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G-III Apparel Group Ltd. (GIII)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

I will now turn the call over to the company's CFO, Neal Nackman. Sir, you may begin.

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

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

Important factors that could cause actual results of operations or the financial condition of the company to differ are discussed in the documents filed by the company with the SEC. The company undertakes no duty to update any forward-looking statements.

In addition, during the call, we will refer to non-GAAP net income, non-GAAP net income per share, and to adjusted EBITDA, which are all non-GAAP financial measures. We have provided reconciliations of these non-GAAP financial measures to GAAP measures in our press release, which is also available on our website.

I will now turn the call over to our Chairman and Chief Executive Officer, Morris Goldfarb.

Morris Goldfarb

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

Good morning, and thank you for joining us. With me today are Sammy Aaron, our Vice Chairman and President; Wayne Miller, our Chief Operating Officer; Neal Nackman, our Chief Financial Officer; Jeff Goldfarb, Executive Vice President; and Priya Trivedi, Vice President of Investor Relations.

This past quarter we continued to achieve good growth in our wholesale business notwithstanding the challenging retail and geopolitical environment. We exceeded our bottom line plan for the quarter as we maintained good momentum in our wholesale business.

Our gross margins came in better than planned. Our merchants did a good job managing product costs. We benefited by accelerating inventory receipts ahead of tariffs and obtaining some great support from our vendor resources in China.

Here are the highlights of our third quarter results. Third quarter net sales were up 5% to $1.13 billion. Our third quarter wholesale net sales increased 6% to $1.07 billion. Our third quarter non-GAAP net income per diluted share came in ahead of plan at $1.99 compared to $1.88 in last year's third quarter.

Now, let me provide you with a brief update on our own retail operations. By year-end, we will have eliminated nearly 150 locations or 40% of our Bass and Wilsons store base as compared to just three years ago. However, as we've highlighted on our second quarter call, we're planning to move faster and deeper on store closures and remain committed to eliminating the retail losses as swiftly and efficiently as possible. We're working diligently with our landlords and external advisers to find an appropriate solution and believe we will have a resolution with our landlords by the time we report our year-end results in March. I look forward to updating you on our progress at that time.

In November, we saw positive benefits from the new product assortments and store layouts we've implemented in both our DKNY and Karl Lagerfeld stores. Both brands experienced much improved store comp sales for November and had a strong Black Friday finish to the month. We're also seeing double-digit comp increase in the e-commerce business of both brands. We continue to feel good about the positioning and performance of DKNY and Karl Lagerfeld, with positive year-to-date comps through the third quarter and productivity movements - improvements we've experienced since the beginning of fourth quarter.

I'd like to take a moment to talk about our supply chain and tariffs. We've always emphasized and we're real proud of our way of developing strong global resourcing and our vendor relations. We continue to lean on these relationships to accelerate the efficient and effective diversification of our manufacturing base. We estimate our China-based production will be approximately 50% by the end of this fiscal year from over 80% four years ago. We're also reallocating some of our experienced personnel in China to other parts of the world.

As for tariffs, in this fiscal year, as I previously stated, we're seeing the benefits of strategically accelerating inventory receipts ahead of the last round of tariffs implemented in September. As we place future buys, we continue to negotiate some major support from our vendors to maintain their level of participation of price concessions. We will also seek additional tariff mitigation from continuing our sourcing diversification and selectively raising wholesale prices.

Now, let us review our wholesale business which had another strong quarter. Calvin Klein, which is our largest business, delivered another good quarter with net sales growth of approximately 11% as compared to last year's third quarter, with strength across major classifications. We've built an incredible business with this brand and we remain a dominant resource in the women's apparel market. This quarter, we shipped our first product for CK Jeans and have installed about 25 CK Jeans shops at Macy's, including one at their flagship Herald Square store in New York City. We're very pleased with the design and placement of this shop on the fourth floor. If you have a chance, I encourage those of you in New York City to visit the shop.

The order book for CK Jeans is also off to a very good start, with the product receiving great reception from retailers. Initial reads of the sell-throughs are encouraging. We remain confident that we can build a substantial lifestyle women's CK Jeans business over the next several years, with the potential of reaching $250 million in annual sales.

Our Tommy Hilfiger business continued on a strong growth trajectory, with third quarter sales up approximately 20% compared to the third quarter of last year. We experienced quarterly growth that was broad-based across categories. This coming spring, we look forward to launching our Tommy Jeans collection focused on a younger customer. Previously, part of the Tommy Hilfiger Sportswear line, we've now expanded the jeans collection which will be held separately in the jeans area of department stores. The line will now also be sold to select specialty stores. We continue to grow our Tommy Hilfiger business, both organically and through product line extensions.

