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G-III Apparel Group Ltd. (GIII)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by and welcome to the G-III Apparel Group Third Quarter Fiscal 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] . Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today. Company's CEO (sic) [CFO] (00:00:29), Neal 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 diluted share, and adjusted EBITDA, which are all non-GAAP financial measures. We have provided reconciliations of these non-GAAP financial measures to GAAP measures in our press release, which is also available on our website. Also disclosed in our press release for your reference are last year's GAAP to non-GAAP results by quarter. I will now turn the call over to our Chairman and Chief Executive Officer, Morris Goldfarb.

Morris Goldfarb

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

Thank you Neal and thank you everyone for joining us. In the third quarter, we delivered top line results that met our expectations. Our strategy continues to deliver on key priorities to drive profitable growth for our shareholders despite increasing macroeconomic headwinds, which soften consumer demand as the quarter progressed. Net sales for the third quarter were $1.08 billion, an increase of 6.2% compared to last year's third quarter net sales of $1.02 billion. Non-GAAP net income per diluted share was $1.35 in the current period compared to $2.18 in the third quarter last year.

During the quarter, our higher inventory levels were due to our accelerated production calendar, which was in anticipation of longer supply chain lead times. As these lead times improve, we will continue to adjust our production and receipt calendars. Our inventory consists of current purchases and is guided by our order book. As expected, our overall inventory position is now enabling us to immediately service the reorders for coats, dresses and other in demand categories. During the quarter, our higher inventory levels resulted in storage and processing complications within our distribution centers that were above our expectations. This alongside with port congestions resulted in significant one-time charges of approximately $0.40 per diluted share in the third quarter. These charges along with elevated warehousing cost contributed to our earnings being lower than our guidance for the quarter. We've secured additional third-party warehousing space, which should eliminate almost all of these charges in the future. Currently, third-party warehouses make up approximately 70% of our total warehousing space.

Now I'd like to discuss the extensions of our licensing agreements with the Calvin Klein and Tommy Hilfiger brands. They are an important part of our business. In our 8-K filed last night we announced staggered extensions by category beginning in January of 2024 and continuing through December of 2027 for these brands. Just to be clear, we do not expect significant reductions in sale, net income and cash generation from these businesses for the next three years. These agreements will allow us time to accelerate our long-term strategic priorities and we will continue to direct resources toward our growth areas including further leaning into building our own brands, continuing to acquire new businesses, expanding our private label business and developing appropriate licensing opportunities. Currently we've been pursuing a number of near-term initiatives across our existing, owned and licensed brands, and private label business including category expansion, geographic growth focused on Europe and digital expansion.

We believe we can deliver growth because we've built a powerful foundation and have become a well diversified company with expertise across a range of global brands with a broad range of price points for a broad range of customers, multiple points of distribution with strong retail relationships in North America; and around the world with partners that include department and specialty stores, value retailers, wholesale clubs, digital pure-plays, and marketplaces in addition to our own omni-channel platforms. Dominance in designing, manufacturing and sourcing across a broad range of more than 20 categories including apparel, footwear and accessories for women and men, a strong and growing geographic presence with leadership and offices in eight countries across North America, Europe, and Asia and a well-developed flexible supply chain infrastructure with broad global sourcing relationships.

Over the past five years, we've leveraged our strong balance sheet to focus on a brand acquisition strategy which has evolved our portfolio to a significantly higher penetration of brand ownership. These brands are our most profitable sales, because we do not pay royalty fees and they provide highly accretive licensing royalty income. Three of our recently acquired are launched brands DKNY, Karl Lagerfeld Paris in North America and the remaining global Karl Lagerfeld business have added $1 billion in annual sales to our business. We see even greater growth ahead with these businesses and the rest of our own portfolio including Donna Karan, Vilebrequin, and Sonia Rykiel. A proven track record and diversified foundation has and continues to enable us to acquire or license, and quickly scale brands by leveraging the resources that already exist in this company. We're confident in our ability to drive profitable growth and maximize shareholder value in the future and we look forward to keeping you updated on our progress.

Now I'll briefly update you on the progress we're making against our strategic priorities. Our first priority is to drive our power brands across categories. We're especially focused on driving our owned brands. From a category perspective, we continue to see strength across all of our divisions. With full ownership brands, we can now leverage newly created categories. Karl Lagerfeld Europe, for example, just introduced a full jeans category into their collection and we plan on expanding the business by introducing it into North America next fall. Additionally, we've also been able to drive higher AURs which help offset significant inflationary pressures this year.

