

GES Earnings Call Transcript

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Quarter: 2

Operator: Good day, everyone, and welcome to the Guess? Second Quarter Fiscal 2025 Earnings Conference Call. I would now like to turn the call over to Fabrice Benarouche, Senior Vice President of Finance, Investor Relations and Chief Accounting Officer. Please go ahead.

Fabrice Benarouche: Thank you operator. Good afternoon, everyone, and thank you for joining us today. On the call today with me are Carlos Alberini, Chief Executive Officer; and Dennis Secor, Interim Chief Financial Officer. During today's call, the company will be making forward-looking statements, including comments regarding future plans, strategic initiatives, capital allocation, and short and long term outlooks. The company's actual results may differ materially from current expectations based on risk factors included in today's press release and the company's quarterly and annual reports filed with the SEC. Comments will also reference certain non-GAAP or adjusted measures. GAAP reconciliations and descriptions of these measures can be found in today's earnings release. Now I will turn it over to Carlos.

Carlos Alberini: Thank you Fabrice, and thank you all for joining us for our Q2 fiscal 2025 quarterly conference call. Before I discuss our operating results, I want to briefly touch on our CFO transition. As you all know, Markus Neubrand has stepped down from his CFO position with us to pursue another opportunity that will bring him closer to his family. We wish Markus the best in his future endeavors. We have opened a search for a permanent CFO to be based in Lugano, Switzerland. While that search is ongoing, I am extremely pleased that Dennis Secor will step into the Interim Chief Financial Officer position. Dennis held this role before Markus joined. He brings a wealth of experience to the role and works very well with our teams across the company. I have great confidence in Dennis and our entire finance team as we move forward. So with that, let me review our operating results. In the quarter, overall, we performed in-line with our expectations. Revenues grew 10% in U.S. dollars and 13% in constant currency, reaching \$733 million. During the period, all our segments except for Asia posted revenue growth. Our core Guess business performed well in European wholesale as it has been consistently for several years now. We also drove growth in our Americas wholesale business, delivering strong top line increases in the U.S. and Mexico. In our European retail business, while we still delivered a positive comp sales increase, we did experience lower traffic into our stores, but we were able to more than offset the traffic headwind with stronger conversion and higher AURs. In our Guess? Americas retail business, our performance did not meet our expectations. Traffic continues to be tough in that market and our comp sales declined. Similarly, sales in our Asia business declined and did not meet our expectations. Turning to our product performance, we continue to see different levels of performance across regions. In Europe, our footwear and accessories were the leading categories, contributing to the positive comps with strong momentum in sneakers and handbags. In apparel, knit tops for both genders and women's denim delivered positive comps, while dresses and outerwear saw some decline in sales. In the Americas, consistent with the first quarter, we saw declines in both our women's and men's businesses, while activewear was our best performing category across both genders. Similar to the first quarter as well, accessories outperformed apparel with positive momentum in both travel accessories and women's watches. And finally, our Licensing business performed well, delivering a revenue increase of 4% to \$29 million, mainly with footwear being the best performing category for the period. Turning to rag & bone, we are extremely pleased with how the business

performed and how the assimilation of the business onto our platform is progressing. Overall, the business delivered a good quarter, contributing solid growth for the company and in-line with our expectations. These results were driven by a great performance of the wholesale business, which experienced strong demand of new product in key categories from multiple customers. It's highly rewarding to note that the sellout these customers are experiencing is above expectations, contributing to higher ordering activity. The direct-to-consumer business performed slightly below expectations. It's been only four months since we completed the acquisition, but the transition is going smoothly and our teams are working very well together already. Turning to total company SG&A.; In the quarter, we invested significantly to support our objectives to drive long term growth. While we increased our adjusted SG&A; spending year-over-year, about 70% of that increase was directed towards our growth initiatives. That includes investing in rag & bone growth and more than doubling our marketing and advertising investments for the whole company to build stronger brand awareness across our entire portfolio. In the quarter, we delivered adjusted operating profit of \$38 million and an adjusted operating margin of 5.2%, just outside of the range of our expectations and we delivered adjusted earnings per share of \$0.42. We are clearly operating in a dynamic environment where the customer is very selective and more sensitive to price and promotions. Also, as we all know, during the last few years operating costs across the Board have increased as a result of inflationary factors. All considered, our teams have been doing a remarkable job to grow our business and control what is controllable, including costs, inventories and margins to optimize our results. Which brings me to our outlook that we have updated to reflect the softer consumer environment that we are seeing and expect will continue through the second half of the year. We still expect to exceed \$3 billion in revenues this year, although now we expect revenue growth between 9.5% and 11%. And we now have revised our adjusted earnings per share expectations for the year to between \$2.42 and \$2.70. Dennis will take you through our outlook in more detail in just a few minutes. Even as we have updated our guidance for the year, we continue to make progress against a number of important operational, strategic and financial objectives. On our last call, I spoke about how we have built a company that is more than just one brand. It's a platform. In the four plus decades since Paul and his brothers founded Guess?, we have expanded the business and created a wide global footprint, broad channel capabilities, extensive supply chains and a diverse category portfolio. All of that is a powerful arsenal, providing us with significant competitive advantages and affording us the opportunity to drive long-term sustainable growth and shareholder value creation. We believe that we can do things that others simply cannot do. To take regional brands and extend them globally and transform single category brands into lifestyle brands. We can grow things exponentially because we can do it across multiple dimensions and we are well positioned to do it supported by a strong capital structure, significant cash flow generation and ample access to capital. I am very excited about the opportunities that lie before us, as are Paul, and our entire team who are all fully committed to this vision. This year is the inflection point, a year of transition and investment as we begin to execute on our vision. So let me share how our key initiatives are working together to put the company on the path to accelerated growth. I will touch specifically on the progress that we are making at rag & bone. The Guess Jeans launch, our new marketing strategy, our organizational development plan, our logistics network and our capital structure. I will review our accomplishments from the second quarter and how our quarter's activities support our overall long term strategic objectives. Let me begin with rag & bone. We completed this acquisition with WHP Global just a short four months ago and the transition has been going smoothly, as I mentioned earlier. Our teams are working seamlessly together, led by Andrew Rosen and Paul, we have already begun leveraging our platform's capabilities that will enable us to realize the full potential of this amazing brand. In the second quarter, we began expanding our rag & bone marketing investments in existing markets, mainly the U.S., but also in new markets like Europe where the brand is not yet fully recognized except in the U.K. We have begun looking for locations to open new stores in multiple important cities in Europe and beyond. In fact, we already signed an agreement for a new store in a great location in Amsterdam that will be an incredible introduction of the brand to consumers and in that market. In addition to Europe, we are in discussions with potential partners to represent the rag & bone brand in other new markets including Mexico, Latin America, Middle East and Australia. Paul and our teams are also leveraging our relationships with product licensee partners to expand the brand's offering and bring more categories to