In addition to our established and growing business at Macy's, distribution has been expanded to Dillard's, Nordstroms, and a broad assortment of specialty stores.

The excellent brand management and marketing investments by our partner PVH continue to keep the Calvin Klein and Tommy Hilfiger brands relevant and top of mind for the global customer, and help fuel the growth of our business. Net sales in our Karl Lagerfeld business were down for the third quarter due to fewer distribution doors compared to the third quarter of last year, primarily due to the door reduction taking place at Lord & Taylor. We're now working to further expand the distribution of Karl Lagerfeld product and are continuing to build the lifestyle appeal of the brand. We just signed a license to launch Karl Lagerfeld Paris bedding and bath products this spring with our long-term partner in the category, CHF Industries, with whom we've built a successful business for our DKNY and Donna Karan brands.

This September, Karl Lagerfeld also launched Karl Lagerfeld X L'Oréal Paris, a makeup collaboration between the two iconic Parisian brands, featuring limited-edition elegant beauty products. The elevated brand and lifestyle status of Karl Lagerfeld positions it well for growth in the North American market.

Our own DKNY and Donna Karan brands registered another solid quarter of 20% sales growth compared to last year's third quarter. This spring, we're expanding our distribution of the brand with several categories launching in 100-plus stores at Dillard's, as well as further increasing the footprint in Macy's with additional doors.

We're also developing a DKNY Jeans line with an urban chic and edgy vibe to appeal to the consumers' more casual apparel needs. The line will have a soft launch for spring 2020, with a full launch expected for fall 2020.

On the international front, besides our own sales growth in Europe, we're also expanding our business globally through our distribution partners in key regions. Continued growth, brand development, and marketing in these key markets is critical to driving global brand recognition.

DKNY is currently being distributed in the Middle East, Russia, Indonesia, Philippines, Southeast Asia, and Korea. In China, we operate as a joint venture. We launched the fall 2019 brand marketing campaign for DKNY which featured the global megastar Halsey. This marketing campaign, combined with the DKNY's 30th anniversary celebration and its star-studded guest list, delivered elevated brand visibility and press across many media channels.

DKNY continues to take a digital-first marketing approach across a multitude of social and media outlets. Further, the digital campaign is complemented with premium outdoor media placements in key cities across the globe. This marketing approach is working well. We saw a significant increase in traffic to the fall season. Our holiday campaign is already launched.

Licensing is another important part of our DKNY and Donna Karan business profile. We've built a successful licensing business and continue to add additional lifestyle categories to introduce the DKNY and Donna Karan brands to a wider consumer.

We've built the kids category through a license for apparel and footwear both domestically and internationally. We've also built the growing bedding and bath license with our partner Chf Home who's developed the robust distribution in the US and Canada. Additionally, this quarter, our DKNY furniture licensee, Living Style Group, launched the DKNY line to great reviews by retailers. Given the year-to-date sales growth and the strength in DKNY order book, we continue to believe that DKNY and Donna Karan brands can achieve fiscal year wholesale net sales growth of approximately 25%. With our successful management, product development, and distribution capabilities, we remain well-positioned to achieve many years of meaningful growth for the DKNY brand.

In our team sports business, we recently signed a new three-year deal with the NFL. The new deal structure has terms that are more appropriately aligned to the size of the business today. We are pleased to continue our partnership with the NFL and look forward to building and growing the overall team sports business.

Lastly, our status swimwear and resort brand, Vilebrequin, continues to perform well, registering low-single-digit comp sales growth. We continue to expand the brand's footprint. We opened a women's store in Monaco as a complement to the men's store we already have. We also acquired the Vilebrequin business in Mexico from our former distribution partner and now operate nine retail stores and have an additional 12 points-of-sale and department stores in Mexico. In China, where we have two partner-operated stores, we just opened our first company-operated freestanding store in Shanghai.

Outerwear, which is a key category in the quarter, had good sales considering the weather handicap we had compared to last year. We're positioned well for the balance of the fourth quarter as we are now seeing good sell-throughs and a pickup in reorders in the category aided by the colder weather.

