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G-III Apparel Group Ltd. (GIII)

Q1 2022 Earnings Call

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Susan Anderson
Analyst, B. Riley Securities, Inc.

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

Jay Sole
Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the G-III Apparel Group First Quarter Fiscal 2022 Earnings 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, company's CFO. Please go ahead.

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

Thank you. Good morning. Thanks 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 the 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.

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 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.

We're pleased to end the first quarter of fiscal 2022 with strong outperformance in our results, which gives us confidence that we and our industry are well on our way to recovery. In reflecting upon last year and the very difficult challenges posed by the global pandemic, it is impressive to see how effectively we navigated through this period. More importantly, we've emerged a stronger and leaner company and a solid financial position, which affords us with the significant flexibility to invest in our growth.

Our past success, financial strength and future growth are built upon four fundamental pillars. The first is our incredible portfolio of globally recognized lifestyle brands, anchored by DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld. These brands have a proven record of longevity, relevance and appeal to consumers throughout the world.

Our second pillar is our expertise and dominance in the diversified range of lifestyle categories, including sportswear, outerwear, dresses, athleisure, jeans, suit separates, handbags and footwear.

Our third pillar is our diversified base of retail partners who operate across a wide range of distribution channels and for many of whom we are key vendor.

Finally, our fourth pillar of success and maybe the most important is the world-class team we've built here at G-III, many of them with significant industry experience and expertise.

Leveraging these four pillars enables us to create product at the right price points in a broad range of categories, which are able to meet the needs of a wide demographic of consumers and their preferred channel of shopping.

The sales opportunity of just our power brands, DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld taken together have an annual net wholesale potential of $4 billion. We have a long runway of organic growth ahead of us and the resources to invest in that growth.

This past year demonstrates the power and diversification of G-III's business model to adapt and succeed in almost any environment. We quickly reacted and adjusted to the consumers' changing preferences. This enabled us to succeed and further elevated our position as a supplier of choice.

This past quarter, casual categories continued to drive our results. With each passing week, we are encouraged by the increasing sales at retail for our broader lifestyle apparel such as sportswear, wear-to-work attire and dresses.

These trends provide a good indication for the remainder of the year. Accordingly, our merchants are responding and diligently working with our vendor and retail partners to expand these product offerings into our line assortments for the upcoming seasons.

Our overall business in North America is really good, and it's been getting stronger over the last few months. We are optimistic about the remainder of this fiscal year and excited about our future.

Now, let's review the first quarter fiscal 2022 results. Net sales for the first quarter were $520 million, an increase of 28% compared to last year's first quarter net sales of $405 million, and above our guidance. The increase in our first quarter net sales was driven by our wholesale segment, where net sales for the quarter were $512 million, up 35%, compared to $379 million in last year's first quarter, and down 10% compared to $571 million in the first quarter two years ago.

First quarter GAAP net income was $0.53 per diluted share compared to GAAP net loss of $0.82 per share in the first quarter last year and $0.24 per diluted share in the first quarter two years ago. This year's first quarter net income per share exceeded the high-end of our provided guidance range of $0.05 to $0.15 per diluted share.

Before we get into the details of the quarter, let me spend a few moments discussing some inbound freight challenges that we're seeing in our business. Like others in the industry, we too are experiencing an impact from rising shipping rates and availability of containers.

The longstanding partnerships that we have with our steamship carriers benefit our ability to secure space on vessels. We're working to offset cost increases, while also getting our goods here in a timely manner. We believe that the strength of our portfolio of global power brands will allow us to selectively raise prices to largely offset higher freight costs.

As for our inventories, we continue to prudently manage our inventories, which ended the first quarter down 31% from last year's first quarter, and down 36% to two years ago. Our inventories are current and well positioned.

Now, let's look at the wholesale business, which drove our sales and results for the quarter. As expected, casual trends were dominant in this business. Additionally, this quarter, we saw an acceleration in dress sales, which exceeded our expectations.

