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G-III Apparel Group Ltd. (GIII)

Q1 2027 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 First Quarter Fiscal Earnings Conference 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, Chief Financial Officer. Sir, 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 guaranteed, and actual results may differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results of operations or the financial condition of the company to differ are discussed in the documents filed by the company with the SEC. The company undertakes no duty to update any forward-looking statements. In addition, during the call, we will refer to non-GAAP gross profit, non-GAAP net income and loss, non-GAAP net income and loss per 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 very pleased with our first quarter performance, which came in ahead of expectations, driven by continued momentum across our go-forward portfolio and disciplined management of the P&L.

Net sales were \$536 million, ahead of guidance. The quality of total company sales continues to strengthen, driven by a meaningful increase in full-price sales versus the prior year. Our go-forward portfolio delivered growth even as the top line was pressured by the planned loss of PVH brand revenues. We saw growth in our go-forward portfolio in both North America and Europe despite the macroeconomic challenges in the European market.

Non-GAAP loss per share was \$0.21, which was also ahead of our guidance range for the quarter. Importantly, we delivered gross margin expansion for the first time since fiscal 2025, reflecting healthy full price selling, strong inventory management, a shift toward owned brands and tariff mitigation efforts. Non-GAAP gross margins in the first quarter were up 350 basis points versus the prior year.

Our balance sheet remains very healthy, and we ended the first quarter with cash of \$394 million and inventories down 8% versus prior year. The macroeconomic backdrop remains volatile with the ongoing conflict in the Middle East impacting global consumer sentiment. Despite this, we're executing with discipline and our brands continue to gain share, helping to exceed our expectations for the first quarter and increase our outlook for fiscal 2027.

Stepping back, our first quarter demonstrates that we're executing our strategy to evolve from a primarily licensed portfolio into a balanced global fashion house with meaningful owned brands.

And that brings me to our recently announced acquisition of the iconic Marc Jacobs brand in partnership with WHP Global, which represents a significant milestone for G-III and is strongly aligned to our vision of strategic transformation. The Marc Jacobs acquisition accelerates our transition toward higher-margin, longer-duration brand equity. This acquisition is upgrading the quality of our earnings and advancing our long-term growth trajectory.

We see three core drivers of the strategic rationale behind this transaction. First, Marc Jacobs is a global and iconic brand with Marc Jacobs himself being one of the most influential designers in modern American fashion. Since founding his namesake brand in 1984, he's built a global fashion house that defines trends, influences culture, and connects with consumers across generations. The brand's positioning is premium and aspirational, yet remains accessible, which is well-aligned with our portfolio and heritage.

We're acquiring Marc Jacobs because of its cultural relevance and creative authority, not to change what is special. Today, the brand has over 100 company-operated stores worldwide with the majority located in the United States and has a strong e-commerce platform. The brand's direct-to-consumer operations are complemented by a growing wholesale and retail partner network. This diversified omni-channel foundation and strong brand recognition provide a solid base for future expansion.

Second, we see significant opportunity to unlock the next phase of growth for Marc Jacobs. Building upon its scalable platform, we see a lot of potential ahead for the brand, which directly aligns with our operational expertise and brand-building strengths.

From a product perspective, Marc Jacobs' assortment is currently led by handbags and accessories while our expertise is deeply rooted in apparel. We see considerable opportunity to expand the brand's lifestyle across new product categories while further enhancing G-III's capabilities and scale in leather goods and accessories. In

terms of channel mix, the brand leans more heavily toward retail and e-commerce while G-III brings a scaled global wholesale platform and long-standing retailer relationships.

Geographically, we believe we can further expand the Marc Jacobs brand globally and expect to see strong interest from leading distributors around the world. This acquisition positions us to expand our reach and partner with some of the best operators in key markets globally.