the brand. We have reached an agreement with one of our partners that will enable us to increase and enhance rag & bone's handbag offering with more to come. We are also working with the WHP management team led by Yehuda Shmidman to explore other licenses for products and territories. And Andrew and his team are now working closely with our product development and sourcing teams to leverage our vendor relationships, take advantage of our combined volumes and drive efficiencies into the rag & bone business. So much done in such a short period of time with so much more opportunity in front of us. Next is Guess Jeans, which we see as another opportunity to drive growth and address a very important customer category. As you know, under Nicolai Marciano's leadership, we brought Guess Jeans to market as a completely new lifestyle brand with its own identity and a multi-category assortment for women and men. The brand employs a new store concept, a beautiful design that targets the younger Gen-Z customer, but it's welcoming to all customers. And with its casual offering, and compelling price points, it fits well within our overall brand and pricing architecture to build an incremental business. Since launching this brand in the first quarter, we have presented the line to a select group of customers in Milan and to a much larger audience in Florence at Piazza Duomo, where we showed the collection twice in January and again in June. Guess Jeans again hosted an extremely successful weekend event at Coachella, also led by Nicolai. The event garnered billions of impressions and millions of views. Our first Guess Jeans sales campaign delivered orders well ahead of our expectations and the wholesale business is off to a strong start and we have opened two new stores, one in Amsterdam, the other one in Berlin, both terrific locations that we believe will do a great job introducing this new brand to the European consumer. Turning to marketing consumers are becoming more selective in how to manage their disposable income, and the world of social media and customer engagement has evolved tremendously in the last few years. As a result, we are challenging ourselves to enhance our marketing organizational capabilities to better support our existing brands as well as those to come. This year, we have engaged an external partner to conduct a brand review and we have benchmarked our marketing investments against many other companies in our space. From that work, we believe that there are opportunities to make incremental investments in social media, collaborations, customer engagement and CRM to connect more and differently with our customers, to ensure that we are listening to our customers and putting them at the center of everything we do, all designed to drive improved customer traffic to our stores and to our websites. We have already begun these investments. As I shared earlier, we more than doubled our marketing investments in the second quarter and we plan to continue to invest at higher levels than last year in the second half of the year as well. You will see these investments in our operating margin near term, as they don't necessarily deliver immediate returns. However, building these capabilities into our platform is critical to support and grow our core brands and a larger portfolio of brands. We have made significant strides in reinventing our organizational structure, but we see opportunity for additional refinement to better support a more global business with a broader brand portfolio. When I returned to the company in 2019, the company was being run with regional autonomy that was fit for purpose at the time, but it limited our ability for our whole team to leverage the full capabilities of our entire company. At the time, Paul and I saw an opportunity to globalize multiple functions to add brand consistency and increase operating efficiency. As you know, based on this vision, we began the process of migrating to a more global structure, one that provides services to multiple regions that maintains critical product and market decision making at the local level. We were pleased to launch one global line for all categories over the last few years and to be able to consolidate many related functions like design, product development and sourcing under one roof in Switzerland. We also moved our intellectual property to Switzerland and are at various stages of completion in globalizing other functions like IT, legal, finance, inventory management, logistics, marketing and licensing, just to name a few. As we continue this work and as we bring other brands onto our platform, it is an opportune time to enhance our organizational design to improve accountability and optimize decision making. As part of this, we will continue to strengthen our leadership to provide decision making at the regional level and with global positions such as Chief Commercial Officer and Chief Digital Officer. We have searched out for these roles, in addition to our CFO search. We are also focused on optimizing our operations to help ensure that we can access the best talent to execute our business. This has been the guiding principle that underpins our product licensee relationships, for example, we want to own those areas of our business where we feel that we