As I stated in my opening comments, we also saw continued sales improvement in lifestyle apparel, including sportswear and wear-to-work attire. Demand for athleisure and casual sportswear across our power brands, once again, accelerated and continues to be strong.

For the second half of the year, we're incorporating widely functionality and fits to facilitate transitioning from home to a full lifestyle collection. For both athleisure and sportswear, we continue to see growth opportunities ahead.

We entered into the jeans category with Calvin Klein, Tommy Hilfiger and DKNY barely two years ago, and our timing worked out really well. In short order, we built an effective organization drawing on some of the best denim expertise in the industry.

We've developed successful product lines and are becoming a dominant supplier. Our jeans lines have been rapidly improving – have seen rapidly improving sales as a result of the casual and comfortable apparel trend. And now with consumers returning to a more normal way of life, we are seeing a resurgence in denim. G-III is well-positioned to capture this growth and demand. Jeans will become a meaningful contributor to our wholesale segment in the coming years.

Outerwear had another good quarter. The weather was cold in the first quarter of this year, fueling broad-based demand. As spring set in, the weather continued to remain chilly and provided the right environment for our lighter seasonally functional outerwear collections.

Clean inventory levels in the channels positions us well for fall 2021 season. We believe consumers will maintain active outdoor lifestyles for the foreseeable future and we will continue to meet that demand and grow this business.

As for dresses, this past quarter, the casual component drove the category and exceeded our expectations. Currently, with each passing week, we are seeing significant acceleration in demand for day and occasion dresses as well as career wear such as suit separates. We thoughtfully kept the design teams for these categories intact and are working diligently to meet this demand from our retail partners and consumers.

This was a particularly strong quarter for DKNY women's footwear on significantly less average inventory levels. Based on this past year success of footwear, we expect to almost double our distribution by the end of next year to well over 300 department store doors in the US alone. As for our overall handbag business for Calvin Klein and DKNY, our refreshed assortments are resonating and driving significant increases in AURs.

As we build substantial footwear and handbag businesses, we are becoming a sizable supplier in both these categories as well. We are in the early stages here with significant growth expected for the future.

Based upon the success of our digital launch with Macy's six months ago, we launched Karl Lagerfeld Paris women's sportswear this past March in 75 new doors at Macy's. The collection features the lifestyle assortment including blazers, woven tops, casual pants, dresses, elements of athleisure and T-shirts. This collection has far exceeded our expectations, and as a result, we will more than triple our distribution from 75 to 250 doors by the end of the year.

Our Karl Lagerfeld footwear and handbag businesses launched in a handful of doors and is also off to a great start. Barely into our first season with Macy's, we expect to increase distribution for both categories to over 100 doors by this fall.

The pandemic has further driven an increased consumers' digital shopping. It has become intuitive and the change in behavior that is likely to be permanent. We firmly recognize the importance of transforming into an omni-channel organization, and I'm pleased to announce that we've hired Stacy Bowe to lead this effort. Stacy is a veteran in the business with strong digital and merchandising expertise and nearly 30 years of experience at Macy's.

For the quarter, sales of our product through e-commerce continued to accelerate. On our retail partner sites, we saw sales increases of over 60% from two years ago. To further drive our sales on our retail partner sites, we're dedicating additional resources, creating exclusive merchandising programs and supplementing it all with refreshed digital marketing.

As for our own sites for DKNY and Karl Lagerfeld Paris, combined comparable sales also increased approximately 40% to last year. For fall, we're on track to re-platform our DKNY and Karl Lagerfeld Paris sites and build out the G.H. Bass site.

Initial reads on newly implemented CRM tool are really favorable. Results include a significant uptick in repeat purchases of 30% as compared to pre-implementation.

