

G III APPAREL GROUP LTD /DE/
Form 10-K
March 28, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0 18183

G-III APPAREL GROUP, LTD.

(Exact name of registrant as specified in its charter)

| | |
|--|---|
| Delaware (State or other jurisdiction of incorporation or organization) | 41 1590959 (I.R.S. Employer Identification No.) |
| 512 Seventh Avenue, New York, New York (Address of principal executive offices) | 10018 (Zip Code) |

Registrant's telephone number, including area code:

(212) 403 0500

Securities registered pursuant to Section 12(b) of the Act:

| | |
|--|---|
| Title of Class Common Stock, \$0.01 par value | Name of Exchange on which registered Nasdaq Global Select Market |
|--|---|

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b 2 of the Exchange Act.

| | |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Act) Yes No

As of July 31, 2018, the aggregate market value of the registrant's voting stock held by non-affiliates of the registrant (based on the last sale price for such shares as quoted by the Nasdaq Global Select Market) was approximately \$2,069,366,515.

The number of outstanding shares of the registrant's Common Stock as of March 25, 2019 was 48,708,410.

Documents incorporated by reference: Certain portions of the registrant's definitive Proxy Statement relating to the registrant's Annual Meeting of Stockholders to be held on or about June 13, 2019, to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934 with the Securities and Exchange Commission, are incorporated by reference into Part III of this Report.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this Annual Report on Form 10 K or incorporated by reference into this Annual Report on Form 10 K, in future filings by us with the Securities and Exchange Commission (the “SEC”), in our press releases and in oral statements made from time to time by us or on our behalf constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as “anticipate,” “estimate,” “expect,” “will,” “project,” “we believe,” “is or remains optimistic,” “currently envisions,” “forecasts,” “goal” and similar words or phrases and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from the future results, performance or achievements expressed in or implied by such forward-looking statements. Forward-looking statements also include representations of our expectations or beliefs concerning future events that involve risks and uncertainties, including, but not limited to, those described in Part I, “Item 1A. Risk Factors” and the following:

- our dependence on licensed products;
- our dependence on the strategies and reputation of our licensors;
- costs and uncertainties with respect to expansion of our product offerings;
- the performance of our products at retail and customer acceptance of new products;
- retail customer concentration;
- risks of doing business abroad;
- price, availability and quality of materials used in our products;
- the need to protect our trademarks and other intellectual property;
- risks relating to our retail business;
- dependence on existing management;
- our ability to make strategic acquisitions and possible disruptions from acquisitions;
- need for additional financing;
- seasonal nature of our business;
- our reliance on foreign manufacturers;
- the need to successfully upgrade, maintain and secure our information systems;
- data security or privacy breaches;
- the impact of the current economic and credit environment on us, our customers, suppliers and vendors;
- the effects of competition in the markets in which we operate, including from e-commerce retailers;
- the redefinition of the retail store landscape in light of widespread retail store closings and the bankruptcy of a number of prominent retailers;
- consolidation of our retail customers;
- the impact on our business of the imposition of tariffs by the United States government and the escalation of trade tensions between countries;
- additional legislation and/or regulation in the United States or around the world;
- our ability to import products in a timely and cost effective manner;
- our ability to continue to maintain our reputation;
- fluctuations in the price of our common stock;
- potential effect on the price of our common stock if actual results are worse than financial forecasts;
- the effect of regulations applicable to us as a U.S. public company; and
- our ability to successfully implement our business strategies to realize the anticipated benefits of the acquisition of Donna Karan International Inc. (“DKI”).

Any forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. A detailed discussion of significant

risk factors that have the potential to cause our actual results to differ materially from our expectations is described in Part I of this Form 10 K under the heading “Risk Factors.” We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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WEBSITE ACCESS TO REPORTS

Our website is www.g-iii.com. We make available, free of charge, on our website (under the heading “Investors”) our Annual Reports on Form 10 K, Quarterly Reports on Form 10 Q, Current Reports on Form 8 K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. No information contained on our website is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10 K. Information relating to our corporate governance, including copies of our Code of Ethics and Conduct, Audit, Compensation and Nominating and Corporate Governance Committee Charters, and other policies and guidelines, are available at our website under “Investors.” Paper copies of these filings and corporate governance documents are available to stockholders free of charge by written request to Investor Relations, G-III Apparel Group, Ltd., 512 Seventh Avenue, 31st Floor, New York, New York 10018. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC’s website is <http://www.sec.gov>.

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ITEM 1. BUSINESS.

Unless the context otherwise requires, “G-III,” “us,” “we” and “our” refer to G-III Apparel Group, Ltd. and its subsidiaries. References to fiscal years refer to the year ended or ending on January 31 of that year. For example, our fiscal year ended January 31, 2019 is referred to as “fiscal 2019.”

G-III Apparel Group, Ltd. is a Delaware corporation that was formed in 1989. We and our predecessors have conducted our business since 1974.

All share and per share data in this Annual Report on Form 10 K have been retroactively adjusted to reflect our two-for-one stock split effected on May 1, 2015.