are best and leverage outside relationships and expertise in other areas. And logistics a vital part of our business is a great example of that. We conducted a review of our logistics function and network in the U.S., which we have traditionally managed internally, and concluded that we were operating sub-optimally in this critical function. This year, we transitioned our U.S. logistics function to GXO Logistics. The same third-party who has managed our European function for years. In addition, we are extending our GXO contract in Europe to leverage our combined volumes to drive even better economics. And in the second quarter, we sold the U.S. facility, freeing up important capital which we expect to deploy more strategically. As we look to the future, we will be prudent as we execute our plans, always disciplined in our stewardship of our shareholders capital. We also recognize that investment opportunities, including potential acquisitions, may emerge at any time, and we want to have the flexibility to take advantage of the right opportunities when they present themselves. To support that and help ensure that we are operating with ample access to capital, during the last few years, we have refinanced our convertible bonds, extending maturities for over \$360 million until 2028, and we did this under very favorable terms. We also recently expanded our U.S. credit facility by \$50 million to accommodate the addition of the rag & bone business. And last month, we completed a EUR100 million expansion of our credit facility in Europe. Dennis will share more about this in a moment. But with these actions, we have additional access to capital to support our vision for the continued growth of the business. Before I pass the call to Dennis for his remarks, I want to leave you with a couple of thoughts regarding our culture at Guess?, and how I see that as driving our ability to continue to grow and succeed for many years to come. As you know, my time with Guess? goes back to when I started as Chief Operating Officer and President in the year 2000. At that time, the company had annual sales of \$600 million and it was primarily a U.S. business. Since then, Guess? grew through international expansion that capitalized on a strong lifestyle brand positioning and today has sales of \$5.5 billion of retail value. The company has relentlessly adapted to market changes and succeeded when many others failed. I strongly believe that this capacity to adapt is at the core of our DNA as an organization and while it started with our founders, it has permeated the whole company. As our team continues to adapt, we are on a mission together. We wake up every morning inspired to delight our customers with amazing products and an extraordinary experience. We make decisions based on the long term. We don't have our eyes just on the next quarter, we are focused on the next generation. We want to grow our business and the profitability of our company and to reward all our shareholders with extraordinary returns. To me, that relentless focus I mentioned, and our ability to adapt are central to what makes this culture so special and so unique. And you don't find it every day or in everyone. But when you do, when you blend the right people with that culture, it can be so powerful, and something people want to be a part of for years to come. I think that explains why we have such long standing relationships in this company. I'm not unique, we have tremendous tenure throughout our team, including Paul, our leaders, those who have been promoted through our organization time and time again, and most of our licensees. And we couldn't be more thrilled to have welcomed Andrew and the entire rag & bone team, who share the same focus on mission and ability to adapt. Paul and I thank all our teams for a job well done in a challenging environment. Our thank you extends to all our associates worldwide, including all the members of the new rag & bone team. We greatly appreciate everyone's contributions. I couldn't be more proud of what we have accomplished together and more excited about how we are positioned and what lies in front of us. Thank you. And with that, I pass it to Dennis. Dennis, please go ahead.

Dennis Secor: Thank you, Carlos, and good afternoon, everyone. I'm pleased to step back into the Interim CFO role and help support the company in a smooth transition both now and as we bring on a new CFO in the near future. My thanks to you Carlos, and to the Board for your confidence. So now let's talk about our business. And just a reminder, we acquired rag & bone towards the end of the first quarter of this year. So our second quarter results include a full quarter of rag & bone's operations and those results have been integrated into our existing segments. So now on to the second quarter results. As Carlos mentioned, Q2 revenues increased 10% in U.S. dollars, reaching \$733 million in constant dollars our revenues grew 13%, overall our constant dollar revenue growth was driven primarily by the addition of rag & bone where we achieved sales that aligned with our expectations for the quarter. Constant dollar revenues for the core Guess? and Marciano business grew modestly, with growth in the

Americas wholesale and European businesses offsetting declines in both our Americas retail and Asia businesses. In Europe, we grew U.S. dollar revenues by 5%, reaching \$383 million. Revenues grew 8% in constant currency. Retail comps, including e-comm, increased 1% in U.S. dollars and 4% in constant currency. As in the past few quarters, Turkiye's hyperinflation had a meaningful impact on those comps. Excluding Turkiye, that constant dollar comp increase would have been 1%. In our stores, we delivered a constant currency comp increase of 3%. While we did experience softer traffic than a year ago, our performance benefited from higher conversion and AUR growth, driven by improved assortments and replenishment and a better customer experience. Our e-comm business improved sequentially with a 5% constant currency comp increase. Our European wholesale business continues to perform well, in fact, more strongly than we had expected for the quarter. We had assumed that some deliveries would slip into the third quarter given the current shipping challenges caused by the Red Sea crisis. However, while there are still some pockets of delays, our teams managed well and mitigated that risk. Wholesale revenues increased in the mid-single-digits in constant currency, as our wholesale partners welcomed our product to support good sales momentum in their businesses. The operating margin in our European business was 9.8%, 310 basis points lower than a year ago. Given higher operating expenses and further marketing investments. In the Americas, retail revenues grew 8%, reaching \$181 million. In constant dollars, the growth was 9%. The addition of rag & bone drove the segment's growth for the quarter and more than offset the headwinds coming from our Guess stores. Our North America core business remained challenging as headwinds in traffic persisted. Those traffic headwinds, coupled with the decline in conversion, resulted in an overall 10% constant currency comp decline in our retail stores. Including our e-comm business, that comp decline was also 10%. Americas retail posted a 1.5% operating margin, about an 8 point decrease from last year's Q2. While product margins improved in the quarter, the unfavorable impact of the comp decline on our core business expense base drove the operating margin decline. In Americas wholesale, revenues increased by 93% in U.S. dollars to \$84 million, driven by the addition of rag & bone along with higher shipments in both the U.S. and Mexico. The revenue increase in constant dollars was 94%. Operating margin reached 18.9%, about 6 points lower than last year's Q2, driven mainly by addition of rag & bone. In Asia, revenues were \$54 million, down 8% in U.S. dollars and 4% in constant currency. Growth from our new business in India and rag & bone was more than offset by lower retail comps, especially in Korea and China, and currency headwinds. Retail comps, including e-comm for the region decreased 10% in constant currency. Operating margin in Asia decreased 140 basis points to a negative 2.3%. And finally, our licensing segment performed well with revenues increasing 4% in both U.S. dollars and constant currency. Segment operating margin was 93.3%. In Q2, total company gross margin reached 43.7%, 60 basis points below a year earlier, mainly driven by higher store occupancy expenses from rent increases and slightly higher markdowns, partially offset by improvements in our IMUs. Adjusted SG&A; expenses for the quarter increased 23% to \$281 million. To reiterate Carlos' point, 70% of this growth comes from adding rag & bone and stepping up our marketing investments, including increasing advertising exposure for Guess? and building brand awareness for Guess Jeans. Infrastructure expenses also increased, primarily in Europe. For the quarter, our adjusted SG&A; rate increased 3.9 points to 38.4%. In the quarter, our adjusted operating margin declined 4.6 points to 5.2%, driven by our acquisition of rag & bone, investments in marketing, along with higher operating and store occupancy expenses. In the quarter, we recorded an adjusted effective tax rate of 26.3%. Adjusted Q2 diluted earnings per share was \$0.42 compared to \$0.72 in last year's second quarter. Two other items of significance. In the quarter within non-operating activity, we reported a net loss of \$40 million related to a non-cash unrealized loss due to the remeasurements of derivatives associated with our convertible notes and related hedge. We also recorded, as an increase to operating income a \$14 million gain on the sale of our U.S. distribution center property. We have excluded both of these amounts from the adjusted results I just reported, given both their size and atypical nature in order to facilitate a better understanding of our normal commercial operation. Moving now to the balance sheet. Our inventories were \$603 million at the end of the quarter, up 9% from a year ago, and they align well with our expectations for growth in the business. The additional inventory relates primarily to the acquisition of rag & bone. We continue to manage our inventory well and feel good about the composition of our inventory and our ability to service our business. For the first six months of the year, CapEx was

