as it is a meaningful profit driver of our business. We created a solid licensing base with world-class partners. Overall, we're very pleased with the development of DKNY and Donna Karan businesses.

I'll now pass it to Neal for a detailed discussion of our fourth quarter results. Neal?

Neal S. Nackman

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

Thank you, Morris. Now turning to our results. For the fourth quarter, net sales ended January 31, 2020, decreased approximately 2% to $755 million from $767 million in the same period last year. Net sales of our wholesale operations segment decreased approximately 1% to $635 million from $639 million with an impact across brands in the cold weather apparel categories, including outerwear, offset by increases in the Tommy Hilfiger and DKNY brands.

Net sales of our retail operations segment for the quarter were $131 million, approximately 16% lower compared to last year's sales of $155 million. We reported same-store sales decreases of approximately 6% for our Wilsons stores, 10% for our G. H. Bass stores, and for DKNY, we're positive 3%. Net sales of our retail operations segment were also negatively affected by the decrease of approximately 26 stores operated by us as compared to the fourth quarter of last year.

Our gross margin percentage was 33.3% in the fourth quarter of fiscal 2020 as compared to 33.8% in the prior year's period. The decrease in total gross margin percentage is primarily attributable to the lower penetration of the retail segment, which operates at a higher gross margin rate. The gross margin percentage in our wholesale operations segment was 30.0% compared to 28.7% in last year's quarter. The gross margin percentage in our retail operations segment was 45.9% compared to 48.9% in the prior year's quarter.

SG&A expenses were $187 million in the fiscal quarter compared to $202 million in the same period last year. Net income for the fourth quarter of this fiscal year was $25 million or $0.52 per diluted share compared to $24 million or $0.48 per diluted share in last year's quarter. Non-GAAP net income per diluted share was $0.75 for the quarter compared to $0.55 per share in the prior year. Non-GAAP results in this quarter exclude the impact of non-cash imputed interest, asset impairments, and a one-time income tax gain. A full reconciliation to our GAAP results are available in our press release issued earlier today.

For the full fiscal year, net sales for the year ended January 31, 2020, increased approximately 3% to $3.16 billion from $3.08 billion in the same period last year. Net sales of our wholesale operations segment increased 5% to $2.86 billion from $2.72 billion with Tommy Hilfiger, DKNY, and Calvin Klein brands the main drivers to the growth.

Net sales of our retail operations segment for the year were $386 million, approximately 19% lower compared to last year's sales of $477 million. We reported same-store sales decreases of approximately 13% for our Wilsons and our G. H. Bass stores and a positive 1% comp for DKNY. Net sales of our retail operations segment were also negatively affected by the decrease of approximately 26 stores operated by us as compared to the end of last year.

Our gross margin percentage was 35% for fiscal 2020 as compared to 36% in the previous year. Decrease in total gross margin percentage is primarily attributable to the lower penetration of the retail segment which operates at a higher gross margin rate. The gross margin percentage in our wholesale operations segment was up to 32.7% compared to 32.4% in the previous year. The gross margin percentage in our retail operations segment was 46.7% compared to 47.7% in the prior year.

SG&A expenses were $832 million in this fiscal year compared to $835 million in the same period last year.

Net income for this fiscal year was $144 million or $2.94 per diluted share compared to $138 million or $2.75 per diluted share in the previous year. Non-GAAP net income per diluted share was $3.19 for this year compared to $2.86 per share in the prior year. Non-GAAP results exclude the impact of non-cash imputed interest, asset impairments, net of gains on lease terminations, and a one-time income tax gain.

Looking at our balance sheet, accounts receivable increased to $530 million from $502 million, up approximately 6%. Inventory decreased approximately 4% to $552 million. We spent approximately $38 million on capital expenditures. We had long-term debt outstanding of approximately $397 million at the end of the year compared to $386 million at the end of the previous year.

The average debt load net of cash for the company including seasonal borrowings under our revolver was approximately $450 million, and with our strong EBITDA position, our net debt to EBITDA ratio is approximately 1.5 times. Our quarter ending cash balance was $197 million this year compared to $70 million a year ago.

Further, to our strong liquidity position, we have a $650 million revolving credit facility, under which at year-end, we had approximately $600 million available and no outstanding borrowings. Our current liquidity position is as strong as G-III has had in the recent past and leaves us with significant financial flexibility as we work our way through this upcoming trying time.

