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G-III Apparel Group Ltd. (GIII)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the G-III Apparel Group Second Quarter Fiscal 2025 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 hand the conference over to your speaker today, Neal Nackman, CFO. Please go ahead.

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. We're pleased with our second quarter results, which exceeded our bottom line guidance, and we feel confident in our raised outlook, as we enter the second half of the year with momentum. With our diverse portfolio of more than 30 globally recognized brands, we have long been a partner of choice because of our best-in-class ability to build businesses at scale.

Having the most desirable brands is central to our strategy and over the past year, our plans to better control our destiny with our own powerful brands, along with some great new license opportunities are working, creating an incredibly dynamic portfolio for our future.

We'll continue to drive the growth of our go-forward portfolio in two key ways. First and most significantly, the organic growth of our owned brands, Donna Karan, DKNY, Karl Lagerfeld, and Vilebrequin, across North America and internationally. Second, a group of new license opportunities secured with highly recognized brands including Halston, Nautica, Champion outerwear, BCBG, and this morning's exciting announcement of our license with Converse, Inc., which I will discuss shortly.

Taken together, we're confident in our plan. We have created a strong go-forward portfolio that further diversifies our business model. This enables us to broaden our reach across product categories, distribution channels, and geographies, as we deliver wherever the consumer shops.

As we evolve our portfolio, we're actively managing and supporting our current business with Calvin Klein and Tommy Hilfiger through the transition of those licenses. A proven track record demonstrates G-III's ability to drive growth and is supported by our powerful corporate foundation, which includes experienced senior leadership, a strong long-tenured merchant and product development talent with expertise across a broad range of categories, our well-developed sourcing and supply chain, our newly established infrastructure to support global growth, and our longstanding relationship with a diversified distribution network of retail partners.

Now, let's review our financial results. Net sales for the quarter were \$645 million in line with our expectations. Gross margin rate expanded 90 basis points driven by strong sell-throughs across businesses and the greater penetration of our higher margin owned-brands.

Non-GAAP earnings per diluted share was \$0.52 and well ahead of our expectations. Our inventory remains in good position, down approximately 24% from last year's second quarter. And we ended the quarter in a strong financial position.

I'm pleased to announce our new global agreement for Converse, Inc. for men's and women's apparel launching in fall of 2025. Converse is an iconic American youth lifestyle brand owned by Nike, Inc. with international recognition that meets the ever-shifting demands of the younger consumer. With a longstanding legacy across multiple sport and creative communities, Converse is known for its cultural relevance and unique collaborations. This license represents a significant opportunity for G-III because it enables us to expand the active lifestyle business, which includes our team sports division.

We will integrate Converse by leveraging our existing fashion talent to build out this business. It also provides us with exposure to a differentiated consumer and we both benefit from expanding our distribution networks.

Additionally, we increased our investment in AWWG, bringing our total ownership stake to just under 20%, up from our initial 12% announced in June. Generating over \$650 million in revenues across 3,500 points of sale in

more than 86 countries, AWWG is a global fashion group and premier platform for international brands. They also are the owners of Hackett, Pepe Jeans, Façonnable, and manage the Iberian business for PVH. They will serve as our partner to drive DKNY, Donna Karan, and Karl Lagerfeld, across Spain and Portugal, furthering our European reach.

We believe these businesses can incrementally add more than \$200 million in sales across the Iberian market over the next three to five years. We've already begun working to reintroduce Pepe Jeans and Hackett into the North American market. This partnership will expand our business globally.

We're extremely pleased with another quarter of outside sales growth of our owned brands, Donna Karan, DKNY, Karl Lagerfeld and Vilebrequin, which combined grew mid-teens to last year's quarter and are gaining market share, especially in North America. Growing and investing in these businesses globally for long-term is central to our growth and a key strategic priority. With full control of these brands from design, production, global distribution and marketing, they represent an important and sustainable profit driver, generating higher operating margins and providing licensing income for G-III.

Donna Karan's North American launch is exceeding expectations year-to-date. The brand is resonating with consumers with strong AURs and sell-throughs, resulting in higher retail margins. We continue to fuel this momentum with a focus on storytelling under Donna Karan's purpose and rich history of empowering women as seen in our successful spring campaign, which was In Women We Trust.