The third key point in our rationale is the unique structure of this transaction. G-III will own 100% of the operating company and will lead all aspects in the brand's operations, including product development, sourcing, merchandising, and global marketing to drive long-term growth. We will also offer global services to all licensee operations to ensure alignment with the brand's positioning, standards, and long-term vision.

Together, G-III and WHP Global will own the Marc Jacobs intellectual property through a 50/50 joint venture. As an equal owner of the JV, G-III will directly participate in the growth of the brand's royalty income stream and cash flow generation. WHP Global, a leader in brand management and global licensing, whose portfolio includes brands such as Vera Wang, Rag'n'Bone, G-STAR, and Lands' End, will lead the expansion of licensing opportunities across categories and geographies. With a shared vision for the future of the Marc Jacobs brand, this structure will maximize value creation and capitalize on each partner's strengths.

Importantly, G-III has a long history of identifying iconic brands with large runways for growth, acquiring and successfully scaling them. Our approach begins with a respect for the brand's heritage and is rooted in preserving the brand's [ph] codes (00:18:43) that makes them special.

The DKNY and Donna Karan acquisition in 2016 is a strong example of G-III's track record of value creation. Over the past decade, we've successfully reinvigorated DKNY, relaunched the Donna Karan brand, increased revenues by more than 150%, and significantly improved profitability.

Karl Lagerfeld is another strong example. Here was one of the most celebrated designers in fashion with tremendous global recognition yet substantial opportunity to build a brand around them. First, we built the business in North America from scratch, and since taking full ownership of the brand in 2022, we've increased revenues by approximately 90% while broadening its reach globally.

With Vilebrequin, we saw our brand with a storied history and a loyal following, yet significant untapped potential. Since acquiring the brand in 2012, we re-established Vilebrequin as a pure luxury swimwear brand and developed lifestyle partnerships that reinforce its premium positioning.

Lastly, Calvin Klein and Tommy Hilfiger demonstrate G-III's long-standing ability to build and scale brands. For more than 20 years, we successfully built up and expanded both brands in North America, introducing new categories and turned around underperforming ones. We grew net wholesale sales for these businesses into a combined \$1.5 billion platform at their peak. We believe Marc Jacobs is a natural fit for our portfolio and aligns perfectly with the brand-building model that has been so successful for us in the past.

We expect the transaction to be dilutive in the first year. However, we anticipate accretion thereafter. Moreover, we believe there is a significant multiyear opportunity in both growing the operating business as well as licensing income and free cash flow from the joint venture. We will fund our approximately \$500 million investment through a combination of cash and our revolving credit facility. This structure provides us with ample liquidity and flexibility while maintaining a prudent approach to our balance sheet.

After the anticipated close of the acquisition in the third quarter, our financial health will continue to be solid with low leverage, significant available liquidity, and strong cash flow. Overall, we're confident in our ability to help lead the Marc Jacobs brand into its next chapter of growth. G-III will protect and grow the brand's desirability through a disciplined approach in category expansion, sourcing, scale, and global distribution. The brand will gain the infrastructure of a global public platform while retaining its creative independence. Long term, we believe the business can generate \$1 billion in annual revenues for G-III. As we drive revenue growth, we expect to see meaningful long-term profit accretion and cash flow generation. We will provide more details, including our go forward strategy, when the transaction closes.

Now, turning to our owned brands. At Donna Karan, the brand once again outperformed, delivering approximately 40% growth in the first quarter, driven by healthy sell-throughs and strong AURs. Lifestyle momentum across categories continues, supported in part by our licensing efforts. Fragrance continues to be a standout and a few weeks ago, we added a new scent to the popular Cashmere collection. Donna Karan Jewelry exceeded expectations at wholesale with key styles selling out, reorders underway and expanded doors for Fall 2026.

Looking ahead, we will launch intimates for Holiday 2026 with our licensed partner, Komar, further expanding the brand's lifestyle reach. Digital performance grew with donnakaran.com sales up nearly 60%, driven by increases in traffic conversion and AUR. We continue to support the brand through targeted marketing investments that drive visibility and reinforce brand desirability.