As for our guidance, as the ongoing coronavirus outbreak continues to add uncertainties relating to the ultimate severity, the duration and the actions that may be taken by the governmental authorities, it makes it difficult for us to forecast the impact of the outbreak on our fiscal 2021 results. The company will monitor the developments associated with the coronavirus outbreaks and its potential impact on our sales, results of operations, and supply chain. Accordingly, at this time, we're not providing any guidance.

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

Morris Goldfarb

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

Thank you, Neal. Thank you for joining us today. This past year, we grew our wholesale business, we managed successfully through several rounds of tariffs, we built three new denim businesses for our power brands – CK Jeans, Tommy Hilfiger Jeans, and DKNY Jeans – and we are in the process of restructuring our retail operations.

The coronavirus crisis is greatly impacting our industry as well as many others. It's important to note that we've built an adaptive and agile organization and business model with a real entrepreneurial culture that keeps us flexible. We also have a strong balance sheet and we are in a solid financial position to weather the challenges and pursue the opportunities that lie ahead.

Combating the coronavirus is a global effort. We have some employees who have relocated their families to safe strategic locations around the world while making personal sacrifices to oversee our business. I'm amazed with all our employees' unwavering focus and ability to execute. The dedication, drive, compassion, and care that they exhibit each and every day is truly amazing. I could not be prouder and more appreciative of the world-class team we have here at G-III.

Our future growth continues to be anchored on strategically leveraging the strength of our global power brands. Our team remains focused on developing our capabilities and elevating our position as the supplier of choice for our retail partners. I'd like to thank our shareholders, partners and stakeholders for their continued support.

Thank you, operator. We're now ready to take some questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from Edward Yruma with KeyBanc Capital Market. Please go ahead.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, guys. And thanks for taking the questions. I guess first, I'm sorry if I missed this, as we look at the outerwear business in its entirety from this past season, I guess how much was it down due to warm weather in your opinion? And then kind of a broader question, thanks for all the updates on liquidity, what's your expected kind of cash flow needs for the year particularly I guess as you continue to look to close some of your retail stores? Should we expect the same kind of inventory build that we saw this year or is cash usage going to be lower given some of that restructuring? Thank you.

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

A

Neal, the percentage of outerwear and the effect of outerwear, could you respond to that?

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

A

Yeah. Sure. So the outerwear season for us fourth quarter was down. For the full year, Ed, we actually were up in outerwear. Look, we were planning for an increase in outerwear in the fourth quarter. So it did impact the full year. But certainly, the fourth quarter is not – is as fairly normal penetration of outerwear for us for the whole year, runs about 30% of the business. So the third quarter is really – is our big driver.

In terms of free cash flow, we're looking at all of our purchases, we're looking at all of our expenses. It right now really is about keeping the company strong and financially flexible as possible. So we will be making adjustments to the inventory flows obviously as the retail stores are closed, and we'll be watching all of our cash expenses as well.

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

A

Ed, we...

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. And one follow-up if I could – sorry, go ahead.

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

A

Ed, let me add to that if you don't mind. As far as flowing inventory, we're spending most of our time the last few days on adjusting inventory flows, inventory levels and less concern about supply chain delivery on time. That was the battle until about three weeks ago. We had that all in line and now we're going down the other path, modifying our inventory levels, understanding that – clearly understanding that. We have cancellations coming our way, we have store closures and pressure at retail, and we'll probably have credit issues that will also disarm us and probably prohibit us from shipping a lot of the accounts that we have orders on.

So we're spending a good deal of time adjusting the flow of product, and the flow of both finished and piece goods product. So it's a tough battle. It's hard to forecast. I don't know what we're up against. We clearly know we don't have the same calendar we did in my entire history and business. So if we knew the calendar, we'd probably be able to forecast it better.

Thank you, Ed, for your questions.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.
Q

Maybe one quick – thank you.

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

I guess, next question, operator?

Operator: Thank you. Our next question comes from Erinn Murphy with Piper Stan (sic) [Piper Sandler]. Please go ahead.