For fall, we launched another powerful campaign, Reflections on Women, featuring a new group of eight iconic models including Christy Turlington, Imaan Hammam, Amber Valletta, and Karen Elson, all with a strong connection to the brand.

We are seeing the impact of the campaign and the fashion industry is taking note. Tomorrow, the Daily Front Row, a fashion trade magazine is honoring our work with its prestigious Best Ad Campaign of the Year award. So, congrats to our entire team on this well-deserved recognition. A nice capstone to Donna Karan's highly successful relaunch. We launched with roughly 200 North American doors in spring and retailers have expanded door count and floor space in response to the brand's success.

Looking ahead, in North America this fall, we will expand to 500 doors across 1,200 points of sale, with additional expansion planned for spring. There is high interest internationally and we expect to support this expansion beginning in fall 2025. Donna Karan has \$1 billion net sales opportunity globally.

DKNY delivered another quarter of high-single digit sales increase, led by North America as the brand continues to take market share. We are also making progress in the transformation of our owned DKNY and North American retail stores and are pleased with the double-digit comp sales lift we're seeing since recently implementing the management, footprint, merchandising, and brand experience changes we had previously discussed.

Building upon the success of Kaia Gerber as the face of the brand this spring, we're partnering with her again for our fall campaign entitled, New York Stories, celebrating the riches of New York City and Kaia's Book Club and her love of reading, the campaign will further bolster DKNY's appeal among younger customers. It launched on social media last month and will come to life in a series of activations across New York City, London, and Milan, aligning with each city's Fashion Week in September and engaging consumers via activations, robust influencer programs, and social content.

DKNY's relevance is growing globally with increased demand that affords us the opportunity to continue its reach, especially with AWW's (sic) [AWWG's] (00:11:42) support in Iberia. The brand is performing better across Asia as we redefined our distribution in that market. We're expanding our core categories and for the fall season have added an additional 600 points of sale, accelerating our growth in North America. This past quarter, our fragrance partner unveiled a new DKNY blockbuster fragrance called DKNY 24/7 that launched in select markets and will be distributed full scale next month.

We're also switching our watch licensee to TMS, a reputable partner to many fashion brands. We believe they will help reinvigorate this lifestyle category. We see over \$1 billion in net sales potential for DKNY globally in the near-term.

Karl Lagerfeld had another quarter of impressive growth with sales increasing mid-teens to last year, especially in North America, where we've further built out its lifestyle collection. This resulted in the addition of approximately 500 new points of sale this year, bringing us to a total of over 2,900 points of sale.

Additionally, retail stores in North America are performing well with double-digit sales increases to last year. The brand is performing well internationally, especially in digital channel, despite the challenging European macroeconomic environment. In September, Karl Lagerfeld will launch a new collection that reinforces and modernizes the brand's heritage. The marketing campaign will feature up and coming European fashion models and we will create pop-ups in key luxury department stores across Europe.

Additionally, the jeans collection is introducing a new collaboration that blends vintage and modern elements. We're expanding Karl Lagerfeld's presence globally through store openings, entrance into new geographies, and the addition of new lifestyle categories. Today marks the grand opening of our Regent Street flagship store in London and our Hamburg store is set to open shortly, providing a presence in Karl's hometown.

Our partnership with AWWG to expand in the Iberian market will further penetrate into Europe. Additionally, we're expanding into Latin America with an established distribution partner with plans to open four stores by the end of 2024. Our fragrance partner unveiled a new premium fragrance, [ph] duo (00:14:48) and we entered into a new licensing agreement for fashion jewelry and watches for men and women. We see over \$1 billion in net sales potential for Karl Lagerfeld globally.

Vilebrequin faced pressures in Europe this quarter. The consumer environment remains soft and cooler weather conditions in late June and early July negatively impacted beachwear sales, heading into summer. France, Vilebrequin's largest market, was negatively impacted by the restricted access to Paris during the Olympics.

During the quarter, Vilebrequin opened the brand's first flagship store in Cannes, which has quickly become the highest grossing store in our fleet. And we plan to open five new stores in the second half of the year. In addition, the company-operated beach club in Cannes continues to outperform. We have seven partner-operated beach club concepts in various stages of development. We continue to see global expansion for the business in the long-term.

Our licensed business remains an important part of our portfolio, complementing the growth of our owned brands. Some of the most well-known brands in fashion have come to us to build their businesses because of our experienced talent, significant expertise in developing product, our infrastructure, and our status as a supplier of choice for retailers. Our ability to fuel the growth of these brands provides significant opportunities for both of our businesses.

