

G-III Apparel, Ltd. (GIII)

\$17.33 (As of 03/09/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 02/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

Summary

Although shares of G-III Apparel have slid and lagged the industry in the past six months, this provides a good entry point given the stock's attractive valuation, sound fundamentals and strategic initiatives. It has been gaining from positive earnings surprise trend that continued in third-quarter fiscal 2020. Results benefitted from sturdy wholesale business. Also, advancements in its power brands namely DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld bode well. Effective merchandising, sourcing and selling strategies have been boosting the brand. It has been undertaking acquisitions and licensing of well-known brands to expand product portfolio and make itself a diversified apparel and accessories company. Apart from these, the company remains on track with the process of improving marketing strategies and consumer base.

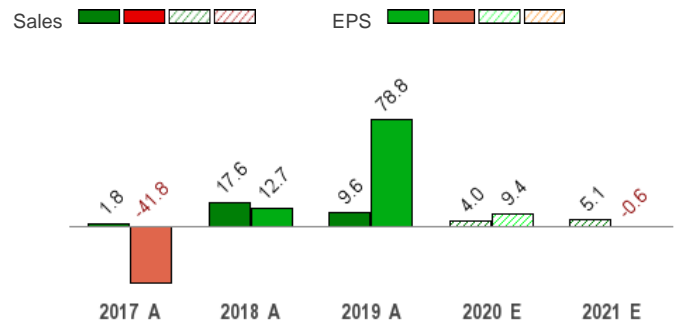
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$43.98 - \$16.56
20 Day Average Volume (sh)	572,569
Market Cap	\$827.4 M
YTD Price Change	-48.3%
Beta	1.68
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 33% (169 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.1%
Last Sales Surprise	-3.8%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	03/19/2020
Earnings ESP	-1.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	667 E	682 E	1,188 E	825 E	3,362 E
2020	634 A	644 A	1,128 A	792 E	3,198 E
2019	612 A	625 A	1,073 A	767 A	3,076 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.20 E	\$0.20 E	\$2.04 E	\$0.66 E	\$3.11 E
2020	\$0.25 A	\$0.23 A	\$1.99 A	\$0.68 E	\$3.13 E
2019	\$0.22 A	\$0.22 A	\$1.88 A	\$0.55 A	\$2.86 A

*Quarterly figures may not add up to annual.

P/E TTM	5.7
P/E F1	5.6
PEG F1	0.5
P/S TTM	0.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

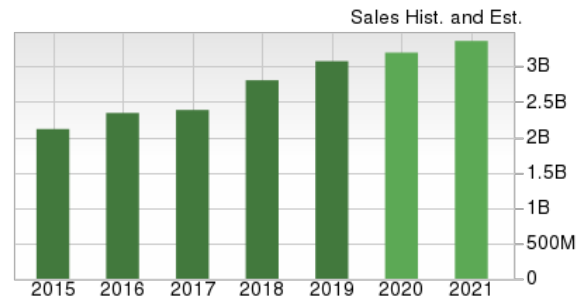
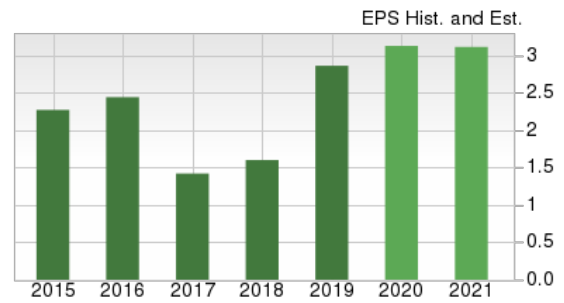
Overview

Based in New York, G-III Apparel Group, Ltd. is a manufacturer, designer and distributor of apparel and accessories under licensed brands, owned brands and private label brands. The company's portfolio includes outerwear, dresses, sportswear, swimwear, women's suits and women's performance wear as well as women's handbags, footwear, small leather goods, cold weather accessories and luggage. G-III has a portfolio of more than 40 licensed and proprietary brands, including five global major brands — DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld. G-III's owned brands include Donna Karan, DKNY, Vilebrequin, G. H. Bass, Andrew Marc, Marc New York, Eliza J and Jessica Howard.

The company operates under two segments — wholesale operations and retail operations.

Wholesale operations segment consists of wholesale sales, revenues from license agreements and internet sales related to the Donna Karan International ("DKI"), G.H. Bass, Andrew Marc and Vilebrequin businesses.