Vilebrequin also saw a significant acceleration in their digital sales, with comparable sales increases of 60% to last year. On their vendor partner sites, sales penetration is continuing to accelerate as the weather gets warmer, generating demand for resort, swimwear. Overall, we remain focused on capturing market share by amplifying our digital business on a global basis and enhancing our logistics capabilities to support it.

In the second half of the year, we will step up our marketing and media campaigns for the DKNY and Karl Lagerfeld brands. These campaigns will focus digital content to support the fall launch of their redesigned sites. Created to reach broad audiences, they will keep DKNY and Karl Lagerfeld brands top of consumers' minds across all distribution channels.

Onto the international front, which in the long term represents a higher margin growth opportunity, our DKNY franchisees sales were up considerably even compared to the first quarter two years ago. China saw another quarter of significant growth, with continued outperformance in e-commerce. Although small, the China business is expected to be up 50% for the year and continue to grow rapidly.

The DKNY European business, which is also small, continued to be faced with widespread COVID shutdowns.

Our status swimwear brand, Vilebrequin, is celebrating its 50th anniversary this year and has an incredible slate of innovative product launches and collaborations plan. For example, in May, the brand teamed up with Highsnobiety on a limited edition series inspired by LA's renowned skate culture.

And a few days ago, we launched the collaboration with Palm Angels, which infuses the brand's urban style into Vilebrequin's collection.

We recently opened a new store in the Aventura Mall, one of the premier shopping destinations in the country. The store is significantly beating plan for its first week of operation.

Now, let's move to our retail segment, which includes 36 DKNY and 13 Karl Lagerfeld Paris locations. We feel great about our current store base. These brands are amongst some of the most recognized global fashion brands and are strategically important to our longer-term goals of brand ownership and omni-channel distribution.

Accordingly, we're looking to take advantage of the current availability of prime retail space at favorable lease terms to selectively add some locations with average lease terms of about three years.

This past quarter, we saw gradual improvement in traffic here in the US. However, our European stores have been closed for much of the quarter due to the pandemic. Overall, we're operating with clean inventories, less promotional activity and fresh compelling product. We're elevating assortments, driving digital growth and leveraging virtual selling techniques. As a result, we're seeing higher shopper conversions and AURs and year-over-year margin expansion.

Further, we've scaled down our overhead structure and continue to rightsize it. We expect to [indiscernible] (18:49) the losses, bear the losses in our retail segment this year and see a path to bring the retail business into profitability in the near future.

We remain optimistic about our business for the remainder of the year. We have one quarter behind us and a view into our order book for a substantial portion of the year.

Although some uncertainties remain, we feel more confident in our ability to provide guidance for the full fiscal 2022. We expect full fiscal year net sales to be approximately $2.57 billion, which adjusted for the retail closures is 12% lower than our pre-pandemic levels two years ago.

Neal will share more detail shortly. We're managing our business prudently and we believe we are well positioned with our vendor network and appropriately aligned with our retail partners to capitalize on consumer demand as this year progresses.

I will now pass the call to Neal for a discussion of our first quarter financial results as well as the guidance for our second quarter and full year of fiscal 2022.

Neal S. Nackman

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

Thank you, Morris. Net sales for the first quarter ended April 30, 2021 increased approximately 28% to $520 million from $405 million in the same period last year, and above our guidance of $460 million.

Net sales of our wholesale operations segment increased approximately 35% to $512 million from $379 million last year and decreased approximately 10% from $571 million two years ago.

Net sales of our retail operations segment for the quarter were $19 million, approximately 43% lower than last year sales of $34 million. The restructuring of our retail segment was completed last year. We have included the prior two years' results for Wilsons Leather and G.H. Bass store operations in our press release issued this morning.

Our gross margin percentage was 37.6% in the first quarter of fiscal 2022 as compared to 30.7% in the prior-year's period. This increase in gross margin was primarily driven by the gross margin percentage in our wholesale operations segment, which was 36.3% compared to 29.6% in last year's quarter.