As a reminder, we built Calvin Klein and Tommy Hilfiger into a \$1.5 billion business at its peak. Since the unexpected announcement of the upcoming expirations of those licenses, we've done an amazing job expanding our business and have made a lot of progress developing new relationships. We're pleased with our execution to-date. We're actively managing Calvin Klein and Tommy Hilfiger with our dedicated teams and are working with all our retail partners to continue their support for these brands.

Balancing our resources to support all these current businesses, as well as future ones has created slightly elevated SG&A levels. With over 70 years of experience, we are the preeminent resource for women's apparel in North America. We've developed longstanding relationships with retail partners who have confidence in our ability and are actively working with us to support our new brand opportunities. This year, we launched Nautica Jeans, easily replacing the Tommy Jeans business as the license was given back at the end of last year.

Champion outerwear and Halston, which will extend our lifestyle product offerings and drive incremental growth, are just hitting retail floors. Additionally, BCBG and Converse will launch next fall.

In conclusion, we've delivered a strong first half of the year and are executing against our strategic goals. We've done a great job improving what we own, building upon our infrastructure, and adding what we need for the future of our business.

Looking at the remainder of the year, we're controlling the controllables and we remain cautiously optimistic. We're closely monitoring the supply chain dynamics and have factored that impact into our updated outlook. Given [audio gap] (00:18:51) supported by our forward order book, we're reaffirming our top-line while once again raising our full year earnings per diluted share guidance to be in the range of \$3.95 to \$4.05.

Our proven track record of success and our strong balance sheet, gives us ample flexibility to invest in long-term opportunities to expand our business and make strategic investments. The plans we laid out over the past two years are working. We're seeing results as we continue to evolve our business model for the future. The new G-III is already stronger and better than ever before.

I'll now pass the call to Neal for a discussion of our second quarter, as well as our fiscal 2025 outlook.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

Thank you, Morris. Net sales for the second quarter ended July 31, 2024 was \$645 million compared to \$660 million in the same period last year and in line with our expectations. Net sales of our wholesale segment were \$620 million, driven by strong growth of our owned brands in North America, offset by a decline in Calvin Klein and Tommy Hilfiger businesses. This compares to \$639 million in the previous year.

Net sales of our retail segment were \$37 million for the quarter compared to net sales of \$34 million in the previous year's second quarter, despite the closing of nine doors. Our gross margin percentage was 42.8% in the second quarter of fiscal 2025 compared to 41.9% in the previous year's second quarter.

The wholesale segment's gross margin percentage was 41.2% compared to 40.6% in last year's comparable quarter. We continue to drive gross margins through a combination of growth of our higher margin go-forward brands and product mix. The gross margin percentage in our retail operation segment was 54.4% compared to 50.5% in the prior year's period, driven by lower promotions over the implementation of our merchandising changes.

Non-GAAP SG&A expenses were \$229 million compared to \$237 million in the previous year's second quarter. The decrease in SG&A was partially due to favorable warehousing expenses resulting from lower-than-anticipated inventory receipts, as well as better-than-expected warehouse operations. In addition, certain advertising expenses shifted into the third quarter. We also continue to experience decreases in royalty advertising expenses associated with lower net sales of licensed brands.

Non-GAAP net income for the second quarter was \$23.8 million or \$0.52 per diluted share compared to \$18.6 million or \$0.40 per diluted share in the previous year's second quarter. These results were significantly better than our expectations.

Turning to the balance sheet, we continue to make good progress with respect to our inventory levels. Inventory decreased 24% to \$610 million at the end of the quarter from last year's \$805 million. Our inventory levels are well aligned with future sales. We ended the quarter with no debt compared to a net debt of \$268 million in the previous year's second quarter. This swing is primarily a result of cash flows from operations, which includes the large decrease in our inventory levels offset by our investment in AWWG for \$83 million, \$60 million in stock buybacks, and the repayment of \$50 million of a Seller Note that was due in December of 2023.

Subsequent to the quarter, we retired our \$400 million 2025 senior secured notes. After this repayment, the only outstanding debt is seasonal borrowings under our revolving credit facility. As a reminder, we announced last quarter that we had upsized and extended our revolving credit facility to \$700 million. We have a strong financial and liquidity position which provides us with the flexibility to make investments to drive our business as well as return capital to shareholders. Furthermore, we have a solid credit profile which provides us ample optionality to make additional investments by accessing the capital markets.