Overview

G-III designs, sources and markets an extensive range of apparel, including 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 substantial portfolio of more than 30 licensed and proprietary brands, anchored by five global power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld Paris. We are not only licensees, but also brand owners, and we distribute our products through multiple channels of distribution including brick and mortar and online channels.

Our own proprietary brands include DKNY, Donna Karan, Vilebrequin, G.H. Bass, Andrew Marc, Marc New York, Eliza J and Jessica Howard. We sell products under an extensive portfolio of well-known licensed brands, including Calvin Klein, Tommy Hilfiger, Karl Lagerfeld Paris, Kenneth Cole, Cole Haan, Guess?, Vince Camuto, Levi’s and Dockers. Through our team sports business, we have licenses with the National Football League, National Basketball Association, Major League Baseball, National Hockey League, Starter and over 150 U.S. colleges and universities. We also sell products under private retail labels for retailers such as Costco, Ross Stores and Nordstrom.

Our products are sold through a cross section of leading retailers such as Macy’s, Dillard’s, Hudson’s Bay Company, including their Lord & Taylor and Saks Fifth Avenue divisions, Nordstrom, TJX Companies, Ross Stores and Burlington. We also sell our products over the web through retail partners such as macys.com and nordstrom.com, each of which has a substantial online business. In addition, we sell to pure play online retail partners such as Amazon and Fanatics.

We also distribute apparel and other products through our own retail stores. Substantially all of our DKNY, Wilsons Leather and G.H. Bass stores are operated as outlet stores. As of January 31, 2019, we operated 139 Wilsons Leather stores, 111 G.H. Bass stores, 42 DKNY stores, 11 Karl Lagerfeld Paris stores and 5 Calvin Klein Performance stores, of which 300 were located in the continental United States and 8 are located internationally. Wilsons Leather, G.H. Bass, DKNY and Karl Lagerfeld Paris each operates its own online store. In addition, as of January 31, 2019, Vilebrequin products were distributed through 96 company-operated stores, as well as through 68 franchised locations and e-commerce stores in Europe and the United States.

Segments

We report based on two segments: wholesale operations and retail operations.

Our wholesale operations segment includes sales of products under brands licensed by us from third parties and sales of products under our own brands and private label brands, as well as sales related to the Vilebrequin business. Wholesale revenues also include royalty revenues from license agreements related to trademarks owned by the DKNY, Donna Karan, Vilebrequin, G.H. Bass and Andrew Marc businesses.

Our retail operations segment includes direct sales to consumers through company-operated stores and product sales through our owned websites for the DKNY, Donna Karan, Wilsons Leather, G.H. Bass and Karl Lagerfeld Paris businesses. Our retail operations segment consists primarily of our Wilsons Leather, G.H. Bass and DKNY stores, substantially all of which are operated as outlet stores, as well as a limited number of Calvin Klein Performance and Karl Lagerfeld Paris stores.

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Strategic Initiatives

We are focused on the following strategic initiatives, which we believe are critical to our long-term success:

- Owing brands: We now own a portfolio of proprietary brands, including DKNY, Donna Karan, Vilebrequin, G.H. Bass and Andrew Marc. Owing our own brands is advantageous to us for several reasons:
 - We can realize significantly higher operating margins because we are not required to pay licensing fees on sales by us of our proprietary products and can also generate licensing revenues (which have no related cost of goods sold) for classes of products not manufactured by us.
 - There are no channel restrictions, permitting us to market our products internationally, and to utilize a variety of different distribution channels, including online and off-price channels.
 - We are able to license our proprietary brands in new categories and geographies to best in class licensees.
 - We are able to build equity in these brands to benefit the long-term interests of our stockholders.

- Focusing on our five global power brands: While we sell products under more than 30 licensed and proprietary brands, five global power brands anchor our business: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld Paris. Each of these brands has substantial name recognition and is well-known in the marketplace. We believe each brand also provides us with significant growth opportunities.

- Expanding our international business: We continue to expand our international business and enter into new markets worldwide. We believe that the international sales and profit opportunity is quite significant for our DKNY and Donna Karan businesses.

- Increasing online business opportunities: We are continuing to make changes to our business to address the additional challenges and opportunities created by the evolving role of the online marketplace in the retail sector and expect to increase the sale of our products in an omni-channel environment. We are investing in digital personnel, marketing, logistics, planning and distribution. We believe that consumers are increasingly engaging with brands through online channels, and that this trend will continue to grow in the coming years. The five global power brands that serve as the anchor of our business position us to be the direct beneficiaries of this trend, whether by continuing to leverage our partnerships with the online businesses operated by our licensors and major retailers to facilitate customer engagement or by building out our own online capabilities.

- Reducing the losses in our retail business: We are also focusing on significantly reducing the losses of our retail business with the goal of attaining profitability by terminating or renegotiating long-term leases as they come up for renewal, implementing cost-cutting initiatives, revising our merchandising strategies and repurposing certain Wilsons and G.H. Bass stores for our Karl Lagerfeld Paris or DKNY brands. We also hired a new President of our retail business who is an industry veteran with a proven track record at leading retailers.