Overall, at G-III, we're keenly focused on capturing our share of growing online sales through our retail partner sites as well as our own. Our marketing and planning teams work very closely with the digital teams of our retail partners to curate product assortments and optimize search engine results for our brands, with the goal of driving higher sales and conversions. These results are also aided by significant marketing campaigns.

I'll now pass it to Neal for a detailed discussion of our third quarter results and our guidance for fiscal 2020.

Neal S. Nackman

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

Thank you, Morris. Net sales for the third quarter ended October 31, 2019 increased approximately 5% to $1.13 billion from $1.07 billion in the same period last year. Net sales of our wholesale operations segment increased 6% to $1.07 billion from $1 billion; and Calvin Klein, Tommy Hilfiger, and DKNY brands were the main drivers of this increase.

Net sales of our retail operations segment for the quarter were $90 million, approximately 19% lower compared to last year's sales of $111 million. We reported same-store sales decreases of approximately 8% for our Wilsons stores, 15% for our G.H. Bass stores, and a flat comp for DKNY. Net sales of our retail operations segment were also negatively affected by the decrease of approximately 45 stores operated by us as compared to the third quarter of last year.

Our gross margin percentage was 35.4% in the third quarter of fiscal 2020 as compared to 35.6% in the prior-year's period. The gross margin percentage in our wholesale operations segment was 33.2% compared to 32.7% in last year's quarter. The gross margin percentage in our retail operations segment was 49.3% compared to 48.5% in the prior-year's quarter.

SG&A expenses were $247 million in the fiscal quarter compared to $232 million in the same period last year. Net income for the third quarter of this fiscal year was $95 million or $1.97 per diluted share compared to $94 million or $1.86 per diluted share in last year's quarter. Non-GAAP net income per diluted share was $1.99 for the quarter compared to $1.88 per share in the prior year. Non-GAAP results in this quarter exclude the impact of non-cash imputed interest and a gain on lease terminations.

Turning to the balance sheet. Accounts receivable increased to $899 million from $820 million at the end of the third quarter last year, up approximately 10% and relatively in line with our wholesale sales growth. Inventory increased approximately 6% to $651 million. As expected, these levels have normalized to align with sales growth and have moderated from the 24% increase in the second quarter.

We spent approximately $32 million on capital expenditures on a year-to-date basis. We had long-term debt outstanding of approximately $675 million at the end of this quarter compared to $694 million at the end of the previous year. Our quarter-ending cash balance was $56 million this year compared to $66 million a year ago.

As for our guidance, we are revising our guidance for fiscal year ending January 31, 2020. We are now forecasting net sales of approximately $3.2 billion; net income of between $147 million and $152 million, or between $3.01 and $3.11 per diluted share. This compares to net sales of $3.08 billion and net income of $138 million, or $2.75 per diluted share in fiscal 2019.

On an adjusted basis, excluding non-cash imputed interest expense of $5 million and a $2 million gain on lease terminations, we are anticipating non-GAAP net income of between $149 million and $154 million, or between $3.06 and $3.16 per diluted share, compared to non-GAAP net income of $144 million or $2.86 per diluted share in the previous year.

To be clear as to tariffs, our previous and current forecast includes all current tariffs in place and does not anticipate any future changes. Our guidance assumes a weighted average diluted share count of approximately 49 million shares.

We are projecting full-year adjusted EBITDA for fiscal 2020 of between $283 million to $288 million compared to $269 million in fiscal 2019. We now anticipate the non-GAAP retail losses in our retail operations segment in fiscal 2020 will be approximately $10 million higher than the loss in fiscal 2019. This assumes low-double-digit comp declines at both Wilsons and Bass for the full-year. DKNY retail sales are planned to about flat to the prior year. As for DKNY's wholesale and licensing operations, revenues are now planned to grow by approximately 25%.

For our fourth fiscal quarter ending January 31, 2020, we are forecasting net sales of approximately $790 million and net income between $29 million and $34 million, or between $0.60 and $0.70 per diluted share. This compares to net sales of $767 million and net income of $24 million, or $0.48 per diluted share reported in the fourth quarter of fiscal 2019.

On an adjusted basis, we are forecasting non-GAAP net income of between $30 million and $35 million, or between $0.62 and $0.72 per diluted share, as compared to non-GAAP net income of $27 million or $0.55 per diluted share in the previous year's quarter.

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

Morris Goldfarb

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

Thank you, Neal. It's hard to believe, but next week we will be ringing the closing bell at the Nasdaq Stock Exchange to commemorate our company's 30th anniversary as a publicly listed company. However, our existence spans much farther back to 1956 when my father, Aaron Goldfarb, created G-III as a leather coat manufacturing company. As you know, we now have expertise in most fashion product categories, and the development of that expertise has been instrumental in our ability to expand our partnership with globally recognized power brands.