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

Hi, it's Erinn Murphy with Piper Sandler. I hope you guys are all safe and healthy. I guess just on the store closures, I would actually think that for you guys in particular this period of stores not being open could actually be a potential help just given that they have been loss-making historically. Can you just speak to the potential P&L impact as stores remain closed? And then just from a mall operator perspective, several have announced closures entirely. Does that change kind of – or give you some help from a deferred rent perspective or any concessions that you'd be expecting from operators? I would just love to kind of help you guys – have you guys help us understand that dynamic?

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

Hi, Erinn. I can give you the second question as far as my belief. Clearly the store closures will enable us to negotiate with our landlords, but we also have to understand that landlords are not the bad guys right now. When we're negotiating to get out of leases, it's frustrating. We both have valid arguments. But without landlords, without real estate, we have nothing. We don't have malls. We don't have showcases for our product. We don't have department store venues.

So they have their own crisis and I'm sure there are going to be some major compromises to enable both the retailer and the real estate developers to move on. And we're not sure what the government will provide in aid, but clearly there'll be some provisions from the government to help our developers and ourselves.

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

Yeah, and...

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

And just on the...

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

A

For the moment, we were on a path at – as far as store closures, there's a little bit of confusion. But when we were down a much more aggressive path and I'm not sure how the current situation plays out for us, I'm not sure if it's a good thing or if we're negatively impacted by the store closures. There was a strategy in place that there was supposed to be a trigger date in mid-March. And based on all these events, we move that trigger date to somewhere down the future. So there's uncertainty today. There was much more certainty 10 days ago as to our path.

Neal, I think the first question Erinn had was the effect, the financial effect.

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

A

Yeah. So the...

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

A

I apologize for the bantering back and forth, but I think you all realize we're all in different locations. Go ahead, Neal.

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

A

Yeah, I can't help but think that – I understand the underlying part of your question as far as the stores being closed and the full-year profits. But the flipside is that if your stores are closed and you're not getting rid of product and you're not getting sales and positive gross margins which we do, that's just not a good thing. So it's hard to look at the situation and suggest that there's a net plus to us from the stores being closed at this point.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Okay. That's helpful. And then just two other for me and I'll just ask some collectively, and I know you guys are in different places. So just in the first quarter so far, obviously in the last week, we've all heard about the store closures, but kind of – or prior to that, is there any way you can help us think about kind of what consumer behavior, what consumer demand looked like earlier in this season? And maybe if you could break that out what you were seeing physically at stores versus maybe on any of the dot-com or the third-party dot-com businesses? And then the second question I have is really related to expenses and SG&A. Maybe Neal, on that one, could you just speak to what drove the 9% decrease in the fourth quarter and then to your flexibility around expenses in 2020? Thank you.

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

A

So, Erinn, our business until a week ago was excellent. Going beyond the first quarter, our order book was very strong for the entire year. We were tracking ahead of last year. We're reviewing the merit of that order book today. So we don't know where we stand. But I will tell you we were in great shape. Our sales on a daily basis were really good. Our performance business was good. Our dress business was good. Our social dresses were good. Our spring coat business was very good. I'm talking about wholesale.

So we were on a very good path for the first six weeks of the quarter. And even as the crisis started to evolve, the stores that were open were posting reasonable sales. Today is kind of another day. Most stores are closed, but those that are open are selling our product and selling them fairly well.

As far as what the future holds, not really certain of where we wind up. But our styles are right, our brands are right and the next focus is a little less about the fashion that we have. It's more about survival, cash preservation, and coming back and fighting another day. And I believe we're one of those companies that will live and may be prospering in this period of time. As I said earlier, we're agile. We're composed of a bunch of entrepreneurs who have been fighting battles all of their working career. Most of them have owned businesses and have struggled at periods of time to make payroll, pay rent. And those are the guys that I want at my side. They're doing an amazing job of tempering the problems that are coming at us. And we will come out a stronger company than we even are today. It's just a matter of time.

Our e-commerce business is actually doing fairly well. Sometimes there's confusion as to the merit and the understanding, there are different dynamics that we're looking at, the different metrics that we're looking at to measure that business. But that's holding up both our own business – our own e-commerce business as well as the department stores and the Amazons of the world that we see. Their business is good. They're actually looking for more product even in this environment. So there is a world out there. We just have to figure out what that world is and it will unravel in time.

Thanks, Erinn. Thank you for your question.

