

## G-III Apparel, Ltd. (GIII)

**\$7.57** (As of 03/25/20)

Price Target (6-12 Months): **\$8.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/19/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: F

### Summary

Shares of G-III Apparel have slid and underperformed the industry in the past three months due to soft retail business. It has been witnessing softness across the retail segment for a while due to weak underlying brands and store closures. This has been weighing on its top line, which lagged the Zacks Consensus Estimate for sixth straight time in fourth-quarter fiscal 2020. Management informed that it has closed retail stores and corporate offices, and has been working remotely in view of the coronavirus outbreak. Consequently, sales from its retail partners and stores are facing the brunt. Nevertheless, its earnings remain solid, delivering 12th straight beat in the reported quarter. Strength in power brands such as DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld is likely to continue. Its e-commerce business also bodes well.

### Price, Consensus & Surprise



### Data Overview

|                            |                                   |
|----------------------------|-----------------------------------|
| 52 Week High-Low           | <b>\$43.98 - \$2.96</b>           |
| 20 Day Average Volume (sh) | <b>1,529,609</b>                  |
| Market Cap                 | <b>\$361.4 M</b>                  |
| YTD Price Change           | <b>-77.4%</b>                     |
| Beta                       | <b>1.68</b>                       |
| Dividend / Div Yld         | <b>\$0.00 / 0.0%</b>              |
| Industry                   | <a href="#">Textile - Apparel</a> |
| Zacks Industry Rank        | <b>Bottom 8% (234 out of 253)</b> |

### Sales and EPS Growth Rates (Y/Y %)



|                           |                   |
|---------------------------|-------------------|
| Last EPS Surprise         | <b>10.3%</b>      |
| Last Sales Surprise       | <b>-4.7%</b>      |
| EPS F1 Est- 4 week change | <b>-48.4%</b>     |
| Expected Report Date      | <b>06/03/2020</b> |
| Earnings ESP              | <b>0.0%</b>       |
| P/E TTM                   | <b>2.4</b>        |
| P/E F1                    | <b>4.8</b>        |
| PEG F1                    | <b>0.4</b>        |
| P/S TTM                   | <b>0.1</b>        |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3      | Q4    | Annual* |
|------|-------|-------|---------|-------|---------|
| 2022 | 500 E | 435 E | 1,027 E | 677 E | 2,886 E |
| 2021 | 462 E | 467 E | 989 E   | 725 E | 2,642 E |
| 2020 | 634 A | 644 A | 1,128 A | 755 A | 3,160 A |

### EPS Estimates

|      | Q1        | Q2        | Q3       | Q4       | Annual*  |
|------|-----------|-----------|----------|----------|----------|
| 2022 | -\$0.11 E | -\$0.15 E | \$1.63 E | \$0.65 E | \$2.44 E |
| 2021 | -\$0.45 E | -\$0.25 E | \$1.43 E | \$0.57 E | \$1.59 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/25/2020. The reports text is as of 03/26/2020.

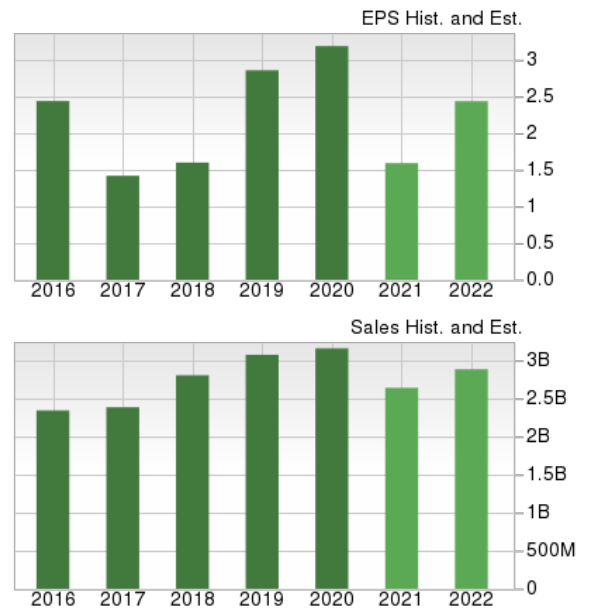
## Overview

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.



