14-Mar-2024

G-III Apparel Group Ltd. (GIII)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Edward Yruma
Analyst, Piper Sandler & Co.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Mauricio Serna
Analyst, UBS Securities LLC

Janet J. Kloppenburg
Analyst, JJK Research

Paul Kearney
Analyst, Barclays Capital, Inc.

Robert Rosenhaus
Analyst, Telsey Advisory Group LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the G-III Apparel Group's Fourth Quarter and Full Fiscal 2024 earnings conference call. At this time, all participants are in a listen-only mode. After this brief presentation, there'll 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 first speaker today, Neal Nackman, Chief Financial Officer. Please go ahead, sir.

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

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

Important factors that could cause actual results of operations or the financial condition of the company to differ are discussed in the documents filed by the company with the SEC. The company undertakes no duty to update any forward-looking statements. In addition, during the call we will refer to non-GAAP net income, non-GAAP net income per diluted share, and adjusted EBITDA, which are all non-GAAP financial measures. We have provided reconciliations of these non-GAAP financial measures to GAAP measures in our press release, which is also available on our website. I will now turn the call over to our Chairman and Chief Executive Officer, Morris Goldfarb.

Morris Goldfarb

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

Thank you, Neal, and thank you everyone for joining us. Full year 2024 was an important year for G-III. I am proud of the strong results our team delivered. We've accelerated our long-term strategic priorities and developed new opportunities as we transition out of our Calvin Klein and Tommy Hilfiger businesses. The strength, relevance, and recognition of our brand, along with our powerful corporate foundation, enables us to deliver product that inspires and creates exciting brand experiences for consumers. We successfully navigated through another year in a tough dynamic retail landscape. We believe the consumer environment continues to remain under pressure as we enter the New Year, but have a strong plan in place to drive our business. We're investing for the future, and I'm excited about our path forward as a global leader in fashion.

Now I want to share a few significant highlights from the year. In fiscal 2024, we grew the sales penetration of our businesses, excluding Calvin Klein and Tommy Hilfiger by 7%. As a result, our go-forward brands represented approximately 60% of our total company sales in fiscal 2024. And we anticipate this penetration to further grow closer to 70%, increasing our top line by over 3% in fiscal 2025, while we continue to scale down Calvin Klein and Tommy Hilfiger. We successfully launched Donna Karan, one of the most iconic American brands, which has just hit retail selling floors.

With a fantastic collection, supported by the largest marketing campaign ever for G-III, and a new fragrance launch, the response from customers has been incredible. This validates our belief that the brand has a significant runway ahead. We solidified and went to market with three additional growth initiatives, with Nautica, Halston, and Champion, all of which are highly respected brands.

We're investing in talent for our future growth and hired Dana Perlman in the newly created role of Chief Growth and Operations Officer as part of our executive leadership team. Now let's review our full year and fourth quarter 2024 financial results. Full year non-GAAP net income per diluted share increased 42% to $4.04 from $2.85 in the prior fiscal year and 85% to $0.76 compared to $0.41 in last year's fourth quarter, both above our guidance.

Net sales for the full fiscal year were $3.1 billion compared to $3.23 billion last year and $765 million for the fourth quarter compared to $854 million last year. The fourth quarter top line relative to our plan was impacted by warm weather as well as the consumer environment, which remains challenging. Gross margins expanded by over 600 basis points for the full year. This was driven by disciplined inventory management, moderation in freight, a greater mix of our own brands, and AUR improvements. We believe current gross margin levels are sustainable into the future, and we further strengthened our credit profile, ending the year in a net cash position compared to last year's net debt position of 1.6 times. This is after having paid down $125 million in outstanding debt and repurchasing $26 million of our own stock. Currently, we have over a $1 billion in liquidity.

Now let's review some of the key results. We're a partner of choice and have strong relationships with a diversified retail network. A data-driven approach not only prioritizes the consumer at the heart of everything we do, but also enables us to create collections in over 20 categories across our 30-plus brands with a broad range of fashion. Categories that drove the quarter included outerwear, dresses, sportswear, handbags, and suit separates across our key brands. The team sports division had a good quarter and year. We again renewed our NFL and Major League Baseball licenses.

Nautica Jeans just launched for spring in over 200 doors and online with our retail partners and is off to a great start. In addition, we're also selling to the brand's global distribution network and will expand into a broad range of additional categories over the next few years. We believe Nautica can predominantly fill the void of our current Tommy Hilfiger business. Halston is coming to life. Our designers extensively reviewed the archives, which helped develop our sophisticated and modern take on the collection, which was very well received in fall market. As the master licensee, we can sub-license to expand into additional categories and share in the revenue, generating another income stream. With full control of the business, we see the annual net sales potential of over $500 million. Our new Champion outerwear had a good first market with deliveries available for fall of 2024.

For fiscal 2024, our go-forward brands, excluding Calvin Klein and Tommy Hilfiger, registered high single-digit growth while our total sales declined 4%. In fiscal 2025, we're expanding into new lifestyle categories to extend their reach and see a tremendous opportunity to capture market share, particularly internationally. Specifically, we're working with new distribution partners to grow into new categories. We believe the overall sales and profitability for the go-forward brands have a runway for expansion and we are investing to deliver outsized growth. These go-forward brands will account for almost 70% of our revenues in fiscal 2025.