Wholesale gross margin percentages in this year benefited from clean inventories at retail, resulting in less promotional activity. Further, last year's gross margins were negatively impacted by the pandemic's onset, which resulted in the recognition of certain fixed costs, primarily higher effective royalty rates over the reduced sales base.

The gross margin percentage in our retail operations segment was 50.3% compared to 35.9% in the prior year's quarter. We continued to reap the benefits of stringent cost controls. SG&A expenses decreased by 8% to $141 million in this quarter compared to $155 million in the same period last year.

Cost reduction efforts undertaken in response to the pandemic and the reduction in our store base were offset partially by increased expenses associated with the increase in sales and profitability in the quarter.

Net income for the quarter was $26 million, or $0.53 per diluted share. This compares to a loss of $39 million, or $0.82 per share, in the previous first quarter. Last year's first quarter did reflect direct losses from Wilsons and Bass store operations of $0.31 per share.

Looking at our balance sheet, accounts receivable were $509 million, up 21% as compared to $421 million at the end of the previous year. Inventory decreased approximately 31% to $347 million from $500 million in the previous year.

We ended the year in an improved net debt position of $119 million compared to $284 million as of the prior year-end. We had cash and availability under our credit agreement of approximately $860 million. Our liquidity and financial position is at an all-time high and leave us well-positioned to fund our domestic and international growth and take advantage of potential acquisition opportunities.

As for our guidance, as Morris indicated, we feel more confident in our ability to provide guidance for the full fiscal year 2022. Our guidance does not contemplate any pandemic-related impacts that we're not aware of already. We have not anticipated new store closures or the impact of tighter government restrictions.

For the full fiscal year ended January 31, 2022, we expect net sales of approximately $2.57 billion, which compares to $2.06 billion last year. Last fiscal year's 2021 net sales included $92 million for the Wilsons Leather and G.H. Bass stores. This will leave us approximately 12% below our fiscal year 2019 sales, excluding $252 million of sales for the Wilsons and Bass store operations.

Net income for this upcoming full fiscal year is expected to be between $125 million and $135 million or between $2.60 and $2.70 per diluted share. This compares to net income of $24 million or $0.48 per diluted share in fiscal year 2021. Fiscal 2021 results last year included an operating loss per diluted share of $1.14 associated with the Wilsons Leather and G.H. Bass store operations.

For the second quarter ended July 31, 2021, we expect net sales of approximately $460 million, which compares to $297 million in the same period of the previous year. Net income for the second quarter of fiscal year 2022 is expected to be in the range of $0.03 and $0.13 per diluted share. This compares to a net loss of $0.31 per share in last year's second quarter, which included a net loss per share of $0.53 associated with the Wilsons Leather and G.H. Bass store operations.

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. G-III is a stronger, leaner and agile organization with a strong portfolio of global power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld. As the world reopens, we are in a strong financial position, which we believe will allow us to fund our growth domestically and internationally and enable us to take advantage of opportunities that arise.

Our employees are the heart and soul of G-III and I'm incredibly proud and grateful for their hard work. The entrepreneurial culture we've built over the decades continues to fuel and elevate our position in the marketplace.

Before ending, I want to highlight the progress we've made on our corporate social responsibility initiatives last year. I discussed Vilebrequin's extensive efforts last quarter and in addition to those, we are laying the groundwork to formalize, enhance and scale our social and environmental programs throughout our organization.

We continued our commitment to funding our non-profit partners and made strides in our focus on diversity. We recently posted our 2021 CSR letter to our IR website. I encourage you to take a look for more details on our efforts.

On behalf of the entire G-III organization, I'd like to thank 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 with KeyBanc. Your line is open.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, good morning, guys. Congrats on the accelerating momentum. I guess two questions for me. First, Morris, I know at this time last year, you really were able to work cooperatively with your vendor base as you kind of deferred some orders. I guess, how has that positioned you this year in terms of being able to get access to factories and kind of this re-ramp process? And Neal, just to follow up, I'm wondering if you can give us a little more color on SG&A going forward. I know there have been a lot of moving pieces, you guys were very aggressive in reducing SG&A last year. Kind of what has to come back as the business continues to grow? Thank you.

