

# FOSL Earnings Call Transcript

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**Quarter: 3**

Operator: Good afternoon, ladies and gentlemen, and welcome to the Fossil Group Third Quarter 2025 earnings call. [Operator Instructions] This conference call is being recorded and may not be reproduced in whole or in part without written permission from the company. Now I'll turn the call over to Christine Greany of the Blueshirt Group to begin.

Christine Greany: Hello, everyone, and thank you for joining us. With me on the call today is Franco Fogliato, Chief Executive Officer; and Randy Greben, Chief Financial Officer. Before we begin, I would like to remind you that information made available during this conference call contains forward-looking information and actual results could differ materially from those that will be discussed during this call. Fossil Group's policy on forward-looking statements and additional information concerning a number of factors that could cause actual results to differ materially from such statements is readily available in the company's Form 8-K, 10-Q and 10-K reports filed with the SEC. In addition, Fossil assumes 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. During today's call, we will refer to constant currency results as well as certain non-GAAP financial measures. Please note that you can find a reconciliation of actual results to constant currency results and other information regarding non-GAAP financial measures discussed on this call in Fossil's earnings release, which was filed today on Form 8-K and is available in the Investors section of fossilgroup.com. With that, I'll now turn the call over to Franco.

Franco Fogliato: Thank you, Christine. Good afternoon, everyone, and thank you for joining us today. I'm pleased to open this call with the headline that we have successfully transformed our balance sheet, marking a major milestone under our turnaround plan. We announced today the completion of our bond restructuring, which extends our debt maturity to 2029 and brings more than \$32 million of new capital to the business. Strengthening the balance sheet was one of the 3 pillars under our turnaround plan and has been a major focus of our team over the past year. After months of hard work and with the support of key stakeholders, we now have the financial flexibility needed to drive the business forward and turn the page to our next phase of long-term value creation. Another noteworthy achievement I want to highlight is Fossil's second consecutive year on Time Magazine list of World's Best brands. For 2025, Fossil made every country list survey, ranking as the #1 watch brand in Germany, #2 in the U.S., #5 in both the U.K. and Mexico. We're incredibly proud of this recognition by consumers around the world, which speaks to Fossil's rich manufacturing and storytelling heritage. Importantly, this achievement comes against the backdrop of a strengthening watch market globally. U.S. Circana data from Q3 highlights indirect market growth versus last year of low single digits with the department and specialty store channel up low double digits. For the Fossil brand in Q3, we saw traditional watch sales trending better than the market, up high double digits in these channels. This fundamental industry and brand strength underpins the ongoing success of our turnaround plan. Moving now to our Q3 results. We're pleased to have delivered another quarter of strong financial performance. We narrowed our sales decline to 7%, reflecting year-over-year improvement in both the wholesale channel and our Fossil retail stores. Global growth in the wholesale demonstrates continued strength from our strategic initiative as well as a shift in the timing of certain shipments from Q4 into Q3. A key call out this quarter is the quality of sales. Average unit retail is higher in both our wholesale and direct-to-consumer