Interest from celebrity stylists and A-list talent remains strong across both the newer and archival collections, underscoring the brand's enduring relevance. The strength of this brand continues to attract top-tier creative partners. And looking ahead to fall, we're partnered with a global talent whose unmatched social reach and relevance will introduce the world of Donna Karan to new audiences worldwide.

At DKNY, we continue to position the brand for long-term strength. In the first quarter, our North American direct-to-consumer business grew meaningfully, with stores delivering a double-digit comp increase, higher productivity, and improved full-price sell-throughs across seasonal categories. Sales on DKNY.com increased over 40% during the strong spring season, driven by higher conversion rates, targeted marketing, and increased newness that resonated with our core customer.

Our Hailey Bieber-led campaign remained an important driver of brand visibility and engagement during the spring season and will continue into the summer months. A strong connection to our highly engaged audience helped drive increased traffic to our site and broadened awareness of the brand globally. We also kicked off another season of our Yankees sponsorship, reinforcing the brand's connection to New York City's culture and style.

Internationally, a new DKNY flagship store opened in Shanghai, strategically located in one of the city's premier fashion destinations as we continue our focus on expanding the brand's global footprint. Overall, we're seeing healthy lifestyle momentum, strong digital engagement, and continued progress in our DTC and international initiatives.

At Karl Lagerfeld, the brand performed well in the quarter with strength led by North America, where we saw a healthy growth across our DTC channels. Despite a challenging backdrop in Europe, international performance was supported by growth in Karl Lagerfeld Jeans, which continue to gain traction to our younger customer, delivering a high-single digit increase during the quarter. While we expect the European market to remain soft given ongoing pressure on consumer sentiment, we're encouraged by the strong brand momentum we see across the business.

Our marketing initiatives continue to drive strong visibility and engagement. Building on the success of our initial partnership with Paris Hilton, the second chapter of our global campaign generated record engagement across the digital, social, and experiential platforms. This included an event that shut down Herald Square with a DJ performance by Paris herself and a Macy's shopping experience celebrating the Spring/Summer collection. These efforts reinforce the brand's cultural relevance and expanded visibility across key markets.

Finally, Vilebrequin performed strongly in the first quarter with broad-based growth across all regions. As the brand enters its peak selling season, we continue to build momentum through a series of spring and summer activations and collaborations. This included the recent launch of the Vilebrequin Beach Club in Miami, as well as several activations during the Cannes Film Festival at our La Plage location in Cannes.

Overall, our owned brands are becoming stronger, more profitable, and increasingly global, reinforcing their role as the core driver of our long-term growth. The momentum we are seeing across North America is expanding brand awareness and consumer interest in markets around the world, creating new opportunities for growth.

Digital expansion continues to be an important growth driver, and our investments across our own sites are delivering strong results. During the quarter, DTC sales increased close to 40% versus last year, reflecting healthy consumer engagement across the portfolio. Q1 performance across retail partner sites exceeded expectations, driven by strong execution in digital wholesale like Amazon and Zalando, as well as marketplace channels.

Handbags were a standout category during the quarter with strong growth across our key owned brands. Results were supported by relevant design, disciplined marketing investment, and improved promotional execution. As we expand our omni-channel presence, we will continue to invest in data, AI capabilities, and digital infrastructure to enhance engagement and profitability across the business.

Our licensed business continues to complement our own brands in a capital-light profitable manner, with a focus on strong brands with our contemporary fashion and sports and lifestyle platforms. Contemporary fashion strengthens our presence in modern lifestyle categories and complements our own brand portfolio while sports and lifestyle expands our reach to passionate fan communities through team partnerships and specialized distribution channels.

