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G-III Apparel Group Ltd. (GIII)

Q3 2024 Earnings Call

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

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the G-III Apparel Group Third Quarter Fiscal 2024 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to turn the conference over to Neal Nackman, Chief Financial Officer. 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 security 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 recorded strong profitability in the third quarter, well exceeding our bottom-line guidance. Our strong year-to-date results showcase G-III's ability to successfully navigate challenging market conditions. Over the years, we have a proven track record of evolving to drive our business and to meet the needs of customers in an ever-changing landscape. Before I review our third quarter results, I want to take a moment to recognize all that we have done over the last 12 months since we announced the staggered license terminations of the Calvin Klein and Tommy Hilfiger brands.

We noted that this change will allow us time to accelerate our long-term strategic priorities. Since then, we've delivered. We moved quickly to develop four new initiatives and have made significant progress with our existing business. Our new initiatives includes the repositioning and expansion of Donna Karan, which will launch this spring in over 200 doors. We will build 150 branded shop-in-shops and develop new licenses to extend the brand's new positioning and reach. Our long-term license for Nautica in North America, beginning with jeans and expanding to a broad range of additional categories is set to launch early next year in over 200 doors. We will quickly install 60 branded shop-in-shops.

A master global license with the option to purchase Halston is expected to launch in the fall of 2024 with new positioning across a broad range of categories. We will also be a licensor of the brand, creating another income stream for us, and a multi-year license to produce outerwear for Champion that fits seamlessly into our already well-developed outerwear operations with first deliveries available for fall of 2024. We've been able to secure these new initiatives rapidly as we're a vendor of choice for retailers with a strong balance sheet. Importantly, these plans are already underway and will result in new sales starting this spring because of the hard work of our design and merchandising teams led by Sammy Aaron.

Sammy and his teams have done an incredible job capturing the DNA of each of these brands and authentically translating that into full collection by category, in such a short period of time. The product looks great. Additionally, Jeff Goldfarb and his teams have successfully enabled us to quickly identify and develop new opportunities to expand our reach and impact. He has secured a number of deals for the business, developed our global distribution partner network and significantly grown our digital business. All this work demonstrates our ability to deliver to our shareholders, our partners and our associates. I'm confident that we're moving in the right direction.

As we continue to focus on new opportunities to evolve our business model, I'm pleased to announce that we've hired Dana Perlman as Chief Growth and Operations Officer. In this newly created role, she will bring her impressive experience to drive innovation, optimize operations and help identify new opportunities for G-III. I'm confident that Dana's 20-year career with a strong track record of success in our industry will help us execute our go-forward plans. The team and I look forward to working with her when she joins us in January.

Now, turning to the results of the third quarter of fiscal 2024. Non-GAAP net income per diluted share was $2.78, compared to $1.35 per diluted share last year, well exceeding our guidance by $0.70 at the midpoint. Our outperformance was a result of several factors, including gross margins, which were meaningfully better than last year, exceeding our internal expectations. We move through our inventory more profitably than planned and benefited from further moderation in freight costs. We also lapped the bulk of last year's one-time logistics cost. As we worked through our inventory, we were able to obtain warehousing efficiencies faster than we expected. Our warehousing is now well-aligned with our current and planned inventory levels.

Importantly, we were able to avoid expected deleverage in SG&A, which as a percentage of sales is now comparable to last year's third quarter. As a result, we delivered strong operating margins of 18% in the quarter as compared to 9% in the third quarter of last year. Net sales were $1.07 billion compared to $1.08 billion last year.

While the retail environment has been challenging across the board with consumers facing inflation, as well as unseasonable warm weather, we feel good about our decision to focus on profitable sales. We did not need to chase additional promotional sales as we exceeded our bottom line profit expectations. The combinations of these factors resulted in missing our top line guidance, yet we well exceeded our bottom line guidance.

We ended the third quarter in a significantly better inventory position with total inventories down 34% to $592 million, compared to $900 million last year. With pressures on supply chains having eased, we're placing inventory buys closer to need. This, combined with our lower inventory levels, are enabling us to turn inventory more efficiently and chase favorable sales trends. Looking ahead, this will enable us to realize additional warehouse cost efficiencies.

