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G-III Apparel Group Ltd. (GIII)

Q2 2022 Earnings Call

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Jay Sole
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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to G-III Apparel Group's Second Quarter Fiscal 2022 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]

I would now like to turn the call over to your host, Neal Nackman, CFO. You may begin.

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.

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 are Sammy Aaron, our Vice Chairman and President; Neal Nackman, our Chief Financial Officer; Jeff Goldfarb, Executive Vice President; Wayne Miller, Senior Strategic Advisor; and Priya Trivedi, Senior Vice President of Investor Relations.

For our second quarter of fiscal 2022, we delivered outstanding results with our top and bottom lines exceeding our guidance. Our earnings recovery is well ahead of our initial expectations, and our world-class teams are doing an incredible job navigating through the challenges that come our way. This past quarter, we saw continued strength in casual categories. Casual dressing has become ingrained in our way of life, and consumers are now looking for a well-rounded wardrobe, ranging from lounge at home to a more sophisticated relaxed look.

Additionally, these categories offer growth opportunities including expansion into the outdoor and sports market. We were also pleased to see an increased penetration of sales in our broader lifestyle categories, including dresses, more polished sportswear, and wear-to-work clothing with momentum still building. Strength in our shoes and handbag categories also continues. G-III is well-positioned with our diversified product categories that range across our globally recognized power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger, and Karl Lagerfeld Paris, to meet the increasing demand for our products.

Our order book is in a strong position and approaching our pre-pandemic levels. This is a clear indication that G-III continues to gain market share. Although the emergence of the Delta variant has resulted in some new uncertainties, we feel very good about our overall business. Putting it altogether, we have the confidence to raise our full-year fiscal 2022 top and bottom line guidance. Neal will provide you with the details shortly.

Now let's review the second quarter fiscal 2022 results. Net sales for the second quarter were $483 million, an increase of 63% compared to last year's second quarter net sales of $297 million and above our guidance. The increase in our second quarter net sales was driven by our wholesale segment, where net sales for the quarter were $467 million, up 75%, compared to $267 million in last year's second quarter. Second quarter net income was $0.39 per diluted share, compared to a net loss of $0.31 per share in the second quarter last year, and net income of $0.23 per diluted share in the second quarter two years ago. This year's second quarter net income per share was more than double the high end of our guidance range.

As we communicated during our last earnings call, freight challenges had emerged across all industries. We have a well-developed supply chain infrastructure, which is a core competency of ours and a competitive advantage. Further, the strength of our global power brands allows us to selectively raise prices to offset higher costs. We see this in our results, where despite higher transportation costs, strategic price increases combined with decreased promotional activity have enabled us to increase gross margins. Our second quarter gross margin percentage improved by almost 400 basis points as compared to our pre-pandemic level two years ago.

Now let's take you through some of our category highlights. With regards to athleisure and sportswear, our merchants are designing and expanding our collections to capitalize on the consumers' increasing demand for a well-rounded casual wardrobe, whether it's to stay at home, work out, spend time outdoors, participate in sports, or socialize or wear to work. Looking ahead for the second half of the year, we're incorporating wider functionality in fabrics and fits to cater to these broader lifestyles.

We're adding collections focused on specific sports activities and high-performance fitness, with new classifications such as fitness tech tees and shorts. We're also increasing the assortments of woven bottoms for more polished casual outfits. The jeans category remains a bright spot. In only two years, jeans has evolved into a key growth category for us. We offer a robust line built around dressing in a jean. Our collections across our brands standout on the denim floor, as they are skewed towards tops such as fashion and novelty tees, woven tops, layering pieces including sweatshirts, fleece and lifejackets and even some casual dresses.

This offers customers a great range of options to wear with their jeans. As for the jeans themselves, we're expanding our curated selection to include the most updated trends in fits and in washes in a wide range of sizes.

We cannot be happier with the way we've built these businesses, which are positioned to capitalize on the resurgence in denim. Outerwear is an important category, and our outerwear offerings are well aligned with the shift in the market toward an outdoor active lifestyle.