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## Reasons To Buy:

▲ **Positive Earnings Surprise History:** G-III Apparel's robust earnings surprise history continued in the fourth quarter of fiscal 2020. Notably, the company delivered 12th straight bottom-line beat in the fiscal fourth quarter. The metric also improved 36.4% year over year in the reported quarter. Strength in the Calvin Klein, Tommy Hilfiger and DKNY brands has been a major boost. Moreover, the company's e-commerce business is performing well, with DKNY and Karl Lagerfeld recording double-digit sales growth. Moving along, management is on track with the restructuring of retail operations, which will bring down the number of stores and consequently cut losses from underperforming locations. G-III Apparel expects to continue leveraging strength in its global power brands — DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld — by enhancing and developing new designs.

Strength in G-III Apparel's DKNY and Donna Karan brands are likely to continue. These brands registered year-over-year sales growth of about 25% in fiscal 2020.

▲ **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. 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 forward, 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 for the fourth quarter and fiscal 2020.

▲ **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 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. Additionally, the company is obtaining price concessions from vendor partners in China and implementing appropriate wholesale price increases.

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## Reasons To Sell:

- ▼ **Sluggish Retail Business Hurts Stock:** Shares of G-III Apparel have plunged 76.2% in the past three months, wider than the industry's 41% decline. Most of this downside is caused by G-III Apparel's retail business that has been dismal for a while, due to weakness in underlying brands. In the fourth quarter of fiscal 2020, the retail segment's net sales fell 16% from the prior-year quarter's figure. The segment witnessed sales decline across Wilsons and G.H. Bass. Notably, same-store sales declined nearly 6% at Wilsons and 10% at G.H. Bass. Decline in about 26 stores operated by the company also exerted pressure on the segment's performance. Moreover, the segment's gross margin contracted 300 basis points in the fiscal fourth quarter, which also impacted overall gross margin. However, management is focusing on restructuring of retail operations, which will bring down the number of stores and consequently cut losses from underperforming locations. Nevertheless, loss of sales from store closures is also likely to hurt the segment's performance in the near term. Apparently, persistence weakness in the retail business has been weighing on the company's overall top-line performance.
- ▼ **Dismal Sales Surprise Trend:** We note that the company's unimpressive sales surprise trend continued for the sixth straight time in the fourth quarter of fiscal 2020. Moreover, net sales fell 1.6% year over year in the reported quarter. The metric was mainly hurt by warm weather conditions during the holiday season and in January. This weighed on sales of winter apparel, comprising the outerwear category. Also, decline in sales at the company's wholesale and retail divisions adversely impacted the overall top line in the fiscal fourth quarter. Net sales for the Wholesale segment dipped roughly 1% to \$635 million, mainly hurt by brands in the winter apparel categories.
- ▼ **COVID-19 Impacts:** Although G-III Apparel posted impressive bottom-line results in fourth-quarter fiscal 2020, it is not spared from the adverse impacts of coronavirus pandemic. Apparently, management informed that it has closed retail stores and corporate offices, and has been working remotely in view of the coronavirus outbreak. Further, it informed that it has been monitoring developments of the pandemic and its impact on sales, operations and supply chain. Consequently, G-III Apparel has not provided any outlook for fiscal 2021. Furthermore, the company expects minimal delays in production and transit times, depending on the current updates for factory operations in China and other affected areas. Sales from the retail partners and the company's retail stores are also facing the brunt.

Dismal performance of the 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 Beats on Earnings Estimates in Q4

G-III Apparel posted impressive fourth-quarter fiscal 2020 earnings results. Strength in the Calvin Klein, Tommy Hilfiger and DKNY brands has been a major boost. Moreover, the company's e-commerce business is performing well, with DKNY and Karl Lagerfeld recording double-digit sales growth. Going forward, management is on track with the restructuring of retail operations, which will bring down the number of stores and consequently cut losses from underperforming locations.

G-III Apparel expects to continue leveraging strength in its global power brands — DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld — by enhancing and developing new designs.

However, management informed that it has closed retail stores and corporate offices, and has been working remotely in view of the coronavirus outbreak. Further, it informed that it has been monitoring developments of the pandemic and its impact on sales, operations and supply chain. Consequently, G-III Apparel has not provided any outlook for fiscal 2021 as of now. Furthermore, the company expects minimal delays in production and transit times, depending on the current updates for factory operations in China and other affected areas. Sales from the retail partners and its retail stores are also facing the brunt.

#### Q4 in Detail

Adjusted earnings improved 36.4% year over year to 75 cents per share and surpassed the Zacks Consensus Estimate of 68 cents.

Net sales fell 1.6% year over year to \$754.6 million. Moreover, the top line missed the Zacks Consensus Estimate of \$792 million, marking the sixth straight quarter of sales miss. Sales were mainly hurt by warm weather conditions during the holiday season and in January. This weighed on sales of winter apparel, comprising outerwear. Also, decline in sales at the wholesale and retail divisions impacted the overall top line.