As for our outlook, we are pleased with our second quarter results and remain cautiously optimistic about the remainder of the fiscal year. For the full fiscal year 2025, we are reaffirming our net sales guidance of \$3.2 billion, a growth of approximately 3% compared to the previous year's net sales driven by our owned brands and the launches of the new initiatives.

Importantly, this growth is happening as we transition out of Calvin Klein and Tommy Hilfiger licenses. For fiscal 2025, we continue to anticipate sales of our go-forward portfolio to approach approximately 70% of our total net sales in line with what we experienced thus far.

On a non-GAAP basis, we are raising our outlook and now expect net income for fiscal 2025 to be between \$180 million and \$185 million or between \$3.95 and \$4.05 per diluted share. This compares to non-GAAP net income of \$190 million or \$4.04 per diluted share for fiscal 2024. The increase for fiscal 2025 reflects our outperformance in the second quarter. The anticipated interest expense savings associated with the paydown of our senior secured notes and the reduced share count associated with our year-to-date stock buybacks.

Fiscal 2025 adjusted EBITDA is expected to be between \$305 million and \$310 million compared to adjusted EBITDA of \$324 million in fiscal 2024. As previously mentioned, we continue to expect incremental expenses of approximately \$60 million, primarily related to marketing expenses to support the launch of Donna Karan and further drive brand engagement for DKNY, as well as investments in technology and talent to expand our operational capabilities.

For the third quarter of fiscal 2025, we expect net sales of approximately \$1.1 billion compared to \$1.07 billion in the previous period of fiscal 2024. We expect non-GAAP net income per diluted share for the third quarter to be

between \$98 million and \$103 million or between \$2.20 and \$2.30 per diluted share. This compares to non-GAAP net income of \$130 million or \$2.78 per diluted share in fiscal 2024.

Let me provide some additional context around modeling. As we had mentioned in the last two quarters, the gross margin rate for the third quarter is expected to be down as compared to last year's third quarter due to a mix of programs, including a greater concentration of sales of our licensed brands. The fourth quarter gross margins will be up in line with the increase we experienced in the second quarter. So, taken together, we continue to expect for the full fiscal 2025 gross margin rate to be similar to fiscal 2024.

Regarding SG&A, as previously mentioned and in line with our plan, we continue to make several investments to support the growth of our business for the long-term with marketing spend in the second half expected to be skewed higher in the third quarter, in line with the fall marketing campaign and related activations.

Non-GAAP interest expense is expected to be approximately \$22 million for the full year and reflects the paydown of the \$400 million senior secured notes. We continue to expect capital expenditures of approximately \$50 million. This is higher than our spend in previous years, principally driven by the build-out of shop-in-shops to 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 future 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 our team's work this quarter and I'm confident in G-III's future as a global leader in fashion. I'd also like to thank our entire organization, our many partners, and all our stakeholders for their support.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And our first question will be coming from Paul Kearney of Barclays. Your line is open, Paul.

Paul Kearney

Analyst, Barclays Capital, Inc.

Q

Hi, everyone. Thanks for taking my questions. Just two quick ones. So, can you further elaborate on the opportunity you see for the Converse license and how should we think about future license additions from here versus the current roster of brands? And then, second, inventories for the quarter remain incredibly clean. Can you talk about maybe the composition of that for owned versus licensed? And how should we think about inventories through the back half? Thank you.

Morris Goldfarb

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

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Thank you, Paul. Thanks for your question. Converse is a huge opportunity for us. It perfectly fits in an area of business that we can implement and utilize the talent that we have. It's not an area of business that we need to scout for amazing talent. We have the talent and what's better than the partnership with Nike. Converse is a brand that we can – we believe. I would have to say that Nike believes we can contribute to globally.

It's not often that you get global distribution to a mega brand. Usually it's confined to a geographic region. We pretty much have most regions of the world. And it's an opportunity for us to expand their brand and our talent and our sourcing into an area of business that we know. We've been in the business before. We've had partnerships with Nike before and it's a challenge.