Outerwear is a good example of the category where we've been able to raise our prices. With clean inventories across channels, this is shaping up to be a good outerwear season. This past quarter we saw the trend for dresses and career wear significantly accelerate and this demand remains strong. Dresses, including social and occasion dresses, recovered incredibly well as events were scheduled and the consumers looked to refresh their wardrobe to wear to this special occasion. As consumers have been returning to work, we've seen solid demand for career wear such as dresses, structured pants and blazers.

Looking ahead, our merchants anticipated this demand and developed new collections for the fall and holiday seasons. Handbags for DKNY, Calvin Klein and Karl Lagerfeld Paris and footwear for DKNY and Karl Lagerfeld Paris, are additional growth categories at G-III. With each passing season, we're improving the line architecture, scaling our capabilities, adding retail space and gaining market share. This was another strong quarter for these accessory categories with less promotional activity and higher AURs.

For our own brand, DKNY, we remain on track to almost double the footwear distribution by the end of next year to over 300 department stores here in the US. Internationally, DKNY has approximately 850 doors for each of the handbag and footwear categories. We see tremendous opportunity to grow the footwear and handbag business. As for Karl Lagerfeld, after the completion of a very successful first season launch of its sportswear line at 75 Macy's doors, we're on track to triple the distribution of our sportswear line to 250 doors by the end of the year and launch a new dress line in 75 doors this coming spring.

The Karl Lagerfeld Paris footwear and handbag businesses will soon be in over 100 doors by this fall and is expected to grow to 170 doors by spring of 2022. Altogether, the brand is currently distributed in over 400 doors here in North America. At its peak only two years ago, Karl Lagerfeld Paris generated wholesale net sales of $110 million, had limited distribution and Lord & Taylor was one of its largest retailers. In spite of the closing of all the Lord & Taylor doors during the pandemic last year, we're pleased with how well we've expanded the brand. This year we expect the brand to generate net sales in excess of its previous peak levels.

The quick turnaround is truly a testament to the value of G-III's business model. Digital sales of our products continue to accelerate. On our retail partner sites and on our own sites, sales of our product increased over 70% from two years ago. In China, digital sales are now more productive than store sales. Vilebrequin's digital sites were also up almost 70% to two years ago. We're keenly focused on capturing and accelerating digital growth to become a best-in-class omni-channel organization.

With new digital management in place, we're focused on the following priorities. As indicated in last quarter's call, this fall we're launching our upgraded and replatformed websites for DKNY and Karl Lagerfeld Paris, with improved technical operations designed to allow seamless navigation of these sites. The sites will offer immersive brand content, intended to engage consumers and facilitate conversion. The sites will also enable us to leverage sales tools like virtual selling which are starting to become a meaningful contributor to physical store sales.

Technological and operational capabilities. We're investing in data analytics capabilities to better understand our consumers across channels to engage more meaningfully with them and deliver relevant shopping experiences. Our current retail partners are making significant investments to improve their own e-commerce sites and we're collaborating with them to better leverage their enhanced platforms. We're also building out our global retail presence on pure-play retailer sites. On our own sites, with the implementation of our new CRM tool and loyalty programs, we're gaining valuable customer insights.

We're also partnering with GEODIS, a logistics provider, to enhance our direct-to-consumer capabilities. In marketing, we continue to invest in various digital marketing programs to drive traffic engagement and sales. Accordingly, this year we're increasing our digital marketing spend by over 30% compared to last year. Further using these additional data insights, we're improving our return on these investments. Our DKNY brand is about to launch its fall brand campaign that'll bring to life an inclusive cast of authentic individuals that celebrate self-expression and being true to oneself. The campaign has been developed with extended social content and a digital first approach to promote our direct-to-consumer strategy, with a redesigned DKNY site planned to come later this fall.

We will also step up our digital marketing and media efforts for the Karl Lagerfeld Paris brand this fall to reach a broader audience across distribution channels. We're focused on expanding our international business. In China, DKNY had a strong quarter with sales more than doubling as compared to two years ago. As I mentioned earlier, the penetration of digital sales is now higher than store sales. The DKNY European business was originally more skewed toward accessories and we've expanded the business to include DKNY lifestyle categories. This past quarter, our DKNY business in Europe was up approximately 20% compared to two years ago and it's exciting to see acceleration in apparel categories.