We ended the quarter in a strong financial position with $840 million in cash and availability. This is after we utilized $100 million to pay down $75 million of debt and $26 million to repurchase shares. We have 10 million shares available in our buyback program.

Now, I'll provide an update on our strategic priorities. Our first priority is to drive our power brands across categories. Our performance this quarter continues to be led by outerwear, sportswear, dresses and suit separates across our key brands, DKNY, Karl Lagerfeld, Calvin Klein, Tommy Hilfiger, as well as Levi's. We also saw a nice pickup in handbags and team sports. We are a significant global supplier with a diversified distribution network across stores and digital channels from luxury and better department stores, specialty stores and the off-price channel. We continue to be able to make quick transitions where necessary and manage inventory to deliver the right product at the right time to maximize profits along with sales.

As we continue planning our transition with Calvin Klein and Tommy Hilfiger, our new Nautica and Halston brands, along with newly repositioned Donna Karan, will join DKNY and Karl Lagerfeld as power brands. We're comfortable that they will replace the top line and our bottom line as key growth drivers of our portfolio. They each bring a distinct point of view to our portfolio for a wide range of consumers with tailored distribution strategies and dedicated design themes. We continue to seize opportunities to expand this business and bring in additional brands that fit our long-term strategic vision.

Shifting to our next priority, growing our owned brands. Our owned brands represented $1.3 billion in annual revenue last year and they are on track to reach $1.5 billion this year. We believe we can grow these brands to over $3 billion in annual revenue over time and continue to direct more resources to this area. They are the most profitable businesses in our portfolio as we do not pay royalty fees and they provide highly accretive licensing income opportunities. For the third quarter, our owned brands, DKNY, Karl Lagerfeld, Donna Karan and Vilebrequin, registered another period of solid double-digit year-over-year growth as collections are resonating with customers.

We're on track to earn $75 million in royalty income this year, which is highly accretive revenue stream. We will have four new fragrances with our partner Inter Parfums. Karl Lagerfeld, DKNY and Donna Karan will launch new scents next year. This past August, we introduced a brand extension for DKNY's Be Delicious, which has performed exceptionally well. Additionally, DKNY expanded into new license categories, including men's underwear and loungewear, rugs and tech accessories, and we re-signed our South Korean territory license.

Our marketing efforts this past quarter for DKNY highlighted the brand's inherent connection with New York City across multimedia campaigns. We acquired the total Karl Lagerfeld brand over a year now and are extremely pleased with its performance, which has been accretive from the beginning. The fall campaign focuses on a new Icon K handbag. And last month, we launched a new holiday campaign featuring Karl's beloved cat, Choupette. Further, we brought the world of Karl Lagerfeld to life during European Fashion Week through some high-impact global activities in Paris, Milan, Dubai and Bangkok. These events resulted in over 200 social stories and 90 million impressions.

Extending our global reach is an important priority. This year our key international brands have registered solid sales growth. Karl Lagerfeld is expanding into new lifestyle categories with jeans, which targets a younger consumer and is a natural fit for the brand. The collection embodies Karl's confident self-awareness and the independent spirit of street art for both men and women across ready-to-wear, accessories and footwear. We just opened our first Karl Lagerfeld jean store in Madrid, and it's off to a good start. To support the launch and engage with younger consumers, we took over nightclubs in Paris, Berlin and in Madrid. We now have six unique Karl Lagerfeld branded lifestyle projects, with more in the works.

In addition to two hotels, one of which opened this year, we have agreements for four residential properties in Dubai, Lisbon and two in Spain. Vilebrequin further expanded its reach with franchise partners having opened two new stores in prominent beach vacation destinations, one at the Atlantis Hotel in the Bahamas and the other in Costa Navarino, Greece. The brand now has a total of 104 company-operated stores and 88 franchisee-operated stores. Further, Vilebrequin has three lifestyle projects, a beach club in Cannes, which opened this summer and is becoming major success, a Boca Raton Beach Club that opened last year. And today we're excited to announce that we just entered into a multi-year licensing agreement with a developer of a luxury lifestyle hotel in Florida.

