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G-III Apparel Group Ltd. (GIII)

Q4 2022 Earnings Call

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

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Susan Anderson
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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the G-III Apparel Group Fourth Quarter and Full Fiscal Year 2022 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session [Operator Instructions] Please be advised that today's conference is being recorded [Operator Instructions]

I would now like to hand the conference over to your speaker, Mr. Neal Nackman, Chief Financial Officer. Please go ahead, sir.

Neal S. Nackman

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

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

In addition, during the call, we will refer to adjusted EBITDA which is a non-GAAP financial measure. We have provided reconciliations to these non-GAAP financial measures to GAAP measures in our press release which is also available on our website. 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.

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. Also joining me today is Neal Nackman, our Chief Financial Officer. Fiscal year 2022 was a testament to the power of G-III, having gained market share and delivered significant growth in earnings for our shareholders. We saw a strong demand across our power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld Paris. And we narrowed the losses in our retail operations.

We delivered the highest annual EBITDA and net income for diluted share in our company's history, exceeding pre-pandemic fiscal 2020 results. We bought back $17 million of our stock and our board authorized total shares available to repurchase up to 10 million. We ended the year in a strong financial position with $1 billion in liquidity compared to $800 million last year. This affords us the flexibility to continue to invest in our future growth and further elevate our position as the leader in fashion.

Now, let's review the full year and fourth quarter fiscal 2022 results. Net sales for the full fiscal year were $2.770 billion, an increase of 35% to $2.06 billion last year. Importantly, the wholesale segment net sales for the fiscal year reached $2.7 billion, an increase of 41% compared to net sales of $1.9 billion last year and almost back to pre-pandemic levels of fiscal 2020. For the full fiscal year 2022, we generated $350 million of EBITDA as compared to $285 million in pre-pandemic fiscal 2020.

Full fiscal year GAAP net income per diluted share was $4.05, the highest in our company's history and exceeding our guidance. This compares to GAAP net income per diluted share $0.48 last year and exceeded pre-pandemic fiscal 2020 of $2.94 by 38%. GAAP net income per diluted share for the fourth quarter was $0.98 compared to $0.30 in last year's comparable quarter. We had strong growth across all our key categories that outpaced our expectations.

In addition to the continued growth of our casual businesses which benefited from the consumer behavior shift during the pandemic, our broader lifestyle categories including dresses and wear-to-work sportswear, continue to build momentum. And we successfully incorporated core fashion collections into each of our brands during the past year. Our team has the foresight to anticipate trends, capture market share, and deliver end demand product to our retail partners despite significant supply chain challenges. We're seeing continued momentum, and are well positioned for another strong year ahead of fiscal 2023.

Athleisure, jeans, and casual sportswear continue to do well across our company. Customers responded to an assortment of layering pieces that offered additional functionality heading into the cooler season. These completed pieces like zip front hoodies, light-weight jackets, puffer vests and sweaters, have expanded the opportunities for our classification businesses. With the first full year of being in the jeans business behind us, we quickly built into one of the fastest growing categories. Further entry into this category with our power brands has enabled us to capture market share.

Jeans has now become a meaningful contributor to our overall business. Outerwear in the fourth quarter was led by casual product. We saw solid sell-throughs late into the season, and are encouraged by the transition to Spring, driven by styles that continue to support an active outdoor lifestyle. A newly launched Bass outdoor brand capitalizes on this secular shift and is off to a strong start.

We began selling to consumers late last year in 150 Macy's stores, Nordstrom, Anthropologie, Macy's.com, and Bass.com. Further, we're developing a footwear line which will round out our offering. This brand puts us in a whole new category and the team has quickly developed the expertise to create an authentic and functional outdoor line. We believe there is a significant runway ahead in this business and are excited to expand the distribution.

The momentum in footwear for DKNY and Karl Lagerfeld Paris and handbags for DKNY, Calvin Klein and Karl Lagerfeld Paris, are rapidly developing into the sizeable business. As we've seen across our other categories, demand for dressier and occasion-based products is accelerating and our collections reflect this trend. In dresses and career wear, we experienced strong sell-throughs across our power brands.