Within contemporary brands, BCBG, which we launched last fall, is exceeding our expectations with customers responding very positively to the refreshed point of view and modern styling. French Connection, which we added to our portfolio in the first quarter, is also off to a strong start as we refine the brand positioning with a clearer aesthetic and more focused product and distribution strategy. In April, we relaunched the US site as part of our efforts to reinvigorate the brand in the market.

We're excited to share the news of our new partnership with Next, one of the largest fashion retailers in the UK, which will create opportunities to collaborate across brands and categories over time. The first initiative is a license agreement with Joules, Next's premium British lifestyle brand known for its country-inspired lifestyle, aesthetic and bright colorful collections. The brand has a strong point of view that we believe will resonate well with consumers in North America.

Under the license agreement, we will design, distribute, and market men's and women's apparel and accessories in the US and Canada. So far, the response has been very encouraging with close to 350 doors confirmed for a fall launch. We believe there's a meaningful opportunity to grow the Joules brand in North America over time.

In sports and lifestyle, our team sports business remains healthy and represents a considerable growth opportunity. We continue to advance several strategic initiatives in this category, including the addition of a new WNBA license, which we see as well aligned with both the momentum in women's sports and our capabilities in the space.

Converse is performing nicely across nearly 900 points of sale while remaining in the early innings of scaling. Starter continues to execute well and is finding moments to connect sports, fashion, and culture. In Q1, the brand shipped a limited edition Pokémon jacket exclusively with Target which launched in early May and sold out in less than 10 minutes. Collaborations will continue to play an important role in the brand's strategy.

In conclusion, I'm pleased with our team's execution in the first quarter and our ability to exceed guidance. Today, we're reiterating our guidance for fiscal 2027 net sales to be approximately \$2.71 billion and are raising our guidance for non-GAAP EPS which is now expected to be \$2.15 to \$2.25, up from our prior outlook of \$2 to \$2.10. We continue to expect our go-forward portfolio to grow in the high-single digit range for the year, demonstrating the strong underlying health of our core business. The consumer and retailer environment remain dynamic, and we'll continue to focus on executing our strategies.

Stepping back, our transformation is creating a stronger, more dynamic future for G-III. We're building a portfolio of premium global brands where creative identity, cultural relevance, and pricing integrity are protected and enhanced through disciplined ownership. Our evolution into a global apparel powerhouse is well underway, and the strength of our portfolio has never been clearer.

Our key owned brands, DKNY, Donna Karan, Karl Lagerfeld, Vilebrequin, and soon Marc Jacobs, are globally recognized and have meaningful runway for growth. With extraordinary brands, strong execution, deep industry relationships, and a talented global team, we believe G-III is uniquely positioned to drive sustainable long-term growth and significant shareholder value.

Thank you. I will now pass the call to Neal to discuss financials.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

Thank you, Morris. Net sales for the first quarter ended April 30, 2026, were \$536 million, down 8% compared to \$584 million in the same period last year. First quarter sales were ahead of guidance of approximately \$530 million. Net sales of our wholesale segment were \$515 million, compared to \$563 million in the previous year.

During the quarter, growth in our go-forward portfolio was offset by the anticipated reductions in PVH-licensed revenues. Net sales of our retail segment were \$41 million for the first quarter compared to net sales of \$36 million in the previous year's first quarter. Comparable store sales were healthy and increased for Karl Lagerfeld Paris, Donna Karan, and DKNY compared to the prior year.

Let me touch on tariffs. Following the US Supreme Court's decision in February, the US Court of International Trade ordered US Customs and Border Protection to refund IEEPA tariffs. As a result of this ruling and other available information, we have assessed that the recovery of previously paid IEEPA tariffs is probable. Accordingly, we have recorded a receivable of \$140 million, reflecting our claim for IEEPA tariffs. We concurrently reduced our cost of goods sold by approximately \$120 million, which represents the expense related to the tariffs.