Expected to open in spring 2024, Vilebrequin has designed the approximately 15,000 square feet combined indoor and outdoor rooftop, pool deck and restaurant, and will open a retail store. These beach clubs demonstrate the brand's power and the versatility to adapt our lifestyle concept, owned, franchised or licensed opportunities for clubs, restaurants and even hotels in the future. For both of these brands, hospitality has become a new opportunity for us. These initiatives provide additional income, drive significant global awareness and enhance the status appeal of the brands. We've also laid a strong foundation for DKNY's international expansion with new partner stores. Thus far, five have opened this year and we expect to open seven more by the end of next year.

In September, DKNY introduced the first European design collection which will launch in September 2024. The collection will feature a range of iconic streetwear and sports inspired women's pieces. We hosted an exclusive press preview during Milan Fashion Week and garnered rave reviews, delivering over 18 million global press and social impressions. This line will launch in key European cities with exclusive partners like Harrods, Flannels in the UK, Rinascente in Italy, Zalando will also become a key digital partner for the brand in Europe.

Digital and omni-channel growth remains an important priority. We've continued to invest in our capabilities, including an increased focus and rapid expansion with the pure play channel, which has helped offset the moderation in traditional digital channels now that customers are returning to stores. This work has paid off with those sales increasing by 30% this year. Our Amazon business alone is up over 80% to last year. The speed at which they've grown makes clear how much runway we have with this channel.

In conclusion, we ended our third quarter delivering non GAAP earnings that exceeded our expectations and have done a great job successfully executing our strategic priorities. We feel it prudent to take a cautious view of our forecasted sales. We now expect fiscal 2024 net sales to be $3.15 billion, based on the strong outperformance in the quarter, which resulted in higher operating margins. We have the confidence to raise fiscal 2024 non-GAAP

EPS outlook. We're raising our non-GAAP net income per diluted share guidance to be in the range of $3.90 to $4, compared to a prior guidance of $3.20 to $3.30. This compares to $2.85 in fiscal 2023.

I'll now pass the call to Neal for a discussion of our third quarter financial results, as well as guidance for the full year fiscal 2024.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

Thank you, Morris. Net sales for the third quarter ended October 31, 2023 were $1.07 billion compared to $1.08 billion in the same period last year. Net sales of our wholesale segment were $1.05 billion compared to $1.07 billion last year. Net sales of our retail segment were $33 million for the third quarter, compared to net sales of $29 million in last year's third quarter. Our gross margin percentage was 40.6% in the third quarter of fiscal 2024 compared to 32% in the previous year's third quarter. The wholesale segment's gross margin percentage was 39.6% compared to 30.7% in the previous year's comparable quarter. The gross margin percentage last year was negatively impacted by significant one-time demurrage charges of approximately $27 million which we incurred in the third quarter of last year.

The gross margin percentage in the current year's period was positively impacted by lower freight costs compared to the same period last year. We have been forecasting higher gross margin percentages throughout the year, and they came in even better than we had anticipated. The gross margin percentage in our retail operations segment was 49.1% compared to 54.9% in the previous period. SG&A expenses were $236 million, compared to $240 million in last year's third quarter. We were able to achieve strong warehousing efficiencies compared to our expectations, and actually had lower warehousing costs compared to the prior year. These reductions offset the inflationary pressures we've incurred throughout the current year.

Our current warehouse capacity is now well aligned with our current and planned inventory levels. Non-GAAP net income for the third quarter was $130 million, or $2.78 per diluted share compared to $66 million or $1.35 per diluted share in last year's third quarter, driven by improvements in gross margins, SG&A and less interest expense. Our non-GAAP net income per diluted share was significantly above the midpoint of our guidance of $2.08 per diluted share. Turning to the balance sheet, we made good progress with respect to our inventory levels. Inventory decreased 34% to $592 million at the end of the quarter from last year's $901 million. We made strong progress right-sizing our inventory levels as we had appropriately adjusted our buys to account for the higher than usual inventory we carried over from the previous year.

We expect to have lower comparable inventory levels at the end of the year as well. We ended the quarter with a net debt position of approximately $265 million compared to $729 million in the prior year's quarter end. This decrease in net debt is primarily a result of cash flows from operations as well as the large decrease in our inventory levels, offset by $26 million used for stock repurchases. We had cash and availability under our revolving credit agreement of approximately $840 million at the close of the quarter. Last week, we repaid the remaining $50 million of debt outstanding under the seller's note related to the Donna Karan acquisition. We believe that our liquidity and financial position provide us the flexibility to invest in our future growth and take advantage of opportunities in the marketplace.