Our second priority is to expand our portfolio through ownership of brands and drive their licensing opportunities. Our current owned brands are led by DKNY, Donna Karan, Karl Lagerfeld, Vilebrequin and Sonia Rykiel. With full end-to-end control of these brands, we have and continue to grow them by developing new categories, increasing distribution, and digital penetration. We've also built strong marketing capabilities that continue to develop awareness and global recognition. Our own brands combined, they're expected to represent annual revenues of greater than $2.5 billion over time, while generating higher operating margins than the company's historic average.

As brand owners, we have the ability to license out our brand names to best-in-class partners in categories that we do not produce. These agreements bring in a revenue stream that is highly accretive to our profit currently generating $55 million annually. We have always actively worked with our licensees to build bigger and better businesses. Companies that operate exclusively under a license to our model are valued based on a low-teens multiple of their revenue stream. With our own brands, we've created a strong licensing revenue stream already and see powerful opportunity to continue to build this profit center and enhance value for our shareholders. Our top owned brands DKNY, Karl Lagerfeld Paris in North America and Vilebrequin also with a purchase of the entire Karl Lagerfeld brand demonstrate our proven track record of building our own portfolio. As we look to the future, we continue to believe there is significant growth potential in the brands that we own. Our current strong financial position will enable us to acquire additional brands. We continue to prioritize the expansion of our revenue and profits through brand ownership.

Our next priority is to extend our global reach by expanding our European-based brand portfolio. Amsterdam-based Karl Lagerfeld Europe continues to perform well having launched the jeans categories I previously mentioned we're planning on bringing it to North America. We also made progress on key digital initiatives and are on track to open 12 company and partner operated stores and shop-in-shops this fiscal year.

St Tropez founded Vilebrequin as status swimwear brand robust momentum continues with another quarter of strong double-digit growth, and remains on track to register a record year of sales and profitability. It continues unique collaborations to address the range of customer segments including streetwear brand BAPE BLACK and previously with Palm Angels and Off-White. Additionally, the brand has begun limited edition capsule collections, featuring the artwork of acclaimed contemporary artists. Their latest collection is currently been exhibited in the Miami Art Basel.

We completed the acquisition of the restaurant and beach club in the South of France and are currently rebranding it to the Vilebrequin [indiscernible] (00:12:31). The brand is also opening its first Cabana Club and new retail locations in the totally renovated Boca Raton Beach Club this winter. Both advance Vilebrequin's leading luxury swimwear position by touching all aspects of beach [indiscernible] (00:12:51), and created an immerse customer experience, and brand recognition.

The Paris-based Sonia Rykiel, the European team relaunched with core categories, and established the physical presence in Paris, and New York. We also opened major department stores including [indiscernible] (00:13:19) in Tokyo. Since our Karl Lagerfeld acquisition, our existing European management teams are working to develop synergies to strengthen our European operations overall. Areas they're focused on include leveraging their vendor base and creating a unified backend structure for all of our digital businesses. Ultimately, this new infrastructure further develops our European platform and will allow us to continue expansion with any brand.

Our next priority is to maximize omni-channel opportunities and leverage data. We've expanded our pure play presence and developed strong capabilities to drive demand on our retail partners' digital platforms with strong double-digit sales growth led by Amazon, and our largest retail partners Macy's. We've also increased sales with Zalando, Fanatics, Nordstrom and Hudson Bay (sic) [Hudson's Bay] (00:14:24). We've started to develop our vendor direct shipping capabilities which provide additional opportunities to grow our digital business. The digital businesses of our own brands are in their infancy. They present a tremendous opportunity and we believe that these businesses can grow to become significant contributors to our overall business over time.

In our own retail operations, Karl Lagerfeld Paris had another solid quarter in North America with a significant rebound in traffic fueling strong double-digit growth. DKNY remained challenged mostly driven by the lack of tourists, primarily from China in our European stores. We're well-positioned across both businesses to capitalize on holiday demand during this key selling period and remain focused on driving omni-channel growth wherever the consumer chooses to shop.