Momentum has picked up in both dresses and career wear as pandemic-related restrictions were lifted, and customers resumed their professional and social activities. Our teams have done an excellent job of pivoting to fulfill the robust demand and have positioned us to capture what will likely be a strong dress and career wear year. This past year our Karl Lagerfeld Paris business outpaced our expectations. We concluded a successful launch at Macy's.

Total brand wholesale and retail sales in North America totaled approximately $175 million, surpassing pre-pandemic levels by almost 30%. We added 9 new retail stores this past year, ending with a total of 22 stores along with a digital site; all of which are increasing our consumer base and are performing well. Karl Lagerfeld was a larger than life legend whose name is globally recognized as one of the most influential and iconic designers in fashion.

The Karl Lagerfeld brand embodies the spirit of the designer with [indiscernible] (00:09:10) compared in the modern way that appeals to a global consumer across a broad range of categories for men and women. In keeping with Karl's legacy, sustainability is a core value of the business with the focus on building a better future for people and the environment. We're in the beginning stage of tapping into the potential of this brand and believe the brand has a $500 million annual net sales opportunity in North America alone.

Turning towards the key priorities across all our businesses, we continue to accelerate the growth of digital as we strive to become a best-in-class omni-channel organization. Compared to two years ago, digital sales for the quarter on our partners' sites increased 35%; and on our own DKNY and Karl Lagerfeld Paris sites, increased over 60%. In China, digital sales are now larger than store sales. Vilebrequin's digital sales were also up by strong double digits compared to last year.

We remain focused on several digital priorities. We continue to improve our technological and operational capabilities. This past year we put significant resources into building our digital business, including investing in talent. With new leadership, we've built a strong digital division and laid the foundation for our global digital strategy across sales channels.

By increasing our partnership with retailers, they are now helping us better understand the customer to collectively drive our businesses. Additionally, progress is being made to further integrate our product and marketing on their sites. As we enhanced our direct-to-consumer distribution capabilities, we continued to broaden our offerings to consumers. Sizeable strides have been made this year to increase our presence on pure-play global retailer sites including Amazon, Zappos, Zalando and Fanatics.

A newly created Amazon team is dedicated to building and mutually growing the partnership. We're unlocking data in a more effective way than ever before to optimize marketing efforts, acquire new customers, drive incremental conversion, and foster a more seamless shopping experience for our brand. This work has resulted in strong performance in our digital business.

Our improved DKNY and Karl Lagerfeld Paris sites are boosted by our new look and feel, recently launched loyalty programs, and enhanced CRM capabilities. These are powerful consumer engagement tools that are resulting in strong increases in traffic and new customer acquisition, as well as strong double-digit increases in sales from repeat customers who are driving average order value. With further investments, site enhancements will continue to evolve this year.

Marketing investments have allowed us to engage with new audiences and drive qualified young customers to our brands. This has resulted in greater than a 50% increase in new-to-brand customers. For fall, the DKNY campaign featured the [ph] worrisome, relatable or influencers (00:13:05) with exciting product stories delivering our strongest social audience growth. This spring, the campaign is designed to reinforce consumers' desire for self-expression of value in transit to the DKNY brand ethos.

[indiscernible] (00:13:27) Karl Lagerfeld Paris, highlighted the new Après Ski Collection and delivered exceptional results. We saw significant engagement with both repeat and new customers who are discovering the brand. This coming fall, the Karl Lagerfeld brands' collaboration with Cara Delevingne is expected to create significant global awareness. The collection launches here in New York City during [audio gap] (00:13:54) Fashion Week in September.