roughly \$41 million, mainly driven by investments in store remodels and openings and technology. In the quarter, we also returned additional capital to our shareholders, as we repurchased \$50 million of our own shares. We ended the quarter with \$219 million in cash, compared to \$303 million a year ago. Over the last four quarters, we've generated \$216 million of free cash flow and realized \$40 million from the sale of our USDC. We also have paid \$185 million in dividends, invested \$57 million to acquire rag & bone, and repurchased \$82 million of our shares. We ended the quarter with \$389 million of borrowing capacity on our various global facilities, so more than \$600 million of available liquidity. This liquidity includes the EUR100 million expansion of our European credit facility that we announced last month. We are very pleased to have secured that additional capacity, enhancing our access to long term capital. The expansion reflects our lenders confidence in our strategy and the importance of Europe to our company. As I move to our outlook, I first want to summarize the key factors that we experienced in the second quarter and how those have affected our outlook for the remainder of this year. I'll start with sales trends. In many of our businesses, during the second quarter, we encountered some softness and what appears to be a consumer who is being more prudent in their discretionary spending habits. That manifested itself in greater traffic headwinds to our stores and lower than expected conversion, leading to lower comp sales than we had expected. We estimate the net impact of these factors result in a global shortfall between \$20 million and \$25 million in the second quarter. We have reduced our retail revenue expectations for both the third and fourth quarters in a similar magnitude. Next, related to European wholesale, our business appears to be outperforming the market. While our wholesale accounts certainly operate in the same consumer environment as our retail stores, we believe, as we have for the last few years, that we are gaining share among our wholesale accounts. As those customers allocate more of their buys to their best brands, those brands with stronger sell throughs, with better assortments and more reliable deliveries, we tick all of those boxes for them. We now have good visibility into our spring summer '25 order book, which is nearly complete. Based on what we have seen thus far, we expect that order book will grow by roughly 10% compared to spring summer '24, stronger than we had initially planned. That product is expected to begin shipping in the fourth quarter of this year, and we have reflected these higher expectations in our outlook. Finally, currencies since we last provided our outlook, the U.S. dollar has weakened against some of our key operating currencies, most importantly for us, the euro. If exchange rates remain roughly in-line with where they are now, it should result in a modest increase in third and fourth quarter revenues versus our prior expectations, and a tailwind in both those quarters compared to last year. Based on these factors that we've incorporated into our outlook for the remainder of the year, we now expect full year revenue growth between 9.5% and 11%, compared to 10.7% and 12.7% in our prior expectations. Turning to the third quarter, we expect to continue to benefit from the inclusion of rag & bone revenues compared to last year. However, while the fourth quarter has historically been the largest revenue quarter for our core Guess? business, and still is, that is not the case for rag & bone. Given their larger mix of wholesale business, their revenues are highest in the third quarter to get deliveries into their partner channels for the holiday season. Also, as previously shared, we expect to fully benefit from the internalization of outerwear in our Americas wholesale business in the third quarter, as this is the most important quarter in terms of product delivery for that product category. Finally, as I mentioned earlier, we expect currencies to turn from a revenue headwind in the second quarter to a tailwind in the third quarter. Based on these factors, we expect our sequential revenue growth rate to accelerate from the second quarter into the third, with third quarter revenue to increase between 14.5% and 16.5%. Then, moving from the third to the fourth quarter, we expect that growth rate to moderate somewhat given last year's extra week and because of the rag & bone seasonality step down into the fourth quarter. Somewhat offsetting those Q4 factors should be the benefit from the stronger spring summer orders in Europe wholesale. I'll move next to gross margin, where we now expect freight costs will be an incremental headwind for the second half of this year, given the continuing shipping challenges caused by the Red Sea crisis. Ocean freight rates accelerated again in Q2 and we now anticipate that we will incur additional ocean freight charges. Capacity challenges will also necessitate using more expensive air freight to ensure product deliveries. Some very recent data suggests that rates have begun to ease, and we will continue to monitor that carefully. We estimate that the additional cost in the back half will total roughly \$10 million, affecting operating profit in both the third and fourth quarters, though more so

