

G-III Apparel, Ltd. (GIII)

\$12.25 (As of 07/15/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

Summary

Shares of G-III Apparel lagged the industry in the past six months. Much of this downside is caused by a dismal first-quarter fiscal 2021, wherein it recorded wider-than-expected loss per share and sales miss. With this, the company broke its 12-quarter-long earnings beat trend, while sales missed estimates for the seventh consecutive time. Both metrics fell year over year and margins were dismal. It did not provide any fiscal 2021 view due to uncertainties tied to the pandemic. The stock's dismal run on bourses is also attributed to the company's retail business, which has been sluggish due to weak underlying brands. Nevertheless, it has announced the restructuring of retail unit, which is believed to cut losses from underperforming locations. Management is also optimistic about the wholesale segment, buoyed by global power brands.

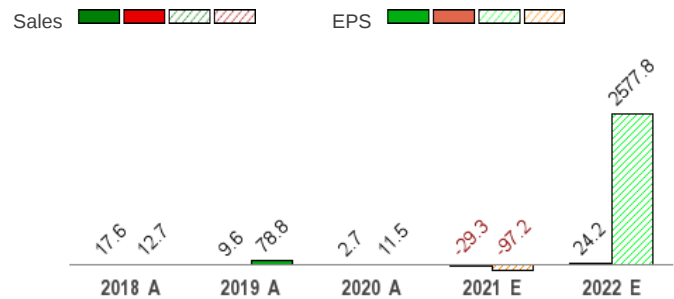
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.42 - \$2.96
20 Day Average Volume (sh)	1,275,744
Market Cap	\$588.7 M
YTD Price Change	-63.4%
Beta	2.59
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 9% (228 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-13.6%
Last Sales Surprise	-2.3%
EPS F1 Est- 4 week change	4.8%
Expected Report Date	09/03/2020
Earnings ESP	43.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	527 E	565 E	1,030 E	654 E	2,776 E
2021	405 A	347 E	840 E	642 E	2,235 E
2020	634 A	644 A	1,128 A	755 A	3,160 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.29 E	-\$0.36 E	\$1.85 E	\$0.59 E	\$2.41 E
2021	-\$0.75 A	-\$0.73 E	\$1.28 E	\$0.68 E	\$0.09 E
2020	\$0.25 A	\$0.23 A	\$1.99 A	\$0.75 A	\$3.19 A

*Quarterly figures may not add up to annual.

P/E TTM	5.5
P/E F1	136.1
PEG F1	12.7
P/S TTM	0.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/15/2020. The reports text is as of 07/16/2020.

Overview

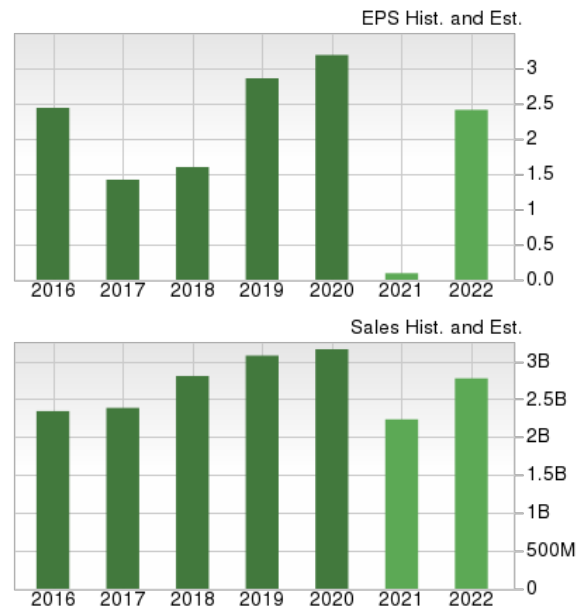
Based in New York, G-III Apparel Group, Ltd. is a manufacturer, designer and distributor of apparel and accessories under licensed brands, owned brands and private label brands. The company's portfolio includes outerwear, dresses, sportswear, swimwear, women's suits and women's performance wear as well 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. This segment also consists of product sales through Wilsons and G.H. Bass websites.

Recently, management announced the restructuring of the retail segment, which is expected to cut losses from underperforming locations and make the division profitable. This restructuring includes shutting down of 110 Wilsons Leather and 89 G.H. Bass outlets.