Additionally, in the first quarter, we recognized an approximate \$20 million reduction in the carrying value of our April 30, 2026, inventories for tariffs previously capitalized. The inventory benefit will flow through cost of goods sold during the balance of fiscal 2027. Of the approximately \$120 million reduction in cost of goods sold, \$103 million was related to IEEPA tariffs expensed in fiscal 2026. We have excluded the impact of those prior-year tariffs from our non-GAAP first quarter fiscal 2027 results and our updated non-GAAP fiscal 2027 outlook.

Turning to gross margins, first quarter gross margins on a GAAP basis were 64.9% compared to 42.2% in the previous year. Excluding the non-GAAP IEEPA tariff recovery benefit, adjusted gross margin was 45.7%, up 350 basis points, compared to 42.2% in the prior year. Gross margin benefited from pricing actions taken last year to mitigate tariffs, as well as the mix shift to higher-margin owned brands from licenses.

The wholesale segment's gross margin percentage was 63.8%, compared to 40.4% in last year's comparable quarter. Excluding the impact of the IEEPA tariff benefit, gross margin in our wholesale segment was 43.8% for the first quarter. The gross margin percentage in our retail segment was 48%, compared to 53.5% in the prior year's period.

Non-GAAP SG&A expenses were \$252 million in the first quarter, compared to \$231 million in last year's first quarter. As previously discussed, we have anticipated increased SG&A this year as we continue to make investments in our people, technology, and marketing to support our future growth. Our first quarter was also impacted by higher compensation expenses attributable to our higher-than-expected profitability.

Non-GAAP net loss for the first quarter was \$8.7 million or \$0.21 per share compared to non-GAAP net income of \$8.4 million or \$0.19 per diluted share in last year's first quarter. First quarter net loss was ahead of guidance, largely driven by better-than-anticipated gross margin.

Turning to the balance sheet, we ended the first quarter in a strong financial position with \$394 million in cash, up from \$258 million in the prior year. We expect that our cash position will further improve with the benefit from the expected tariff recovery this year. Our liquidity position remains robust, and we ended first quarter with over \$800 million in available liquidity. Inventories are in excellent shape and are down 8% compared to the prior year.

Now, let me discuss our outlook. Our outlook does not include any impact as a result of the pending Marc Jacobs transaction. For the full fiscal year 2027, we are reiterating guidance for net sales of approximately \$2.71 billion, down 8% to the prior year. This reflects approximately \$470 million of lost sales from Calvin Klein and Tommy Hilfiger products, partially offset by the growth of our go-forward portfolio, which we continue to expect to grow high-single digits.

We are raising our guidance for non-GAAP net income for the year which is now expected to be between \$95 million and \$99 million or between \$2.15 and \$2.25 per diluted share, up from our prior outlook for diluted earnings per share of \$2 to \$2.10.

Full-year adjusted EBITDA is now expected to be between \$178 million and \$182 million, up from our prior outlook of \$158 million to \$162 million.

For the second quarter of fiscal 2027, we expect net sales of approximately \$570 million compared to \$613 million in the second quarter of fiscal 2026. We expect non-GAAP net income in the second quarter of between \$7 million and \$11 million or \$0.15 to \$0.25 per diluted share. This compares to non-GAAP net income of \$11 million or \$0.25 per diluted share for the second quarter of fiscal 2026. We expect gross margin expansion of approximately 450 basis points in the second quarter.

Let me touch on a few modeling items. With respect to tariffs, our updated guidance assumes the tariffs for the remainder of the year will approximate those that existed under the IEEPA regime which would anticipate an increase to rates currently in effect.

In terms of gross margin, we now expect approximately 400 basis points of gross margin improvement for the year, higher than our initial guidance for the 300 basis points of expansion. The increase in our outlook reflects the realized upside in the first quarter gross margin and the expected benefit from the reduced inventory-carrying cost associated with the tariff refund which will favorably impact cost of goods sold over the balance of the year.