the third. Lastly, to help mitigate the impact of the lower expectations for revenues for the year, our teams have gone back to their spending plans and identified areas where we can tighten our expenses. We have, however, protected the important investments that we intend to make in marketing and brand awareness. Performance based compensation should also be lower than our prior expectations, given the reduction of our earnings expectations. Overall, our efforts have reduced our spending plans by roughly \$15 million. For the full-year, we now expect adjusted operating margin between 7.3% and 7.8% and adjusted earnings per share in the range between \$2.42 and \$2.70. For the third quarter, we expect adjusted operating margin in the range of 4.7% and 5.8%, and adjusted earnings per share in the range between \$0.33 and \$0.45. Let me share some additional insight on the flow of earnings for the second-half of this year. While we anticipate that the third quarter will be our strongest quarter for revenue growth this year, it will be the fourth quarter where we have the opportunity to drive bottom line growth. There are two significant drivers affecting our margins in the third quarter. First, we expect that the third quarter will absorb the greatest increase in marketing investments. And second, the additional freight charges I discussed earlier should affect the third quarter more so than the fourth. As to the fourth quarter, last year in Europe, we operated with a greater level of markdowns as we cleared some of our older wholesale inventories. We're also operating with a much stronger IMU in our European businesses fourth quarter compared to last year and currencies are expected to be more favorable this year than they were a year ago. In North America, similarly, we plan to operate this fourth quarter with fewer markdowns than last year given our expectations of traffic. So overall then for the fourth quarter, based on our plans now, we expect to deliver meaningful gross margin expansion. In addition, we've also identified areas in our North America stores where we can operate with lower levels of operating expenses. Turning to free cash flow, we now expect free cash flow for the year of about \$100 million. This is lower than we had previously expected for three reasons. First, as shipping capacity began to become constrained, we acted quickly to protect our business and ensure our deliveries, that resulted in the additional freight costs that we will absorb this year. Beyond that, we've also accelerated some receipts, resulting in an expected increase in inventory of roughly \$35 million. To be clear, we are not ordering more just earlier. One of the key learnings during the supply chain crisis that followed, COVID, was that our partners placed an enormous value on reliable deliveries. As I shared earlier, we believe our reliability has allowed us to gain share among our European wholesale partners. It's a short term but important working capital investment to protect ours and our partners businesses. Lastly, the adjustments that we're making to our revenue outlook are driven primarily by our retail businesses, which are essentially cash businesses. So that will immediately impact on our cash flows. So with that, we'll end our prepared remarks and open the call up to your questions. Operator?

Operator: Thank you. [Operator Instructions] And our first question today will be coming from Dana Telsey of Telsey Advisory Group. Your line is open.

Dana Telsey: Good afternoon, everyone. So a lot to unpack there. Carlos, as you think about the Guess? brand and the rag & bone brand, are the trends that you're seeing globally similar for each brand in terms of their performance, given a little bit of a different customer? And Dennis, you talked about freight and marketing. How much or what percentage is the difference this year versus last year, and that cadence between Q3 and Q4 of how you're unpacking it? Thank you.

Carlos Alberini: Hi, Dana, how are you? Thank you for your questions. So let me start with your first question about rag & bone and Guess?. I mean, these are very, very different and complementary brands. And this is one of the big reasons why we were so excited about having the opportunity to acquire rag & bone with WHP Global. Obviously, rag & bone caters to a much more affluent consumer, and it has a very strong position in the marketplace with that consumer. We -- that's not the customer that we have at Guess?. And also the distribution and geographically it's very, very different. So, and this is one of the reasons why we were very excited about the opportunities to grow the business, rag & bone by expanding the distribution into many of the international markets where Guess? has a very strong positioning, but rag & bone has almost no distribution. And for that reason, we are -- so you know, just invested and focused on the distribution into Europe, for example, Paul has already been marketing a lot of the brands in multiple cities and markets, and we think that this can be an enormous opportunity for the brand to expand that distribution with that customer that is also very present in European markets as well. I think that one of the big differences here too is the fact that this is a

completely different positioning as a lifestyle, which we think complements what we're doing at Guess?. And we love the idea that it's both women's and men's. The assortment is catering to those two customers. They have a very strong business in women's, but also a very, very strong business in men's as well. And we feel that there are significant product categories that are not yet fully represented in the brands. And this is another one of our catalysts for growth for the brand. So we are working very hard on finding big opportunities to really add some of these products. The one that comes to mind very, very first and top on the list is the whole line of accessories. And I'm sure you heard in my prepared remarks, we talked a little bit about one of those licenses has already been secured for handbags, and the teams are working together to increase and strengthen the assortment of handbags for the brand. So let me stop there. Dennis, maybe you can jump on Dana's question.

Dennis Secor: Yes, sure. Thanks, Dana. So, as Carlos said in his prepared remarks that we view this as an inflection point for the company, a year of transition, where we're making some additional investments. He shared with you the brand study that we did and some of the benchmarking that we've done that suggests that there are opportunities for us to make those investments, to build awareness for our new brands and new markets where those brands aren't well known yet, and as well as to expand the awareness for the Guess? brand around the world. So what you see in the second quarter is really the way we're thinking about the rest of the year. As we said earlier, that we've more than doubled our marketing spend in the second quarter. And you should think about the full year in that general same perspective that we're getting behind those investments. As we went through because of some of the challenges for the year, we looked at opportunities for some expense reductions, but we protected those investments because we really believe in them. The way they flow in the quarter-to-quarter. The third quarter, as we said earlier, should be the largest dollar increase. So you'll see the impact on the margins. We're still planning to invest more in the fourth quarter, not quite as much as in the third, but just simply because of the size of the revenue base in that fourth quarter. The impact on the margins will be less impactful than the third quarter, but we expect that, that additional investment will go on for the full year.