One of our most important initiatives this year was the development of Donna Karan, which just launched at retail in the US. Inspired by the archives, we've designed a collection centered on empowering women that captures the brand's ethos, timeless elegance and accessible luxury, tailored to meet the full lifestyle needs of today's customer. We invested heavily to support the launch in several ways. First, with an incredible marketing campaign featuring eight iconic models spanning several generations, all of whom have a connection to the brand. I'm thrilled we have some of the biggest names in fashion, including Cindy Crawford, Linda Evangelista, Carolyn Murphy, Amber Valletta, Karlie Kloss, along with renowned photographer, Annie Leibovitz.

Second, we enhanced the Donna Karan website with a new look and feel where consumers can better experience the power of the brand. Third, with our fragrance partner Inter Parfums, we launched the Cashmere collection to complement the brand's iconic Cashmere Mist fragrance, which will extend the brand's presence. I'm extremely pleased at the reaction to the new Donna Karan collection.

Our marketing campaign received major excitement and global attention with over 5.5 billion impressions in the United States and growing. We're already seeing the results with the initial product. A Donna Karan product commands higher AURs than most of our other brands and is resonating with consumers and selling through and almost immediately. Retailers have already increased their buys for the second half of the year. This launch is just the beginning of a new era of fashion for Donna Karan and we're committed to building a lasting brand equity.

We plan to expand the brand globally and now see a $1 billion annual sales opportunity over time. DKNY is well established in the contemporary fashion space and is known for merging modern tailoring with sophisticated ease, celebrating the aspirational and practical spirit of New York. In North America, DKNY grew high single-digits, and we saw strength across most of its core categories. The Total brand grew low single digits as we repositioned our international presence. We pruned some of our non-core accounts and product offerings. In Europe, we're focused on elevating our wholesale presence through capsule collections and pop-up experiences to expand the brand.

In addition, we're also accelerating our digital footprint with Zalando and other key pure player partners. We brought renewed energy to DKNY with new investments this spring by designing contemporary styles that are fashion-forward for younger consumers that complement our core offerings of the collection. We launched a new highly relevant spring marketing campaign with supermodel and actress, Kaia Gerber, Cindy Crawford's daughter, as the global face of the brand. This campaign taps into the younger appeal of DKNY and generated over 626 million press and social media impressions.

Additionally, at the end of the month, we're activating a new capsule collection, Heart of New York, with Caio, which will create buzz and excitement around DKNY. These initiatives will all drive global awareness and are focused on energizing the brand to connect with consumers. We see many untapped growth opportunities, particularly internationally, and believe there is a $1 billion annual net sales potential for the brand over the next few years.

As a reference point, when we launched the brand in 2017, it did virtually no sales in North American wholesale channel. As a result of our team's execution, DKNY sales approached $650 million, and if you include our licensees, global retail sales to consumers were over $2 billion for fiscal 2024. With a full year of owning Karl Lagerfeld, we're pleased with the brand's performance. Karl was an icon in the fashion industry. The international business experienced mid-teen growth in fiscal 2024 as we expanded its reach in Europe through wholesale and retail store openings and entry into new markets and categories. Here in North America, Karl Lagerfeld Paris also performed well, growing in high single-digits with ample runway as we expand into additional categories.

This year, we'll launch suit separates and expand sportswear and dresses into additional doors. Karl Lagerfeld, as the theme of the Met Gala, received global recognition and exposure, which was complemented by capsule collections along the many global activations. Further, we opened its first five-star luxury hotel in Macau and have six projects in the works. We're leveraging the power of the Karl Lagerfeld name and his vision to extend the lifestyle appeal and global awareness of the brand while delivering incremental licensing revenue.

In fiscal 2024, the brand approached $500 million in reported net sales, including our licensees' global retail sales to consumers were over $1.5 billion.

In fiscal year 2025, Karl Lagerfeld is expected to grow solid double digits. We see greater than a $1 billion in annual net sales opportunity to the brand. Vilebrequin, a luxury brand inspired by the sea and Saint-Tropez lifestyle, experienced double-digit increases in fiscal 2024, driven by growth into new markets through distribution partners and new stores. The newly opened location in Paris, Rue de la Paix which offers a higher penetration of our luxury line, enabled us to increase our store AURs by double digits.

We will incorporate this luxury product into wider range of our stores and distribution channels. We are very pleased with a first-ever beach club and restaurant for Vilebrequin in Cannes, bringing the brand to life on the water. We've quickly leveraged the concept to additional initiatives and fiscal 2025 we have a newly opened beach club in Abu Dhabi and a few more in the works.

Going forward, we are focused on expanding the lifestyle product assortment to extend our consumer reach and now believe there's an annual net sales potential north of $500 million over the long term. As we transition from Calvin Klein and Tommy Hilfiger over the next few years, our brands, Donna Karan, DKNY, Karl Lagerfeld, Nautica, Halston, and Vilebrequin will be our core brands. They have significant opportunities across the board, including internationally, where they are underpenetrated.