Retail operations segment comprises Wilsons Leather, G.H. Bass and DKNY retail stores along with a limited number of Calvin Klein Performance and Karl Lagerfeld Paris stores. The company operated 127 Wilsons Leather, 104 G.H. Bass, 40 DKNY, 13 Karl Lagerfeld Paris and 4 Calvin Klein Performance stores as of Oct 31, 2019. This segment also consists of product sales through Wilsons and G.H. Bass websites.



Reasons To Buy:

▲ **Aa Good Entry Point & Positive Earnings Surprise History:** Shares of G-III Apparel have beaten down 35.1% in the past six months and lagged the industry that has declined 25.7% but this provides an excellent opportunity for long-term investors. The recent slide has cleared the deck for fresh buying given the stock's attractive valuation, sound fundamentals and strategic initiatives. Apart from these, it boasts a robust earnings surprise trend. In third-quarter fiscal 2020, the company's top and bottom lines improved year over year. Its bottom line also beat the Zacks Consensus Estimate. This marked the company's 11th straight bottom-line beat. The solid quarterly performance was backed by the sturdy wholesale business. Moreover, the company gained from advancements across its power brands namely; DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld.

G-III Apparel is optimistic about its wholesale business, which has been gaining from strong brands. Further, the DKNY brand's potential for international growth is encouraging.

▲ **Sturdy Wholesale Business:** G-III Apparel's wholesale segment is depicting a stellar show and driving the company's overall performance. In fact, sales in the category witnessed growth of 6.2% in the third quarter of fiscal 2020, driven by solid performance in DKNY, Tommy Hilfiger and Calvin Klein brands. Momentum witnessed in the wholesale segment boosted the top- and bottom-line performances in the said quarter. Net sales of \$1,128 million rose 5.2% year over year. Moreover, adjusted earnings improved 5.9% year over year to \$1.99 per share and surpassed the Zacks Consensus Estimate of \$1.95.

Prior to this, sales in the wholesale segment increased 8.1% and 8% in the fiscal second and first quarters, respectively. We are optimistic about the momentum in the wholesale business, which should continue aiding growth. Specifically speaking about brands, the Tommy Hilfiger banner is yielding benefits. The brand registered year-over-year sales growth of almost 20% in the third quarter. Effective merchandising, sourcing and selling strategies have played a vital role in boosting the brand. Management is on track to extend product lines of the Tommy Hilfiger banner and augment customer base. Moreover, the company launched Calvin Klein jeans in the fiscal third quarter, which is off to a solid start.

▲ **Growth Potential for DKNY and Donna Karan Brands:** DKNY and Donna Karan brands have been performing well and emerged as an important factor for driving overall organizational growth. The company's DKNY and Donna Karan brands registered sales growth of 20% in the fiscal third quarter. Moreover, net sales in the DKNY and Donna Karan's wholesale business are estimated to improve nearly 25% in fiscal 2020. In fact, growth in DKNY and Karl Lagerfeld stores, stemming from improved products and store designs are likely to support the company's performance.

We note that the company has been opening and reshaping stores under the DKNY and Donna Karan banners while also continuing to launch new products. In November 2019, GIII Apparel's DKNY and Karl Lagerfeld stores witnessed positive sales on improved products and store design. The company also witnessed improvement in store comp sales in November, with solid momentum in the Black Friday week. Further, the company is also augmenting licensing agreements for these brands across the globe to spread brand awareness and reach out to a broader consumer base. During the second quarter, the company entered into a licensing agreement with Komar, pertaining to DKNY intimate apparel. Moreover, continued success of DKNY home business led management to enter into a licensing agreement with Living Style Group. Additionally, the company is emphasizing on brand marketing to ensure stronger visibility. Going ahead, management remains optimistic about DKNY and Karl Lagerfeld brands as it envisions double-digit comps growth in the e-commerce business. In fact, comps remained positive on a year-to-date basis through the third quarter. Also, the brands have been witnessing productivity improvements in the fiscal fourth quarter.

▲ **Strategic Endeavors:** G-III Apparel undertakes several strategies, including acquisitions and licensing of well-known brands, to expand product portfolio and make itself a diversified apparel and accessories company. Acquisitions and licensing agreements over the years have led to the emergence of the company's five global power brands – DKNY, Donna Karen, Calvin Klein, Tommy Hilfiger, and Karl Lagerfeld – which are poised to deliver solid long-term growth. The company expects its wholesale business to perform well in the upcoming quarters, and remains well placed to exploit opportunities therein. Further, in a bid to improve retail business, the company is set to bring in new products and strengthen its ties with retailers and rationalizing its store base.