Dana Telsey: Thank you.

Carlos Alberini: Thank you, Dana.

Operator: Thank you. [Operator Instructions] And the next question for the day will be coming from Tory -- I'm sorry, Corey Tarlowe of Jefferies. Your line is open.

Corey Tarlowe: Great. Thanks, Carlos. I was wondering if you could break down trends for us by geography and on the Americas business. When do you anticipate that we might see a turn in that geography? Thanks.

Carlos Alberini: Yes. Hi, Corey. Thank you for your question. So the trends have been different, and this quarter is a little bit of a continuation of the trends that we have been experiencing now for a few quarters, starting with Americas retail, our North America business. This has been challenging. The challenges have started with a slower customer traffic in the U.S. first, and now it has extended into Canada. And this continues to be challenging for us. And we have incorporated that kind of trend and thoughts into the remaining of the year. And this is one of the biggest reasons as to why we have lower our expectations for retail business performance in the second half. The traffic has impacted our sales and we have not been able to offset some of that weakness with any of the other KPI metrics that you would expect, like average in retail or conversions. And we are working and focusing on all the things that we can control to really improve upon this. One of the big things that we're looking at is the product assortment of course, denim trends is an area that we are very focused on. We see some changes in silhouettes that we are trying to capitalize on. We are looking at what's happening with the weather patterns. We saw that summer months and the summer weather has expand -- extended. And we think that we have some opportunities there that we could capitalize on looking at transitional products and that's how we are trying to really improve our assortment or strengthen it. We have tried different promotional tactics or initiatives and frankly, what we see is that the customer is a lot more sensitive to price. We have been very, very careful with not going into heavy discounting and we see that some of our competitors are doing this, but we have been very disciplined in the way we are buying inventories and trying to really keep this discipline in the way we are running the business. So the customer will continue to see this brand as a full price brand as opposed to something that we are constantly

promoting. One of the big things that Dennis spoke about, and I had a few comments in our prepared remarks, is about marketing and about this brand study that we have been conducting with an external partner. And what we see is that there is probably more that we can do to really increase the level of engagement with our customers. When we looked at the level of spending and investing in marketing that our company incurred and compared to many others in our industry, we see that we have an opportunity to make deeper investments in marketing and that's what we are looking at, developing a strategy that will do that. So we are looking at incremental investments in social media, collaborations, creating a community of customers, increasing engagement and investing more in our CRM programs. So overall, we have a lot of ideas and we are excited about what this can bring. Just you asked me about the different geographies. The situation that I just described for America is very different than Europe. We have had positive same-store sales growth now for quite some time and several quarters, and the numbers were big. We saw a little bit of a slow in the customer traffic as well. But we were able to offset, more than offset the that weakness with a significant increase in AUR and better conversion rates. And we think that this is more a function of what's happening in the marketplace. We think that there is a lot geopolitically that is happening in Europe and multiple points. And we think that, that is definitely impacting, how the customer is looking at the disposable income and how they are spending and their habits in that. We also know that people are spending more in activities and so forth. This is not something new, but we feel that because the product is very well positioned and the assortment, I think, has been very strong, we have been able to more than offset those trends and deliver really strong comp store sales. We see that also in our wholesale business, which is a very big part of the business in Europe. And I think Dennis mentioned, that just these are our wholesale customers. They want to invest in brands that are very reliable, they are plannable, brands that can deliver product on time to be able to really service the business effectively. And we think that we have been doing a very good job and as a result of that, we have been able to really increase our share with those customers. And on top of that, I think that this company has done a lot in terms of newness and adding new businesses. Just our athleisure line, for example, is now representative of a very sizable piece of the business. Three or four years ago, that business did not even exist. So all that is also driving growth for the business. Another good example is, now Guess Jeans. This is a category that did not exist, a brand that we didn't have, and that is adding to our wholesale business growth. The 10% that Dennis spoke about for spring summer 2025. So the consumer is definitely going through a more challenging period. They are more prudent, they are more discerning, but we think that we are very well positioned to really take advantage of some others that are having some type of weakness or they are delivering product late. And as a result, we think that we can take a bigger slice of the market as opposed to having to rely on an overall growth of the consumer base. And with respect to the state of the consumer in Asia, that has been challenging and we think that we are not alone in this, but we continue to work on improving our product. Just if you think about places like China, we had some weakness in the second quarter. We're working with a third party there to help us. We are doing a lot to change the product assortment and be a lot more localized with the product direction. And we are doing the same thing with marketing. And then outside China, just, we had some challenging times in Korea. We have a big business there. It's a very profitable business and a good business for us. We think that, that is only temporary and we expect to recover throughout the rest of the year there.

Corey Tarlowe: Great. Thanks so much for all the color. Best of luck.

Carlos Alberini: Thank you, Corey.

Operator: Thank you. [Operator Instructions] And our next question will be coming from Eric Beder of Small Cap Consumer Research. Your line is open.

Eric Beder: Good afternoon.

Carlos Alberini: Hi, Eric.