Vilebrequin also had a good quarter with its limited edition, 50th anniversary collection doing well. The unique thing about this brand is that it can operate efficiently in a relatively small store footprint. We're actively looking to expand the portfolio stores for this status swimwear brand, which offers us another growth opportunity. The brand also has an impressive lineup of collaborations planned this year. In addition to our previously announced collaborations, we're also launching a limited edition capsule collection, Space Jam X Vilebrequin in connection with the release of the Space Jam 2 movie.

We're just beginning to tap our international opportunities. We have talented and experienced management teams, great partners, and a strong financial position to help us achieve this growth. Trends in our retail business are improving. Although traffic has remained challenged than below two years ago, we continue to experience strong shopper conversion, higher AURs, and dollars per transaction, as well as margin expansion.

We were pleased to see positive comparable store sales at Karl Lagerfeld Paris as compared to two years ago, a strong signal that this brand is gaining traction with consumers. DKNY comparable sales trends as compared to two years ago are also improving, although were still impacted by the European and Canadian stores that were shut down for parts of the quarter. For the second half of the year, we're taking advantage of opportunities presented to us as a result of the current retail environment by adding 12 new stores in prime locations with advantageous economics: 10 for Karl Lagerfeld Paris and 2 for DKNY. We expect to end the year with 38 DKNY and 23 Karl Lagerfeld Paris stores.

As we thoughtfully expand the omni-channel footprint of our brands to meet consumers in a shopping channel of their choice, we expect to be able to further leverage our expense base. Throughout the pandemic, we've demonstrated our agility, as we navigated through challenges and remain focused on delivering positive results. We're encouraged by the strong consumer demand we're seeing, which puts us and our industry on a solid path to recovery. This is further reflected in our strong order book.

While uncertainties remain, based on our confidence in the strength of our business, we are raising our guidance for the full 2022 fiscal year. We expect full fiscal year net sales to be approximately $2.7 billion, adjusting for the retail closures, net sales, and net income per diluted share are approaching our pre-pandemic levels of two years ago.

I'll now pass the call to Neal for a discussion of our second quarter financial results, as well as the guidance for our third and full fiscal year 2022.

Neal S. Nackman

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

Thank you, Morris. Net sales for the second quarter ended July 31, 2021 increased approximately 63% to $483 million from $297 million in the same period last year and were above our guidance of $460 million. Net sales of our wholesale operations segment increased approximately 75% to $467 million from $267 million last year.

Net sales of our retail operations segment were $27 million for the second quarter, lower than the previous year's net sales of $35 million. This decrease is a result of the restructuring of our retail segment in which we closed the Wilsons Leather and G.H. Bass store operations last year. Sales at our DKNY and Karl Lagerfeld businesses were up significantly compared to the prior year, which was impacted by the pandemic.

Our gross margin percentage was 39.9% in the second quarter of fiscal 2022, compared to 45.3% in last year's second quarter. Last year's gross margins included benefits from COVID-related adjustments. I will discuss those momentarily. This quarter's gross margin is up compared to the gross margin percentage of 36% in the second quarter two years ago. Wholesale operations segment gross margin percentage was 38.3%, compared to 46.3% in last year's comparable quarter, and 32.8% in the comparable quarter two years ago.

Wholesale gross margin percentages in this year benefited from clean inventories at retail, resulting in less promotional activity combined with price increases. This improved gross margin has been achieved despite increasing freight costs, which we experienced throughout the quarter. We anticipate increasing freight costs for the remainder of the year, which will have more of an impact on gross margins in the second half of the year.

Last year's gross margins included significant one-time benefits from the reversal of previously anticipated markdown accruals that were no longer necessary due to the reduction in sales to our retail customers, as well as the reversal of a portion of previously approved royalty expense associated with royalty relief that was provided by licensors.