Moreover, gross profit declined 3% year over year to \$251.1 million. Meanwhile, gross margin of 33.3% contracted 50 basis points (bps), mainly attributable to the lower penetration of the retail segment, partly offset by growth in wholesale unit.

However, SG&A expenses contracted 7.2% year over year to \$187.3 million. Further, operating profit plunged 27.3% to \$32.3 million in the fiscal fourth quarter, while operating margin contracted 150 bps to 4.3%.

#### Segmental Performance

Net sales for the **Wholesale** segment were \$635 million, down roughly 1% year over year, mainly hurt by brands in the winter apparel categories. The decline was somewhat offset by growth in the Tommy Hilfiger and DKNY brands.

Net sales at the **Retail** segment totaled \$131 million, down nearly 16% from the prior-year quarter's reported figure. The segment witnessed sales declines across Wilsons and G.H. Bass, somewhat offset by growth in DKNY. Notably, same-store sales declined nearly 6% at Wilsons and 10% at G.H. Bass, while the metric rose 3% at DKNY stores. Decline in about 26 stores operated by the company also built pressure on the segment's performance.

#### Other Financial Details

G-III Apparel ended fourth-quarter fiscal 2020 with cash and cash equivalents of \$197.4 million and long-term debt of \$397.5 million. Total stockholders' equity was \$1,290.7 million. It spent roughly \$38 million as capital expenditure.

At fiscal 2020-end, the company had roughly \$600 million under its \$650-million revolving credit facility.

Quarter Ending 01/2020

|                  |              |
|------------------|--------------|
| Report Date      | Mar 19, 2020 |
| Sales Surprise   | -4.70%       |
| EPS Surprise     | 10.29%       |
| Quarterly EPS    | 0.75         |
| Annual EPS (TTM) | 3.22         |

## Valuation

G-III Apparel shares are down 77.4% in the year-to-date period and nearly 80.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 43.3% and 29.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 36.7% and 19.8%, respectively.

The S&P 500 index is down 23.8% in the year-to-date period and 13.4% in the past year.

The stock is currently trading at 2.44X forward 12-month earnings, which compares to 12.03X for the Zacks sub-industry, 15.86X for the Zacks sector and 14.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.43X and as low as 1.45X, with a 5-year median of 15.45X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$8 price target reflects 2.58X 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       | 2.44  | 12.03        | 15.86  | 14.72   |
|                            | 5-Year High   | 24.43 | 23.06        | 23.23  | 19.34   |
|                            | 5-Year Low    | 1.45  | 12.03        | 15.86  | 14.72   |
|                            | 5-Year Median | 15.45 | 17.99        | 19.89  | 17.42   |
| P/S F12M                   | Current       | 0.11  | 1.46         | 1.66   | 2.68    |
|                            | 5-Year High   | 1.31  | 2.58         | 3.19   | 3.43    |
|                            | 5-Year Low    | 0.06  | 1.46         | 1.66   | 2.54    |
|                            | 5-Year Median | 0.57  | 2.05         | 2.53   | 3       |
| EV/EBITDA TTM              | Current       | 4.69  | 12.65        | 8.91   | 9.16    |
|                            | 5-Year High   | 17.12 | 26.49        | 17.6   | 12.88   |
|                            | 5-Year Low    | 4.16  | 11.09        | 8.26   | 8.27    |
|                            | 5-Year Median | 9.87  | 18.02        | 12.28  | 10.78   |