Eric Beder: Hi. I want to step back a little bit. We've been talking a lot about the short term here. It's obvious this year you're doing a lot of things for the longer term. What should we be thinking about as the potential goals here, either from wholesale, retail or margin wise? Looking at this from two years from now, when some of these investments start to pull through, there's a lot of moving parts. But if I look at it, it's really a function of that you're planning a lot for the future. Help us a little bit in understanding where the potential is here for the future in terms of returns? Thank you.

Carlos Alberini: Yes, thank you, Eric. I'll start. I'm sure Dennis will have things to add here. You know, just we try to really focus on the big picture and more the strategic points that we are looking at right now as a company. We consider this year as a year of transformation and a year of investment, like you point out. And it's transformation because it's the first time that we are taking this platform and just expanding it to really receive and welcome a new brand into our portfolio. This is something we have never done and it's the first time that we're doing this with rag & bone. And we are super excited about how things are going there and the opportunities that we see. We couldn't be more excited about the brand itself and the teams and working with Andrew Rosen and the entire team, which is a top notch, best in class team. So we are super excited about that. And we think that we have a lot of capabilities in the company, in that platform that can be used to really optimize that business and that's what we're going for. And we think that the brand has a lot of potential and it can grow at a fast pace, but also to become a very large business. So it fits all the different characteristics that we will be looking for to add a brand to our portfolio. Now, in order to do that, there is a lot that needs to happen. One of those big things is brand awareness because, not having distribution internationally or in Europe primarily except for the U.K., just you have to plant the seeds there. And so for the consumer to really realize what we are doing and what the brand stands for and what it is and experience it. And for that we think that we have to invest in marketing, but also we have to open stores. We have to make the line, the collection available for different players in the territory to see it and experience it. And all those things are happening, but they're going to take some time for us to reach. Then you look at, even at the domestic business while it is doing very well, just we had a great wholesale business during the second quarter and also just we -- the company has a nice chain of stores, in full price stores and even in the off price division we see a lot of opportunities to increase that penetration, that presence, even domestically. So we are looking for locations for that as well. But again, that is going to take time. Growing our Ecommerce business is going to take time. We are trying to perfect what we are doing there. They have a very meaningful business, but it is going to take time. And then you look at Guess Jeans moving on to this is a new brand. This is something that basically looks back to our key strengths and part of our DNA, especially with denim. But it's a new brand and we are trying to cater to a younger consumer. This also requires significant visibility and more marketing investments and we are doing that. But we feel that it's going to take some time to be able to do that as well. We opened two stores, one in Amsterdam, one in Berlin. That just happened. We have some other locations that we are going to open, one here in LA, an incredible location, but it's going to take us some time to build the store. We are also going to open one location in Tokyo, in Japan. We have several others that we are looking at, but the customer has to see that and experience that and understand the product. We are happy with the initial reach that we are having in wholesale, especially in Europe, with the introduction of the Guess Jeans brand there. And we have exceeded our initial expectations. And of course it's early, but we feel that we are on the right path and we continue to improve the product assortment. This is something that is going to be an ongoing process. Then you look at all the other things that I mentioned, the marketing opportunities that we see as a company I'm talking about. But again, this is more investment. We are looking at some other ways to really improve our decision making and lines of accountability. We think that this is going to take additional investment in terms of talent and we are very actively involved with several searches today. And I mentioned Chief Commercial Officer, I mentioned Chief Digital Officer. We also have a position for Head of Human Resources in Lugano, Switzerland that we are looking for. Now with Marcus leaving, we are looking for a permanent Chief Financial Officer. And we think that these are all big opportunities for us to bring strong talent in. So, you know, just help -- start there, Dennis. Do you want to talk a little bit about capital?

Dennis Secor: Yes, I think, I support everything that Carlos just said. And if I look at this through a financial lens, we have a very strong balance sheet. We have generated very strong cash flows. And important for us to support that longer term vision is to make sure that the capital structure is ready and prepared for that. So, you know, the last couple years, we have essentially refinanced the vast majority of our 2024 converts. Those are now been pushed into 2028. We expanded our U.S. credit facility to accommodate the rag & bone. We just expanded another EUR100 million in Europe to add additional capacity. So you heard on the call earlier, we have \$600 million of available liquidity. Opportunities

don't always present themselves in a predictable way, but we want to make sure that we are ready to support the growth for this business.

Eric Beder: All right, guys, thank you and good luck in the holiday season.

Carlos Alberini: Thank you, Eric.

Operator: Thank you. [Operator Instructions] And our next question will be coming from Mauricio Serna of UBS. Your line is open.

Mauricio Serna: Great.. Good afternoon. Thanks for taking my questions. I guess I just wanted to get more details on the rag & bone business. Could you give us some details on an idea of like, the gross margin profile versus Guess? and Marciano brands? Just curious to see like if the impact that you saw on operating margins was more related to gross margin or just like a higher SG&A; cost structure. And then maybe I would be curious to hear more details about what you're seeing across the consumer in Europe. I know you talked about it before, but just letting you know, like on the -- on some of your key regions would be good to hear because I guess, like, I see that the wholesale business is performing very well, but CTC is slowing down. So just want to understand also there what's the dynamics behind that? Thank you so much.