In conclusion, having met top line expectations for the quarter, we made progress on all of our priorities. We experienced some one-time logistical challenges that negatively impacted our results in the third quarter, which we believe are mostly behind us. As our bottom line net income per diluted share was below our guidance and with some uncertanties ahead, we're adjusting our order book for the fourth quarter and full year.

I'll now pass the call to Neal for a discussion of our third quarter financial results as well as guidance for our fourth quarter and full fiscal 2023 year.

Neal S. Nackman

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

Thank you, Morris. Net sales for the third quarter ended October 31, 2022 increased approximately 6% to $1.08 billion from $1.02 billion in the same period last year. Included in our sales for this quarter were $55 million in sales of the Karl Lagerfeld business, which became a wholly-owned subsidiary on May 31, 2022. Accordingly, the results of the Karl Lagerfeld business were included in our results for the entire third quarter.

Net sales of our wholesale segment increased approximately 5.5% to $1.07 billion from $1.01 billion last year. Net sales of our retail segment were $29 million for the third quarter compared to net sales of $26 million in last year's third quarter. Our gross margin percentage was 32% in the third quarter of fiscal 2023 compared to 34.2% in the previous year's third quarter. The reduction in gross margin percentage is attributable to the decrease in the gross margin percentage in our wholesale segment.

The wholesale segment gross margin percentage was 30.7% compared to 33% in last year's comparable quarter. Our elevated inventory levels resulted in storage and processing capacity pressures within our distribution centers. We had been seeking and have now procured additional third-party warehouse capacity to handle our higher inventory levels. Going into the third quarter, we were not able to secure additional warehouse space in the timeframe we had planned. Several negotiations took longer than expected and in certain situations, we did not want to enter into expensive long-term commitments for such capacity.

The lack of additional space in our warehouses along with poor congestion and the logistical challenges related to trucking, all contributed to us incurring approximately $27 million of demurrage charges in the third fiscal quarter, resulting in a one-time 250 basis point negative impact to our gross margin percentage. Demurrage charges are paid to steamship carriers for delays in picking up freight from their terminals and with the more significant contributor to the decrease in a gross margin percentage for the quarter. We expect that the additional warehousing space we have now secured should eliminate almost all demurrage charges in the future.

The gross margin percentage in our retail operations segment was 54.9% compared to 49.8% in the prior year's quarter. SG&A expenses were $240 million or 22.2% compared to $182 million or 18% of net sales in last year's third quarter. Warehouse cost increased significantly as a result of our higher inventory levels and the timing of receipts. SG&A also grew by approximately $30 million as a result of the inclusion of the acquired Karl Lagerfeld business in our results for the quarter.

Looking ahead, we expect to continue to have elevated warehouse cost associated with higher inventory levels due to second quarter of next year. We also expect that the addition of the Karl Lagerfeld business in our results of operations will increase the percentage of net sales represented by SG&A expenses as the Karl Lagerfeld business model includes a higher amount of direct-to-consumer business which has a higher SG&A rate.

GAAP net income for the third quarter was $61 million or $1.26 per diluted share compared to $106 million or $2.16 per diluted share last year's third quarter. Non-GAAP net income for the third quarter was $65 million or $1.35 per diluted share compared to $108 million or $2.18 per diluted share in last year's third quarter. Net income per share was negatively impacted by higher than anticipated demurrage costs equal to approximately $0.40 per diluted share. These charges along with elevated warehousing costs contributed to our net income per share being lower than forecasted. A full reconciliation of our GAAP to non-GAAP results are included in our press release issued last night.

Turning to the balance sheet, our inventory was about two times last year's third quarter levels which was a historically low base due to the supply chain issues and strong consumer demand that occurred last year. A better comparison would be to consider comparable wholesale inventory levels to the pre-pandemic third quarter and which we are up approximately 60%. Inventories are up primarily as a result of the increased shipping times, higher freight cost and the pull forward of the production calendar. Our inventory increases are all from current purchases and will be viable into next year. We have already and will continue to tamper our buying into next year to also take a turn above inventory levels.

We ended the quarter in a net debt position of $728 million compared to $238 million in the prior year. This increase is predominantly related to the Karl Lagerfeld acquisition, which we funded with cash on hand as well as the increase in our inventory position. We had cash and availability under our credit agreement of approximately $440 million at the close of the quarter. We believe that our liquidity and financial position provide us the flexibility to take advantage of acquisition opportunities and invest in our future growth. We expect our availability to grow significantly as we normalize inventory levels.