The gross margin percentage in our retail operations segment was 51.9%, compared to 32.5% in the previous year's quarter and 46.5% two years ago. Last year's percentage was negatively impacted by the reduction of our net sales caused by COVID-19-related closures of our retail stores and the restructuring of our retail operations segment which resulted in a liquidation of inventory in connection with closing stores. The increase compared to two years ago is attributable to better merchandising and a less promotional environment for our DKNY and Karl Lagerfeld businesses.

SG&A expenses were $147 million in this quarter compared to $122 million in last year's second quarter and $196 million in the comparable quarter two years ago. The increase in expenses compared to last year was primarily due to an increase in compensation expense related to bonus accruals and salaries. Due to the pandemic, the prior year's period had no bonus accruals and salary expense declined as a result of employee furloughs and salary reductions.

Net income for the second quarter was $19 million or $0.39 per diluted share compared to a net loss of $15 million or $0.31 per share in the last year's second quarter, and included direct losses from Wilsons and Bass store operations of $26 million or $0.53 per share. Net income for the second quarter two years ago was $11 million or $0.23 per share and included direct losses from Wilsons and Bass store operations of $6 million or $0.13 per share.

Looking at our balance sheet, accounts receivable were $385 million compared to $277 million at the end of the second quarter of the previous year. Inventory decreased to $499 million from $575 million at the end of the second quarter of the previous year. We ended the quarter in an improved net debt position of $8 million compared to $156 million as of the second quarter of the prior year. We had cash and availability under our credit agreement of over $900 million. We believe that our liquidity and financial position leave us well-positioned to fund our domestic and international growth and take advantage of potential acquisition opportunities.

As for our guidance, as Morris indicated, we feel good about our business, giving us confidence to raise our previously provided guidance. Our guidance does include the impact from the current supply chain conditions and delays in receipts. However, our guidance does not contemplate any pandemic-related impacts that we are not already aware of. We have not anticipated new store closures or the impact of tighter government restrictions that could arise.

For the full fiscal year ending January 31, 2022, we now expect net sales of approximately $2.7 billion compared to $2.06 billion last year. Adjusting for the closed Wilsons Leather and G.H. Bass store sales of $252 million two years ago, the current guidance leaves us approximately 7% below our pre-pandemic sales level. Net income for this upcoming full fiscal year is expected to be between $155 million and $165 million or between $3.10 and $3.20 per diluted share. This compares to net income of $24 million or $0.48 per diluted share in fiscal year 2021 and $144 million or $2.94 per diluted share in fiscal year 2020.

For the third quarter of the current 2022 fiscal year, we expect net sales of approximately $1 billion and net income between $80 million and $90 million or $1.65 and $1.75 per diluted share. This compares to net sales of $827 million and net income of $63 million or $1.29 per diluted share in the previous year's third quarter. For your reference, disclosed in our press release issued this morning, is the impact by quarter for the last two fiscal years of the Wilsons Leather and G.H. 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 has a long history of successfully managing through challenging times. The strength of our business is built on the four fundamental pillars. The first is our portfolio of brands led by our globally recognized power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld Paris. The second is our expertise and dominance in the diversified range of lifestyle categories. The third is our well-established and diversified group of retail partners, for many of whom we are a key vendor. And finally and most importantly, our world-class team that has significant experience and expertise in all phases of our business.

I've never been more confident than I am today in the ability of our teams to navigate successfully through this pandemic and beyond. These pillars provide us with significant organic growth ahead. As I noted on our last call, we see the annual net wholesale potential for our five power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger, and Karl Lagerfeld alone at $4 billion. We're in a strong financial position which we believe will fund our growth domestically and internationally, and position us to take advantage of opportunities that may arise.

On behalf of the entire G-III organization, I'd like to thank all of our stakeholders for their continued support. Operator, we're now ready to take some questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Ed Yruma with KeyBanc.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, guys, and congrats on seeing the improvements in the business. I guess, just a couple quick ones from me. I think first on markdown reserves. Obviously, I think both the function of your products selling through well and the industry inventory being tight, I'm sure that's favorable for you. How should we think about that in kind of the short- to medium-term? Will this favorability continue? And then kind of zooming out a little bit more, you mentioned both denim and athleisure, how should we think about the growth opportunities in both of those businesses? Thank you.