The ongoing development of the DKI businesses serves as a pillar of our strategic efforts. The acquisition of DKI added two proprietary power brands to our growing portfolio and the ability to expand our footprint globally, while

enabling us to compete more effectively in omni-channel retail. The acquisition of DKI fit squarely into our strategy to diversify and expand our business and to increase our ownership of brands. We believe that DKNY and Donna Karan are two of the most iconic and recognizable power brands and that we are well positioned to unlock their potential, resulting in a much bigger opportunity than their previous management had realized. We are focusing on the expansion of the DKNY brand, while continuing to re-establish Donna Karan and other associated brands. We are leveraging our demonstrated ability to drive organic growth and develop talent throughout our company to maximize the potential of the DKNY and Donna Karan brands.

In fiscal 2018 and fiscal 2019, we restructured and repositioned the DKNY and Donna Karan brands. We re-launched the DKNY apparel line and also re-launched Donna Karan as an aspirational luxury brand that is priced above DKNY and targeted to fine department stores globally. These steps began paying off in the second half of fiscal 2018 and through fiscal 2019. Our strategy is for DKNY and Donna Karan to be more accessible brands, both designed and priced to reach a wider range of customers. We believe there is untapped global licensing and distribution potential for these brands and intend to grow royalty streams in the DKNY and Donna Karan businesses through expansion of additional categories with existing licensees, as well as new categories with new licensees. We are committed to making DKNY the premier fashion and lifestyle brand.

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We also entered into a joint venture to produce and market women's and men's apparel and accessories under a long-term license for DKNY and Donna Karan in the People's Republic of China, including Macau, Hong Kong and Taiwan. The operators of the joint venture were formerly executives of Tommy Hilfiger and were instrumental in the expansion of the Tommy Hilfiger brand in China. This joint venture is the exclusive seller of women's and men's apparel, handbags, luggage and certain accessories under the DKNY and Donna Karan brands in the territory. The joint venture commenced operations in the second half of fiscal 2018 and was operating approximately 50 points of sale as of January 31, 2019.

The acquisition of DKI was not our only recent important strategic initiative. We have continually expanded our relationship with Calvin Klein, our most important license relationship representing over \$1 billion of our sales in fiscal 2019. Initially, we had licenses for Calvin Klein men's and women's outerwear. We subsequently added licenses for women's suits, dresses, women's performance wear, women's better sportswear, men's and women's swimwear, women's handbags and small leather goods and luggage, as well as to operate Calvin Klein Performance retail stores in the United States.

We have continued to expand our partnership with the Karl Lagerfeld Paris brand as we now design, source and produce women's apparel, women's handbags, men's apparel and women's and men's footwear. We have expanded our licensing relationship with Tommy Hilfiger which includes all women's apparel categories (excluding intimates, sleepwear and accessories) in the United States and Canada. This expansion complemented our other Tommy Hilfiger licenses for men's and women's outerwear and luggage.

Competitive Strengths

We believe that retailers today are seeking resources with the size and power to partner effectively on all aspects of the supply chain, from design, sourcing and quality control to logistics and warehousing. We believe that G-III is a partner of choice in these endeavors, and that we are able to capitalize on the following competitive strengths to expand our position as an all-season diversified apparel company:

Broad portfolio of recognized brands. In an environment of rapidly changing consumer fashion trends, we benefit from a balanced mix of more than 30 licensed and proprietary brands anchored by five global power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld Paris. We believe we are a licensee of choice for well-known brands, as demonstrated by our partnerships with such brands as Calvin Klein, Tommy Hilfiger, Karl Lagerfeld Paris, Kenneth Cole, Cole Haan, Guess?, Vince Camuto, Levi's and Dockers that have built a loyal following of both fashion-conscious consumers and retailers who desire high quality, well designed products. In addition to our licensed brands, we own a number of proprietary brands, including DKNY, Donna Karan, Vilebrequin, G.H. Bass, Andrew Marc, Marc New York, Eliza J and Jessica Howard. Our experience in developing and acquiring licensed brands and proprietary labels, as well as our reputation for producing high quality, well-designed apparel, has led major department stores and retailers to select us as a designer and manufacturer for their own private label programs.

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We currently market apparel and other products under, among others, the following licensed and proprietary brand names:

| Women's | Men's | Team Sports |
|----------------------|----------------------|---------------------------------|
| Licensed Brands | | |
| Calvin Klein | Calvin Klein | National Football League |
| Tommy Hilfiger | Tommy Hilfiger | Major League Baseball |
| Karl Lagerfeld Paris | Karl Lagerfeld Paris | National Basketball Association |
| Guess? | Guess? | National Hockey League |
| Kenneth Cole | Kenneth Cole | Touch by Alyssa Milano |
| Cole Haan | Cole Haan | Collegiate Licensing Company |
| Levi's | Levi's | Starter |
| Vince Camuto | Dockers | Alliance of American Football |
| Kensie | | |