Our future growth continues to be anchored on strategically leveraging the strength of our global power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger, and Karl Lagerfeld Paris. We also have a world-class team that remains focused on continuing to grow our capabilities and elevate our position as the supplier of choice for our retail partners.

I'd like to thank our employees whose drive and dedication helps us succeed in these challenging times. Finally, I'd like to thank all our shareholders and other stakeholders for their trust in us and their continued support. On behalf of myself and the G-III team, I want to wish everybody a happy holiday season. Thank you.

Operator, we are now ready to take some questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Edward Yruma from KeyBanc Capital. Your line is now open.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, guys, and thanks for taking the question. One quick housekeeping question and a bigger picture question. I guess, first on housekeeping, what were the retail losses in the quarter and kind of what are the losses expected in the fourth quarter? And on tariffs, did that include the adoption of 4B on the 15th?

And then, Morris, kind of a broader question. Obviously, some nice momentum in CK denim. How long do you think it will take for a larger rollout of that business and what other opportunities do you see kind of in the three- to five-year timeframe as other categories you could look at? Thanks so much.

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

A

Yeah. So, Ed, on the housekeeping items, the retail loss was similar to the prior year's loss. Turning to the fourth quarter, we actually expect to incur a loss in the retail segment as opposed to the prior year we actually had a gain.

With respect to the tariffs, primarily the tariffs that were incorporated that were effective September 1 captured really all of our categories, and that was rolled into our previous year's adjusted – previous quarter's adjusted guidance, we talked about a $12 million impact net of then the support to G-III as a result of those tariffs.

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

A

And in response to CK denim, the jeans part of it, we're going to hit our strides very quickly. Product is now being shipped. The response to the last couple of weeks has been good. There's a category or two that we're going to work on on improving, but we're more than pleased as to the response that we've gotten. The store orders are significant. We have all the distribution we want for the early stage of shipping, and we believe the number that I stated earlier in our commentary, which is $250 million of business, is not far away. That could possibly be achieved within next three to four years. You should recognize that when we took this on, this was not exactly a continuation of successful category. We had a back step and we had to clear the inventory that was – or the retailer had to clear the inventory that was in the system, and we got them incredibly excited about the future of this category.

So, as far as – you had a follow-up which, I guess, relates to other categories or maybe the better answer to you, classification extensions, we have most categories on the women's side of it where we don't seem to have peaked out in any one of them. We show growth every year on what could possibly be one of the – it is certainly one of the largest wholesale distributed brands on the women's side in North America. It doesn't show signs of tiring. We have – we're showing approximately 10%, 11% growth in scale of this business, and that's a testament to how we take care of an asset that we license, and we're not far behind on Tommy. Tommy is hitting its stride and we've achieved basically what we've told the Street that we would when we first signed on. Thank you, Ed, for your questions.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks much, guys.

Operator: Our next question comes from Erinn Murphy from Piper Jaffray. Your line is now open.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Great. Thank you. Good morning. I guess, a couple of questions for me as well. Maybe more first on the retail side of the business, can you provide any additional detail on the landlord negotiations and just what's going on from a strategic review perspective thus far? What are some of the things that you've uncovered?

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

A

So, those of you who have been in a position that you have to wind down businesses, probably know you need to be discreet as to how you disclose where you are at any given time. It all comes together when it's done, but there is a process. I assure you we're active in that process. We've negotiated with our two largest landlords, and we believe we're near the finish line with both of those. And the results will be one that we will be satisfied with and, hopefully, Wall Street will be as well.

So, you've got to have a little bit of confidence in the company that you cover or invest in that they're doing the appropriate – they're doing all the appropriate things to manage through a tough negotiating process. We are not forgetting what we've committed to Wall Street. We are mitigating all the damage that has been done in the last few years in the retail and we're conscious of it. To tell you exactly where we are, that wouldn't be strategic.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Understood. Thank you. And then, I guess, just a couple of questions on the retail backdrop. Can you maybe first share – I think last quarter you talked about taking price increases. What have you done within your brand portfolio thus far? How is the consumer responding? And then, on the retail side, can you share with what you're seeing from a spring order book open-to-buy dollar – or just, sorry, where are the spring open-to-buy dollars as we go into the next season? Thank you so much.