Apart from these, GIII-Apparel remains on track with the process of bolstering brands across channels, with new launches, improved marketing strategies and consumer reach. It also plans to make efficient utilization of digital and social media platforms. The company is progressing well with optimization of sourcing strategies. In this context, it intends to reduce production in China to less than 50%, down from 80% four years ago. Management is on track with exploring sourcing opportunities outside China. Such moves are likely to help provide cushion to tariff related uncertainties between the United States and China. Additionally, the company is obtaining price concessions from vendor partners in China and implementing appropriate wholesale price increases.

Risks

- **Sluggish Retail Business:** G-III Apparel's retail business has been dismal for a while now, thanks to weakness in underlying brands. In the third quarter of fiscal 2020, the retail segment's net sales fell 19% from the prior-year quarter's figure and put pressure on the company's top line. The segment witnessed sales declines across Wilsons and G.H. Bass, with Bass reporting the worst store traffic. Notably, same-store sales declined nearly 8% at Wilsons and 15% at G.H. Bass. Decline in the number of stores operated by the company also exerted pressure on the segment's performance. On a year-over-year basis, retail store base contracted by 45 stores as at the end of the third quarter. Furthermore, management estimates adjusted loss in the retail segment to widen by \$10 million in fiscal 2020. This incorporates a low-double-digit decline in comps at Wilsons and Bass.

Management is now focusing on minimizing losses in this segment through rationalizing store portfolio. To this end, the company expects to shut more than 150 stores by the end of fiscal 2020. As a result of such closures, the Bass and Wilsons store base is likely to contract nearly 40%. Further, management is considering strategic options for the remaining portions of the retail business and is accordingly engaging with external advisors.

- **Earnings View Trimmed on Anticipated Tariff Impacts:** G-III Apparel remains concerned about the tariff environment. Management updated the fiscal 2020 view on the anticipated impacts of the last round of tariffs. To reflect the anticipated impacts of additional and potential tariffs, the company lowered bottom-line projection for fiscal 2020. It now anticipates adjusted earnings per share (EPS) of \$3.06-\$3.16, down from \$3.15-\$3.25 mentioned earlier. In fiscal 2019, the company recorded adjusted earnings of \$2.86 per share. Also, it estimates net sales of \$3.20 billion for fiscal 2020 compared with \$3.30 billion mentioned earlier. Notably, it reported net sales of \$3.08 billion in fiscal 2019. Moreover, the company now expects adjusted EBITDA of \$283-\$288 million compared with \$295-\$300 million stated earlier. Although the company is apprehensive about the tariff environment, it focuses on global sourcing and is accelerating inventory receipt capabilities to mitigate the impacts.
 - **Competitive Pressure:** G-III Apparel faces intense competition from other well-established players in the apparel industry on the basis of brand recognition, fashion, price, service, style and quality. The company competes with a diverse group of retailers including outlet stores, department stores, specialty stores, warehouse clubs and e-commerce retailers. Failure to offer high-quality products at a competitive price may hamper the company's market share and dent top- and bottom-line growth.
 - **Adverse Currency Fluctuations:** G-III Apparel generates a significant amount of sales outside the United States. Due to high exposure to international markets the company is prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may compel the company to either raise prices or contract profit margins in locations outside the United States. An increase in price may have an adverse impact on the demand. Per management, some of the foreign operations buy products from suppliers denominated in U.S. dollars and Euros. This may expose such operations to rise in cost of goods sold that will result in low profit margins due to foreign exchange fluctuations.
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Last Earnings Report

GIII Apparel Q3 Earnings Beat Estimates, Sales Lag

G-III Apparel posted third-quarter fiscal 2020 results, wherein the bottom line beat the Zacks Consensus Estimate, while the top line missed the same. Notably, its earnings beat estimates for the 11th straight quarter. Moreover, top and bottom lines improved year over year. Results gained from continued strength in the company's wholesale business, somewhat offset by retail and macroeconomic challenges.

Moving forward, management is on track to revive retail operations. To this end, the company expects to shut more than 150 stores by the end of fiscal 2020.

In November, GIII Apparel's DKNY and Karl Lagerfeld stores witnessed positive sales on improved products and store design. The company also witnessed improvement in store comp sales in November, with solid momentum in the Black Friday week. Further, G-III Apparel expects to leverage strength in its five global power brands — DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld — by enhancing and developing brand design to supply commercial products.