Reasons To Buy:

▲ **Restructuring of Retail Division:** G-III Apparel has announced restructuring of its retail unit, which is believed to cut losses from underperforming locations and make the division profitable. This restructuring includes shutting down of 110 Wilsons Leather and 89 G.H. Bass outlets. Notably, the liquidation of such stores will start immediately or as outlets reopen. Moreover, it anticipates incurring a total charge of nearly \$100 million in relation to the restructuring. Management estimates the cash portion of this charge to be roughly \$65 million. Post restructuring, the retail unit will initially comprise 41 DKNY and 13 Karl Lagerfeld Paris outlets. Also, it will have e-commerce sites for Donna Karan, Andrew Marc, Karl Lagerfeld Paris, DKNY, Wilsons Leather and G.H. Bass. Impressively, management has completed a comprehensive review of the retail unit and has entered into lease termination agreements for most of such stores.

G-III Apparel is optimistic about its global power brands such as DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld.

▲ **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. Evidently, the company's DKNY and Donna Karan brands registered sales growth of about 25% in fiscal 2020. These brands generated more than \$450 million in wholesale sales and licensing revenues annually, thus adding to profits significantly.

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. 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. Notably, it 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 forward, management is optimistic about the wholesale segment, buoyed by global power brands such as DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld.

▲ **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. 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. In fact, growth in DKNY and Karl Lagerfeld stores, stemming from improved products and store designs are likely to support the company's performance.

Apart from these, GIII-Apparel remains on track with the process of bolstering brands across channels, with new launches, improved marketing strategies and broader 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.

Reasons To Sell:

- ▼ **Dismal Q1 Performance:** Shares of G-III Apparel have plunged 59.8% wider than the industry's 18.9% decline over the past six months. Much of the downside is caused by a dismal first-quarter fiscal 2021 performance. The company reported a wider-than-expected loss per share and sales miss in the reported quarter. With this, the company broke its 12-quarter-long earnings beat trend, while sales missed estimates for the seventh consecutive time. In the quarter under review, the bottom line compared unfavorably with adjusted earnings of 25 cents per share a year ago. Moreover, sales plunged 36.1% year over year owing to a decline in sales at both the wholesale and retail divisions. Margins were also dismal in the quarter. Management did not provide any guidance for fiscal 2021 owing to uncertainties tied to the coronavirus pandemic.
- ▼ **Sluggish Retail Business Hurts Stock:** G-III Apparel's retail business has been dismal for a while now due to weakness in underlying brands. In the first quarter of fiscal 2021, the retail segment's net sales fell nearly 59% from the prior-year quarter's reported figure. Closure of stores due to the coronavirus pandemic mainly hurt the segment's performance. This has been badly weighing on the company's overall top-line results. In addition, the segment's gross margin contracted 930 basis points to 35.9%. However, management recently announced the restructuring of the retail segment, which includes closing down of underperforming outlets.
- ▼ **Debt Analysis:** G-III Apparel ended first-quarter fiscal 2021 with a long-term debt (including operating lease liabilities) of \$1,196.2 as of Apr 30, 2020, which shows a sequential increase of 85.2%. Moreover, at the end of the quarter, the company's debt-to-capitalization ratio was 0.49 higher than that of industry's 0.47. It also had short-term obligations of about \$63.6 million as of Apr 30, 2020. Also, the company's debt-to-capitalization ratio compared unfavorably with 0.36 at the end of the preceding quarter. Again, the company's times interest earned ratio of 3.5 is lower than that of the industry's 9.4.

Dismal performance of G-III Apparel's Retail business, stemming from weak brands and store closures, poses concern. This is hurting the company's overall top-line performance.

Last Earnings Report

G-III Apparel Posts Wider-Than-Expected Q1 Loss

G-III Apparel reported a dismal first-quarter fiscal 2021 performance. The company reported a wider-than-expected loss per share and sales miss in the reported quarter. Also, the top and the bottom line fell year over year. Moreover, the company did not provide any guidance for fiscal 2021 owing to uncertainties tied to the coronavirus pandemic.

Moreover, management announced the news of restructuring of the company's retail segment, which has been sluggish due to weakness in underlying brands. In a separate press release, management stated the restructuring of retail operations, which includes shutting down of 110 Wilsons Leather and 89 G.H. Bass outlets. Notably, the liquidation of such stores will start immediately or as outlets reopen. Moreover, it anticipates incurring a total charge of nearly \$100 million in relation to the restructuring. Majority of the expense will be made in the fiscal second quarter. Management estimates the cash portion of this charge to be roughly \$65 million.