channels, reflecting a strong combination of lower promotional activity, product mix and pricing architecture. Third quarter gross margin remained strong, notwithstanding the recognition of minimum royalty deficit, which Randy will cover during his remarks. Our focus on full price selling has fundamentally changed the margin structure of the business, positioning us to return Fossil Group to a best-in-class gross margin profile in the mid-50s this year. During Q3, our disciplined approach to promotion and strict cost control translated to the bottom line, where we substantially narrowed our adjusted operating loss year-over-year. The improvement on a year-to-date basis is even more pronounced, moving from a loss of \$58 million in the first 9 months of 2024 to nearly breakeven for the same period in 2025. For full year 2025, we expect to achieve a breakeven to slightly positive adjusted operating margin. Our teams are continuing to deliver sharp execution across our 3 turnaround pillars: refocusing on our core, rightsize our cost structure and strengthen the balance sheet. Looking at the strategy under our first pillar, refocus on our core. Over the past 9 months, we have reignited our design and storytelling engines to build a robust Fossil brand platform for the future. In Q3, Nick Jonas officially took the helm as a Fossil global brand ambassador. Since the August launch, the worldwide campaign has generated nearly 6 billion impression. We kicked off with a 1-day event for fans and Media in New York City, which included a surprise appearance by Nick, followed by regional events in major cities, including Berlin, Manila, Mumbai and Paris. Simultaneous with the campaign launch, we partnered with Nick to introduce an exclusive product line for Fossil. This bold and nostalgic collection has exceeded our expectations in the first few months. Also compelling, some of the best-selling items sold for \$300, \$400, a much higher price point for Fossil, which is driving higher average unit retail. Additionally, Nick's global reach and influences is attracting a younger male demographic to Fossil. Together, the campaign and product launches fueled brand heat, generated positive global press coverage and drove incremental traffic to both our website and stores. In addition to the success of our new collection with Nick Jonas, Fossil collaboration with Fantastic Four and Galactus have been standout performance in key markets globally. In the U.S., Fantastic Four sold out during our early access event online as was out of stock in stores within week 1. In EMEA, the collaboration sold out online within 3 days. Galactus was also a tremendous success selling out online in both the U.S. and EMEA on day 1. For the upcoming holiday season, we will continue to amplify the Nick Jonas collection and position Fossil at the center of key shopping moments. Initial trends in our DTC channels indicate that our holiday collection is resonating with consumers with momentum building week-over-week. We will be extending that energy globally with initiatives like our immersive pop-up in Le Marais in Paris during December, which is designed to showcase Fossil gifting spirit in a culturally relevant way. Across markets, we're staying committed to brand investment, working closely with media and PR partners to build awareness, desirability and brand heat. Turning now to our co-licensed brand, Armani, Kors and Diesel. We continue to generate improved performance in key markets across the Americas, EMEA and Asia, driven by product innovation as well as our investments in point of sales and in-store presentation. From a brand perspective, Kors, Armani Exchange and Diesel all demonstrated year-over-year growth in the wholesale channel during the first 9 months of the year, while the Armani brand remained pressured by the macro environment in China. Next, we continue to make progress towards optimizing our global wholesale footprint, which can be seen in many of our leading indicators. During the third quarter, the wholesale channel increased mid-single digit globally with notable strength in the EMEA and Asia region. In the U.S., traditional watch performance was up slightly in wholesale, while the Fossil brand grew double digit. Within Asia, both India and Japan grew double digits. We recently strengthened our team in Asia with the appointment of Davin Leong as a General Manager of the region. Davin is a seasoned leader who will advance our global commercial strategy to drive an enhanced market presence and accelerate growth across the region. In EMEA, the transition to a distributor-led model in select European markets is enabling us to simplify our operation while driving increased sales and profitability. Most recently, we signed a new distribution agreement with Morellato Group in Italy, which takes effect January 1, 2026. Morellato brings decades of expertise in watches and jewelry, along with a deep understanding of local markets, which is expected to help us extend our reach and fuel long-term profitable growth in this key geography. Thus far, we have transitioned 6 European markets to a distributor model, and we'll continue to evaluate opportunities to drive scalable growth in highly relevant markets going forward. As I mentioned earlier, our initiatives to strengthen