Nike factories are unique. They have to be Nike-approved, which is a rigid approval process. Nike was comfortable that we could achieve it and we have. We've got factories approved already. Sample making and limited production is being tested as we speak. We're good to go. We're excited about the initiative. We have trading partners standing at the wing, basically ready to write orders. So, it's exciting for us. As it relates to – okay, Neal, you [ph] can – on the (00:30:46) inventory.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

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Yeah. Yeah. On inventory, look, our inventories are in great shape. Not only are there decent sized, but our [ph] agents (00:30:57) are on much better than they've been historically. As far as the balance between licensed and non-licensed, we really don't see any out-of-balance situations.

In terms of the go-forward positions for Q3 and Q4, we are going to come up against lower inventory levels from the previous year. So, I don't expect this kind of [ph] fall-offs like we've (00:31:13) experienced in the first quarter and the second quarter. And in fact, I would tell you that we're expecting Q3 and Q4 inventories to be slightly up, more aligned with the future sales growth.

Paul Kearney

Analyst, Barclays Capital, Inc.

Q

Thank you very much. Best of luck.

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

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Thank you, Paul.

Operator: One moment for our next question. And our next question will be coming from Ashley Owens of KeyBanc Capital Markets. Ashley, your line is open.

Chandana Madaka*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hi, everyone. Thanks for taking my questions today. This is Chandana Madaka on for Ashley. So, taking results and guide through 3Q, there's a step-up that's expected in the 4Q. Just wanted to see if you could speak more around what's driving the confidence. I think, I mean, you've mentioned Champion and Halston have hit the floors, order book in a good position, digging in further there. Also, if you could call out any categories that have outperformed, that would be very helpful. Thank you.

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

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Yes. So, look, we're very comfortable with the fourth quarter. We still got work to do as is normal for us this time of the year. We just came off the spring market week. A couple of things to keep in mind. When you look at the compares as far as the previous year, we're really up against the lowest, the weakest quarter of the prior year. So, we feel comfortable with some outsized growth relative to that quarter. In addition, we're really continuing with the rollout of what you've seen so far, which is the launch of the new initiatives and the continued strong growth from our owned brands.

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

A

The outsized growth in some of our assets, as in Donna Karan, is really obvious. We launched with a great level of success. The marketing campaign was amazing. The product that was developed through the archives was just unimaginable. If you looked at it today, you would think it was Donna Karan of the past at a very high luxury level and it was produced at an affordable price point. And the results are great. We're incredibly happy. The retailer is happy.

I spoke to the door count and the door count expansion and the classification expansion and penetration. So, we're excited by the brand. We previewed with two European department stores last week and they're excited by the opportunity of bringing Donna Karan on to their floors. So, we believe Donna Karan takes off globally very shortly. The fact that we've managed to build our business, our owned brands at high-single digits to low-double digit growth is amazing in this environment with all the headwinds that have come at us.

And at the same time managed to sustain a reasonable business for our licensor, PVH as we exit the brand and exiting the brand and maintaining the semblance of peace and effort between the two partners as well as the retailer is no easy feat. We've done it well. Product is retailing at a very high level and we fight to maintain some semblance of size with the retailers as we exit the brand.

Chandana Madaka*Analyst, KeyBanc Capital Markets, Inc.*

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Thank you. I appreciate it.

Operator: Thank you.

Morris Goldfarb

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

Thank you.

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Operator: One moment for our next question. And our next question will come from Will Gaertner of Wells Fargo. Your line is open, Will.

Will Gaertner

Analyst, Wells Fargo Securities LLC

Hey. Hey, guys. Thanks. Thanks for taking my question. So, looks like SG&A down in 2Q from a growth perspective. How do we think about SG&A spend into the second half of the year? And then, how to think about this sort of heavy investment cycle that you're undergoing here to invest in the owned brands and the marketing campaigns? How to think about that into next year? Is that going to continue and how long will it [ph] go forward (00:35:39)?

Q

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

Yeah. So, Will, the third quarter is going to have a significant increase in the SG&A. We did have a couple of pieces from the second quarter in terms of advertising and then warehouse expenses related to the inventory receipts that's flowing into the third quarter. When you think about that \$60 million SG&A spend that we talk about that's incremental for us this year, that is significantly going to be the second half base. So, you've got both of those two factors weighing in on the second half. I think, in terms of the investment spend go-forward, we're growing the Donna Karan business quickly, but we're also going to probably, still probably have a slightly outsized SG&A advertising spend as it relates to that brand until it scales up to a greater level.