Post restructuring, G-III Apparel's retail unit will initially comprise 41 DKNY and 13 Karl Lagerfeld Paris outlets. Also, it will have e-commerce sites for Donna Karan, Andrew Marc, Karl Lagerfeld Paris, DKNY, Wilsons Leather and G.H. Bass. Impressively, management has completed a comprehensive review of the retail unit and has entered into lease termination agreements for most of such stores. This restructuring is believed to cut losses from underperforming locations and make the retail segment profitable.

Q1 in Detail

G-III Apparel reported adjusted loss of 75 cents per share, wider than the Zacks Consensus Estimate of a loss of 66 cents. The company reported adjusted earnings of 25 cents per share in the same quarter a year ago.

On a GAAP basis, the company reported loss per share of 82 cents in the fiscal first quarter against earnings of 24 cents in the year-ago quarter.

Net sales plunged 36.1% year over year to \$405.1 million. Moreover, the top line missed the Zacks Consensus Estimate of \$415 million, marking the seventh straight quarter of a sales miss. Soft top-line performance can be attributed to a decline in sales at both the wholesale and retail divisions.

Moreover, gross profit declined 47.3% year over year to \$124.4 million. Also, gross margin of 30.7% contracted 660 basis points (bps), mainly owing to decline in the metric at both its wholesale and retail operations.

However, SG&A expenses contracted 23.4% year over year to \$154.6 million. Further, the company reported operating loss of \$43.3 million against operating income of \$25.6 million in the year-ago quarter.

Segmental Performance

Net sales at the **Wholesale** segment were \$379 million, down roughly 34% year over year. Moreover, the segment's gross margin declined 530 bps to 29.6%.

Net sales at the **Retail** segment totaled \$34 million, down nearly 59% from the prior-year quarter's reported figure. Closure of stores due to coronavirus mainly hurt the segment's performance. The segment's gross margin contracted 930 bps to 35.9%.

Other Financial Details

G-III Apparel ended first-quarter fiscal 2021 with cash and cash equivalents of \$616.2 million and long-term debt of \$901.2 million. Total stockholders' equity was \$1,246.2 million.

Furthermore, inventory declined nearly 7% to \$500.4 million during the fiscal first quarter. The company spent roughly \$6 million as capital expenditures.

Quarter Ending 04/2020

Report Date	Jun 04, 2020
Sales Surprise	-2.27%
EPS Surprise	-13.64%
Quarterly EPS	-0.75
Annual EPS (TTM)	2.22

Recent News

G-III Apparel Announces Restructuring of Retail Unit – Jun 4, 2020

G-III Apparel announced the news of restructuring of the company's retail segment. This includes shutting down of 110 Wilsons Leather and 89 G.H. Bass outlets. Post restructuring, G-III Apparel's retail unit will initially comprise 41 DKNY and 13 Karl Lagerfeld Paris outlets. Also, it will have e-commerce sites for Donna Karan, Andrew Marc, Karl Lagerfeld Paris, DKNY, Wilsons Leather and G.H. Bass. Impressively, management has completed a comprehensive review of the retail unit and has entered into lease termination agreements for most of such stores. This restructuring is believed to cut losses from underperforming locations and make the retail segment profitable.

G-III Apparel Issues Updates on Plans to Fight Coronavirus – Mar 31, 2020

G-III Apparel has provided financial updates in the wake of uncertainty surrounding the coronavirus outbreak. Management will lower its retail business employees by above 80% via furloughs and staff reductions effective Apr 6. However, the furloughed full-time associates will be entitled to the existing healthcare benefits. Speaking of the company's wholesale unit, which needs a small workforce now, management decides to furlough around 60% associates effective Apr 6. All furloughed employees in the wholesale business will continue to get existing healthcare benefits.

Valuation

G-III Apparel shares are down 63.5% in the year-to-date period and 55.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 20.5% and 6.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 15.9% and 3.3%, respectively.