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

A

Good morning, Ed. Thanks for your question. I think we all recognize that interruption sometimes is an impediment to the future of your business. We, believe it or not, never interrupted our commitment to our vendor base. We were very communicative. We let them know where we were at every step of the way. We shared the burden of losses and cancellations. And at the end of the day, we kept them pretty much all intact. They were producing throughout the pandemic. We wound up taking, I would bet, more than 90% of the orders that we've placed. We paid promptly. And fortunately, we're in a financial position to be able to do that. And the industry was – didn't operate in a like form. So, the advantage of being obvious, dominant and financially capable gave us the ability of garnering some manufacturing bases that we didn't have before.

So, we're in good shape on our supply chain. As I stated earlier, the wildcard is a little bit of how we respond to container shipments. And even in that case, the fact that we cooperated with our vendor base, they're fighting for containers on the production side of the world alongside of us. And we're succeeding. We're doing well on getting everything that we need and our steamship companies as well, because of the level of cooperation we gave to them, are responsive to our needs. So, we're one of those companies that recognizes that a vendor base is as important as your customers in the States.

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

A

Ed, as far as the SG&A, maybe it's a good time to give a little bit of a reminder what happened to us last year, because that's really the baseline for what we're looking at this year. In terms of last year, the most significant thing we did was with respect to our employees. We had furloughs that started in April of last year. They ran until October of last year. We also had cuts in terms of wages through the management team. Ultimately we had a reduction in force when we brought people back. So, the reduction in forces will be permanent force at this point. We do expect that as the business continues to grow, we'll probably bring people back on, but I don't expect a strong impact of that to this year.

The second largest item that we cut was on the advertising front, significantly cut that back last year, all discretionary spending, and certainly the spending that related to contractual advertising that we do for our licensors. So, that will come back. As Morris mentioned in his speech, in the second half, we'll start to spend more on our discretionary advertising, the DKNY and Karl Lagerfeld. And of course the contractual amount will expand as sales increase.

Probably the single largest good guy that we've got coming into this year is that last year we did have bad debt expenses that were quite significant, they were about $14 million throughout the year. The biggest charge of that was in the first quarter of last year, and so we're certainly thinking that that's behind us. And then the last significant item in terms of the prior year's SG&A was the retail closures, where Wilsons and Bass are now closed.

So, as we look at this year, the first quarter's SG&A was strongly leveraged. I think as you go throughout the year, we'll see more of a flattening if you think about the full year in terms of SG&A leverage, but we're very comfortable with where the SG&A structure is. We really feel like we're quite a bit leaner at the moment and that should bode well for us.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you very much.

Operator: Thank you. Our next question comes from Erinn Murphy with Piper Sandler. Your line is open.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. Thank you. Good morning. Morris, a question for you on some of the green shoots you're seeing in categories like denim, and dresses, and sportswear. How are you positioned in these categories into fall of this year? And then with the retailers that you're working with, are they moving into chase mode with some of these categories?

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

A

Good morning, Erinn. Thank you for the question. We're positioned okay on an inventory level. I wish we had far more inventory. The market opened up faster than we had anticipated. And some of the resource countries that we're engaged with are limited in potential. A big piece of our production for denim is coming out of Jordan, and Jordan has seen some pandemic issues.

And quite honestly, the impediment to growing the business more rapidly is getting supply. Demand is high and supply is, for the moment, is limited. We're working on it and it's a great opportunity for the future.