Digital remains an important priority and we made significant investments to grow our capabilities this year. We've put an increased focus on rapid expansion with the pureplay channel, where we've added dedicated talent to support these platforms. Pureplay sales for the year increased 10% and our Amazon business further outpaced this performance. These efforts helped offset the moderation in traditional retail partners' digital channels.

The speed at which pureplay sales have grown makes clear the market share opportunity we have with this channel. Our European brands have built successful digital businesses with Zalando and other third-party digital marketplaces and we're leveraging these capabilities across our portfolio to build the digital business of our other brands. We're also accelerating a dropship and partner programs to further provide tailored brand assortments on our third-party marketplaces. And we're also upgrading our own digital websites to enhance consumer engagement, conversion, and site performance.

In our retail business segment, we were disappointed in the results. We're already executing on plans that include management changes, reducing our store footprint, and more importantly, rebasing the merchandising strategy for the retail business to present a better brand experience to consumers. We expect these changes will enable us to significantly reduce losses from fiscal 2024 levels.

In conclusion, we ended our fourth quarter and full year delivering non-GAAP earnings that beat our expectations. We've laid out the foundation for our path forward. Our team's versatility, best-in-class design and merchandising experience, and retail relationships have allowed us to move quickly to develop our new initiatives and bring them to market. Looking ahead, we're optimistic about fiscal year 2025 with our new launches and continued growth of our own brands. As we build new brands this year, we will invest in high-impact global marketing to continue excitement, storytelling, and momentum for these fashion collections. And we'll also invest in infrastructure and talent to expand our operational capabilities to deliver our long-term strategies.

As we've entered fiscal 2025, we continue to believe that the consumer environment will remain under pressure. We expect net sales to be approximately $3.2 billion, a growth of over 3% compared to this past year. We expect non-GAAP earnings per share in the range of $3.50 to $3.60, which reflects the investments I just spoke about. Our objectives are clear. Leverage our unique culture and continue to grow on a global scale. Focus our investments on key brands to drive long-term growth as we transition out of Calvin Klein and Tommy Hilfiger. Invest and involve how we operate by leveraging technology and data while identifying efficiencies across our organization to support our global growth.

Implement and execute our retail business segment around the plan. We believe our strong financial position provides us flexibility to invest in our growth, explore strategic transactions, and opportunistically return capital to our shareholders. I'm confident in G-III's future as a global leader in fashion. I'll now pass the call to Neal for a discussion of our fourth quarter and full year financial results, as well as our fiscal 2025 outlook.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

Thank you, Morris. Net sales for the fourth quarter ended January 31, 2024 were $765 million compared to $854 million in the same period last year. And seasonably warm weather and a challenging consumer environment were significant headwinds to the quarter. Net sales of our wholesale segment were $729 million compared to $822 million in the previous year. Net sales of our retail segment were $51 million for the fourth quarter compared to net sales of $49 million. Our gross margin percentage was 37.1% in the fourth quarter of fiscal 2024 compared to 33.2% in the previous year's fourth quarter.

The wholesale segment's gross margin was 35.6% compared to 31.4% in last year's comparable quarter. The gross margin percentage in the current year's period was positively impacted by improved sourcing costs, primarily from lower freight costs compared to the previous year. In addition, the gross margin percentage in last year's fourth quarter was negatively impacted by the significant one-time demurrage charges of approximately $10 million.

The gross margin percentage in our retail operation segment was 44.2% compared to 45.8% in the prior year. Non-GAAP SG&A expenses were $218 million compared to $236 million in last year's fourth quarter. We had strong warehousing efficiencies compared to our expectations and actually had lower warehousing costs compared to the prior year. Our current warehouse capacity is now well aligned with our current and planned inventory levels. As a percentage of sales, SG&A de-levered in the quarter as a result of the higher penetration of sales from the acquired Karl Lagerfeld business, which has a higher percentage of expenses to sales than the rest of the company. Non-GAAP net income for the fourth quarter was $36 million or $0.76 per diluted share compared to $20 million or $0.41 per diluted share in the previous year's fourth quarter driven by improvements in gross margins and less interest expense.

Now let us review results for the full fiscal year ended January 31, 2024. Net sales for the fiscal year 2024 were $3.1 billion, a decrease of 4% from $3.23 billion in fiscal 2023. Incremental sales from the acquired Karl Lagerfeld business for five additional months this year added $95 million to net sales. Net sales of our wholesale operations segment decreased to $3.01 billion or 4.6% from $3.16 billion last year. Net sales of our retail operations segment for the year were $148 million compared to the previous year's $137 million.

Full fiscal year 2024 gross margin percentage increased 600 basis points and was 40.1% compared to 34.1% in the prior year. The wholesale segment's gross margin percentage was 39% compared to 32.6% in the previous year. The gross margin percentage in fiscal 2024 was positively impacted by improved sourcing costs primarily from lower freight costs compared to fiscal 2023. The gross margin percentage in the prior year was negatively impacted by the significant one-time demurrage charges of approximately $42 million.