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

A

Thank you, Ed. I'm going to let Neal answer the markdown reserves, and I'll respond to the denim question.

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

A

Yeah. So Ed, look, it's been a very positive environment for us. We definitely expect that to continue in the near term and probably in the midterm as well. The demand is out there is incredibly strong and we do expect that to continue and that bodes very well for our markdown position.

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

A

As it relates to denim and performance, we've been in the performance business for a while, primarily with Calvin Klein. We started that business I would say about 12 years ago or maybe 11 or 12 years ago. As Lululemon emerged, we grasped it. It was an opportunity that we went to PVH with. And PVH was happy to give us the categories and we got to work building it. And today, it's one of the larger athleisure performance businesses in our industry.

Coupled with the power brands as we've described, pretty much every one of them has the opportunity to share space. And as it expands with Calvin Klein, we've built a pretty well developed Tommy Hilfiger business in record time in athleisure. We then went to DKNY which is in the early stages of development, yet it hit a significant goal in sales this year. And then, we're pursuing opportunities with Karl Lagerfeld as well in athleisure type product. So, there's lot of room to grow. The brands are incredibly important. we've proved that out; and where they hang in categories, it generally dominates.

So, we've gotten real estate expansion, we've got opportunities that these brands fit side-by-side in the retail venues and we merchandise assortments that are definitely different. Each brands has a specific DNA, so they don't tend to look as if they homogenize. There are dedicated designers and sales people that develop all of these.

Denim is no different. Denim came late to the party. After the acquisition of the denim business from Warnaco by PVH, there was an effort to build that brand in-house by PVH. It took several years for them to recognize that may be the women's side of it was better suited for us. We took it on and in record time, again, picking this on just pre-pandemic we've developed one of the larger denim businesses as I described uniquely merchandised.

And again, taking the learnings out of CK we applied them to Tommy Hilfiger and currently to DKNY. So, there's plenty of room to grow all the brands in the denim business and we're going through denim cycle as we speak. So we're very aggressive, very confident that there'll be a significant growth to come.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks so much, guys.

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

A

Thanks, Ed.

Operator: Our next question comes from Erinn Murphy with Piper Sandler.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. Thanks. Good morning, and nice to see the improvement. My first question is just on the Delta variant. Is it impacting consumer demand currently? And if so, kind of what regional differences are you seeing in the business today?

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

A

We don't believe it's impacting consumer demand. We believe that the consumer is finding the safer, more comfortable methods of shopping, whether it's digital, in-store, whether it's pick up at door, whether it's virtual. So, demand is certainly there. The traffic within brick-and-mortar is down, is clearly down, and the consumer is cautious in most cases. And we believe that this, too, shall end and the world will come back, brick-and-mortar will improve, the tourists will come back. So, there is great opportunity when this all calms down.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Got it. Thank you. And then second question is just on the order book, Morris, I think you said it was nearing pre-pandemic levels. Just to clarify, is that for fall/winter and then any early insights on how spring/summer is trending? Just particularly curious how retailers are ordering as you think about lapping stimulus into some of the earlier benefits that we saw here in 2021. Thanks so much.

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

A

Thanks, Erinn. The order book includes fall holiday, as well as spring bookings. It does not include summer. And the order book is quite strong, much better than we had imagined. And as Neal said, we've kind of discounted the order book to accommodate potential problems through supply chains. So, we're even conservative at looking at our order book.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Okay. And sorry, if I could just sneak in one more on the supply chain, can you just remind us, what percent of your product is made in Southern Vietnam, and what type of workarounds are you doing right now with just some of the countries in Southeast Asia that are still seeing either factory shutdowns or rolling challenges with labor? Thank you.

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

A

In all of Vietnam, we're about 32% of our production. In Southern Vietnam, we're about 10% of our production. And when we see that – or we hear that Vietnam is on a total shutdown, there are many factories that are opening in self-contained units where the people are in dormitories. They don't get to leave, they get to produce. So it's not – there is no total shutdown. It is an encumbrance, it is a problem. But again, as we speak to the pandemic, it'll also get resolved.