However, management trimmed the fiscal 2020 view on the adverse impacts of tariffs. Although the company is apprehensive about the tariff environment, it focuses on global sourcing and is accelerating inventory receipt capabilities to mitigate the impacts. Additionally, the company is obtaining price concessions from vendor partners in China and implementing appropriate wholesale price increases. Notably, it anticipates production in China to decline below 50% in fiscal 2020, down from 80% four years ago.

Q3 in Detail

Adjusted earnings improved 5.9% year over year to \$1.99 per share and surpassed the Zacks Consensus Estimate of \$1.95. Quarterly earnings benefited from top-line growth.

Net sales of \$1,128 million rose 5.2% year over year. However, the top line missed the Zacks Consensus Estimate of \$1,173 million, marking the fifth straight quarter of sales miss. Sales gained mainly from stellar results in the wholesale business on impressive brand performances. This was partly offset by persistent challenges in the company's retail operations.

Moreover, gross profit grew 4.4% year over year to \$399 million. Meanwhile, gross margin of 35.4% contracted 20 basis points (bps). Furthermore, SG&A expenses rose 6.3% year over year to \$246.6 million. Operating profit increased 2% to \$142.9 million in the fiscal third quarter, while operating margin contracted 30 bps to 12.7%.

Segmental Performance

Net sales in the Wholesale segment were \$1.07 billion, up 6.2% year over year. Tommy Hilfiger, Calvin Klein and DKNY brands were primary growth drivers.

Net sales for the Retail segment were \$90 million, down nearly 19% from the prior-year quarter's reported figure. The segment witnessed sales declines across Wilsons and G.H. Bass, somewhat offset by growth at DKNY. Notably, same-store sales declined nearly 8% at Wilsons and 15% at G.H. Bass, while it remained flat at DKNY stores. A decline in the number of stores operated by the company also exerted pressure on the segment's performance.

Other Financial Details

GIII Apparel ended third-quarter fiscal 2020, with cash and cash equivalents of \$55.8 million, and long-term debt of \$675.4 million. Total stockholders' equity was \$1,260.3 million. On a year-to-date basis, the company spent \$32 million as capital expenditure.

Guidance

Management updated the fiscal 2020 view on the anticipated impacts of additional and potential tariffs. The company now estimates net sales of \$3.20 billion in fiscal 2020 compared with \$3.30 billion mentioned earlier. Notably, it generated \$3.08 billion in fiscal 2019.

Moreover, the company now expects adjusted EBITDA of \$283-\$288 million compared with \$295-\$300 million stated earlier. It now anticipates adjusted earnings per share (EPS) of \$3.06-\$3.16, down from \$3.15-\$3.25 mentioned earlier. In fiscal 2019, it recorded adjusted earnings of \$2.86 per share.

Furthermore, management estimates a \$10-million adjusted loss for the Retail segment, suggesting wider loss from that reported in fiscal 2019. This incorporates a low-double-digit decline in comps at Wilsons and Bass. DKNY's retail sales are expected to remain flat year over year. For DKNY's Wholesale and Licensing operations, the top line is estimated to improve 25%.

For fourth-quarter fiscal 2020, G-III Apparel anticipates net sales of \$790 million and adjusted EPS of 62-72 cents. In the year-ago quarter, the company recorded sales of 767 million and adjusted earnings of 55 cents.

Quarter Ending 10/2019

Report Date	Dec 04, 2019
Sales Surprise	-3.84%
EPS Surprise	2.05%
Quarterly EPS	1.99
Annual EPS (TTM)	3.02

Valuation

G-III Apparel shares are down 48.2% in the year-to-date period and nearly 51.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 31.3% and 21.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 24.1% and 12%, respectively.

The S&P 500 index is down 14.8% in the year-to-date period and 2.3% in the past year.

The stock is currently trading at 5.54X forward 12-month earnings, which compares to 12.58X for the Zacks sub-industry, 16.22X for the Zacks sector and 15.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.43X and as low as 5.54X, with a 5-year median of 15.55X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$20 price target reflects 6.39X forward 12-month earnings.