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

A

So, Erinn, when you're in the fashion business, it's not quite the same as a commodity where pricing is – the consumer screams up and down if there's an increase in fuel or milk or steel for that matter. In fashion, you create an art. You're making product that is not always the same. It's not put into a vat and pulled out. So, fortunately, our art is working, and we're able to raise some of our prices as we change fashion, as we change fabrics, as we accommodate what the consumer is now looking to achieve.

We're not a Walmart resource, and we are not a Bergdorf Goodman resource. We're kind of a middle-market business. At Walmart, there'd a great deal of sensitivity to every nickel you might try to raise. And in Bergdorf Goodman, there might be zero impact. We're careful as to where we raise our prices, and it's been working. We've gotten increases, and it's not quite the challenge that we thought it might be. We're delivering – we're known to deliver great value product, and it is certainly worth the increase that we're imposing on the consumer.

Operator: Our next question...

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

A

And the spring order book – I'm sorry, Erinn – your question on spring order book, I can't tell you it's record-breaking. It's a little bit difficult. Retail stores are conscious of their inventory levels, and what they've brought into play today that wasn't as critical in the past is turn on inventory. So, they're being kind of wedged in the middle. We're not vertical. We've shown that retail isn't our forte, wholesale is. We're put into position that might include taking some risk, as the retailer refuses to take in a level of inventory that they have in the past.

So, we're composed of not so many salespeople any longer. Our organization is all about planning. It's about accounting and it's about measuring numbers, and what the planning cycle has to say as to how we buy product, when we buy product, how we flow product and what we assume the retailer will need. We're looking at our business much differently than we have historically. It's not about a salesman just getting in front of a stage and showing nice product. It's a planner estimating to the best of their ability, and we've got some amazing planners, what the consumer will buy from the retail venues that we ship.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Thank you. Happy holidays.

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

A

Same to you.

Operator: Our next question comes from John Kernan from Cowen & Company. Your line is now open.

John Kernan
Analyst, Cowen & Co. LLC

Q

Good morning, everyone. Thanks for taking my questions.

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

A

Thank you, John.

John Kernan
Analyst, Cowen & Co. LLC

Q

Neal, can you give us a little bit more color on gross margin? The year-over-year change did improve in the third quarter and was better than what we had modeled, at least, even with the incremental tariffs. So can you just talk to the underlying gross margin performance and what you expect for the fourth quarter? It does feel like there's quite a bit of margin pressure in general in the wholesale channel, so I'm just wondering how you're thinking about the underlying merchandise margin and gross margin as we head into the fourth quarter and beyond.

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

A

Yeah. So, look, wholesale gross margins was a positive story for us in the third quarter. It did exceed our expectations. It did help to offset some of the softness we had in top line. We mentioned before, and just to reiterate, we think that the fourth quarter wholesale margins will again show lift. We think we're up against the lowest compare in the prior year, so we feel pretty comfortable with that. And, again, that's despite the additional tariffs that we do have. Of course, we did offset a bunch of that with taking inventory in early. But that's what we're expecting, John.

John Kernan
Analyst, Cowen & Co. LLC

Q

Got it. And then, you brought up inventory, and it did improve relative to overall top line trends. And I think you were actually booking for that to be back in line with sales in the fourth quarter. It actually is back in line, more in line in the third quarter. So, if you think about inventory, where do you – how are you thinking it will finish in the year-end? And then, I guess, now that we're pretty far into the fourth quarter, can you give us any color on free cash flow for the year now that you've got a pretty good view of where working capital is going to finish?

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

A

Well, our inventory is in control right now. We had a reasonable third quarter. We're conservative on how we're approaching fourth quarter. But what we've done in many cases is, we have shown the retailers that we trade with that there is an extended season that they can take advantage of in the coat business.

Historically, we've proved it out with one or two department stores, and we're on a path that we're getting cooperation from pretty much the rest of our department stores to carry and sell coats through part of this, what normally would be the spring season. So, we anticipate our inventory levels coming down to almost record lows. As to how we're planning our business, as I said earlier, most of it is coming through planning explanations, going back to history and showing the economics that product – winter product can provide in Q1. And it's proved out. So, we believe not only will we end with low inventory. And at the end of the year, I think Q1 will even show greater improvement.

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

A

John, as far as the free cash flow, we're thinking it's about $75 million to $80 million, and that, of course, is after about $35 million of stock that we bought back during the year. So, it's been a pretty strong year for us in terms of generating free cash flow.