For SG&A, we continue to expect expense deleverage this year as our newer businesses scale and as we continue to invest in our business to support growth. As we discussed last quarter, we have identified cost-saving initiatives that are expected to generate \$25 million of run rate savings in fiscal 2028, and we will continue to evaluate our cost structure. We expect the level of deleverage to improve sequentially as we move through the year.

We continue to expect net interest income of approximately \$2 million for the full year and now estimate our non-GAAP tax rate to be approximately 33.5%. The higher tax rate is attributable to the anticipation of higher non-deductible items than previously expected. We expect capital expenditures to be approximately \$40 million for the year. Our guidance does not anticipate any potential share repurchases for the year.

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've never been more excited about the future of G-III. I want to thank all of our team members for their hard work and dedication, as well as our shareholders 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 is going to come from the line of Bob Drbul with BTIG. Your line is open. Please go ahead.

Q

Yeah. Hi. This is [ph] Jake Katsikis (00:44:16) on for Bob. Thanks for taking my question. So, your owned brands continue to post strong growth and are becoming a much larger percentage of sales. Could you discuss where you see the biggest whitespace opportunities across the brands, whether it's category expansion or international growth, DTC? How large do you think these brands can ultimately become? Thank you.

Morris Goldfarb

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

A

Thank you for your question, [ph] Jake. Jake (00:44:41), these brands are still in their early stage of development. We've done an amazing job of classification expansion. We're at the early stage of international growth, and we're not yet matured on the licensing potential of any one of these brands. We'll hit on DKNY first. DKNY is arguably maybe the most commercial piece that's grown beautifully over time, and it's gaining market share.

As there's change in our industry and branding and positioning, we seem to be picking up more real estate and strength in classification, greater depth in classification. So, our familiarity with the customer base in North America is very, very strong. Our ability to govern how the brands are positioned is respected, and it's been a really nice run. And again, I believe it's the early stage.

With Donna Karan, we're barely in the third or fourth inning. This is really our second year with the launch of Donna Karan. Classification expansion is not at maturity yet. We're successful in pretty much any classification that we've placed in the marketplace. We're cautious on distribution. There's a protection for the brand, its integrity and its archival, the value to our company and to the consumer. Growth digitally is being achieved. We're fine-tuning some of the flaws in our digital distribution, which is going to make a huge difference for the future.

So, Donna Karan again has got growth that could be three times the size of what it is today. We've not even touched on the international component of Donna Karan. There's an appetite for it, and we're about ready to launch Donna Karan internationally. None of our overseas offices are representing the product of Donna Karan for distribution yet. We're almost there.

And Karl Lagerfeld. Karl Lagerfeld, contrary to some of these brands, to DKNY and Donna Karan, is possibly best known in the European market. Karl Lagerfeld was born in – he, himself, is born in Germany. The adoption of his talent and his persona went to France very quickly. And the globe, quite candidly, might say that he's the best designer of all time. So, we were penetrated in Europe to some degree and underpenetrated in North America.

We believe there's tremendous growth. The sell-throughs have been amazing, possibly the best of what we have. And our retail presence is minuscule. Our next focus will be to grow the retail potential of all our brands. We've aligned our talent pool in retail – or in the process of aligning our talent pool in retail to enable us to grow direct-to-consumer in that venue.

And Vilebrequin is a fun brand that hasn't scratched the surface yet. Today, it's best known for men's luxury swim trunk. It will be ready-to-wear in the future. We're distributing the brand and its presence in places like Cannes on the beach, Saint-Tropez. Saint-Tropez, we're dominant as the luxury swim brand. We'll be on the beach and clubs to a greater extent in the coming years.

And possibly, the trophy might be our new acquisition. We believe that Marc Jacobs, the man and the brand, have a huge following that addresses the millennial, the Gen Z consumer, and the luxury consumer that is a little bit older. It crosses generations. So, we're going to expand our retail. We're going to expand our offerings to include a much broader assortment of apparel and fine-tune what was well-created in handbags and accessories.