The table below shows summary valuation data for GIII

Valuation Multiples - GIII					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.54	12.58	16.22	15.75
	5-Year High	24.43	23.06	23.23	19.34
	5-Year Low	5.54	12.58	16.15	15.18
	5-Year Median	15.55	17.99	19.88	17.42
P/S F12M	Current	0.25	1.67	1.82	2.91
	5-Year High	1.31	2.58	3.19	3.44
	5-Year Low	0.25	1.55	1.81	2.54
	5-Year Median	0.58	2.05	2.53	3
EV/EBITDA TTM	Current	6.57	15.8	10.21	11.04
	5-Year High	16.93	26.27	17.58	12.87
	5-Year Low	6.32	13.46	10.21	8.49
	5-Year Median	9.99	17.89	12.29	10.79

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (169 out of 253)



Top Peers

Ralph Lauren Corporation (RL)	Outperform
Guess?, Inc. (GES)	Neutral
Gildan Activewear, Inc. (GIL)	Neutral
Hanesbrands Inc. (HBI)	Neutral
lululemon athletica inc. (LULU)	Neutral
Under Armour, Inc. (UAA)	Neutral
Columbia Sportswear Company (COLM)	Underperform
Tailored Brands, Inc. (TLRD)	Underperform

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	GIL Outperform	X Industry	S&P 500	GIL Neutral	LULU Neutral	TLRD Underperform
VGM Score	C	-	-	B	F	B
Market Cap	827.42 M	820.67 M	19.13 B	4.23 B	26.03 B	146.72 M
# of Analysts	6	4	13	5	16	2
Dividend Yield	0.00%	0.00%	2.26%	2.52%	0.00%	0.00%
Value Score	B	-	-	B	F	A
Cash/Price	0.06	0.12	0.05	0.01	0.02	0.12
EV/EBITDA	6.40	8.59	11.99	11.40	31.04	5.71
PEG Ratio	0.53	1.47	1.68	0.86	1.85	NA
Price/Book (P/B)	0.66	1.22	2.64	2.31	15.79	NA
Price/Cash Flow (P/CF)	4.69	6.82	10.70	8.53	41.06	0.53
P/E (F1)	5.64	11.16	15.44	11.16	34.77	2.93
Price/Sales (P/S)	0.26	0.59	2.05	1.50	6.94	0.05
Earnings Yield	17.95%	8.98%	6.47%	8.98%	2.87%	33.99%
Debt/Equity	0.74	0.65	0.70	0.50	0.34	-28.95
Cash Flow (\$/share)	3.70	2.04	7.01	2.49	4.87	5.67
Growth Score	D	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	3.67%	2.34%	10.85%	10.36%	22.60%	-2.32%
Proj. EPS Growth (F1/F0)	-0.43%	2.15%	6.25%	14.82%	15.78%	0.98%
Curr. Cash Flow Growth	55.48%	9.60%	6.09%	-9.96%	38.28%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	14.76%	4.12%	8.52%	5.30%	14.16%	3.20%
Current Ratio	2.36	1.82	1.24	3.58	2.53	1.36
Debt/Capital	42.58%	39.94%	42.57%	33.21%	25.49%	99.76%
Net Margin	4.50%	3.43%	11.69%	9.20%	15.10%	-1.36%
Return on Equity	12.27%	11.24%	16.74%	17.89%	39.71%	-427.30%
Sales/Assets	1.23	1.14	0.54	0.86	1.49	1.26
Proj. Sales Growth (F1/F0)	5.13%	0.00%	3.76%	3.06%	15.32%	-5.12%
Momentum Score	B	-	-	D	F	D
Daily Price Chg	-9.74%	-8.84%	-7.65%	-8.24%	-8.59%	-15.13%
1 Week Price Chg	-14.13%	-3.06%	-0.67%	-4.29%	0.52%	9.17%
4 Week Price Chg	-36.68%	-21.11%	-19.26%	-24.39%	-19.62%	-19.63%
12 Week Price Chg	-46.56%	-24.23%	-17.26%	-25.86%	-11.35%	-26.46%
52 Week Price Chg	-51.89%	-41.26%	-6.83%	-39.98%	37.50%	-74.45%
20 Day Average Volume	572,569	108,743	2,684,709	944,369	1,723,324	2,061,332
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.08%	0.00%
(F1) EPS Est 4 week change	0.86%	-2.53%	-0.06%	-2.36%	-0.05%	-3.27%
(F1) EPS Est 12 week change	1.23%	-2.53%	-0.46%	-2.36%	2.49%	-16.19%
(Q1) EPS Est Mthly Chg	2.56%	-9.62%	-0.40%	-16.46%	-0.86%	-13.16%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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