Trends across metrics in our retail operations including traffic, conversion and dollars per transaction, continue to improve despite the lack of tourism. We added 9 new Karl Lagerfeld Paris stores, all of which are off to a really good start, and ended the year with an aggregate of 60 DKNY and Karl Lagerfeld Paris stores. The team is driving omni-channel growth by leveraging our retail store base to service digital sales as well as the in-store virtual selling programs that continued to gain momentum. This coming year we expect to add approximately 10 new stores.

The losses from our retail operations significantly decreased this past year and we believe we can expand our omni-channel footprint, and further leverage our expense base. Our international business for DKNY and Vilebrequin exceeded pre-pandemic levels for the quarter. For DKNY, a European business, although small, grew through retail, wholesale partner expansion and pure-play sites. In China which is even less penetrated, sales grew significantly, driven by digital sales.

The Middle East has had significant expansion, where our partners already operate 44 freestanding DKNY stores and plan to open seven additional stores in the coming year. Our distributors operate 240 free standing stores and concessions globally for the DKNY brand. Vilebrequin, our luxury swimwear brand, saw a good momentum across the business with strong sales increases across channels which exceeded pre-pandemic levels.

We opened additional stores in warm vacation destinations like Florida, where we now have seven stores which have quickly become some of the best performing stores in the fleet. As we think about our future, we see significant opportunities outside the North America. We're excited to continue to expand DKNY and Vilebrequin and relaunch our recently acquired Sonia Rykiel brand. This is the beginning of creating a new platform for growth.

Licensing continues to enable our brands to grow awareness and their consumer base by expanding into additional lifestyle categories and international markets. Our dedicated team has created a solid licensing royalty income base in a capital-light way that is highly accretive. We have best-in-class partners supporting these opportunities in categories like fragrance, home, kids, optical, as well as jewelry and watches. The strength and awareness of our brands has enabled us to create a strong and growing licensing business unit.

In conclusion, this past fiscal year 2022, we continue to build upon our strong foundation and delivered our best earnings ever. Before moving to our guidance, let me address the ongoing conflict between Russia and Ukraine [ph] although this is (00:17:30) watched in dismay the events unfolding abroad. Our hearts go out to the people of

Ukraine. We immediately put together a support package to the Ukraine humanitarian crisis, with financial contributions and [ph] code (00:17:45) donations. From the business perspective, we have no directly operated stores in either Russia or Ukraine, and have halted all shipments to the regions.

Looking ahead to the upcoming fiscal year, we've carefully considered the many factors that the company is facing in the world. We remain optimistic about the momentum of our business and the many opportunities for growth. As consumers continue to return to a more normal way of living, reentering the office, traveling and attending social functions, G-III is well-positioned to capitalize on this shift. We anticipate full fiscal year 2023 net sales to be approximately $3 billion, with net income per diluted share in the range of $4.20 and $4.30 per diluted share.

I'll now pass the call to Neal for a more detailed financial discussion of our fourth quarter results, as well as our guidance for our first quarter and full fiscal year 2023.

Neal S. Nackman

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

Thank you, Morris. Net sales for the fourth quarter ended January 31, 2022, increased approximately 42% to $748 million from $526 million in the same period last year. Net sales of our wholesale operations segment increased approximately 47% to $719 million from $488 million last year, and was up 13% of pre-pandemic levels of $635 million in fiscal year 2020. Net sales of our retail operations segment were $45 million for the fourth quarter and relatively flat compared to last year's net sales of $44 million. Last year was impacted by the pandemic and the restructuring of our retail segment.

Sales at our DKNY and Karl Lagerfeld Paris businesses were both up over 50% compared to the prior year, which were impacted by the pandemic. Our gross margin percentage was 33.7% in the fourth quarter of fiscal 2022 compared to 35.6% in the previous year's fourth quarter. Last year's gross margins included benefits from COVID-related adjustments. Our gross margins were 33.3% two years ago. The current year's increase compared to two years ago benefited from the reduction in a promotional environment which was partially offset by the significant increases in freight costs we incurred in the quarter.