channel profitability are returning the business to a healthy gross margin profile. This is primarily being driven by our commitment to a full price selling model, which was one of the first major initiatives we put into place when I joined the company a little over 1 year ago. This discipline is driving improved traffic quality at both our Fossil stores and e-commerce website while also generating higher average unit retail. Traffic and conversion trends in our Fossil retail stores improved notably in Q3 with particular strength in the U.S. as our new clientele initiatives started to gain traction. Our Store of the Future, which we discussed in our Q2 earnings call, has been rolled out to all of our U.S. stores and over a dozen EMEA locations. The mission behind this new concept is to deliver a standout experience for the customer. We have reimagined retail to meet the evolving needs of today's guests, empowering stores to shine as a distinctive experience-driven destination where personalized service leads, community matters and strong results follow. We believe we can unlock profitable sales growth by blending lifestyle selling, data-informed decision and a purpose-driven strategy with the goal of creating meaningful impact beyond the sale. The initial results are compelling for driving increased traffic to our store, winning higher average order value and attracting new customers. Looking now at our second turnaround pillar, rightsizing Fossil group cost structure. We've taken these actions to strengthen our operating model and continue to act with financial rigor to position the business for long-term profitable growth. Year-to-date, we have generated over \$60 million in cost savings and reduced our SG&A; by 260 basis points on a 10% sales decline, achieving better leverage on our cost structure as we transform the business. Lastly, I'm happy to reiterate that we have delivered on our third key pillar, strengthening the balance sheet. These week marks a significant turning point of our business and sets us up for the long-term success. Randy will share more details with you in just a few moments. Entering the final months of the year, we are reiterating our financial guidance and remain confident in our path to drive profitable growth. We have strengthened our core, return to healthy gross margin profile, rightsized our cost structure, improved working capital management and fortified our balance sheet. While there are a number of successes to celebrate, we are clear about what we have yet to accomplish. Our teams are energized by the opportunity in front of us and committed to delivering flawless execution as we strive to build a stronger Fossil Group and deliver value to all of our stakeholders. Now I will turn the call over to Randy to review the third quarter financials and discuss our outlook.

Randy Greben: Thank you, Franco, and good afternoon, everyone. We delivered strong Q3 performance, reflecting another quarter of progress and momentum under our turnaround plan. Third quarter net sales totaled \$267 million, down 7% in constant currency versus prior year. This is slightly ahead of our expectations, reflecting ongoing traction from our turnaround initiatives as well as a shift in the timing of some wholesale channel shipments from Q4 into Q3. Gross margin in the third quarter came in at 48.7%, that's down 70 basis points versus last year and more meaningfully on a sequential basis. There are so many positive proof points with respect to our turnaround, taking root that were offset by the minimum royalty shortfall true-up I spoke about on our last call, but I'd like to take a moment to talk about them. Our focus on full price selling has fundamentally changed our margin architecture with the reduction in discount rate of more than 50% versus last year on Fossil brand e-commerce sales in Q3 being just 1 example. Our sourcing initiatives resulted in improved product margins in our core categories, driven by optimization of our supply chain and successful negotiations with key suppliers in all categories. We have retooled our open-to-buy process, distorting our investments deeper into bestsellers and driving more efficient inventory turns and productivity. We implemented targeted price increases and to date, have not seen any meaningful reduction in purchase behavior or any notable volume shifts. And lastly, we drove an increased mix of higher-margin traditional watch sales. All of these actions helped us mitigate expected tariff headwinds in the quarter. However, the aggregate benefits from these moves was offset in Q3 by the impact of licensed brand minimum royalty payment true-ups. As we discussed on our August earnings call, from an accounting perspective, we have historically recognized any minimum royalty deficits in the second half of the year, the majority of which were recorded in our third quarter. Because of our smaller sales base, this year, the impact was more pronounced. It's worth noting that underlying gross margins improved in Q3 compared to the prior year, but the improvement was offset by the impact of royalties. It's also worth repeating my comments from our August call. While we did receive some minimum royalty reductions