There is talk of timing being – maybe I just heard this morning, September 6, I guess, which is next week, early next week, there'll be added information as to when Vietnam will open, and it feels like it'll open soon.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Thank you so much.

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

A

Thank you, Erinn.

Operator: Our next question comes from Susan Anderson with B. Riley.

Susan Anderson
Analyst, B. Riley Securities, Inc.

Q

Good morning. Nice job on the quarter, it's good to see the improvement there. I was wondering if you could talk about the order book. I think you mentioned it was approaching pre-pandemic levels. Is that for the back half or the spring? And then also, I'm just curious by the three biggest brands: CK, Tommy, and DKNY, if those are all approaching pre-pandemic levels. And then also just the composition, is it getting back towards more dressy? Are you still seeing more demand for casual? Thanks.

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

A

So Susan, the order book, as I said, does include the fall holiday as well as spring. And the three power brands that you cited, DKNY, Calvin Klein and Tommy Hilfiger, are pretty much all aligned. The smaller brands, the ones that hadn't matured, as well as CK, have greater growth percentage than the CK piece, but they're all in great shape. There is not one brand that's problem for us.

Susan Anderson

Analyst, B. Riley Securities, Inc.

Q

Great. And just the mix of casual to dressy, are you seeing that shift at all in terms of what retailers are wanting?

Morris Goldfarb

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

A

There is an evolution. Clearly, the casual piece of the business was the driver during the pandemic. And the growth right now, the piece that we were not well enough prepared for, the dress business, the shoe business, that's come on very strong. So there is a chase to accommodate the demand for the dressier category, and as much as we stayed current, we designed and we produced.

And being a prudent supplier, we couldn't – when there was no dress business, we couldn't be incredibly aggressive on it. We're as aggressive as a prudent manufacture could be. So, we're now challenged with providing and servicing the demand that there is out there and we think we can accomplish it.

Susan Anderson

Analyst, B. Riley Securities, Inc.

Q

Great. And then just really quick on Karl, it sounds like there is significant door expansion this fall and spring. I guess, how are you thinking about that brand and the revenue potential longer term? And is that basically just kind of replacing what you used to have at Lord & Taylor or could it be bigger than that through Macy's? Thanks.

Morris Goldfarb

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

A

I think I cited a $0.5 billion brand for us on the wholesale side when we acquired a percentage of North America. We own roughly 50% of North America and we own 20-some-odd percent of the globe. And the strategy was – there were virtually no sales in North America. We brought it here with the intent of building it. The pandemic got in the way, Lord & Taylor got in the way. The Bay in Canada was closed for a good part of the year. The Bay was our second largest account.

So, we retooled and Macy's is putting it aggressively, Amazon is buying it. We have pure-play digital sales. Our own internal digital business is growing. So, this was really out there. The acquisition was made quite honestly to replace Jones New York, not anything else that we did. Jones New York was closing down. There was great retail space open on the department store floor, and we made deals with Dillard's, with Lord & Taylor, the Bay, and moved into some of the space that – this great space, this great real estate that was in place for years that was Jones and it took off nicely.

The interruption really was Lord & Taylor and the ability of producing smaller units became a little complicated, and Macy's is supporting cutting tickets that are significant and I see no reason that this brand doesn't bypass $0.5 billion in the next few years. We're on a great path.

Susan Anderson

Analyst, B. Riley Securities, Inc.

Q

Thanks for all the details. Good luck in the back half.

Morris Goldfarb

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

A

Thank you, Susan. Thanks for your question.

Susan Anderson
Analyst, B. Riley Securities, Inc.

Q

Thanks.

Operator: [Operator Instructions] Our last question comes from Jay Sole with UBS.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. I just want to ask about sell-through in terms of what do you see this year and if it strikes you as unusual just for the pent-up demand. I mean, I know you're not giving guidance for next year, but it only seems like with the guidance indicating that sales growth trends are going to improve sequentially as we go through the rest of the year versus 2Q 2019, it sort of suggests that this whole year hasn't just been about stimulus. But can you just give us your perspective on that issue like what you see there from consumer? I mean, is what we're seeing so unnatural that it's going to be hard lap next year. Anything you can provide would be really helpful?