So, as I stated, pretty much all our brands are producing denim apparel. It's not just denim, but it's all the components that relate to the jean. And sales are great, but the good part, I don't want you to really focus on denim alone. All our businesses have opened up. Our dress business is tracking at north of pre-pandemic numbers for the last month or so. So, we're chasing supply. And we believe the world is back. People are going out. People are partying. They're not just wearing their fleece leisure wear. They're wearing denim, and they're wearing [indiscernible] (35:04), and they're wearing stretch fabrics, and they're wearing [indiscernible] (35:09) products. So, I would say we're in a mode where we believe the world is really back. Our handbag business is showing diversity and demand. And even our footwear business, it's not all canvas footwear any longer.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. That's encouraging to hear. And then I guess a few quick ones on the model, Neal, for you. Is there any timing shift between Q1 and Q2 this year just related to some of the port challenges or logistical challenges? I think pre-pandemic, Q2 used to be higher than Q1 revenues. I'm just trying to understand the disconnect in the guidance you provided this morning.

And then secondly on the model, Q1 gross margin was up versus 2019. Is that sustainable to continue to see gross margin expansion over 2019? Thank you so much.

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

A

Yeah, Erinn. With respect to timing on Q1 and Q2, I think that what we're seeing is a very strong Q1, probably pulling a little bit from our Q2, but still very strong increases in this Q2 compared to last year. Of course, last year was really the most significant decrease as a result of the pandemic. We're also factoring in for Q2 this year what we anticipate will be some freight challenges. We've done very well with those so far, but we've certainly got our eye on that.

I think as it relates to gross margin compared to the prior year – to the two prior years ago, our view is that we are going to see increases in the gross margin percentage. We expect to be less promotional. We mentioned taking up prices. So, we are expecting that we'll have a continuation. I don't think it will be as robust as what you saw in the first quarter, but we do expect increases in the gross margin percentage.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. Thank you, both.

Operator: Thank you. Our next question comes from Susan Anderson with B. Riley. Your line is open.

Susan Anderson
Analyst, B. Riley Securities, Inc.

Q

Hi, good morning. Nice job on the quarter and it's great to see the acceleration in the business. I'm curious – it sounds like you do wish that you had more inventory, so curious what you're hearing from your wholesale partners, and particularly in terms of the outlook for the rest of the year, and the fall orders. Are you seeing them increase as orders? And if so, I guess at this point in time, can you fulfill more demand coming into the back half?

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

A

Thank you, Susan. One of our core competencies is really having this unique ability of chasing product. We have a diverse team of people living offshore, concentrating on the specifics of sourcing more better products. And we're succeeding in some cases, and other cases we're not. There is an inability of chasing products when factories are closed. So, we're bringing back some production to China.

We made solid base in China, which worked to our advantage. And as areas like Vietnam has limited capacity compared to China, we're electing to bring back some of that production to China, where the ability of sourcing more product competitively exists. So, demand is high. We'll succeed – we believe we'll succeed in bringing in sufficient product.

Our retailers are looking for more product than they had originally planned for, but we're a company that gambles to some degree because of the nature of our brands and the level of inventories. So, we're able to accommodate the needs. And a good scenario would be that we end up the year with far less inventory than last year, and sell it into the channels that we service.

Susan Anderson
Analyst, B. Riley Securities, Inc.

Q

Great. That's helpful. And then just in terms of the digital business for DKNY, and Karl, maybe if you can talk a little bit about the performance there in the quarter. I think they were both revamped, so curious how those are performing versus your expectations and then where you're at within – in those two digital businesses. Thanks.

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

A

So, not to distort the level of business that we do there, both DKNY and Lagerfeld are in the early stage of development. We're aggressive in our spending both for talent, and systems, as well as logistics. So, there's nothing that I can tell you other than percentage increases that would excite you, but basically the message would be come back to us a year from now, and there would be something that moves the charts on the earnings stream on digital.

Contrast to our own, the retailers that we service, all have a matured digital base, and as much as our largest account has about 40% penetration in digital, and that business is great. That business is performing with a minimum of 30% comp to last year – 30% up comp to last year.