Carlos Alberini: Yes, Mauricio, thank you. It's Carlos. With respect to rag & bone, we are not in a position to start giving different margin numbers or things like that. We are just giving you as much color as we can. So then you can appreciate the business seasonality and also you can model business appropriately. But, you know, just, I can tell you that, of course, these are significantly higher prices than what we have in the Guess? portfolio. And the margins are very healthy. And Guess? -- and the company has been very disciplined in not promoting significantly here ever, which is something that we find very appealing, because the brand has been in business now for over 20 years and they have always been so careful with how the brand is presented to the customer. And they have never been just in a position, even if business was difficult over those years, they have never been in a position to really discount the brand significantly. So we benefit from that today because I think the customer sees the brand as a pristine offering. The one thing that is very interesting here is that similar to Guess?, the brand has a great distribution that is multi-channel. And we see that as also as a big advantage, because in many cases, just what we learned at retail, we can use to really improve our wholesale business and vice versa. In this case, the businesses are very synergistic, and we think that those are very beneficial to optimizing both businesses. And then just with respect to the European consumer, which was your second question, what I mentioned is that, yes, we did see a little bit of a deceleration. We don't know exactly if this is more a function of what's happening with the weather patterns in Europe. We saw that the summer got extended, just that they were, several weeks, after the clearance period where you would expect that, just the new product, the full product would start selling. And that did not happen with the same level of intensity as in prior years because the weather was still so hot throughout Europe. So, you know, this is difficult for us to really know exactly if those trends were more a function of weather or if they were a function of the consumer being not as intensely focused on shopping in our -- for our categories during that time. Just in case, we think that the weather patterns are changing. And for that reason, we are really looking at -- especially at transitional seasons like the June, July timeframe and January February timeframe. We are looking at changing some of those transitional collections to really make those seasons more extended in summer months and in the winter months, and playing with fabrications that would be more conducive to those weather patterns. Just with respect to the European region of course, it's a very challenging thing because this is not one area that behaves in a very homogeneous way. There are multiple markets there that are behaving very differently now. We continue to see very strong business trends in Turkiye, for example, we have seen just different patterns in countries in the Southern region versus the North. And it's very difficult to generalize here, as to the European consumer. But we feel that, just we have a big opportunity to continue to deliver same store sales growth there. One of the issues that impacted us, especially on conversion, was that, with the Red Sea crisis, we saw some slowness in the delivery of products. Just, we saw that because of everything that is happening there, coming to Europe, and we have a lot of product that is coming from China, just as those supply chains were disrupted, similar to what we experienced back in the COVID days. And we have seen like a delay of about three weeks in general, depending on the time. But in the -- towards the end of the second quarter, that was exactly the case.

And in many cases, we didn't get the product on time. And we think that that impacted negatively our conversion rate. So we made a strategic decision to really invest in just air freight in some cases, just to make sure that we protect the business for both our retail business but also our wholesale business. And that's one of the reasons why you saw an increase in inbound freight for the remaining of the year. One of the reasons is that freight rates are higher, but another reason is that we are choosing alternative methods to bring the product faster so then we can protect the business.

Mauricio Serna: Got it. Very helpful. Just quick -- one quick follow-up. You also mentioned that you're looking for ways to reduce the operating expense in Americas retail. Could you talk about maybe some of the initiatives that you are looking into to just have, like, a better margin in that division? Thank you.

Carlos Alberini: Yes, I'll start and Dennis, you can jump in. But just at the biggest issue here has been that when you have negative comps, like we have experienced, it just -- and you're running stores, it's just very difficult to really follow just the contraction of the top line with a lot of the costs that are, in nature, fixed. So what we are doing is just looking at every area where we could contract costs to really protect the profitability of the business. And when you look at that, there is very little that you can do on occupancy, for example. There is very little that you can do in some of the margin numbers in terms of gross margin, other than protecting pricing, which we are doing. But then there are some variable costs, like payroll in the stores, like other variable costs within supplies or anything that is variable. And we are trying to really be very, very careful with that. So if you looked at our performance in the second quarter, we were able to respond to the negative same store sales with a lower cost at the store level. Of course, this is a double edged sword here, because what we don't want is to really impact negatively our conversion opportunities. We want to provide a great customer experience to our customers. And in order to do that, you have to have very good coverage on the sales floor. And we are doing that. But just be more careful with how we devote those hours has been just a good way to really control costs. And then we are looking at other areas that are not necessarily at the store level, but things that we think that we can be more careful with. Just we are looking at our organization structures and trying to see how we can be more efficient in certain areas. And then there is one big line item that also impacted our outlook here. And it's variable compensation, because as we saw that the business and our results are not going to be in-line with what we expected. That is going to drive a lower variable compensation pay. And that's a big number and that is included in our outlook. What we did not touch is, and we -- and this has been completely intentional, is our marketing budget because we think that, like we said during our remarks, this is a big opportunity for this company and we are going to protect it and we are going to go because we are not running the company for the next quarter. But we are thinking about the long term. We want to build, like Eric was saying before, just we are doing things for the long term. And we think that we have an incredible opportunity in front of us with what we have. Guess? has big opportunities in multiple product categories and in multiple markets. We have a market like India that is growing really in a very aggressive way. We have opportunities in the Middle East where we think that there is a big, big plan, you know, because we are working with a great partner, Chalhoub Organization. They are new partner for us for the last three or four years, and we see a lot of opportunity to grow there. And there are multiple markets like that. We don't want to really stay just on the sidelines when we have an opportunity to grow the business. And then rag & bone I talked quite a bit about.

Mauricio Serna: Got it. Very helpful. Thank you so much. And good luck on the holiday season.

Carlos Alberini: Thank you, Mauricio.

Operator: Thank you. This does conclude the Q&A; session for today, and I would like to go ahead and turn the call back over to Carlos for closing remarks. You have the floor.

Carlos Alberini: Yes. Thank you. Well, thank you all for your participation today. I'm sorry if we went long in several answers, but we're excited. We are pleased with our progress in a year that we are calling a transformation and investment. As I said this, we remain very, very excited about our future. We look forward to speaking with you at the Goldman conference that is coming up on September 4th. So thank you again, and we see you soon. Have a great day.

Operator: Thank you all for joining today's conference call. You may disconnect.