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Morris Goldfarb

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

Yeah. Neal is exactly right. The marketing spend is huge as a percentage of the business that we've shipped and it's first stage. We're barely in the business for nine months. We've achieved – we've broken our internal plans by mega dollars. Yet the percentage of marketing spend that we implemented just was huge for the first year.

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As we scale this business, it levels off and percentage of SG&A comes down. The dollars won't change. But as the top-line changes, you'll see a dramatic difference. The big spend, well worth it. And, again, we're marketing to the globe today. These expenses didn't exist before. As predominantly a licensee, the marketing was the expense of the licensor. So, today there is an added element of expense that we control and is working. What could be better than stating that it's working. So...

Thank you, Will. Thank you for the question.

Will Gaertner

Analyst, Wells Fargo Securities LLC

Just – hey, can I squeeze in one more?

Q

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

Sure.

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Will Gaertner*Analyst, Wells Fargo Securities LLC*

Just on the visibility into your order book, US versus Europe, can you maybe just frame up what you're seeing in both regions and how the order book is shaping up?

Q

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

So, our order book is much more elastic in North America. Our European business, as we grow it is built on two deliveries. North American business is built on an every day delivery cycle. We inventory product. We plan for support of reorders. And in Europe for the moment, we run tight on inventory. We know how to move inventory in North America. We're not as proficient in Europe or Southeast Asia. But the partnership with AWWG affords us that ability. And down the road, our order book composition will change with the comfort of having supply to support growth, quick growth through Europe. We're not there yet. So, the order book is significantly more important to the company in North America than it is in Europe.

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Will Gaertner*Analyst, Wells Fargo Securities LLC*

Understood. Thank you. I'll pass it on.

Q

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

Thank you, Will.

A

Operator: And one moment for our next question. Our next question will be coming from Mauricio Serna of UBS. Your line is open.

Mauricio Serna*Analyst, UBS Securities LLC*

Great. Good morning and thanks for taking my questions. Couple of questions to start. Maybe on – can you give us an idea of like, you know, given the success that you've seen with Donna Karan so far, like how should we think about, like the size of the business expected for this year?

Q

And just to make sure I understood this on the guidance update on the EPS, it seems you beat the quarter Q2 by \$0.25 and you're raising by \$0.37 at the midpoint of that \$0.12. Just to understand [indiscernible] (00:40:02) mostly lower interest expenses and the impact of the buybacks? Or is there any changes in terms of the margin outlook that we should be considering?

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

So, I'll take the first question, then Neal will respond to you on the EPS. So, Donna Karan, all I can tell you is, it's the best launch this company has ever had. It's the best press this company has ever had. And I think, as said

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earlier, it has the strong potential. And I believe it's a conservative number of doing \$1 billion in sales, which does not include licensing opportunities. It does not include elements of the business that Donna Karan – or DKNY currently has or Karl Lagerfeld. But we're fine-tuned at this point to grow globally.

And I hate to say, but the sky's the limit. But I don't want to put a number down. I don't want it to be too low and I don't want to put a \$5 billion number out there. We've put out a very conservative number in my eyes, which is the \$1 billion number. We're not far from achieving that with Karl Lagerfeld in pretty much record time.

Karl Lagerfeld when we took it on had zero distribution in North America and a much smaller business in Europe. And with our efforts jointly with our acquired partners, we've grown it. We just said double digits this year, high-double digits, not high-double digits, high-teens I would have said and in a market environment that one might say is soft. And we – every day it is door expansion. And then, modules and areas that we're perfecting to improve on that business.

Same thing with DKNY. When we acquired DKNY from LVMH, it had virtually no distribution in North America and a tiny business in Europe. And today, it's one of the most distributed brands on the women's side of the business in North America. So, we achieved that in record time. You can go back to Calvin Klein. Calvin Klein had virtually no women's distribution in North America or anywhere in the globe. And under G-III's guidance and guardianship, we built it to possibly the largest women's brand in the world.