Wholesale operations segment gross margin percentage was 31.9% compared to 35.5% in fiscal 2021 comparable quarter and 30% two years ago. Wholesale gross margin percentages in this year benefited from clean inventories at retail, resulting in less promotional activity combined with selective price increases. These improvements were partially offset by the significant increase in freight costs which we had anticipated would have more of an impact on gross margins in the second half of last year.

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Last year's gross margins included substantial one-time benefits from reversals of previously accrued higher royalties, resulting from favorable negotiations with our licensors. The gross margin percentage in our retail operations segment was 51.3% compared to 32.2% in the prior year's quarter; and 45.9% two years ago. Last year's percentage was negatively impacted by the restructuring of our retail operations segment which resulted in a liquidation of inventory in connection with closing stores.

SG&A expenses were $177 million in this quarter compared to $151 million in last year's fourth quarter and $187 million pre-COVID in fiscal year 2020. The current quarter's SG&A as a percentage of sales was 23.7% compared to 24.8% pre-COVID. This year's SG&A rate benefited from the restructuring of our retail operations last year. Net income for the fourth quarter was $48 million or $0.98 per diluted share compared to $15 million or $0.30 per diluted share in last year's fourth quarter, and included direct losses from Wilsons and Bass store operations of $9 million or $0.17 per share. Net income for the fourth quarter two years ago was $25 million of $0.52 per share, and included direct losses from Wilsons and Bass store operations of $16 million or $0.33 per share.

Now, let us review results for full fiscal year ended January 31, 2022, in which we delivered the company's highest earnings ever. Net sales for the full fiscal year were $2.77 billion, up from $2.06 billion in the same period last year; and $3.16 billion two years ago. Net sales of our wholesale operations segment increased to $2.7 billion or 41% from $1.9 billion last year and were almost back to pre-pandemic levels of $2.9 billion.

Net sales of our retail operations segment for the year were $180 million, lower than last year's net sales of $170 million which included $92 million of sales from Wilsons Leather and Bass stores which were closed by the end of the year. Full fiscal year 2022 gross margin percentage was 35.7% compared to 36.2% in the prior year and 35.4% two years ago. This increase in gross margin percentage compared to two years ago, was primarily driven by the gross margin percentage in our wholesale operations segment which was 34.2% this year, 35.9% last year, and 32.7% two years ago.

Last year's wholesale gross margin percentage was positively impacted by the pandemic-related items, including the reversal of previously anticipated markdown accruals, due to the reduced wholesale sales volumes. Compared to two years ago, gross margins benefited from a lower promotional environment combined with selective price increases, and was partially offset by the significant increases in freight costs.

The gross margin percentage in our retail operations segment was 50.9% compared to 33.6% in the prior year, which included the results from store liquidations for Wilsons Leather and G.H. Bass stores. This year's gross margins of greater than 50% are a good indication of ongoing retail operations with our globally recognized brands, DKNY and Karl Lagerfeld Paris, will provide higher margins in the retail segment.

SG&A expenses for the year were $648 million compared to $605 million last year and $832 million in pre-COVID fiscal year 2020. The full year's SG&A as a percentage of sales was 23.4% compared to 26.3% pre-COVID. This year's SG&A rate benefited from the restructuring of our retail operations last year. As for net income, we reported our strongest earnings in our company's history. Full-year net income was $201 million or $4.05 per diluted share compared to $24 million or $0.48 per diluted share last year; and $144 million or $2.94 per diluted share two years ago. Net income per diluted share included a four wall loss for the Wilsons and Bass store operations of $1.14 last year and $0.65 two years ago.

Looking at our balance sheet, we ended the quarter in a lower net debt position of $54 million compared to $160 million in the prior year. We have cash and availability under our credit agreement of over $1 billion. We believe that our liquidity and financial position provide us the flexibility to take advantage of acquisition opportunities and invest in our future growth. As Morris mentioned, also we repurchased $17.3 million or 656,000 shares of our own stock in the past quarter.