So, there's a tremendous amount of internal growth that's still available to us. The company is just excited by everything that's happening around us, the sell-throughs and on our owned brands, the new acquisitions, and the new launches. We're not talking very much about BCBG, French Connection, Converse, and Sonia Rykiel, which we've worked at for the last few years, and we've finally found a solution for Sonia Rykiel that'll post profits for us in the coming years.

And as I said in our script, we're aligned with Next in the UK to attempt to build some of their brands here. The first initiative is Joules, and we've been successful in placing it. Yet to be shipped but we believe that there's a good deal of opportunity with even our licensed initiative. It's a well-balanced machine. It's something that was created initially as a licensing model. We evolved into owning a couple of insignificant brands to, today, possibly being the dominant fashion provider of owned brands as well as still not giving up on our licensed partnerships.

So, it's well-balanced, well-managed, and consistent in performance. Not many companies in our sector can make that statement. Sorry for the long-winded effort, [ph] Jake (00:52:26). But hopefully, I've answered your question.

Q

Got it. Definitely. That's really good color. Thank you so much.

Operator: Thank you. And one moment for our next question. Our next question will come from the line of Dana Telsey with Telsey Advisory Group. Your line is open. Please go ahead.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Hi. Good morning, everyone, and nice to see the progress. Congratulations on the Marc Jacobs acquisition. As you think about your portfolio now, Morris, and obviously have many brands that could be \$1 billion in sales, is there a difference to what the distribution could be? Obviously, I see Marc Jacobs, you have wholesale opportunity. How do you see the margin potential of the combined portfolio accelerating? Thank you.

Morris Goldfarb

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

A

Thank you for your question, Dana. It's a really good one. It's what we've been focused on. Margin enhancements are really what we're about today. If you look at performance across our brands, and this has not been an easy period, we're transitioning out of our largest pieces of business.

So, what you're getting in performance is a combination of exiting brands as well as entering, to a greater extent, our owned brands where our margins are better. It's difficult to maintain high margin as you exit your 20-year-old assets. The consumer knows – not the consumer, but your customers know that it's a period of transition, and there's a desire to move your inventory, and there's a requirement to distribute your inventory and not be left with anything over a period of time. So, we're aggressive in moving our inventory there.

As far as our owned brands, we have a lifetime. We're managing our margins in a different fashion, and it's showing great results for us. The beauty of Marc Jacobs, margins are not the problem. Their margins at retail are exceptionally good. Their scale is more the issue, and we're good at that. We're good at providing solutions for scaling a business. We've shown that pretty much in every asset that we've taken on, be it Vilebrequin where there is not a markdown to be seen. There are global relationships that enhance the scale of the business, and there's a respect and integrity that we retain as we build these brands.

So, I'd say we've done an amazing job of building and being recognized for continued growth and prosperity for our retailers. We seem to – as [ph] stuff (00:55:50) comes our way and it's not all positive, we find solutions. This is a team that just works 24/7 in supplying the solutions for the retailer and retaining the retail presence that we have. But again, we all know that's not an easy feat and diminishing door count and diminishing opportunity for distribution of product, and we seem to be solving it.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Got it. And one other thing. Just given the categories of Marc Jacobs, which is leather goods and accessories, is there any cross-pollination that could benefit any of your other brands to expand their sales in the category?

Morris Goldfarb

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

A

Cross-pollination in sourcing and development possibly. Design, we keep the design separate by brand, whether it's a licensed or an owned brand, whether it's a mass market brand or a premium luxury brand. We retain the specialness of everything that we own. So, the intent is not to homogenize the acquisition. It's to continue to make it special. We bought it because it was special. We usually have a partner that sees it the same way. And not only what we do, the way we will license the categories out, the brand will be protected. It's not intended to hit the mass market at any point. It's intended to create an important diffusion brand, yet to be decided. But in [ph] console (00:57:46) with our retail partners, there's a big appetite for a diffusion brand, as well as the continued maintenance of the Marc Jacobs brand.