Finally, the inclusion of the acquired Karl Lagerfeld business for a full 12 months positively impacted our gross margin percentage by approximately 100 basis points. The gross margin percentage in our retail operations segment was 48.1% compared to 49.9% in the prior year.

Non-GAAP SG&A expenses for the year were $917 million compared to $843 million last year. The full year's non-GAAP SG&A as a percentage of sales was 29.6% compared to 26.1% last year. SG&A expenses increased as a result of the inclusion of $72 million associated with the acquired Karl Lagerfeld business. SG&A de-levered as a result of the added Karl Lagerfeld business and the inflationary pressures we incurred throughout the year.

Full-year non-GAAP net income was $190 million, or $4.04 per diluted share, compared to $139 million, or $2.85 per diluted share in the previous year. The increase was driven by improvements in gross margins and interest expense. Our lower interest expense reflects interest income on the significant cash flow generated this year and reduced debt from the pay down of the seller notes related to the Donna Karan acquisition.

Turning to the balance sheet, we made good progress with respect to our inventory levels. Inventory decreased 27% to $520 million at the end of the quarter from last year's $709 million. We made strong progress rightsizing our inventory levels as we had appropriately adjusted our inventory purchases to account for the higher than usual inventory we carried over from the previous year.

Our inventory levels are now better aligned with future sales. We ended the year with a net cash position of approximately $90 million compared to a net debt position of $428 million in the prior year. This swing from a net debt to a net cash position is primarily a result of cash flows from operations, which includes the large decrease in our inventory levels. We had cash and availability under our revolving credit agreement of over $1 billion at the close of the year.

This is after the repayment of $125 million of debt outstanding under the seller's notes. We believe that our liquidity and financial position provide us the flexibility to invest in our future growth and take advantage of strategic opportunities in the marketplace. As for our guidance, we are very optimistic about fiscal year 2025 as we launch our new brands and continue to grow our own brands. For the full fiscal year 2025, we expect net sales of approximately $3.2 billion, growth of approximately 3%, driven by our own brands and the launches of the new initiatives. This growth is happening as sales of Calvin Klein and Tommy Hilfiger continue to decrease as we transition away from these brands.

In the upcoming fiscal year 2025, we anticipate sales of these two brands will represent approximately 30% of our total net sales, down 10% from fiscal 2024 when they represented 40% of our net sales. On a non-GAAP basis, we expect net income for fiscal 2025 of between $167 million and $172 million or between $3.50 and $3.60 per diluted share. This compares to non-GAAP net income of $190 million or $4.04 per diluted share for fiscal 2024. Full year fiscal 2025 adjusted EBITDA is expected to be between $290 million and $295 million compared to adjusted EBITDA of $324 million in fiscal 2024.

Our fiscal 2025 guidance includes approximately $60 million in incremental expenses, primarily associated with the launches of Donna Karan, Nautica, and Halston. Approximately 65% of these expenses are related to marketing initiatives to support the Donna Karan and DKNY brands. The remaining expenses are primarily related to technology and talent to expand operational capabilities.

For the first quarter of fiscal year 2025, we expect net sales of approximately $615 million compared to $607 million in the same period of fiscal 2024. We expect a non-GAAP net loss for the first quarter of fiscal 2025 to be between a $5 million loss and breakeven, or between a negative $0.10 loss per share and $0 per share. This compares to non-GAAP net income of $6 million, or $0.13 per diluted share, for the first quarter of fiscal 2024. The first quarter's expected results include approximately $20 million of the incremental expenses, which is driving the decrease in net income in the quarter.

Let me provide some additional context around modeling. For sales, we expect the first half of the year to be relatively flat to last year. In the second half of the year, we will see outsized growth as we continue to expand and launch our new brand initiatives. As for the gross margin rate, we expect full fiscal year 2025 to be similar to fiscal year 2024. Gross margins in the first quarter are expected to be slightly higher. Regarding SG&A, as I mentioned, we plan to make several investments to support the growth of our business for the long-term.

On the quarterly cadence of the SG&A spend, we expect the marketing spend to be skewed towards the first and third quarters in line with the spring and fall marketing campaigns. We expect the interest expense to be approximately $23 million for the full year. As compared to fiscal 2024, we expect a much larger benefit in the first half of the year, where we expect to continue to earn interest income on the significant cash balance we are carrying into fiscal 2025.

In the second half of the year, in line with our increased seasonal working capital needs, we expect interest expense will still be better than last year, but closer to last year's levels. We expect capital expenditures of approximately $50 million. This is higher than our spend in previous years, principally driven by the build-outs of shop-in-shops for our new brand launches and new technology to support our business.

We are estimating a tax rate of 28.5% for fiscal 2025. We have not anticipated any potential share repurchases in our guidance. That concludes my comments. I will now turn the call back to Morris for closing remarks.