Additionally, our Board of Directors approved the share repurchase program up to 10 million shares. Accounts receivable were $606 million compared to $493 million at the end of the fourth quarter of the previous year. Inventory increased to $512 million from $417 million at the end of the fourth quarter of the previous year. As for our guidance, as Morris indicated, based on the strong demand for our product and our order book, we feel good about our business giving us the confidence in our outlook for the year. For the full fiscal year ending January 31, 2023, we expect net sales of approximately $3 billion compared to $2.77 billion this past year.

Adjusting for the closed Wilsons and Bass stores sales of $252 million in fiscal 2020, the current guidance exceeds pre-pandemic sales levels in fiscal 2020 by approximately 4%. We expect net income for the full fiscal year 2023 to be between $205 million and $215 million or between $4.20 and $4.30 per diluted share. This compares to net income of $201 million or $4.05 per diluted share this past year and $144 million or $2.94 per diluted share in pre-pandemic fiscal year 2020.

For the first quarter of fiscal year 2023, we expect net sales of approximately $600 million and net income in the range of $25 million and $30 million, or $0.50 and $0.60 per diluted share. This compares to net sales of $520 million and net income of $26 million or $0.53 per diluted share in last year's first quarter. Let me add some details for purposes of modeling. We expected full fiscal 2023 gross margins to be flat to slightly up to this past year's gross margins.

We expect our price increases to lift gross margins, which will be partially offset by higher freight costs that were more significant in the second half of this last year. So putting that together, we expect gross margins in the first two quarters of fiscal 2023 to be lower than fiscal 2022. Then as we anniversary the increases in freight in the back half of the year, we expect gross margins to be higher than in fiscal 2022.

As for SG&A, we expect to slightly delever based on inflationary pressures, increased head count and warehousing costs. We're estimating a tax rate of 27%. For your reference, disclosed in our press release issued this morning is the impact by quarter for the fiscal year 2021 and 2020 of the Wilsons and Bass store operations.

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. G-III had its best earnings here in the company's history. I couldn't be more proud or thankful for what our team has accomplished. We're more agile and flexible today than we've ever been. Anchored by our globally recognized power brands and our dominance in the diversified range of lifestyle categories, G-III remains a vendor of choice in our industry.

More broadly, as we look ahead, our strategic priorities to deliver continued long-term profitable growth will include: driving our power brands across categories, further expanding our portfolio through ownership of brands and their licensing opportunities, extending our reach by developing our European-based brand portfolio, maximizing our omni-channel opportunities and leveraging data, and continuing to innovate to stay relevant for our customers.

We're confident in our ability to deliver on these priorities because of the strong foundation we've created, which include our high-performing, forward-thinking team, and experienced senior leadership, merchant expertise in product development, dominance across a broad range of product categories, our specifically developed and agile sourcing and supply chain infrastructure, a diversified distribution network to reach consumers.

Our ability to unlock the potential of brands has enabled G-III to become a leader in fashion. We're financially strong and can use our balance sheet, talent, expertise and capabilities to further expand our global reach and capitalize on opportunities. We're well positioned to gain market share over time and increase shareholder value. I'd like to thank our entire G-III organization and all of 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 will come from [indiscernible] (00:32:05) with Barclays. Please go ahead.

Q

Hi, everybody. Thanks for taking my question. On the price increases, can you talk about what's already been implemented? And can you quantify what you are expecting this year in the cadence of those price increases? And then, are they on all brands and categories? Any more color on that. Thanks.

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

A

Yeah. Paul, thank you. We selectively increased prices last year. And what occurred was, last year's freight increases really escalated as the year rolled out. So this year, we've got much clearer vision of what those are going to be. We've got a good feel for our input costs which have also had some increases. And we'll be raising prices essentially across all categories; and for the most part, across many, many products showing that every product can take it. So we're somewhat judicious as far as where we lift price, but we expect that will happen for all of the programs throughout this year.