As for our guidance, for the full fiscal year 2023, we now expect net sales of approximately $3.15 billion and net income of between $147 million and $152 million or between $3.03 per diluted share, as compares to net sales of $2.77 billion and net income of $200 million or $4.05 per diluted share last year. On a non-GAAP basis, we expect net income for the full fiscal year of 2023 of between $142 and $147 million or between $2.90 and $3 per diluted share. This guidance compares to a non-GAAP net income of $208 million or $4.20 per diluted share for fiscal 2022. Full year fiscal 2023 adjusted EBITDA is expected to be between $265 million and $270 million. This compares to adjusted EBITDA of $350 million in fiscal 2022.

Let me add some context around modeling of the line items. As a result of our third quarter results, we're now expecting that our full fiscal year 2023 gross margin percentage will be lower than fiscal 2022. For the upcoming fourth quarter, we continue to expect that our gross margin percentage will exceed the prior year's fourth quarter.

For the full year, we expect the SG&A to delever primarily as a result of the inclusion of the acquired Karl Lagerfeld business and higher warehousing costs. We're anticipating interest expense to be approximately $55 million, which includes approximately $7 million of non-cash imputed interest. We're estimating a tax rate of 24.5% after the inclusion of some discrete items 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. Our team remains steadfast and it's focused on executing our strategy for long-term value creation. We continue to actively work on new initiatives to evolve our business for the future and as always deliver for our shareholders. Our diversification is a testament of the stable business model and solid foundation we have created, enabling us to navigate any environment. As we continue in the fourth quarter, our order book is strong and we're delivering on the balance of the holiday season. I'd like to thank our entire G-III organization and all our stakeholders for their continued support and wish everyone a happy holiday season.

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

QUESTION AND ANSWER SECTION

Operator: Thank you [Operator Instructions] And our first question comes from Edward Yruma from Piper Sandler, your line is now open.

Edward Yruma
Analyst, Piper Sandler & Co.

Q

Hey. Good morning, guys. Thanks for taking the question. I guess first Morris, on the quarter in terms some of the demurrage costs, just so we understand a little bit better, was there any impact of quality of inventory? Were there any flows associated with it? And then I guess as a broader longer-term question, Morris, how should we think about the longer-term organic growth profile and profitability profile that remaining businesses once the PVH licenses are complete? Thank you.

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

A

Thank you, Ed. Thanks for your question. The demurrage and supply chain issues and quality of the inventory certainly deserves a solid response. If anything, our inventory is in tremendous shape. We implemented new quality control systems overseas that further enhanced our quality of the product. In difficult times, COVID times, we found it difficult to transport inspectors from one location to another which were normally done pre-COVID and we put on the ground solid inspectors to make sure that we got what we bought, at the very least, in most cases better than what we anticipated.

So, no issue on quality and the integrity as the inventory, number one, it's all new. It's freshly produced, it's freshly delivered, it's wrapped and ready to go and it was anticipated on arriving early with no interference on container space, transportation times and anticipated delays at the port. So, it worked better than we had anticipated. What had occurred is we misplanned our warehousing capacity. We searched for warehouses for the better part of six months, either warehouses that we would take control of or partnered with third-party providers.

There were several deals, no less than four deals that were at the finish line ready to be signed that fell apart unique situations in different parts of the country. So, the lack of capacity caused some unexpected – tremendous amount of unexpected demurrage and container charges. So, that's really the inventory issue. It's storage, it is not the scale of the inventory. The inventory was bought with good and appropriate intent. It flowed faster than anticipated. The time on the water accelerated, which further exacerbated our situation. But it's all great inventory that was anticipated for this time period.

There is early spring inventory that sits there that's ready to go when the doors open at our retailers. All current inventory, our levels of dated inventory, inventory that's greater than the year-old is at a record low. So, there is not troubled inventory, this is into inventory that's sitting in the store that is anticipated to move only when it is marked down. This is full price, great quality anticipated and planned inventory. So, I am more disappointed in our missed in planning housing and moving the inventory than I am at the inventory level.