So, nothing really changes except maybe a diffusion brand that becomes distributed to a greater degree. The scale might come out of the diffusion brand.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Thank you.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

A

Dana, this is Neal. Just to add to the margin profile, I think it's important to remember when we run essentially a significantly licensed portfolio, we really run those at low-double digit operating margins. When we look at the

owned businesses, we really run those essentially without the royalty charges that are associated with them. So, we run into the mid-teens up to the upper teens from an operating margin standpoint.

The portfolio is being recreated. It's got a mix of owned and licensed businesses with both growth. I'd characterize the Marc Jacobs as a hybrid where we're really paying essentially a half royalty. So from an operating margin standpoint, we would expect to get back to some mix of low-double digit operating margin businesses – low-double digit operating margin on the licensed portfolios and then a mix of higher operating margins on the owned.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Very helpful. Thank you.

Morris Goldfarb

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

A

Thank you for your question, Dana.

Operator: Thank you. And one moment for our next question. Our next question comes from the line of Ashley Owens with KeyBanc Capital Markets. Your line is open. Please go ahead.

Ashley Owens

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks and good morning. Maybe just to start, if you could talk about any shifts into what you're hearing from wholesale partners heading into fall, if there's been any changes over the past several weeks. Just with the consumer backdrop still choppy and then the conflict in the Middle East kind of dragging on here, any sense that buyers are still leaning into newness in owned brands or are you seeing any signs of caution in some of [ph] forward order (00:59:55) commitments?

Morris Goldfarb

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

A

That's a great question, Ashley. We would anticipate greater pushback and greater concern. It seems as if the consumer is shopping maybe more selectively. And our performance and our retail customers, regardless of channel, it seems as if the consumer is finding their way in affording high gas prices, traveling, and they're buying apparel. We're aware and we're cautious. But if we look at sell-throughs, there are blips on a given week. But overall, I would tell you that the consumer seems to be quite positive on their shopping habits. I'm not seeing a major reason based on sell-throughs for concern, yet we are – this applies to North America.

A little bit different in Europe. Europe is a little bit more cautious. Performance in Europe is a little less than we would like to see from the consumer's point of view. But these are issues that we're not in control of. And as far as the Middle East, we don't have a large business in the Middle East. It's a growing, developing business, but nothing that happens in the Middle East hits the charts for us.

Ashley Owens

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Understood. Maybe – and then just as a follow-up, Neal, I know you called out some of the higher compensation expenses as part of that SG&A increase in the quarter. Just any way to help us think about the magnitude of the comp accrual swing versus some of the planned investments you've alluded to this year,

whether that be in people or marketing tech initiatives. Just trying to isolate the underlying G&A run rate once you strip out some of that variable comp piece.

Neal Nackman

Chief Financial Officer, G-III Apparel Group Ltd.

A

Yeah. Look, I think the key thing to think about, Ashley, is that while we expect a significant amount of deleverage on the full year, if you look at that rate in each quarter, you'll see that will scale down, and I would expect that would be somewhat consistent for Qs 2 and 3. And just remember, in Q4, we had a large charge last year, so you'll be up against that as a reduction to just take into account when you do your modeling.

Ashley Owens

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Perfect. Thank you very much.

Morris Goldfarb

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

A

Thank you, Ashley.

Operator: Thank you. [Operator Instructions] Showing no further questions, I would like to hand the conference back over to Morris Goldfarb, CEO, for further closing remarks.

Morris Goldfarb

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

Well, thank you, all, for spending a beautiful Friday morning with us, and we'll have more next quarter. The development of Marc Jacobs, maybe there'll be further disclosure. Hopefully, we can give you a more defined structure in the coming quarter. With that, have a great weekend. Thank you.

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

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