Morris Goldfarb

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

Thank you, Neal, and thank you all for joining us today. I'm proud of what the team has been able to achieve this past year, and look forward to seeing the success that lies ahead. I'd also like to thank the entire organization, our many partners, and all 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 the line of Edward Yruma with Piper Sandler. Your line is now open.

Edward Yruma
Analyst, Piper Sandler & Co.

Q

Hey. Good morning, guys. Thanks for taking the questions, a few from me. I guess first on outerwear industry inventory, obviously, I know you ended up clean on your books. I'm just curious, how much outerwear do you think got packed away, and how did this influence your upcoming fiscal year guide?

And then as a follow-up, thank you for the color on the performance or the projected performance or contribution of Calvin and Tommy. How do you think about the profitability of those businesses relative to your acquired brands, how that will be for this fiscal year, and how we should think about that changing over time? Thank you.

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

A

Thanks for your questions, Ed. Our coat inventory is in really good shape. Unfortunately, we had an unseasonable season. We do have some carryover, but it's in core basics. It's not high risk. Coats for this company has never been high risk. We've been in the coat business for over 50 years. We know how to manage inventory, and we know how to sell through inventory at a reasonable profit, even in carryover product. The industry, I really can't speak to. Not certain of how everybody else sits, but my assumption is that there is an increased level of inventory sitting either in pack away or sitting in warehouses that have yet to sell their product. But again, I have a high confidence level that our inventory is in good shape and will provide profits for the company in the coming year. As it relates to, go ahead, Neal.

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

A

In terms of your second question, Ed, as far as profitability of the own brands versus Calvin and Tommy. So, to start, look, the Calvin and Tommy businesses have been strong drivers of our business in the past. They've generated a high operating margin for us. But one of the beauties for us as we go through this transition is that we will be moving to brands that really don't pay a royalty or pay a reduced royalty.

And that should significantly impact our operating margins go forward. In addition to that, we've got licensing income that comes off those businesses. That's purely profitable business for us. So, we see as these portfolios change and keep evolving towards a more owned brand, that we'll have improvement in both gross margins as well as operating margins. You know, in terms of the marketing spend that we might do for these businesses, the way we look at that is we're really sort of comparable.

We would have been paying our marketing spend to the licensor. Instead, we'll do our own marketing. So, in some ways, we'll have more control over that. We'll be able to direct it. Of course, our owned brands we can distribute worldwide. So, in addition to having a broader distribution base, full control, we think the operating margins of the business will slowly improve as we shift to the owned brands.

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

Let me add a little bit to that, Ed. Our owned brands are generally higher AURs than our licensed brands. Our margins are significantly better today with DKNY. We're buying better. We're positioning it differently. And our new launch of Donna Karan is significantly higher. Our AURs are significantly higher than Calvin Klein and Tommy Hilfiger. It's the early stage. We don't have a huge business plan for our first year out. We're careful on distribution. The sell-throughs are stellar. We have a high demand for more inventory. We don't have the ability of servicing all of the demand for the first half of the year. We're working hard for the back end of the year to accommodate the demand that's there at, again, much higher AURs than we currently have.

Edward Yruma
Analyst, Piper Sandler & Co.
Q

Yeah, got it. Maybe one other follow-up for me. I know the retail business has been problematic for many years. How much of the soft results in a quarter were kind of these legacy outlet stores versus maybe costs associated with some of the owned brand, kind of, I don't want to call them flagship, but kind of high street locations? Thank you.

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

So, we don't have any real high street locations. Most of our fleet of stores is outlet. They're being managed a little bit differently go forward. We believe we've trimmed the non-performing stores. We still are burdened with corporate overhead that feeds into the stores. We're adjusting that. And I think we'll see a significant difference this year and maybe for the first-time next year, we'll see a profit in our retail fleet.

There's always been a thought of retaining the retail business. There's a need for it. The environment really tells us that we need to get better at retail to sustain real estate to enable us to showcase and sell product. As store counts reduce in the department store sector, we need a hedge. So, we need to get better at retail. Our universe of competition, and I would guess you follow all of them, their business is much more vertical based than ours. Ours is skewed on wholesale, so we fight hard to get better on our own retail distribution. And with that, as we expand our European footprint, retail is better for us there. We are profitable in our retail venues in Vilebrequin and DKNY, and we're exploring opportunities to expand those retail footprints.

Edward Yruma
Analyst, Piper Sandler & Co.
Q

Thank you.

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

Thank you, Ed.

Operator: Thank you. One moment for our next question, please. Our next question comes from the line of Ashley Owens with KeyBanc Capital Markets. Your line is now open.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. Thanks so much for taking my questions. So first, could you just update us on the order book and kind of how you're feeling going into this next year about the wholesale environment and what's driving the confidence and the back half acceleration you alluded to in the guide? And then just secondly, the portfolio continues to grow, and you look to expand, are there categories or products you're specifically looking to focus on with this initiative, or where do you think the most opportunity lies? Thanks.

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

A

Ashley, I didn't hear the back end of your second question, the follow-up. What was that? Was it Europe? Was the question skewed toward Europe?

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Just new categories or products and where you think the most opportunity lies within those?