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

A

[ph] Paul, (00:33:08) as an enhancement to – I'm sorry. This is Morris. As an enhancement to our margins, as we grow our company own brands, we don't pay a royalty for the use of those brands. And as they grow as a percentage of our overall volume, you'll see an improvement in margin that comes with it. DKNY is a good example of it, Karl Lagerfeld, and G.H. Bass as well as the growing brand that we've had for years, Marc New York. So, those brands are – they're margin accretive compared to where we've been in the past.

Q

Okay. Thank you. And then, just secondly, can you talk about the marketing investments that you're making? Are you making any shifts in where you're spending and how you're spending that money, and what are you doing differently today than you have in the past? And what kind of returns are you seeing so far from those marketing campaigns? Thanks.

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

A

The bulk of our marketing campaigns are targeted towards digital and social media, where we're deriving great benefit. It's showing up in a traffic on our own sites as well as our customer sites, [ph] our retailers (00:34:36) such as Macy's, Dillard's, Nordstrom's as well as pure-play Amazon. We're spending a fair amount of money collaborating and marketing on the Amazon site and Macy's, as well as driving traffic to our own campaigns that we're doing very frequently.

And we have a fairly aggressive plan on – now that we've got a strong foundation on Karl Lagerfeld, there'll be a good spend on Lagerfeld though, which gets every day marketing through the recognition of Karl, this iconic man that had a skillset that is, was, and will always be unique to the world. He is the preeminent icon in fashion. So, there's not a day that there is not editorial free press that relates to Karl, and it's a global. It's a global brand that gets global recognition every day. And we're spending a fair amount of money as we're positioning Bass in the lane that we've chosen and the market – the market is accepted as well as DKNY.

So, there is a little bit of a distortion on our spend. When we license brands such as Calvin Klein and Tommy Hilfiger, the marketing spend is included in our royalty base. And now that – and they do a wonderful job, I might add, of marketing. They've made it possible for us to grow both brands in very rapid time in categories that never existed before. So we respect their marketing piece, but that's not really included in our own spend which is focused on our company owned brand.

Q

Thank you. Best of luck.

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

A

Thank you.

Operator: Thank you. Our next question will come from Jay Sole with UBS. Please go ahead.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. I have sort of a three-part question. The first part is that, maybe can we just talk about some of the building blocks for the plan for 2023. Give us a little bit more detail around that? And then secondly, within that, can you maybe talk about your guidance. How much does it assume inventory restocking versus incremental strong demand, driving the sales growth that you expect?

And then lastly, can you just give us a little bit of an update on China, given the lockdowns that are there because COVID cases have popped up. What have you seen so far? Do you anticipate any kind of disruption? How should we think about your factories in China, given COVID over there? Thank you.

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

A

Thanks for your question, Jay. The building blocks for our growth in 2023 are fundamentally the same, and further expanding and penetrating the brands that we operate in, categories that we operate. The projections, the inventory, all of it kind of speaks. I guess, the answer to the question probably relates into our order book. Our order book is larger than ever. We do carry inventories to support growth and fulfill reorders, and generally where that retailer that can respond quickly either through supply chain performance or residual inventory that we carry to support the customers that we have.

So, it's not a guess; it's factual. Our order book is – I hesitate to give you the percentage of growth, because what we've got in there is supply chain issue that relates to your third question. We're pretty certain that we're well covered in the guidance that we've given. And we factor in non-deliveries, so we factor in cancellations, and we don't factor in a new event as tsunami occurs or volcano or a war on another front, but everything that's logical is factored in. So, we're comfortable that our guidance is appropriate.

And your question...

Jay Sole
Analyst, UBS Securities LLC

Q

Maybe on just restocking versus incremental demand.

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

A

Restocking is basically what I addressed on the order book. We do provide inventory for restocking, that's what we do. We plan it through just an amazing team of planners to – not to be overstocked. There is demand for our product that comes into play later in the season that's not committed for, and we take advantage of that at full price. So, we're really good at projecting out that this is history as far as G-III is concerned. We've done it for over 50 years planning appropriately for the needs of the consumer in later months.