The S&P 500 index is up 0.4% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 10.62X forward 12-month earnings, which compares to 28.95X for the Zacks sub-industry, 35.26X for the Zacks sector and 22.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.3X and as low as 1.45X, with a 5-year median of 14.72X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$13 price target reflects 11.26X 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 F 12M	Current	10.62	28.95	35.26	22.72
	5-Year High	24.3	28.95	35.26	22.72
	5-Year Low	1.45	13.32	16.21	15.25
	5-Year Median	14.72	17.99	19.92	17.52
P/S F12M	Current	0.24	2.27	2.26	3.55
	5-Year High	1.3	2.58	3.2	3.55
	5-Year Low	0.06	1.43	1.67	2.53
	5-Year Median	0.52	2.04	2.49	3.02
EV/EBITDA TTM	Current	5.48	18.42	10.29	11.88
	5-Year High	16.73	25.31	17.63	12.86
	5-Year Low	2.61	11.3	8.26	8.25
	5-Year Median	9.31	17.57	12.22	10.87

As of 07/15/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (228 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Columbia Sportswear Company (COLM)	Neutral	3
Guess, Inc. (GES)	Neutral	3
Gildan Activewear, Inc. (GIL)	Neutral	4
Hanesbrands Inc. (HBI)	Neutral	2
lululemon athletica inc. (LULU)	Neutral	3
Wolverine World Wide, Inc. (WWW)	Neutral	3
Ralph Lauren Corporation (RL)	Underperform	5
Under Armour, Inc. (UAA)	Underperform	5

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	GIII	X Industry	S&P 500	GIL	LULU	RL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	4	3	5
VGM Score	D	-	-	F	D	D
Market Cap	588.65 M	720.37 M	22.66 B	3.23 B	40.69 B	5.39 B
# of Analysts	7	4	14	5	17	6
Dividend Yield	0.00%	0.00%	1.83%	3.77%	0.00%	3.71%
Value Score	C	-	-	D	F	C
Cash/Price	1.19	0.24	0.07	0.17	0.02	0.42
EV/EBITDA	4.16	8.06	12.99	9.76	38.24	8.54
PEG Ratio	13.11	4.78	2.97	6.54	3.90	2.65
Price/Book (P/B)	0.47	1.51	3.12	1.97	22.16	2.02
Price/Cash Flow (P/CF)	3.00	6.54	12.14	6.54	50.44	7.03
P/E (F1)	140.67	40.62	22.04	45.08	71.58	26.37
Price/Sales (P/S)	0.20	0.59	2.38	1.22	10.57	0.88
Earnings Yield	0.73%	2.00%	4.32%	2.21%	1.40%	3.79%
Debt/Equity	0.91	0.77	0.76	0.99	0.35	0.73
Cash Flow (\$/share)	4.08	2.39	6.94	2.49	6.20	10.55
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	7.78%	0.90%	10.85%	8.01%	26.32%	2.77%
Proj. EPS Growth (F1/F0)	-97.09%	-71.28%	-9.64%	-78.19%	-11.44%	-57.11%
Curr. Cash Flow Growth	6.85%	9.79%	5.51%	-9.96%	26.75%	-10.72%
Hist. Cash Flow Growth (3-5 yrs)	9.97%	4.03%	8.55%	5.30%	19.56%	-4.88%
Current Ratio	3.97	1.70	1.30	5.41	2.68	1.61
Debt/Capital	47.60%	48.32%	44.46%	49.69%	25.83%	42.18%
Net Margin	3.15%	2.23%	10.59%	5.18%	15.01%	6.24%
Return on Equity	8.68%	7.92%	15.75%	17.38%	33.27%	17.25%
Sales/Assets	1.07	1.02	0.54	0.78	1.28	0.84
Proj. Sales Growth (F1/F0)	-29.29%	-11.96%	-2.52%	-38.14%	1.43%	-17.55%
Momentum Score	B	-	-	D	A	D
Daily Price Chg	11.36%	1.36%	1.91%	5.56%	1.36%	6.05%
1 Week Price Chg	-16.77%	-3.29%	-0.41%	-3.29%	3.16%	-2.50%
4 Week Price Chg	-12.50%	-0.39%	1.88%	3.95%	2.90%	-0.39%
12 Week Price Chg	49.21%	16.56%	16.37%	9.82%	47.35%	10.68%
52 Week Price Chg	-55.18%	-39.11%	-4.22%	-59.37%	64.15%	-33.04%
20 Day Average Volume	1,275,744	120,537	2,266,132	666,837	1,926,019	979,158
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.18%
(F1) EPS Est 4 week change	4.84%	0.00%	0.00%	0.00%	2.53%	-0.18%
(F1) EPS Est 12 week change	-90.59%	-54.02%	-5.76%	-70.67%	-3.78%	-57.88%
(Q1) EPS Est Mthly Chg	0.68%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	F
Momentum Score	B
VGM Score	D

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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