John Kernan
Analyst, Cowen & Co. LLC

Q

Got it. Thank you.

Operator: Our next question comes from Rick Patel from Needham & Company. Your line is now open.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thank you. Good morning, everyone. I have a question on the drivers of fourth quarter revenue. So, as we think about wholesale, I'm curious how much growth do you expect from the new CK denim business? And do you expect to get some initial shipments from Tommy Jeans in the quarter as well? I'm just trying to understand how much of the underlying business is driving growth versus new classifications in the pipeline.

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

A

I wouldn't consider the new classifications we're shipping as impactful at all. It's a soft launch. It's in a handful of doors. And it gives us the read – both gives ourselves and the retailer a read on what next year will look like. If you're planning on an increase in our business due to the additional classifications, this would not be the year to put it in.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Got it. And can you talk about the jeans category as a whole? You have some really interesting things in development there. When you think about the overall industry, how fast is that category growing right now? And can you talk about what gives you confidence to gain market share there?

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

A

So, what you shouldn't do is take it literally as a jeans business. It's a junior active business that's composed of T-shirts, it's composed of hoodies, it's composed of outerwear shirts. It's all the components that a woman would wear with her jeans. And as a pure jeans play, I would tell you we would be somewhere around 20% of our inventory would be denim-based. Contrary to if you looked at people like Levi's or Wrangler in their jean business, they flip it the other way. They are more – I would estimate their business to be at least 80% denim and 20% accessories to denim, the tops, the hoodies, and some of the outerwear that goes with it. So, it's a misnomer to believe that it's just a jeans business.

It gives us an additional point-of-sale in a department store and we have some brands that fit perfectly. And as we've stated in our commentary, we have Calvin, we have Tommy, we have DKNY, and the combination of all three, if they share adjacent real estate, it's a must-visit location for the consumer. It's impactful. And we're...

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thanks for the color.

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

A

...trying to do some of this internationally as well. So, it's an exciting classification for us for the future. But again, let me stress that don't plug it into this year's numbers.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Got it. Thanks, Morris. Happy holidays.

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

A

Thank you. Thanks for your question.

Operator: Our next question comes from Heather Balsky from Bank of America. Your line is now open.

Heather Balsky
Analyst, Bank of America Merrill Lynch

Q

Hi. Thank you for taking my question. Can you talk about how your wholesale business performed in the quarter versus your expectation? And then, can you also walk through your revised guidance, especially around EBITDA? It sounds like retail profit expectations are $5 million lower than what you were talking about last quarter, so is the remainder of the delta from wholesale and what's driving that? Thanks.

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

A

Sure, Heather. So, with respect to the third quarter, I guess, I'd add some color in terms of priority. I would tell you that the level of on-season orders we're assuming not what we had anticipated. In addition to that, we had – it was slightly more promotional than we had anticipated. And certainly, lastly, the retail business also was weaker than we had anticipated. And with respect to your – the second part of your question, in terms of the full impact on EBITDA, the retail is approximately half of that $10 million or so reduction in EBITDA in terms of our full forecast now.

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

A

Heather, in response to your question on wholesale performance, we did exceptionally well relative to the universe that we exist with. We're very proud that we – it's almost common knowledge in department stores sector that we overachieve, we're best-in-class, our performance kind of stands out in pretty much every classification that we ship. So, wholesale performance is not our issue when we're put into the stores. Part of what is going on, as I said earlier, department stores are managing their inventory a little bit differently. Their focus – and we are meeting with them regularly trying to come up with a strategy that serves us both well. But for the moment, they're focused on churn and that hurts a little bit, the fact that we're not able to ship everything that we anticipated on shipping into the stores.

Heather Balsky
Analyst, Bank of America Merrill Lynch

Q

And when you look at your fourth quarter guidance, how has that environment factored in in terms of your wholesale expectations?

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

A

If – Black Friday was an indication, we had a really good Black Friday both in our own retail stores and the department stores that we service. We're being conservative partly because we don't understand exactly what goes on in the retailers' minds. There have been some changes. We've lost a couple of accounts. We cited a little bit of a loss at Lord & Taylor with Karl Lagerfeld and a couple of our other categories. We're one of the largest vendors to Lord & Taylor, and there is an impact on us as they try to figure out who they are today and they manage through their door count.

So, we're not certain – we're certain about what we have. We have everything we've stated. We have great product. We have it priced well. We have appropriate inventory. We don't have dated inventory. We've got a great balance sheet. What we're not certain of is what the retail field is – the field is like. So, we can't speak for that, and thus, we're trying to manage our business appropriately.