As for our guidance, based on our performance in the third quarter and our current view of the fourth quarter, we are raising our non-GAAP earnings per diluted share guidance. We expect non-GAAP net income for the full fiscal year 2024 of between $182 million and $187 million or between $3.90 and $4 per diluted share. This is substantially above our previous full fiscal year guidance of net income in the range of $152 million and $157 million, or between $3.20 and $3.30 per diluted share. This compares to non-GAAP net income of $139 million or

$2.85 per diluted share for fiscal 2023. We now expect fiscal 2024 net sales to be $3.15 billion. Full year fiscal 2024 adjusted EBITDA is expected to be between $317 million and $322 million, up from our previously guided range of $284 million to $289 million, and compared to adjusted EBITDA of $266 million in fiscal 2023.

Let me add some context around modeling. We expect continued gross margin improvement in the fourth quarter, however, at a more moderated pace than we saw in the third quarter. In the fourth quarter of last year, we had started to realize the benefits from decreasing freight rates and we lap a much smaller amount of one-time logistics costs. We anticipate ending the year with gross margin percentages up approximately 600 basis points compared to the fiscal 2023 rate. We anticipate SG&A will delever in the fourth quarter as a result of inflationary pressures on costs. We expect non-GAAP interest expense to be approximately $38 million for the full year. We are estimating a tax rate of 28% for the balance of the year. We have not anticipated any potential share repurchases in our guidance.

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

Morris Goldfarb

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

Thank you, Neal, and thank you all for joining us today. The past 12 months are a testament to our ability to thoughtfully adjust, quickly create and bring to market new opportunities for our business. I feel great about our product, strength across our wholesale segment, digital [ph] increases (00:26:07), a prudent inventory management and our financial discipline. We have strong plans in place to drive G-III with our focus on our strategic priorities and these new growth drivers. The strength of our balance sheet affords us financial flexibility to invest in our business and consider additional opportunities.

I'd like to thank our entire organization for all their hard work. I'm proud of what the team has been able to achieve this year. I'd also like to thank 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 Edward Yruma with Piper Sandler. Your line is open.

Q

Hi, guys. It's [ph] Abbie (27:17) on for Ed. Thanks so much for taking our question. You touched briefly on the timeline for Halston and Champion. Can you just contextualize how big that revenue opportunity could be? And then as a follow up, what investments will be required to really maximize the potential of both of those brands? Thank you.

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

A

Thanks for your question. It's actually a really good one. The Champion brand, for us, is a coat license. So I would say, the brand would probably mature between $80 million and $100 million in sales, and that would probably go out three to four years. The Halston brand, as we described, we're going to classify that as a power brand for us, and the opportunity is significant. We believe there's an opportunity to bring that north of $500 million just on product that we will create, produce and ship. And alongside of that, we're going to create an income stream that's derived of licensing income that's probably could be north of $20 million in the next three years.

And the expense attached to these, they're very modest. One is an option to buy, which is Halston, and the cost of that option is nominal. And alongside of paying for that option, it's a discounted licensing rate that we pay to the current brand holder, which is Xcel. And as far as the cost of entry for Champion, it's a license. It's a guaranteed sales number or a guaranteed royalty that we must pay, which is nominal. So the CapEx expenditure or the acquisition costs of both of these brands is very nominal.

Q

Got it. That's very helpful. Thank you.

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

A

Thank you.

Operator: Please stand by for the next question. The next question comes from Will Gaertner with Wells Fargo. Your line is open.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Guys. Thanks for taking my question. So I guess, first, just maybe talk a little bit about what drove the upside to gross margins in SG&A. And then on that, how do we think about the puts and takes into next year? Any big call-outs when we're thinking about modeling these two lines?

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

So thank you for your question, Will, and thanks for joining. The margin enhancements occurred as we were developing and further maturing our brands. We found that the pricing power of our brands were underestimated, and as we tested pricing, the consumer accepted it, sales were good and we stayed on course. There was no need to take markdowns to move inventory. It was not a promotional period and it worked out absolutely great.