And the – Neal, [indiscernible] (00:29:23)

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

A

Yeah. With respect to the operating margin going forward, look, we've commented on this before. The brand that we own traditionally will run operating margin that we would expect to be in the 15% to 20% zone. Our blend is down in the low double-digits, around 10%. And of course, that we have to pay royalty. So, to the extent that we can continue to move the portfolio into brands that we own, we will continue to have elevated operating margins. And certainly, about a third of the portfolio today is own, so we're getting – we're seeing that benefit. We still have some more room to go with the recent acquisition of the Karl Lagerfeld European business. I think we'll continue to see elevated operating margins on that business as we go forward and that's where we stand.

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

A

So, coupled with that, addressing the organic opportunities, as you know we bought DKNY and Donna Karan. We brought DKNY to market in record time. It's one of the most relevant brands to our sector today. We brought it...

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

A

End of 2016.

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

A

...2016 and with virtually no distribution in North America and created just an amazing brand out of it, or reinforced the presence, the earlier presence of the brand. What we have on the shelf that we're now activating is Donna Karan. Donna Karan, there are very few brands in North America certainly that are known by their first name. There is Ralf, there is Calvin, there is Tommy and there is Donna and there is not very much more. So, Donna is an incredibly well-recognized brand. We were not certain where we would market that brand and this current situation has brought us to bringing Donna Karan to market in the same sector that we best operate in and so you'll have more news to follow.

This is the situation that just was signed on Tuesday, negotiations started over two years ago and not our doing, but the culmination just got done on Tuesday in a form that was acceptable for us for the period of time. We have transition time. As I stated, there is no concern about the next three years, we're a responsive company and we signed on Tuesday and Wednesday we started to work and get everything into play.

So, you can expect quick movement, you can expect marketing. We don't have a challenge of talent, we have the best talent in the industry housed here. We do not expect to make any changes. This is the operating army that we have that knows what to do. We execute quickly, we take on challenges and we pivot when the world tells us to pivot. So, this is pivot time, the troops are armed and ready to go.

Edward Yruma
Analyst, Piper Sandler & Co.

Q

Thanks so much.

Operator: And thank you [Operator Instructions] And our next question comes from Will Gaertner from Wells Fargo Securities. Your line is now open.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Good morning. Thanks for taking my question. Just a quick one, can you guys remind us on the split of Karl for your wholesale versus retail, what that split is?

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

A

Well, on the acquired business we're about 60% DTC. So, it's full priced outlets and the e-comm business. That's where the European-based business runs. Domestically, we're probably one-third of the business, it's forecasted with the – our outlook business.

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

A

So, the split that you might be asking for is, regions – geographic regions. It's equally split pretty much from Europe and North America.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Got you. And just with the licenses rolling off over the next couple of years, how are you thinking about investment in that business and production all of that, how is that sort of – can you just frame out how you are thinking about that over the next couple of years?

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

A

So, it is business as usual. These are brands that we're challenged to protect and reinforce retail presence and then we can continue plan on doing that. So, what's essential in protecting the positioning, we will absolutely do. We have been guardians of the brand for over 15 years. We have done a flawless job in building it. It's something that this team is extremely proud of, deservedly so, and no we will not do damage to the brand as we transition the brand.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Fair enough. I'll pass it on. Thank you.

Operator: And thank you. And one moment for next question. And our next question comes from Jay Sole from UBS Securities. Your line is now open.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Hi. Good morning. This is Mauricio Serna on behalf of Jay Sole and thanks for taking our question. I guess I wanted to ask about Karl Lagerfeld, the performance in the third quarter. You called out $55 million in revenue. Just was wondering if that was within your expectation or was that actually above that? And also the number that you mentioned $30 million of incremental SG&A is that for the quarter or the year? Just wanted to make sure I understood that. And lastly if you could remind us roughly how much do Calvin Klein and Tommy Hilfiger represent of your EBITDA that will be very helpful? Thank you.

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

A

Sure. Thanks, Steve. Thank you for your question. The Karl Lagerfeld European business operated slightly ahead of our expectations, more bottom line than top line. Their up margins are right around the 10% level at this point and we see that with some good potential to improve go forward. The SG&A that I called out the $30 million that was just in the third quarter. And then with respect to the Calvin businesses and the Tommy businesses, it's about a $1.5 billion of total business and we really view that as an operating margin at about 10%.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Got it. Thank you very much.

Operator: And thank you. And one moment for our next question. And our next question comes from Paul Kearney from Barclays. Your line is now open.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Hey guys, thanks for taking my question. Two parts; so can you just talk about the cadence of the [indiscernible] (00:37:25) so we have the multi-year period but is it...?