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

A

Surely, receiving a check from the government makes you feel comfortable and going into a store and accelerating and maybe increasing your buy for apparel or some of the product that makes you feel good in difficult times. But we're seeing demand that far outreaches that. This is about fashion, this is about function. It's about utility, it's about lifestyle change.

We're hitting pretty much all ways of life and there will be some change. Certainly, will be companies that'll support work from home and that in itself will constitute a change in demand for certain classification. But it'll increase demand for other classifications, the casual piece, the canvas shoe piece. We pretty much hit all the silos of fashion – fashion and function. And we've become proficient and good at every sector.

So, it's not very concerning to us. We're an agile company. I'm not sure I care very much if there is a transition from a dress to a skirt or a transition from a fleece to a knit. That doesn't really concern me to any incredible degree. We source well. We're entrenched in pretty much anywhere there is apparel production. And we've changed our model no less than a dozen times.

If you date back to where this company started, we were merely a leather coat company that started in 1956. And through the 1990s, all we did were leather jackets. So, we've come a long way. We still do a little bit of leather jackets, but we've gone to where the customer has gone and we'll continue to do that.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. Thank you. And then maybe Neal, if I can follow up. If I can just ask you talk a little bit about your gross margin within the guidance for Q3 and Q4. How do you see the gross margin playing out, given there is pretty big upset in gross margin this quarter versus 2Q of 2019?

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

A

Yeah, Jay, we're thinking that we're going to have a little bit more pressure compared to LLY in the third quarter and that's really a function of freight cost increases. And while we're increasing prices, we're probably a little more hampered in doing that in the third quarter than we'll be able to do in the fourth quarter.

So I think as you're modeling out, you'd want to keep the third quarter tighter to where we were LLY. And when you get into the fourth quarter, specifically on the wholesale segment, we expect that come back to some very strong gross margin percentages more like what we've seen in the first half of the year.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. Okay. Thank you so much.

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

A

Thank you, Jay, and thank you all.

Operator: We did have one other person queue up for a question. Do you want to go and take that one?

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

A

Sure.

Operator: Right. It's from Erinn Murphy with Piper Sandler.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Hey. It's me again. Sorry, just two follow ups. It looks like there's some time. I guess, if we look deeper into 2022, can you share a little bit more about what you're seeing with input costs on the raw materials side? And then relatedly, Morris, you did talk about outerwear that you're seeing some good pricing and you're taking price. How much are you taking from a price perspective in outerwear? And is that more than offsetting any pressure on the input cost side? Thanks so much.

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

A

I'll respond to the last question first. It is offsetting some of the cost increases and it really depends on the channel of distribution. We're sensitive to what it takes to move our products, so we don't overtly take major increases that'll inhibit the sale of the product. But I would say, we're north of 5% and maybe approaching 10% in many areas, which certainly offsets the cost of getting the product to the consumer that we're incurring. Go ahead, Neal.

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

A

Yeah. Relative to future input costs, Erinn, we're certainly going to see and expect to have increases there and we're going to continue to manage the business as we've done this year with the freight cost. So, to the extent that that becomes obvious and right now it does feel like that's the way we'll be increasing prices to offset that as well.

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

Clearly, there has been a global inflation and we are paying more for piece goods going forward. But there are factories that we've traded with for decades that work closely with us. They understand the need to be competitive. The work that we do to understand what the right price points are, are instrumental in how the piece goods manufacturers deliver product.

So, it's a collaboration. It's not again – our vendors don't flagrantly just lash out numbers and say this is what you've got to pay today. It's a slow evolution, and quite honestly it needs to be accepted by the consumer. And without the end user accepting price points, there's no use in buying piece goods, producing garments or designing garments. And we're testing all of that right now. The price points have been accepted. They maintain margins both for us and even more so for the retailer better than they've ever been. The sell-throughs are better than they've ever been. So, we see a bright world coming.

Erinn E. Murphy
Analyst, Piper Sandler & Co.
Q

Great. Thanks for letting me follow up.

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

Thank you, Erinn. Thanks for your questions. So with that, I wish you all a great Labor Day and thanks for hearing our story. Have a good day.

Operator: Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.