We were able to move through just millions of units of inventory that we carried over, and we would assume that when you do that, you need to take a markdown to achieve it. We didn't take markdowns as you see in our results. So it was a great picture, a new canvas that was really created for us. We're now liking the margin format versus top line sales. So we feel the same way as you see our Q4 forecast shows margin enhancement as well. And we're adjusting top line down, yet bottom line there are enhancements due to margin improvements, as well as buying a little bit better, as well as some freight costs coming down. But we're in a margin business. And Neal?

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

Yeah. [indiscernible] (32:03) as far as the SG&A, I'd say, the most significant category that we had great success in was our warehousing costs. Really based upon a couple of different factors, certainly helps when you can drive inventory down, and as Morris mentioned, the strength of the inventory and being able to move it. And look, we've been looking very hard at every aspect of our third-party warehousing, from space utilization to negotiating rates to moving inventory as properly as possible. So we were very, very fortunate and efficient in the warehousing spend. The last item I'd call out to is our advertising spend. I think we've been prudent in terms of placing that where it's been most effective.

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

[indiscernible] (32:51)

Will Gaertner
Analyst, Wells Fargo Securities LLC
Q

Got it. And then any color into – go ahead. Sorry.

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

Go ahead, Will. I'm sorry.

Will Gaertner
Analyst, Wells Fargo Securities LLC
Q

I was just going to say, any color into next year or anything that we should be thinking about, puts and takes?

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

It's a little bit early. What I do like is the percentage of business that we're forecasting on our owned brands versus licensed brands. Our owned brands are going to derive, as they do today, better margin than our licensed brands. So it's really kind of cool to focus on better margin businesses. Our distribution is going to change a little bit in our owned brands. So we're seeing some good things. I can't really speak to the stuff that I can't control.

There's a lot going on in the world. We all see it, we all read it, we all live it, and that makes us a little bit conservative in our outlook for the future. But short of that, our company is in great shape. We have a talent pool that has been here for years. Consistency in talent that we measure as an important factor in how we grow and how we recreate businesses or create new businesses. Our people know how we think, they respond immediately and there's no learning curve. So this is a great time and a great company to transition new assets.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

And then maybe just one more from me, the hire of Dana, it sounds like you're thinking about M&A a little bit more going forward. I mean, what is out there? I mean, is there any attractive opportunities that you guys have identified? I know you don't have to speak specifically to any, but just maybe talk to sort of the M&A environment and how you're thinking about that.

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

A

Yeah. Our culture has always been to acquire companies. We've done a really good job of that before Dana. We continue looking at opportunities, whether it's licensed or owned. We shop globally. We're astute buyers. It shows up in pretty much every acquisition we've made since the 1990s. This turned out to be a good acquisition. There's nothing that sits in my mind that was poorly calculated and didn't perform. We made use of every acquisition we made. It's one of our company's strengths. So enhancing it and putting somebody from the financial world on our team can do nothing but improve what we have, and Dana is a known commodity to us. We've dealt with Dana for many years at PVH. PVH was, as you know, a great partner for years, and Dana was an important part of communication and helping us understand PVH and how we work with PVH, and she'll do the same for G-III and with our partners. We look forward to her coming to the company.

Will Gaertner
Analyst, Wells Fargo Securities LLC

Q

Great. That's great. Thank you. I'll pass it on.

Operator: Please stand by for our next question. The next question comes from Mauricio Serna with UBS. Your line is open.

Mauricio Serna
Analyst, UBS

Q

Great. Good morning, and thanks for taking my question, and congratulations on the result. I just wanted to ask about the sales guidance. Maybe I missed it, but maybe you could comment a little bit what you're seeing from your wholesale partners. I'm curious, just because I think it was lowered, and I just want to see what are the dynamics there. And maybe if you could remind us like, I know you're not guiding next year, but if you could give us a little bit of detail on how we should be thinking on when the new licenses and new business initiatives will be materializing in your company's P&L, that will be very helpful. Thank you.