And not that we're late on the digital side, but you need to recognize that some of our brands, Calvin Klein and Tommy Hilfiger specifically we license those brands, and we do not have the right to build our own digital sites. So, with the acquisition of DKNY and Karl Lagerfeld, and Vilebrequin, we finally have some massive opportunities on global brands that would create consumer interest, and they are creating consumer interest. And with that in place, we chose to invest in the talent pool, and the systems that I described. So, we're looking to some great stories in the coming years on our digital expansion.

Susan Anderson
Analyst, B. Riley Securities, Inc.

Q

Great, okay, that sounds great. Thanks so much and good luck the rest of the year.

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

A

Thank you, Susan.

Operator: Thank you. Our next question comes from Jim Duffy with Stifel. Your line is open.

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

Q

Well, thank you. Good morning, guys, good start to the year. Congratulations on the progress. Hey, Neal, I wanted to follow up on the question on SG&A. Can you speak about the seasonality of SG&A as we think about it relative to fiscal 2020, fiscal 2019 patterns and how the closure of the retail stores may impact that?

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

A

Yeah, sure. There's no real change, Jim, if you think about the – where we were just in terms of extracting out the retail. You did have a seasonality there that was more fourth quarter based, but as far as the SG&A on the wholesale side of the business, I don't see any change in – from a seasonality standpoint.

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

Q

Okay. Even as you seemingly kind of ramped back investments, as you talked about the leverage that you saw in the first quarter narrowing over the course of the year?

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

A

Look, we'll definitely have increases as a result of primarily the furloughed staff and we'll have some small increases as a result of advertising. But I think if you're going back to [ph] 2LY (43:13), the seasonality on the wholesale side of the business should be fairly similar.

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

Q

Got it. And then with respect to incentive comp, where you're getting a good look at that in the 1Q report I presume, and so there's no escalation of that over the course of the year?

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

A

Well, no, I think as it relates to – compared to the prior year, you'll see escalations in that throughout the year. Again, if you go to [ph] 2LY (43:40), you should be fairly consistent there.

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

Q

Okay, thanks for that. And then last one from me, I just wanted to ask about those categories, where you see more pricing power and opportunity and what types of price increases you're talking about.

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

A

Well, the – thank you for question, Jim. Quite honestly, our first view is the pricing increases that we can attain and not affect retail performance. We're sensitive to our stores, primarily we're out of business if they're out of business. So, it's not totally elastic. It's got some mobility, part of which is we produce great product. We sell it at a very fair price and we have great brands, so there's a little room to offset the potential increases in containers and possible increases on some production costs.

But it's not monumental and we've tested it, it works. We're getting $5 more at retail, which is a big deal when you produce millions of units of product. Our ability to do that is we dominate certain areas. The dress business is key.

We're one of the largest producers of dresses in the country with all our brands. The coat business is very much the same way. So, the opportunity is there to move a price point up. It's not unlimited and we're – again, the primary concern is the retail ability of what we put out there. It doesn't do us any good to sell into a very high retail and have the retailer suffer a markdown at the end of the season.

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

Q

Got it. Thank you.

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

A

Thank you, Jim.

Operator: Thank you. Our last question comes from Jay Sole with UBS. Your line is open.

Jay Sole
Analyst, UBS Securities LLC

Q

Great, thank you so much. So, I have a question on revenue, just at a high level. And thank you for the table on the Wilsons Leather and G.H. Bass impact on 2019 – calendar 2019 and the press release this morning. But if you take out the sales from those two brands, it looks like your guidance implies sales are going to be a bit down by 12% versus calendar 2019.

Can you just talk to – are there any structural changes maybe like store closures from some of your retail partners or some other aspect of the business that means like getting back to 2019 levels? It would be hard to get all the way back there. Otherwise, what do you think it will take to get back to that $2.9 billion range that you did in fiscal 2020 ex Wilsons Leather and G.H. Bass?