As far as supply chain in China, that's a little bit of an unknown. There is a COVID issue. There are factory closures. There are difficulties in transporting product to the peers to load on to containers. Hopefully, it's not going to last long. If it does, I would say that we have a problem as the world does. We're not solely China as we were about four years ago. China comes in second to Vietnam today, and we're pretty much globally sourced. It's not – by all means, it's not just China. And we're hedging our bet on third and fourth quarter opportunities that become available on production.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. And maybe, Morris, if I can ask you one more. Just a little bit about margins and your expectations for margins this year. Obviously, last year was an unusual year for supply chain cost. I mean, do you expect a reduction at part of the P&L this year, or do you think it's going to remain elevated or you can go higher year-over-year and put more pressure on margins? Thank you.

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

A

[ph] Costs are (00:42:22) certainly going up. Anything that you touch has got an element of an increase in it, whether it's selling charge, raw material charge, freight charges, gasoline surcharges for inland freight; all of that is likely to continue to rise. Container costs are not going to be $30,000 a container; they've leveled off. We've contracted with our providers at a very fair rate that doesn't move us around very much and increase our prices.

But yes, there are increases, we've tested price points throughout calendar 2021. They've worked. There is an acceptance by the consumer to our fashion, to our brands. And we are a fashion business. We're not gasoline; we're not a dozen eggs; and we're not a loaf of bread. Fashion has got elements that you get paid for. In a form, it's an art. And if your art is in demand and woman wants in her closet, she'll pay a little bit more for it.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. Okay. Thank you so much.

Operator: Thank you. [Operator Instructions] Our next question will come from Susan Anderson with B. Riley. Please go ahead.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Hi. Nice job on the quarter. I was wondering if maybe you could talk about the retail business, now the DKNY and Karl stores. I guess, how are those trending versus pre-pandemic levels? And then, if you could talk about the profitability of those stores and when you expect to get to breakeven or profits? Thanks.

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

A

Thank you, Susan. Thanks for your question. DKNY, we've rightsized the fleet, we've closed several non-performing stores. Our product is significantly better than it was pre-pandemic. It's a broader assortment. It's a much more educated assortment. As we get acclimated to the brands and – today, we're pretty much close to full maturity. We have our brand codes, we have our brand message, and the consumer is respecting it. We see a big difference at wholesale. Our retail is doing significantly better. And our digital site is doing better.

It's very difficult to do business in brick-and-mortar when your stores are closed. We have an aggressive retail team that has begun to do – not begun, throughout the year they did, virtual sales that helped enhance our business and our profits. But when you're faced with European, your best stores which for us are European outlet stores, when they're closed, they're closed. There's nobody at the register. There is – as great as the product is, as competitive as it is, and in high demand if there's no traffic permitted in those centers, you're not doing business.

So, we were faced with a good deal of that within DKNY. Karl Lagerfeld, a little bit different. We're not in Europe in our piece of that business. We're North American based, North American licensed and partnered, and that helped us a little bit. The marketing that's done globally as I described before to Jay, is really helping us. We have virtual sales that are done at store level that are just amazing. The dollars per square foot that have been generated in Karl Lagerfeld are significantly better than they were before and better than DKNY.

There's no price resistance to Karl at all. We do castle groups that – believe it or not, in our outlet stores, we do castle groups that are higher retails than our department store product. So, we take advantage of the brand relevance, the brand demand and we're more aggressive on opening Karl Lagerfeld stores today than we are at DKNY.

Susan Anderson
Analyst, B. Riley FBR, Inc.

Q

Great.

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

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So, we believe at fiscal 2024, we will be profitable. This year, the plan is to significantly reduce our losses, and 2024 the goal is to be profitable.

With that operator, thank you very much.

Operator: Thank you. Okay. Speakers, I'm showing no further questions at this time.

Morris Goldfarb

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

Okay. Thank you, all. Have a great St. Patrick's Day and thanks for listening to our story.

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