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

A

Okay. So our order book is strong. And as I inferred a few minutes ago, it's growing in Donna Karan. We're working hard and trying to accommodate what the order book could look like if we're able to service the demand. Our budgets are basically based on our order book and the timing is toward the back end of the year. We believe we've got a strong business in place. We have inventory, that we have sufficient inventory to service part of our coat business. We're careful on how we're buying into it, so we're looking at a good year. The forecast is good, barring the unforeseen.

And unfortunately, in the last few years, there have been a bunch of unforeseens. Everything we can control really tells us that we're in the middle of a reasonably good year. As far as the categories, we're expanding suit separates into Karl Lagerfeld, which is an important category for us throughout the company. And we anticipate that's going to turn out good. Everything we're doing in Karl Lagerfeld, including the door count expansion, leads us to believe we're going to have a very good year with Lagerfeld.

DKNY is stronger than it's ever been and the launch of Donna Karan has been great. So there aren't additional categories that we're exploiting. We're expanding the penetration of the handbag business, the footwear business, the suit separate business, so there's a good deal of opportunity there. And I'd say the one piece that's a little bit outside of what we generally talk about, our team license business is expanding in categories. We have Starter as a brand, and Starter is growing significantly. We've added distribution. We have great cooperation with our licensing partner. So that appears to have opportunities for the first time in a long time to expand.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you.

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

A

Thank you, Ashley.

Operator: Thank you. One moment for our next question, please. Our next question comes from the line of Will Gaertner with Wells Fargo. Your line is now open.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, Morris, and Neal. Thanks for taking my question. So maybe you could just start by framing how big your owned brands are now, as far as revenue goes?

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

A

Sure. Thank you. Thanks for your question. Neal?

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

A

We're at about $1.5 billion now on the owned business as well.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Is there any way you could parse out by brand, where those brands are now?

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

A

We really don't do that yet. I can tell you we're just beginning to ship Donna Karan. So Donna Karan in pure dollar revenue is not going to be the driver. It'll be the growth stimulus for the future. We've never seen a launch this successful. We're positioning it well, where the product – I encourage you to be conscious of the marketing, and the product that's in the stores, and I think you'll understand the potential of the brand. The DKNY business is growing strong double digits. It's forecasted to do that this year. Lagerfeld will grow even bigger as a percentage than DKNY. So we – we're very comfortable with what we have in place. We see amazing growth whereas we're shrinking the scale of Calvin and Tommy by design and by dilution of our ability going forward of delivering categories, but we're doing a sensational job of Building our owned own brands to accommodate the misses on Tommy, and Calvin. We've given up about a $0.5 billion of Tommy, Calvin top line sales over the last two years and we're forecasting a 3% growth going forward. I'd say that's a major achievement in an environment that's difficult.

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

A

Will, let me just say I guess let me add a little bit of framing for you. We're at about a $1.5 billion today. It's about half the total business. We expect significant growth into next year, strong double-digit growth into next year. We could be as much as 55% of our own businesses next year. But I think the thing to take away is if you look at the opportunities that we've talked about over the new initiatives, we see over $3 billion of opportunities. Between Donna Karan, we've called out as $1 billion. DKNY, we've also called out as $1 billion. Karl Lagerfeld, we think the total opportunity is $1 billion. We got Halston and Nautica both at a $0.5 billion. And let's for the moment not even get into the Vilebrequin growth, which we think is also strong.

So I think if you look at all those opportunities, without giving you the specifics of where we're at on each specific brand today, we've got about $3 billion of potential opportunity. We've got to replace about $1 billion of Calvin and

Tommy business, so we've got plenty of runway to more than replace it. And of course, we expect to do that in short order. I think if anything, we've sort of showed the last year. And our projection into this next year is that we're really able to replace significant chunks of declining Calvin and Tommy business really without a bump. And our hope is to be able to continue to do that.

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

A

We can't forget your question keys in on our owned brands. We do have several licenses that are important. All our team licenses are important. We have a Levi's license that is of scale. We have assets outside of our owned that are going to participate in the growth of the company, and one might consider the opportunity that's out there of acquiring other assets and signing other deals. We've done a great job of integrating assets into our operating companies. Our talent pool just is as good as it gets in our world, and we're, well, our world being North America, and we're going to achieve the same in Europe in the coming years. We have a mission. Our mission is to expand our footprint, our capabilities globally, and the globe is a big place. There are opportunities that we never focused on. We didn't have the ability to with the licenses that we had. Today we have the opportunities, we have the desire, we have the capital, and there's recognition in Europe of who we are. We've done a nice job of positioning, and now it's time for the growth period internationally.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Got it, maybe just one more for me, you touched on Europe, Morris. Just any color there. It sounds like you guys are performing pretty well. What's the retail – for you guys, the appetite for – we've heard slowdown there and just curious what you're seeing on your end there?

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

A

So slowdown usually implies companies that, of scale. We're not going to slow down. We're going to grow. We're at the early stage with an appetite for our product, regardless of what economies look like. This is a fashion business. What we do is, create fashion that's in vogue. We service it well, and there's no doubt in my mind that we're going to grow in spite of the economic headwinds that might come our way.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Thank you. I'll pass it on.