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

A

Paul you're not coming through. Paul, I'm sorry.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

You hear me now?

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

A

Yeah. That's much better, please.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Sorry about that. Can you talk about the cadence of the licensing expiration? So, we have the dates but just in terms of sale size, is it equally weighted or is it more weighted towards the end? That's one. And then, two, if you were looking to potentially sell that business with new license agreements, is that something you have capacity to do before those expire or should we be looking at it as you have to kind of bring on new business as the other ones go out? Thanks.

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

A

The earliest call it retirement date is addendum license with Tommy Hilfiger, which is insignificant in scale and we have it replaced. Our ability to replace brands through license or acquisition is pretty vast. There are several non-competes says that we've agreed to. And that for strategic reasons I prefer not to disclose, but there's a huge world out there and the limitation is no more than three or four brands and the capability that we have can bring our brands immediately and the deal that we have is, we can operate them simultaneously if they're not deemed to be competitive. The ones that are competitive, the situation is we can agree to them and we can launch them as we exit the PVH deal. And I'll give Neal the opportunity to respond on the depth of the calendar and the influence on our business.

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

A

Yeah. So, Paul thanks for the question. The 8-K that was filed indicates all of the specific dates that fall off. We've mentioned it for the next three years were essentially intact. And you can see which businesses fall off. And then you can see the periods. Our plan is to replace these businesses. So, rather than getting to the specifics of how much dollars it's going pull up when, that's really not the way we're looking it just yet. So I'd rather not be focused on that. Our concept is to replace these sales.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: And thank you. And one moment for our next question. And our last question is going to come from Noah Zatzkin from KeyBanc Capital Markets. Your line is now open.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi. Thanks for taking the questions. I guess first, just how do you see the promotional environment playing out relative to three months ago when you're looking out versus your expectations then? And then if you could just provide a little bit of color around the order book. And then, lastly, just on the license expiration just to dig in a bit more if we think about the business in 2024-2025-2026, are you planning the business for steady growth continuing through 2023 onwards via replacement and owned opportunities? Or are you contemplating kind of choppiness as the licenses roll-off, just any color on the kind of trajectory over the next five years or so would be helpful. Thank you.

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

A

So, no, let me try to respond to your questions. As far as promotions, there are far less promotions and promotional activities than we anticipated. The retail sell-throughs are pretty strong surprisingly. The retailers are holding price in our sector and there're no major giveaways. We are in the mid-tier department store business and not a major provider to the next tier business. So promotions are not as aggressive. As far as – I'll leave one open for Neal, but let me respond to the choppiness of the license. I can give you a story that really relates to my last response. We can operate multiple brands in classifications. So while we're exiting, it wouldn't be unique for us to sign on other brands or deliver other situations that would not grow our business for the next three, four years.

The bigger question is, the permanence in how effectively we replace the scale of the business that we will be giving up and we're pretty comfortable that we have a replacement formula which we'll disclose to the marketplace in the coming months. As I said, this is all new; not totally unexpected. So formulating a strategy is a work in progress that we will bring to you in the coming months, but we're energized as I said before. We're ready to go. And we have found most difficult component in building a new brand, is finding the right people. We have that done. We have the right people. There is not one bit of change that needs to be made, scouting for a talent in this environment that's acclimated to the culture that we have, that will remain the same and it'll be reinforced with brand ownership.

We have a tremendous advantage. It was much more difficult in creating and blending a culture when we acquired DKNY. This one, believe it or not, this is an easier process. Our capital and everything we need is in place to just march forward and do well; do well for ourselves and for the shareholder and certainly for our employees who've been incredibly loyal to our company, so we're armed and ready?

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

A

And Noah with respect to the order book, it's coming along, so the fourth quarter is very much intact. Our first quarter spring book we're actively working. We're seeing that retailers' appetite are again continued to be closer to buy time. So there is certainly some pressure there. And candidly if you look at the past few years, you've got some very hard compares with respect to COVID, the turn on and off of ordering cycles but we're very comfortable with what's being developed now and we'll continue to develop that spring order book into summer. Thank you, Noah. Thanks for your question.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you.

Operator: Thank you and I'm showing no further questions.

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

Thank you operator and thank you for being part of our call and hopefully we've explained some of the sensitivity in our business and wishing you a happy holiday. Thank you all.

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