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

Erinn, with respect to the expenses in the fourth quarter, the big decreases that we saw were in the payroll area, primarily in bonus, managed some payroll hires as well. And then our advertising expenditures, we were also – we were able to pull back on some of that. I think in terms of just viewing us going forward, our real variable expenses in terms of SG&A, we have primarily in the advertising area, both national advertising as well as advertising that we spend and of course payroll would even be larger than that.

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

Thank you.

Operator: Thank you. Our next question comes from John Kernan with Cowen. Please go ahead.

John Kernan
Analyst, Cowen and Company, LLC Q

Hi, good morning. Thanks for taking my question. Neal, just on – we'll go back to liquidity. On the truncated balance sheet that's in the press release that's showing $397 million in long-term debt, is there any current portion of long-term debt?

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

No. There's not, John.

John Kernan
Analyst, Cowen and Company, LLC
Q

Okay. That's helpful.

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

And just to give you a little more detail on that, the ABL expires in December of 2021, so plenty of time on that. The term loan is a $300 million term loan. That would expire in December of 2022. The seller notes which were taken from LVMH, those are in the middle and end of 2023.

John Kernan
Analyst, Cowen and Company, LLC
Q

Okay, great. That's helpful. Just in the managing of working capital in the – keeping on the liquidity theme, how much can you push back on inventory receipts? How much do you think you'll need to push back in the first half of the year as an effort to conserve cash?

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

We have a target. It's a fairly aggressive target as far as pushing back. We're not sitting with many cancellations that have come our way from retailers. So we have our own planners coming up with an appropriate level of inventory that would not put us in harm's way. So we're bypassing what the buyers and merchants are telling or not telling us. We're using our own judgment with an understanding that, as I said before, we'll come back to fight another day. We're not looking to have an amazing year this year. We want to come out reasonably well, and that basically means bringing down your inventory levels as far as you can and not taking the risk that the retailer has normally passed down to us.

So we're using our judgment, as I said before. This is an amazing team that understands what needs to be done and can go beyond just that straight road that is crafted for us by our retailers. So there'll be more to come. We do need our supply chain. We can't put them out of business. They're very cooperative. To-date, we've not had a major conflict with any one of them. They understand the need to take cancellations. They also have no future. In most cases, we're the largest customer of most of our suppliers. If we go out of business, then they close up shop. So they also understand that they need to make the compromises to enable us to sustain tough times. So we're getting an amazing level of cooperation to-date.

When – talk to me in another month, that may be another story, but everybody is working together, our logistics people, our landlords, our suppliers, our people, we're all – even our competition. This is a time that people need to work together to enable the industry to sustain the times that we're in. So, to-date, I can't tell you that we've left anybody in terrible pain overseas, but that may occur in another month.

John Kernan
Analyst, Cowen and Company, LLC
Q

Understood. And just finally on the store closures. On the balance sheet, we can obviously see the non-current and current portion of the operating lease liabilities. This liability would be nowhere near what you would need in terms of closing costs, I would imagine. We have gotten some questions from investors on this. I just think there's some confusion out there as to what the long term – or what the total costs are going to be from a cash perspective and in total to close down the outlier retail stores.

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

A

No. What you're seeing is the absolute. Nobody ever settles for the absolute. We have our case. The landlords have theirs. We were down a very stair path and what you're seeing would not have been the result of where we were headed, not even close.

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

A

And just to add to the...

John Kernan
Analyst, Cowen and Company, LLC

Q

Understood. Best of luck. Go ahead, I'm sorry.

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

A

Yeah, just to add to that, John, don't forget the liability that you see on the balance sheet is the total company. The retail piece of that would be probably half of the total.

John Kernan
Analyst, Cowen and Company, LLC

Q

Got it. That's helpful. Thank you.

Operator: Our next question comes from Rick Patel from Needham & Company. Please go ahead.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thank you. Good morning, everyone. Question on the wholesale business. How much of your planned 1Q sales were already in the hands of wholesale customers around the time, the virus escalated a couple of weeks ago. Was it half, more or less, I'm just curious how much of your 1Q business is locked in versus what's at risk given the department store closures?

And my follow-up question is on the digital business. With traffic the stores falling in early March and with department stores now being closed, are you seeing an acceleration in your department store, dot-com business, and on your own platforms or has it been steady state?