Operator: Thank you. One moment for our next question, please. Our next question comes from the line of Mauricio Serna with UBS. Your line is now open.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Great. Good morning, and thanks for taking my question. I just wanted to maybe reconcile, I think you mentioned that the Calvin Klein and Tommy Hilfiger would roughly represent 30% of sales this year, down from 40% last year. I think that's, like, roughly implies those revenues are going to be down like almost $300 million. I just want to make sure, like, I think this year you're only losing $50 million from the given back the denim license. I just wanted to first to check on that like if the rest is just like winding down of the business.

And then maybe I know like, you have like several initiatives going underway this year. Maybe if you could parse out like how much of the growth is coming from like organically from the brand that you already have and that you just continue growing versus the new initiatives. And then just lastly, maybe if you could give us like some puts and takes on the gross margin because it sets flat year-over-year, just how are things like the Red Sea, disruption, freight, promotions, how are like what are the big drivers there that take us maybe to a flat gross margin? Thank you.

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

A

Yeah, Mauricio. So, just to help you work out some of that math. Yeah, I think that if you look at what we're forecasting from 2024 into 2025, we are looking at about $240 million of fall off in the Calvin, Tommy business. That's slightly less than fell off in the previous year. So, obviously, we're going to be up about $100 million. That means that the growth in the rest of the portfolio is about $340 million. That growth is fairly evenly split between the new initiatives and growth on the current business that we're performing.

In terms of the flat gross margin percentage, I think you hit it on the head. We are a little bit concerned about the Red Sea. It has not impacted us just yet outside of our European distribution, which it has impacted already. We do anticipate that that will be a little bit of a headwind for us. Hopefully, it doesn't become too great. Well, a gross margin plan at being flat, we're pretty pleased with that kind of result in this current environment.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Great, thanks for that, good luck.

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

A

Thank you, Mauricio.

Operator: Thank you. One moment for our next question, please. Our next question will come from the line of Janet Kloppenburg with JJK Research Associates. Your line is now open.

Janet J. Kloppenburg
Analyst, JJK Research

Q

Hi, everybody. And I got on a little bit late, Morris, so if I'm asking a question that's been asked or that you discussed, I apologize. But I wondered what you were thinking and embedded in your guidance for Macy's planned store closings and what effect that may have on your business in the next three years as they close roughly 150 stores. And with respect to the new launch of Donna Karan, which is beautiful by the way, I wondered if that was going to be a drag on earnings this year because of the marketing investments or if we should expect a contribution. Thank you.

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

A

Thank you, Janet. Let me deal with the Donna question first. Thanks for noticing the campaign. It's very beautiful.

Janet J. Kloppenburg
Analyst, JJK Research

Q

Very beautiful, very beautiful.

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

Thank you.

Janet J. Kloppenburg
Analyst, JJK Research
Q

Yeah.

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

We've been celebrated for it. There was just an event by Time magazine on the West Coast that we got well recognized. And we're very excited by the campaign. I think I would like to call out Trey Laird for all the wonderful work he has done. I have to attribute a lot of success to his talent.

Janet J. Kloppenburg
Analyst, JJK Research
Q

I didn't know Trey did it. I didn't know it was Trey. He's fantastic. Yeah.

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

Yeah. We took the best that we could get, the best that there is out there, whether it was the models, the photographer, the brain trust of Trey and his team and our own team, which also should get recognition for what they've done, so. And it will be a drag because of everything I just described. We're spending a disproportionate amount of money on the advertising campaign and the media purchases. It's positioning the brand for the future.

It'll pay dividends next year, and we're not a one-year show. We're here for over 50 years, and hopefully we'll be here for another 50 years. So, we're comfortable with the investment in the future. As your question on Macy's, we can only guess. As Macy's has said, the door count is projected to be fairly aggressive, but the dollar value on the door count is approximately 10% of their sales. And there's nothing that says we can't further penetrate the remaining good doors. We're looking at a possibility of 5% to 10% dilution should the door count decrease. But that's over time. I don't believe they will shut 150 doors within this fiscal year. And they're projecting smaller door growth.

The smaller doors are projected to grow. And I believe we'll play an important role in that as well. Our brands are important to Macy's. We represent a significant share of Macy's fashion business. Not just for the brands, for who we are and how we accommodate the needs of Macy's. We understand it better than anybody in the world. I'd be very fast to say, we understand the Macy's business. Cooperation is great and it's not a major concern for us.

Janet J. Kloppenburg
Analyst, JJK Research
Q

One more question, if I could squeeze it in. On the contrary, the off-price retailers are doing very well, seem to be taking market share and I wonder how you viewed your opportunity there, as we move through 2024 and 2025. Thank you.

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

A

We respect the off-price channel. We are very important to them as they are to us. We choose the brands. We collectively choose the brands that are appropriate for them. And we look to protect our brands in distribution, yet we know the significance of the off-price channel. We know its growth potential, we've seen it, we've been part of it. And we do products specific for them as well as they help us when needed in moving product. They've been an essential piece of our business, we don't underplay it, we're not embarrassed by it, it's the enabler for department stores to get service the way they do by us. So, we like the off-price business.