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

A

Thanks for your question, Mauricio. The outlook as we all look at retail earnings and forecasts is conservative for the future for all the same reasons. The consumer is not out there buying aggressively. Traffic is down. The economy is not on spending mode. Housing costs are up, mortgage rates are up, and we have the never-ending college tuition issues. So there's a lot that's impacting the consumer that's not in our control. Everything that we're controlling is doing well, and it's difficult to forecast how deep the consumer is going into their pocket. We also have another element that we consider. We are still a large outerwear company.

Ad when weather doesn't work our way, we are impacted, but the good news is the recovery is quick, holding over deliveries on coats doesn't necessarily initiate a markdown. So it's timing and it's amazing how you get a couple of days of cold weather, and the pain of warm weather is gone instantaneously. So it's hard to forecast that. But we saw it as the weather changed last week, our business in the coat area got very good. So it's a good place for the pieces that we control. The pieces that we don't, again, it's hard to give a read for, and it's a little bit early for us to forecast next year. But we're the same company with more assets, with consistent talent pool, with our balance sheet being stronger than it's ever been. So those factors all make me comfortable that we're down a good path for the coming year.

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

A

Mauricio, this is Neal. Just to add to the specific timing, Nautica Jeans as well as the Donna Karan launch will be in spring. So you can expect those to start hitting in our first quarter. The Halston is launched the fall, as well as the Champion outerwear businesses. So I would expect that both of those are hitting primarily in the third, starting in the third quarter of next year.

Mauricio Serna
Analyst, UBS

Q

Great. Thank you.

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

A

Thank you, Mauricio.

Operator: Please stand by for our next question. Our next question comes from Paul Kearney with Barclays. Your line is open.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Good morning, everybody. Thanks for taking my question. Congrats on the result. My first question is on the margins, a bit of a follow up. So just looking in the model, it looks like margins are a multiyear high. I guess, can you maybe help us think about what in here is a structural improvement, what's more transitory, and anything you can kind of help parse out on the year-over-year drivers, how much was pricing, how much was lower costs, how much was better distribution? And then I have a follow up. Thanks.

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

A

Sure. So Paul, look, I think the margins are structurally in place. While the increase to the prior year has some one-time benefits, the actual achieved margin, I think, and our ability to maintain it goes back to what Morris said before about the ability for us to price strong and maintain those prices. We did have lower freight this year. We don't really anticipate that that scenario will change dramatically on us. I think that we can continue to maintain pricing.

In terms of input costs, we're not seeing anything structurally that should give us pause that this is somehow a unique one-time high for us. So we will certainly endeavor to maintain these kinds of margins go forward, and that will be based significantly on our ability to maintain price. I think we've always really been able to do a good job in terms of managing the cost side of that equation.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Okay. Thanks. And then my follow up is on price. And I guess trying to square with the comments on the pressures on the consumer, inventory purchases are still conservative. I guess, what gives you confidence that as costs come down, prices won't have to soon follow in the intermediate term? Thanks.

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

A

We don't really sell commodities. We're a fashion business. We sell fashion. We create demand. And when fashion is in demand and you do your job appropriately, you get paid for it. If you don't, you need to take the markdown and move product.

We have a history of doing the right thing as far as the creative side. We add amazing quality to our product, and the consumer always sees value in our pricing. It's not arbitrarily just raising your prices, saying, we're going to get $10 more for this dress because we can. We add value, whether it's accessory value, whether it's branding value. We're spending a good deal of money on marketing going forward. And that generates demand and demand generates sales. And if all the pieces are all put together and done appropriately, you get the price that you're trying to achieve. We have a history, we have a long history. It's a consistent thesis.

Paul Kearney
Analyst, Barclays Capital, Inc.

Q

Thank you.

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

A

Thank you for your question, Paul.

Operator: Please stand by for our next question. The next question comes from Ashley Owens with KeyBanc. Your line is open.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks for taking my questions. Just on Karl Lagerfeld, you've seen good momentum this year and have several initiatives in place there. We'd just like to hear your thoughts on how you're sizing the opportunity within that brand for next year. And then any additional color on how the other brands are currently performing internationally versus domestically and how that's progressing would be helpful. Thanks.