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

A

So the – I would say the percentage of product that's in the hands of our retailers that was written for Q1 was probably more than half. We even have situations where we had April and May receipts that moved up because inventory levels were low at the department stores and sales were fairly good. So we had – I'd comfortably say we had about 60%, 65% of the quarter in the amount of orders that we had in-house. I'd say we had – that's probably the number, probably 60% was shipped.

And as it relates to – I'm sorry, Rick, would you repeat the question that relates to the Internet, the online business?

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Yeah. On the digital side, like, as we think about the last couple of weeks, with traffic the stores falling and with stores now being closed, are you seeing an acceleration in the dot-com businesses for your department store partners and on your own platforms?

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

A

On our own platforms, clearly, yes. On our customers, yes, but not as much as I would have thought. I think that's yet to come. You have to remember a lot of stores were still open in the last few days. They're only closed for two days. I think Macy's was open Monday. I think Nordstroms was open Monday, so we're only dealing with the digital part of the business on an exclusive side with our major accounts for the last couple of days.

I'm sure there'll be growth clearly as a percentage, but there'll be significant growth. People are sitting home. They are buying. Their choices may change. I'm not sure that our social occasion dresses are going to do incredibly well for the coming months, but I'll tell you that our performance business is selling incredibly well. People are relaxing at home and they're buying it. So if I give you a dollar value, there are some pieces that just kind of dropped off, there's no real need for a coat today. There's no need for social dressing today. So, social is a big part of, let's say, it's a Nordstroms or Dillard's. There's a prom business that depends heavily on digital sales. That's gone. There are no proms. There are no parties. So we have segments that faded away, but we have segments that are growing.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

And just the last one, if I may, on the fall order book. I know the situation is all very fluid right now and it's extremely difficult to put firm numbers around anything. But are your wholesale customers assuming that it's going to be a normalized environment in the back half of the year or are they planning things to be very cautious? And how are you managing G-III's inventory in this environment for the back half?

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

A

We're managing it very tightly. There are two factions. There's the retailer and then there's ourselves. The retailer basically has, at all times, the backstop of the wholesale. So they're able to, not that I'll put it, operate casually, but there's less pressure on being right on the retail side than there is on the wholesale side. We have to be right. We're tempering our inventory, we're less concerned about the coat business because we believe the fourth quarter will be fine, people will be buying coats. We are less concerned about performance, but there are segments of the business that we're going to be very, very careful on how we manage through. So just respectfully, I'm not as concerned as to what the retailer feels the future is like. I'm more concerned about how our planners and how our operators who are challenged with – have been challenged for many years to run their segment of business. It's their decision on how to take the risk.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thank you, Morris. And stay safe, everyone.

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

A

Thank you, Rick. Thanks for your constructive questions.

Operator: Our next question comes from Heather Balsky with Bank of America. Please go ahead.

Heather Balsky
Analyst, Bank of America Merrill Lynch

Q

Thank you very much for taking my questions. I guess, first, Neal, can you just remind us what your covenants are for your revolver and term loan just as we kind of go into this uncertain time? And then also with regards to the uncertainty with inventory, are you in talks with some of your licensing partners about using the off-price channel more as you go through the year, the way to kind of manage potential excess product in certain categories? Thanks.

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

A

So with respect to the covenants, the ABL actually has a covenant that is a springing covenant based upon availability, and it's a fixed charge covenant that's 1:1, so our EBITDA to fixed charges, which are primarily interest expense and income taxes. There's a tremendous amount of room under that one. Obviously with all of our availability, it's not even applicable at the moment.

With respect to the term note, there is a senior debt to EBITDA ratio that is 4.5:1. As I mentioned, we've got significant coverage – significant room on that at the moment. We're 1.5:1 now that's with all debt. So we're even richer than that essentially versus the 4.5 in terms of where we were at January 31.

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

A

And Heather, to respond to your off-price opportunities, we have – as we've verbalized and as is very obvious, we have an amazing relationship with PVH. We've overcome many situations in the past. They understand the problems as well as we do. We have the brands that we operate for them at heart and they're paramount to the future. If we destroy those brands, we have a problem. It's not only a PVH problem. We've cited half our business with PVH brands and a prepared presentation to $1.1 billion of Calvin Klein and about $0.5 billion of Tommy Hilfiger, and we'll do what's necessary to protect those brands.