Heather Balsky
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you very much.

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

A

Thank you, Heather.

Operator: Our next question comes from Jim Duffy from Stifel. Your line is now open.

Peter Clement McGoldrick
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hi. This is Peter McGoldrick on for Jim. Thanks for taking my questions. I was curious again on tariffs, if you could remind us about how tariff mitigation progresses into fiscal 2021 between sourcing, price concessions, and potential price increases. Can you quantify in any way what we should be expecting for fiscal 2021?

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

A

Clearly, we'll be paying a little bit more for our product. We've stated earlier we're getting the cooperation of our vendor base. We're producing product that is a little bit more fashion than it has been historically. And the – I guess, the good news/bad news is, the bestselling product that is out in retail world is the fashion side of what we do. Historically, the inventory that we've depended on for success was the replenishment side of the business. Today, that's changing, and fashion is really what is driving success. So, when fashion drives success, you're able to raise your prices. It's not replenishing the same items that you've had for the last three or four years.

So, fortunately, we're quick to respond to fashion. We have more designers than we can count. They're all productive. They're all quick to respond to the needs of the consumer. And our planning and salespeople are quick to move product through the cycle. And it's a piece that is probably most responsible for mitigating some of the damage that'll be done due to tariffs. And we all need to remember, we're in a competitive world. Everybody has the same challenge. It's not as if G-III stands alone as the only resource that's paying these tariffs. It's the entire community that we operate in. And we are as competitive as they come. We buy as efficiently as anybody in the industry. We measure every element that goes into ultimately delivering the product to the consumer.

So, I'm comfortable that if there was a last standing man, we would be it. We're doing everything to exist for the future. This is a company that wasn't built yesterday. And in the commentary I gave you earlier, we were a leather coat company in 1956. In 1972, when I joined this company, it was a $2.5 million company doing leather coats. And today, you'd be hard-pressed to find a category of product and fashion that we don't do, and we do them all well. Every category that we've entered into, we've become a highlight in that category, where there is no doubt that we can achieve success in anything that's served up to us.

And what we've also served up is the ability to recognize change when change is needed, and we've changed our model as an operating company about a dozen times. I'm not – and I can tell you today we won't be the same company five years from now, but we will be a successful company.

Peter Clement McGoldrick
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. And then, a follow-up on Heather's line of questioning. It sounds like the power five brands are tracking ex Lord & Taylor impact to Karl Lagerfeld, and outerwear was tracking reasonably well relative to the backdrop. Can you itemize the delta in guidance for revenue by brand, or any other category or classification you might have?

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

A

Yeah. That level of specificity we have not been giving. Again, as you indicated, the power brands are performing well. The outerwear business is performing well. Again, not as high as we might have originally expected, but they're all performing very well compared to the prior year.

Peter Clement McGoldrick
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you.

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

A

Thank you, Peter.

Operator: Our next question comes from Susan Anderson from B. Riley FBR. Your line is now open.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Hi. Good morning. Thanks for taking my question. I was wondering if you could maybe give your updated thoughts on your distribution as the department stores continue to be structurally challenged. I know you're focused on growing your own online or DTC. I guess, where are you with that? And then, also with distributing on other retailers such as Amazon or even a REVOLVE?

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

A

So, I guess, we'll start with the last one, which is Amazon. We have fairly good distribution at Amazon. All our brands sell product on Amazon. It's not the game-changer for us yet. We build every year. We have double-digit growth every year. We have our own online business that provides us with growth. And today, with the ownership of DKNY, Donna Karan, and the partnership we have with Karl Lagerfeld, it affords us the ability of creating our own site and marketing in a manner that suits an owner of a brand versus one that licenses. So, those areas are growing nicely.

What we've achieved as well with some of these acquisitions is the ability to market globally. Historically, we were a North American resource, that was it. Now, we couldn't ship into Europe, we couldn't ship into Asia. Our licenses provided us the right to North America, and in many cases simply the US. So, today, we're distributing into Europe quite successfully. We're doing very well in the Middle East. We're forming alliances in Russia and China. And there's not an area of the world that we're not attempting to grow our business with. And it's now pretty much at a scale where it's worthy of discussion.