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

A

Thanks for your question, Ashley. We have a big internal bet on Lagerfeld. The bet is it's going to be our biggest percentage growth brand. It's doing great. It had a good year – it's having a good year. And the guidance that we're getting from our retail partners is there's an amazing amount of growth opportunity with the brand, and door count and penetration within doors, product is selling, all the categories are working. It's a brand that makes you smile when you see it. There are – it's got unique attributes, and we love that acquisition. And we're expanding licensing opportunities.

As I spoke to the lifestyle opportunities that we have in hospitality, in food and beverage and unique situations was really originated by Lagerfeld. There's a high demand for unique situations. Also, other than the demand for our product is a demand for opportunities with the brand. I think sooner or later, I'm going to bet this is sooner, within the next 90 days, we'll probably announce a hotel development in New York City. So there's some really exciting things that are going on with the brand.

And as far as global, weather was tough throughout Europe. From what I understand, it's the warmest weather in 150 years. And in spite of that, we're growing DKNY, we're growing Lagerfeld and we're growing Vilebrequin. So the weather impacted parts of our business, our boot business is soft, our coat business is soft, our sweater business is soft, but the fast moving fashion pieces worked well. So we're learning how to operate globally. We're not having the same success in China, but Europe and the Far East has been really good markets for us.

Ashley Owens
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. Really appreciate it. Thanks.

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

Thank you, Ashley.

Operator: Please stand by for our next question. The last question comes from Dana Telsey with Telsey Advisory Group. Your line is open.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Good morning, everyone, and so nice to see the progress, and congratulations on the hiring of Dana Perlman. I think that'll be a terrific addition. And Morris, you used one of my favorite words, grow and growing. When you think about the strength that you had this quarter, and certainly the discussions about wholesale, even with more cautious or conservative orders, how do you break down the wholesale strength, whether by brand, whether by channel [ph] or (00:47:57) wholesale, department stores, off-pricers or whatever it may be, and what are you seeing there? And do you see that strength continuing, does it continue because of categories, does it continue because of pricing? How do you think of the levers moving forward? Thank you.

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

There it continues because of many factors. Primarily the underlying talent that makes it happen is an aggressive group that discovers opportunities that most people just overlook. We are beyond just a brand. I think we're proving that out now, give our company a startup situation with putting a focus, putting our people on the focus of building it. We can build a startup and make it effective very quickly. We're proving that out. Our brands were underachievers in the hands of competition or other people. And we take them on, we embellish them, we give them love and care, put a little money behind it. Relationships that we have with retailers are amazing. We get support the moment we pivot a brand.

The first question is, well, what do you want us to do, we're in. And that's really not the norm. That comes with many years of building that trust. And I would venture to bet that if you spoke to any major retailer in the United States, they're aware of us, they trade with us and they're happy with the relationship. We put as a paramount focus the profitability of the retailer. Without their being able to be profitable, we have no shot. So our first focus is understanding what they need to be profitable, build around it, retain the DNA of what we're marketing, and there's a huge payback. There's loyalty, there are orders, there's cooperation. So it's not a practice that everybody follows. And it comes from continuity of culture, the same management team running the company for decades. It's not a bait and switch situation. It's a good place to be.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC Q

Got it. Oh, go on.

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

Yeah. I say, it's a great place to be, it's been fun building it. This phase, there aren't many companies that could survive looking at giving up 50% of their top-line sales and forecast increases and be more profitable in a period of time when they're looking at maintenance and growth at the same time. I'd say it's an amazing story.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC Q

One other thing. When you think about other additions to the licensing portfolio, is there a cap on how many you could do, or do you think of it as size or number?

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

Yeah. There certainly is a cap. We're not in the business of – the days of us looking at a license, a random license and creating just revenue to the extent of $20 million to $30 million is really not us. It's got to be an important brand for us to either acquire it or license it. There are some unique situations. Champion is a little bit unique. It's a relationship. We needed another coat brand to shore up what we ultimately give back. And Champion turns out to be just a great solution for part of what we're giving back. But we're not out there shopping for a multitude of brands. We need scale, we need focus. And each brand has an entire management team. It doesn't cost our company much more to build a $1 billion brand as to maintain a $100 million brand. So the focus is large.

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. Thanks for your question.

Morris Goldfarb

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

With that, operator, I think we are done. And thank you everyone for your interest and support. We wish you and your families a wonderful holiday season and a happy healthy New Year. Thank you.

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