Operator: Thank you. One moment for our next question, please. Our next question comes from the line of Paul Kearney with Barclays, your line is now open.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Good morning, thanks for taking my question. As the licenses come off and with the need to grow the owned business for the next 50 years, can you talk about some of the initiatives the company has to improve the capabilities on old brands, whether it's operational changes, building a digital platform, bringing in retail expertise or investing in marketing capabilities? Thanks.

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

A

Well, two things, it's not written that we have to grow, it's written that we have to be profitable and more profitable. So, we can run a smaller business with significantly better margins and accommodate the profitability concern that we have as paramount. So, it's not, we're no longer going to be a top-line driven company as the key focus. Key focus is going to be profitability.

The tools that we need, we have, we don't need any more tools. We have the best talent in the industry, and maybe in the world, operating in our company. Most of those people will be transitioned from Tommy, Calvin, into our owned own brands, which is absolutely wonderful. We don't have to go out to the market, hire people, train them, and integrate them into the G-III culture. They're here. They are G-III. And there's an entire team here that carries the flag of G-III, not the individual brands.

So, we're working on enhancing our data platforms. Technology is key. We're going to optimize our logistics capabilities. We have some weaknesses that we're shoring up, and that's part of the expense of this year. And we're investing in Europe. We're investing in space and in talent. And again, there'll be a media spent that'll be targeted toward Europe in the coming months. I think we have it all. It's not a startup company. It's not a company that is going from base zero projecting out what you're seeing. We're there. We don't need anything. And we have the capital to sustain it and support it. Paul, thank you for your question.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Thank you. Our final question will come from the line of Rob Rosenhaus with the Telsey Group. Your line is now open.

Robert Rosenhaus
Analyst, Telsey Advisory Group LLC

Q

Hey, guys. Thanks for taking our questions here at the end. We touched on international business a couple of times here, but maybe can you dive a little bit deeper into the go-forward opportunity abroad there, particularly with the increased focus on the owned brand penetration, and maybe talk about what the profitability profile looks like versus the domestic business.

And then just secondly, one last question, M&A obviously has been a big part of the business in recent quarters and recent years. Is there anything of interest right now in the current environment, or do you guys kind of see your hands full with what you have, and the focus is just on the current portfolio for the time being? Thank you.

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

A

So, I guess I'll answer your last question first. Yes, there are opportunities that we like a lot in Europe, we have identified some. We're working through it. We do our diligence, we do it carefully and there is a good bet that there is an acquisition opportunity or an investment opportunity at hand. Hopefully, we get it accomplished soon. As far as our European initiatives, again, this is not new. Lagerfeld started out as a European company. We took on an equity stake for North America and eventually bought the entire company. So, the origins are European, the heritage is European, and the operating company really sits in Europe and they kind of steer the ship.

So, what hasn't happened is there's never been a significant investment in the growth of the European business for Lagerfeld. We're there getting our arms wrapped around what's needed and we're going to invest in the future of Lagerfeld going down the road. There is an extremely talented group that's spearheading it now. No changes need to be made in management. We had the time to get acquainted with them, with our relationship with North America. So again, the transition and the acquisition really didn't complicate the lives of the international piece or the American piece. And Vilebrequin same feature. Vilebrequin is a European brand, born in Saint Tropez, spearheaded by a group out of Geneva and Paris, and again for the first time in years we're making significant investment in the growth of Vilebrequin.

We have initiatives to open beach clubs, more on the franchise side than the operating side. I don't think we're that company that's going to grow food and beverage, but there are many extremely talented companies that want to use our brand to grow, and we're in the middle of signing deals and finding opportunities that will impact the profitability of, again, our brands. Not necessarily the top line, because we like the licensing side of life, and that doesn't always constitute top-line growth, its bottom line that it contributes to. So, I believe we've got, and let me touch on DKNY. DKNY, when we bought it, was European in distribution more so than it was American, so we're now shoring up that entity. We've spent a lot of time on evaluating what's essential for the future in DKNY and there is an appetite for the brand, a serious appetite for the brand that we're going to try to fill.

There's a newcomer which is Donna Karan, which we haven't even broached that opportunity in Europe or anywhere else in the world and we've had phone calls based on this campaign and the knowledge of the sell-through at retail for bringing that brand to life everywhere in the world. So, it's an exciting period of time for G-III. There's we're redoing showrooms. We're here to stay, we're here to grow and I think we've proved out that we can and we have a team that will. So, it's a good place to be. We're feeling good about the times for G-III.

Robert Rosenhaus
Analyst, Telsey Advisory Group LLC

Q

Great. Thank you. Best of luck.

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

A

Thank you Rob. Thanks for your question.

Operator: And this concludes our Q&A portion. I'll turn the call back over to management for closing remarks.

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

Thank you all for your interest and we hope you enjoy the spring season and we look forward to speaking to you in June. Thank you.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.