We opened, I believe, it's 32 shops in El Corte Inglés that we're managing. They're doing very well. We believe we can get to approximately 100 doors in the next three years with El Corte. And it's – we're taking elements of what we've learned in the US and bringing them to Europe, and the Europeans are anxious to modify how or improve how they do business. They're learning from us, and they're eager to try categories and classifications that are not shown within their selling pads. So, that is potential for growth. We believe we'll succeed.

We have a strong initiative really for the first time with Kohl's. We're not known to be a Kohl's resource. Pretty much for my entire working history, I was more of a JCPenney resource. And that's my favorite place to go. As Kohl's was growing, it was really not Kohl's. Today we've got many initiatives, start-up initiatives, that we believe will pick up scale. Some of them are licensed, some of them private label, and some may be brands that we might dedicate to them exclusively. So, there is growth potential. At the same time, there's concern as to where door count goes in the retailers that we trade with. But I think we have a balanced business in an unbalanced time.

Susan Anderson
Analyst, B. Riley FBR, Inc.
Q

Great. That's very helpful. And then, if I could just follow up a little bit on the wholesale sales and just being a little bit lighter I think than expected this quarter. So, it sounds like it was a replenishment problem in the way the retailers are flowing their inventory now. I guess, I was curious, did you see the same dynamic across all of your brands, and then, also including outerwear, or was it just one category specifically maybe outerwear as you're expecting kind of a prolonged season now for outerwear sales to continue into first quarter? Thanks.

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

So, the flow of inventory is evident in all our brands. It's not one unique brand. It's the manner in which the department stores are operating their business today. The coat side of the business, what we did is, we planned against last year's business for the month of October. October was an incredible year – incredible coat month last year and it didn't quite anniversary this year. We did have a warmer October. The sales were not as good. And, therefore, the replenishment and the call for more product was not what we anticipated. And we believe we've remedied all of the issues that might occur with – partly with the extension of the season and partly with what's occurring right now. The weather is working for us on the coat side of it. We have great inventory that's selling and that would've been the major impact on the business, the flow of inventory and maybe the coat side of our business.

Susan Anderson
Analyst, B. Riley FBR, Inc.
Q

Great. That's helpful. Thanks so much. Good luck over holiday and have a great holiday.

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

Thank you. Operator, this will be our last question, please.

Operator: Our final question comes from Matt Gulmi from Wells Fargo. Your line is now open.

Matthew Gulmi
Analyst, Wells Fargo Securities LLC

Q

Yeah. Good morning, guys. Thanks for taking my questions. Just want to know if you can help us quantify the tariff impact you saw in 3Q and applied headwind remaining in 4Q based on the $12 million guide that you had mentioned. And then, on the retail side of the business, we saw improved sequential comps at Wilsons and Bass. Can you maybe just comment on traffic in your stores and if tourism impact had changed at all? And then, given the lower comp guidance that you had for the full-year across all the brands, can you maybe just comment on expectations for 4Q?

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

A

Okay. So, the impact of tariffs in Q3 was somewhat negligible. We were paying tariffs, but we had inventory that we had owned that was pre-tariff inventory. So, the blend of the two worked out for us as you can see with the margin enhancements that were created for us. As time goes on, those enhancements are quite there. I can't give you the exact number. But there is more of an impact in Q4 on tariff increases then there were in Q3. And if they continue, there'll be a way of life for the future. There'll be a greater impact in Q1, Q2 and Q3 of next year, so as we deplete our low-cost inventory. And as far as the traffic in stores, they vary. We – Bass was probably our worst brand as far as traffic is concerned. We had a double-digit decrease in traffic flow which created a little bit of an inventory issue for us, which we're working through right now.

DKNY and Karl Lagerfeld are running neck-and-neck. Their traffic was kind of flat to last year, but the amount of business that was done at the register and the customers that were brought to the register were far greater than the traffic that generated sales in both Wilsons and in Bass.

So, we're pleased – we're very pleased with DKNY and Karl Lagerfeld. And as I said earlier, we're working through the issues of the other two larger brands. We're finding that we don't have a customer that is as sensitive to price at DKNY and Karl Lagerfeld as they are at Bass. A price change at Bass does have an impact. And an increase in pricing at DKNY and Karl Lagerfeld has somewhat negligible impact. The added feature for DKNY is, we're fairly well positioned in some of the outlet centers in Europe for DKNY and business there in the outlet centers is – for the last few weeks has been off the charts. So, that has helped us a great deal as well.

Matthew Gulmi
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks, guys.

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

A

Thank you. Thank you for your question

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

Operator, we are finished, and I thank you very much for your questions and staying with us this morning.

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