But clearly we'll be sitting at the table with PVH and strategizing as to how to move inventory in appropriate ways. So currently our distribution for those brands is just North America. Our distribution with DKNY is under our own control. We're global and we decide what percentage goes to off-price where we dispose of it throughout the world if we need to dispose of it. But as I said earlier, our main focus is not to provide inventory for the off-price channel. It's to stop it before it gets here. We're working hard on rightsizing the level of inventory that's coming into this country for potential orders.

So in a sense, my belief is the off-price channel may have less of an offering than they've had historically from us. They'll have amazing opportunities throughout, but I'm not sure we're going to do that one.

Heather Balsky
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you for answering my questions and stay safe.

Operator: Our next question comes from Jim Duffy. Please go ahead.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. Good morning, all. Hope you're all healthy as you manage through these difficult times. Not surprisingly, it seems that the G-III team is really [ph] ready (00:49:11) to navigate the ship through the stormy seas. Morris, you touched on this earlier, can you talk more about how you balance offense versus defense to manage risk for G-III by both planning inventory receipts into an uncertain end market and also managing receivables risks, no doubt difficult decisions around shipping to long time customers who may be a credit risk?

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

A

So coming back let me answer the second question first. The receivable risk is – again we have a partner and we credit insure the high risk as well as a percentage of the safe accounts. So I don't believe we have a major problem. Again, all bets are off. I can give you – I can't give you anything that's factual and you understand why. We're in a time period that just changes every 15 minutes, but I can tell you I feel comfortable on the receivables side. And just disclosing how we're managing inventory from a strategic competitive point of view, it's a little difficult to fully disclose. We do have a strategy and that strategy is come out of this incredibly strong regardless of basically what we need to do.

We're that company. We stood our ground when we were – I don't want to say – beat up, but we were criticized for the level of inventory and production we were doing in China when everybody was exiting China. Today, that turns out – if we look at where we are with our vendor partners and where we are with product flow, it turns out that staying in China and respecting the relationships that we had really paid off. We have partners that are willing to take the pain. Some of them are incredibly financially sound. Some of them are government-owned. So we're developing strategic plans so that we come out of this in good shape. So that turned out to be the appropriate thing to do.

We're on the ground. I assure you that we're doing the right thing and we're that company that can kind of muscle our way through. We're not going to be somebody that's pointed to as being collateral damage in this environment. There'll be a host of people that will be, and who knows? We might be the acquirer of those companies. And maybe we partner with some of the brands that were never available to us because they were funded well for the period of time. So we're looking at, not only protecting the downside, but we're clearly aware of what the upside opportunities are. We're not only operating with a strong balance sheet. We're operating with a strong team of, call it, Navy SEALs that can accomplish anything. So we're there.

We've provided 700 feet on – out of our New York office. I'm not sure you know this, but we had 1,800 people in one building in New York City. 700 of them went home with computers and, man, I've never seen communications like I have in the last couple of days. Everybody's working all day every day to find solutions for their segment of business. It's almost great that we always explain that we operate by segment of business. So there are many leaders that are autonomous in running a segment. So each one of them is out there fighting for their piece and they're with different vendors. It's not a collection of just sportswear that's run by one team. We have 32 floors, we have many brands and we have many operating teams and each one led by a brilliant general. So I'm really comfortable we come out of this okay.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. And then, Neal, a question for you, recognize it's a dynamic situation. But given the historic circumstances, do you think there's opportunity to flex the covenants working with your lending partners?

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

A

Yeah. Look, I think that ultimately G-III has been and will continue to be perceived as a very strong credit with lots of different opportunities from a financing standpoint. So, obviously, we're concerned as everyone is about the current situation and so many people being on lockdown. But again, I think from a financing standpoint, we are as strong as we could be at this moment and as strong as we've ever been. Lots of room at the moment and I think that lots of people will be interested in helping us should we need help go forward. We don't see that in the near future as a need, but I'm sure there'll be people out there.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you very much, everyone. Good luck.

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

A

Thank you, Jim. Thanks for your support.