As of 03/25/2020

## Industry Analysis Zacks Industry Rank: Bottom 8% (234 out of 253)



## Top Peers

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

| Industry Comparison Industry: Textile - Apparel |              |            |           | Industry Peers |              |              |
|---|--------------|------------|-----------|----------------|--------------|--------------|
|   | GIII Neutral | X Industry | S&P 500   | GIL Neutral    | LULU Neutral | TLRD Neutral |
| <b>VGM Score</b>                                | <b>D</b>     | -          | -         | <b>B</b>       | <b>F</b>     | <b>B</b>     |
| Market Cap                                      | 361.43 M     | 449.51 M   | 17.53 B   | 2.40 B         | 25.23 B      | 77.96 M      |
| # of Analysts                                   | 7            | 4          | 13        | 5              | 16           | 2            |
| Dividend Yield                                  | 0.00%        | 0.00%      | 2.47%     | 5.11%          | 0.00%        | 0.00%        |
| <b>Value Score</b>                              | <b>C</b>     | -          | -         | <b>A</b>       | <b>F</b>     | <b>A</b>     |
| Cash/Price                                      | 0.19         | 0.19       | 0.07      | 0.03           | 0.03         | 0.22         |
| EV/EBITDA                                       | 4.65         | 7.28       | 10.68     | 7.28           | 30.09        | 7.82         |
| PEG Ratio                                       | 0.50         | 1.27       | 1.64      | 0.67           | 1.92         | NA           |
| Price/Book (P/B)                                | 0.29         | 0.83       | 2.32      | 1.31           | 15.30        | NA           |
| Price/Cash Flow (P/CF)                          | 1.85         | 4.53       | 9.40      | 4.83           | 39.79        | 0.39         |
| P/E (F1)  | 5.33         | 8.88       | 14.14     | 7.34           | 34.83        | 7.85         |
| Price/Sales (P/S)                               | 0.11         | 0.46       | 1.82      | 0.85           | 6.73         | 0.03         |
| Earnings Yield                                  | 21.00%       | 11.23%     | 7.02%     | 13.61%         | 2.87%        | 12.42%       |
| Debt/Equity                                     | 0.74         | 0.65       | 0.70      | 0.50           | 0.34         | -18.52       |
| Cash Flow (\$/share)                            | 4.08         | 2.16       | 7.01      | 2.49           | 4.87         | 4.08         |
| <b>Growth Score</b>                             | <b>D</b>     | -          | -         | <b>B</b>       | <b>C</b>     | <b>C</b>     |
| Hist. EPS Growth (3-5 yrs)                      | 6.78%        | 3.50%      | 10.85%    | 10.36%         | 22.60%       | -3.91%       |
| Proj. EPS Growth (F1/F0)                        | -50.07%      | -6.99%     | 3.53%     | -1.08%         | 13.39%       | -81.02%      |
| Curr. Cash Flow Growth                          | 6.85%        | 8.09%      | 5.93%     | -9.96%         | 38.28%       | -30.42%      |
| Hist. Cash Flow Growth (3-5 yrs)                | 9.97%        | 4.12%      | 8.55%     | 5.30%          | 14.16%       | -6.59%       |
| Current Ratio                                   | 2.36         | 1.75       | 1.23      | 3.58           | 2.53         | 1.33         |
| Debt/Capital                                    | 42.58%       | 39.71%     | 42.57%    | 33.21%         | 25.49%       | 99.76%       |
| Net Margin                                      | 4.55%        | 3.58%      | 11.64%    | 9.20%          | 15.10%       | -2.75%       |
| Return on Equity                                | 12.97%       | 11.95%     | 16.74%    | 17.89%         | 39.71%       | -138.49%     |
| Sales/Assets                                    | 1.17         | 1.13       | 0.54      | 0.86           | 1.49         | 1.15         |
| Proj. Sales Growth (F1/F0)                      | -16.40%      | 0.00%      | 2.51%     | 3.06%          | 14.26%       | -13.60%      |
| <b>Momentum Score</b>                           | <b>F</b>     | -          | -         | <b>F</b>       | <b>F</b>     | <b>F</b>     |
| Daily Price Chg                                 | 11.16%       | 0.51%      | 2.41%     | 6.07%          | 0.46%        | 11.81%       |
| 1 Week Price Chg                                | -60.08%      | -19.20%    | -16.96%   | -39.64%        | -6.64%       | -34.95%      |
| 4 Week Price Chg                                | -67.43%      | -34.00%    | -23.98%   | -51.82%        | -18.84%      | -50.61%      |
| 12 Week Price Chg                               | -77.40%      | -44.83%    | -27.80%   | -59.19%        | -16.42%      | -61.11%      |
| 52 Week Price Chg                               | -80.25%      | -57.11%    | -18.55%   | -66.37%        | 31.89%       | -80.03%      |
| 20 Day Average Volume                           | 1,529,609    | 192,247    | 4,285,848 | 1,743,527      | 3,161,020    | 2,823,874    |
| (F1) EPS Est 1 week change                      | -43.74%      | -2.48%     | 0.00%     | -8.37%         | -2.48%       | -80.19%      |
| (F1) EPS Est 4 week change                      | -48.37%      | -6.94%     | -1.83%    | -13.85%        | -3.61%       | -80.84%      |
| (F1) EPS Est 12 week change                     | -48.18%      | -11.92%    | -2.90%    | -15.88%        | -1.95%       | -82.33%      |
| (Q1) EPS Est Mthly Chg                          | -331.62%     | -36.75%    | -1.37%    | -36.36%        | -11.91%      | -281.58%     |

## 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   | D |
| Momentum Score | F |
| 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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