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

A

So, Jay, it's Morris. It's very hard to replace stores that are out of business. You can't bring them up to 2019 scale. One of our largest customers was Lord & Taylor, that's basically gone. There's nothing we can do to bring their business back to 2019 numbers. Century 21, another one. There's a host of – Stein Mart, yet another one. These numbers reach couple of hundred million dollars in sales. It doesn't happen overnight that you replace them, but we're creating other silos of business that should surpass 2019 numbers in the short period of time.

We're aggressive on doing private label development for some of the mass tier distributors who are out there looking at acquisitions that are likely to move the needle to some regard. And we're producing better products and responding quicker and turning our inventory and the retailers' inventory faster and better. So, we might achieve another turn in inventory to attain top line. The classification of jeans is likely to impact our growth as well. So, there are elements. We're kind of a unique company. We bifurcate brands by categories and we produce most of them.

We're now looking to maybe accomplish the same thing on the men's side of fashion, so wouldn't be a surprise if we took the model that we created over decades in women's and transposed it into the men's sector. And that's an opportunity that I hesitate to give you the number. But, we're a growth company. Our highs internally and management are about growth, we're entrepreneurial, we're aggressive and we're calculated.

So, you're likely to see some changes in the future that benefit our company. And the playing out of the acquisition of Karl Lagerfeld is another feature of relevance. We've bought the brand to service some retailers that are no longer in business and we decided collaboratively with Macy's to enter into Macy's with the brand in both men's and ladies. And that's going to be a big picture, big picture development at G-III as well.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. So, I can just follow up on that, and that's very helpful, thank you for that information. When you talk about a couple hundred million that are maybe not in the sales structure because of Lord & Taylor and some of the other ways that the retail landscape has changed, is there lot of deleverage on those sales? And at the same time, for all the initiatives that you're talking about that sound very exciting, is there a lot of investment dollars going into them? Because if you add back the $0.65 from Wilsons Leather and G.H. Bass that was a negative in 2019, the company would have done $3.84 earnings and this year the guidance is for $2.65 at the midpoint. So, what – is it just that there is – the business has got a lot smaller because of the pandemic and it's just going to grow and have some investments as you evolve into sort of the next chapter or what it's going to take to get back to that 2019 level of earnings?

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

A

I think a lot of what I described gets you there without an incredible amount of CapEx. The thing that we need to remember, the top line included retail, which no longer is in our portfolio. We had another couple of hundred million dollars of retail that went away as we closed Wilsons and Bass and we're now very – as I said before, we're a calculated company. We've got retail that will grow with three venues, Vilebrequin and DKNY and Karl Lagerfeld.

Karl Lagerfeld is in the early stage of direct-to-consumer. We only have, I believe it's 11 stores with leases outstanding for – we should be reaching 25 to 30 stores within the next, let's say the next 18 months. And DKNY, as our business gets better and our product is performing exceptionally well at wholesale, we're transposing the learnings into retail. And that will grow to be a significant change as well. We're not short of opportunities for growth. I've stated in my script, the brands that we have, the power brands alone can contribute $4 billion of wholesale sales into our portfolio.

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

A

Jay, this is Neal, just a follow-up in terms of leverage and margin. Keep in mind too, we've done some permanent reductions in force, so that helps us in terms of deleverage on the lost sales.

From an operating margin standpoint, we believe that fiscal 2019 while that was very strong for the wholesale, there's actually still opportunity even on the wholesale side of our business. The DKNY business that is now part of that operation will be a higher operating margin business than the balance of our structure. So, we actually do continue to see improvements in the operating margins and leverage despite what could be some short-term challenges with the lost sales.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it, okay. Thank you very much.

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

A

Thank you, Jay.

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

Operator, I believe that concludes our questions, and I thank all our stakeholders and everybody on this call for taking the time and continuing your interest in our company. Have a good day.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone have a great day.