Operator: Our next question comes from Susan Anderson with Riley FBR. Please go ahead.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Hi, good morning, everyone. Thanks for taking my call. I guess maybe just to follow up a little bit on the wholesale partners, I guess, just curious if you've had [indiscernible] (00:55:44) around cancelling orders, it doesn't sound like they have cancelled any yet, or then also if you have moved on yet to just talks around mark down money for the wholesale partners? Or is that still very fluid and no one knows really what the situation is going to be when the consumer comes back? Thanks.

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

A

I guess, I'm going to use your final sentence, nobody knows what the solution is going to be when everybody comes back. Quite honestly, we need each other to survive. We're on cancellation mode. We haven't determined what is not needed yet, we're on it again every moment of the day since this occurred. And we're communicating with our factories, with our retailers. We believe we know what the desires, the wish lists are for our retailers, and we're trying to get as near to it as we can. But none of it is resolved. It's so complicated. You're taking six months and longer of order placements and preparation for production and trying to disassemble it in a couple of days. That's a tough mission. So we're all over it, but I can't tell you any more than that.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Okay.

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

A

I'm not hiding any of it. It's just impossible to gauge at this very second.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Yeah. That makes sense. And I guess maybe just a follow-up on the DKNY retail stores, nice to see the positive comp there. I guess do you have any color maybe you could give just on the profitability of those stores or improvement versus your other retail stores?

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

A

Those are the retail stores that have the appropriate product with an understanding that we were working through a process in our retail stores. There was no spring purchase made for Wilsons or DKNY. The faucet was absolutely turned off and we were using this period of time to solve some of the inventory problems that we had that dated back a good period of time and there was no flow of current product.

And when Neal describes the 19% decrease in sales at retail, a lot of that is impacted by just not having forward fashion product in the stores. As far as DKNY and Karl Lagerfeld, we were tracking double-digit increases. We spent a little money on CapEx and it paid off. Our international stores for DKNY were performing amazingly well. So we were down a path of identifying new locations for DKNY as we right-size the rest of our DKNY and Karl Lagerfeld as we were rightsizing the rest of our fleet of retail. So the story was a good one until recently store closures and traffic being down to the extent that it was, we got the expected results, but product is right, training has been great. The appropriate product was in DKNY and Karl Lagerfeld. We did ship spring for DKNY. We did ship spring for Karl Lagerfeld, and for that matter, sales are good. Sales are strong in every category. We've got a great leader. Again, one of the generals that I was referring to is running retail, two. There's a couple of amazing people that have done more than their share to minimize the damage that we're incurring, I mean probably about to incur.

So, Susan, thank you for your questions.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Great. That's very helpful.

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

A

Operator, I think maybe we'll have one final question and then we'll let everybody go on with their day.

Operator: Thank you. Our final question comes from Dana Telsey with Telsey Advisory Group.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Good morning, everyone, and nice to see the strength that you have with balance sheet and the game plan go forward. Two questions. As you think about inventory levels, you've mentioned inventory management and how that's helped you manage the inventory. What are you doing exactly? Is it cancellations, is it postponement of orders, how are you keeping the inventory as tight? And then can you just confirm the loss of the retail operation for this year and how you think about it for next year? Thank you.

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

A

So, Dana, how we're managing our inventory and resolving some of the excess inventory issues that we're going to have is a combination of anything we can find whether it's canceling pieces that still haven't left the mills, whether it's slowing down production where it's – where we're having vendors warehouse product in anticipation of having to hold it in New York in spite of the fact that there are no cancellations. We're doing everything we can. We're being creative in that process. And as I said a little bit earlier, if I gave you all of it, we wouldn't be the company that we are. It's an internal game plan that maybe is a competitive advantage.

So we are all over it. That's paramount to the future of our business, managing the inventory and not bringing inventory into the States that is going to be worth a fraction of our cost. And who knows when we'd be able to market it. So we understand how critical it is and we have a great team not only in the United States. We've proved it out. We have a global team that is managing – pretty much managing the impossible. So that piece of it's great.

And your second question that related to retail, Neal, are you on that?

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

A

Yes. So, Dana, the retail segment lost approximately $75 million and that includes about a $20 million charge for the impairment, so pretty much in line with what we've been – what we were expecting at the end of the year.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you. Stay healthy, everyone. Thank you.

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

Thank you, Dana. Thank you for your question. So thank you all for being part of our call today. I wish you all health and stay safe. We'll give you the details of what we've accomplished as soon as we can. Thank you for being supportive.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.