I'm not sure that it's well recognized. But between the Calvin Klein and Tommy Hilfiger, which were underachievers in other hands on the women's side of the business. We contributed \$3.5 billion to \$4 billion of retail sales for those brands. So, now having the ability of focusing that talent pool and those relationships, maybe sky is the limit.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

A

Mauricio, as far as the EPS [ph] roll (00:43:43), you are absolutely correct. The other two pieces aside from the bid are the interest savings as well as the share repurchases. The Q will be getting filed shortly, but we've purchased about 1.1 million shares back in the second quarter. And then, our interest savings, if you were to compare that to the previous forecast, was down about \$3 million.

Mauricio Serna

Analyst, UBS Securities LLC

Q

Got it. And I think the guidance is \$22 million for interest expenses for the year. Is that right?

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

A

That's correct.

Mauricio Serna

Analyst, UBS Securities LLC

Q

Got it. Great. And then, just one last one if I can squeeze this in. Maybe you could just give us a sense on of how to dimensionalize Converse rollout like over time in terms of like the distribution from retail – the retail partners that you would be distributing the brand to? And again, like in a way, like what kind of size do you think that business could reach in the long run?

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

A

We believe in a reasonable time. I'm not sure it's a long run, long-term. We can reach \$200 million in sales. As I said earlier, it's global distribution, it's department stores, it's sporting goods shops, it's distributors that will engage to help us distribute throughout the world or areas that are designated for us, which is the good part of the world. And we're in a good position to grow that business. And the entire team is excited by the initiative.

Mauricio Serna*Analyst, UBS Securities LLC*

Q

Okay. Great. Thanks so much and congratulations on the results.

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

A

Thank you, Mauricio.

Operator: And our last question will be coming from Dana Telsey of Telsey Advisory Group. Your line is open, Dana.

Dana Lauren Telsey*Analyst, Telsey Advisory Group LLC*

Q

Thank you. Good morning, everyone and nice to see the progress. Morris, as you look at the opportunities for the licensed brands, certainly the success of Donna Karan with more to come and now Converse, how do you think about the distribution expansion where the growth comes from, categories, distribution channels, and regional, international versus the US, is there anything of each brand that would be more of the stand out as we go through the rest of 2024 and into 2025? And then, Neal, anything to mention on freight costs and what you're seeing in terms of supply chain and lead times? Thank you.

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

A

Thank you, Dana. So, we haven't touched on a couple of assets. The AWWG partnership gives us the ability or will give us the ability of distributing Pepe, which is an important brand in Europe and in India. We're going to distribute it to North America with the guidance of the AWWG leadership team. In there is kind of a unique element for us that integrates into some of our businesses as well, which is Red Bull as the [ph] A1 (00:47:08) license for Pepe.

So, it's a co-brand and that should – we know it has great interest and appeal for the North American market. So, we're going to take that on. And then, we're working aggressively on positioning Hackett appropriately in men's apparel. And hopefully, we established a foothold in women's as we get more immersed in the partnership. And then, again, there's another brand called Façonnable that had a huge presence in North America that we're going to undertake and help develop for distribution here.

On top of that, there are brands that are specific to private label initiatives that are unique to retailers that we're developing as well. So, there's an entire fortress of amazing assets to build from, all targeted for a unique distribution. So, I'd have to say this is well rounded as one could imagine. And with our capabilities of producing pretty much every classification including footwear and handbags and accessories, we seem to have control of it and it's all logical.

Parts of the production and design are now allocated to different parts of the world. We have a design team that sits in China that creates products specifically for unique retailers, as well as, some of our team sport initiatives. We're allocating responsibilities and functions into a broader spectrum of talent that we now have. So, I think, we have really great control and a great future today, as I said earlier. I don't think G-III has ever been in better shape than it is today.

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

A

And, Dana, with respect to your questions on freight costs and lead times, the majority of what we bring in under contract. However, there is some that is not and certainly to the extent that it is not, we are seeing and expecting and have built that into our third quarter guidance, some higher level freight costs that we expect certainly in the third quarter, probably continue a bit into the fourth.

As far as lead times, I did mention that we had inventory that was not received. We are seeing a small amount of delay. Overall on average, it's not that significant. But certainly on the fine-tuned margins at the end of a quarter, it can impact us a little bit. And again, we feel like we've built that into [ph] our prospective (00:50:20) guidance as well.

Dana Lauren Telsey*Analyst, Telsey Advisory Group LLC*

Q

Thank you.

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

A

Thank you, Dana.

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

Okay. So, thank you all for your interest today. Have a great fall season and we look forward to speaking to you in December. Thank you.

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

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