with our key license partners that benefit us moderately in 2025, we have agreed on significantly more meaningful reductions for 2026 when we expect to materially reduce the Q3 minimum royalty guarantee shortfalls that we've experienced as our license business has contracted. Our turnaround initiatives are foundational and have resulted in a structurally higher margin business. Therefore, we continue to expect full year gross margin to be in the mid-50s, caveating, of course, that the tariff environment remains quite fluid. Turning now to operating expenses. We continued to demonstrate exceptional expense management in the quarter. We lowered SG&A; expenses by 10% versus prior year, primarily driven by our cost reduction initiatives. As a percentage of sales, SG&A; leveraged by 160 basis points versus prior year coming in at 54.3%. The year-over-year improvement can be traced to 47 fewer stores in operation versus a year ago and lower compensation and administrative expenses. During Q3, we closed another 10 stores bringing us to 44 closures year-to-date, all occurring at natural lease expiration with minimal closing costs. Our teams are continuing to act disciplined enabling us to deliver meaningful SG&A; savings of over \$60 million year-to-date in 2025. Looking now at earnings. As we anticipated, the impact to gross profit from the minimum royalty deficit resulted in an adjusted operating loss for the quarter. Nevertheless, we substantially narrowed Q3 adjusted operating loss to \$15 million from \$22 million a year ago. Moving to the balance sheet, we ended the quarter with \$102 million of liquidity, including \$80 million in cash and cash equivalents. Liquidity was down sequentially from Q2, reflecting the planned ramp-up in marketing spend and the normal cadence of seasonal working capital movements. That said, comparisons to prior periods are somewhat distorted by the transition to the new ABL facility reported on our last call and entered into during the quarter. This new structure is more efficient and purpose-built to align with the scale and seasonality of our business. Importantly, the facility carries a 5-year maturity. Quarter end inventory totaled \$167 million, down 26% year-over-year, consistent with our expectations. Cash conversion performance remains on track, supported by ongoing initiatives aimed at reducing structural cash volatility and driving more consistent free cash flow generation. Overall, working capital discipline continues to improve. Global net working capital declined by approximately \$90 million year-over-year, reflecting lower inventory levels and tighter management of receivables and payables across the organization. Turning now to our balance sheet transformation. To echo Franco's sentiment, we are thrilled to have reached a major turning point with respect to the capital structure of the company, delivering on the third pillar under our turnaround plan. We successfully completed the exchange of our 7% senior notes due 2026 for new 9.5% notes due 2029, which extends the maturity of our debt by 3 years, and comes with \$32.5 million in incremental new money financing. Further, the completed exchange gives the company expanded access to availability under our \$150 million asset-based credit facility, which have been partially restricted pending the completion of the exchange offer. With the completion of the refinancing, we believe Fossil Group has the balance sheet fortitude necessary to advance the business on the path to profitable growth and positive free cash flow. Our refinancing was an all-hands effort by our internal teams and our collections of world-class advisers. We're thankful for the conviction that our noteholders and lenders have in our company and are excited to have completed this critical turnaround pillar. Based on our ongoing business momentum and strong execution of our turnaround plan, we are reiterating our full year guidance. Worldwide net sales are expected to decline in the mid-teens, which includes approximately \$40 million of impact related to store closures, and adjusted operating margin is expected to be breakeven to slightly positive. Importantly, in the fourth quarter, we anticipate gross margin will be similar to last year, which combined with ongoing expense control is expected to drive positive adjusted operating margin. We're pleased with the meaningful progress we've made year-to-date and remain focused on driving durable growth and building long-term value for our shareholders. Now I'll ask the operator to open the call to Q&A.;

Operator: [Operator Instructions] And your first question comes from the line of Francesco Marmo with Maxim Group.

Francesco Marmo: Congratulations on the quarter and on the bond exchange. Three quick ones for me, if I may. So first of all, your wholesale grew 3% in constant currency, while store comps was down 22%. Can you please help us understanding what is driving that gap? And I was wondering if you guys could give us some color around any regional difference, maybe there some regions that might be more retail heavy than others.

Randy Greben: Francesco, thank you for the question. We missed the first part of it. Could you please repeat it?

Francesco Marmo: Sure. So the wholesale channel grew 3% in constant currency, while store comps fell 22%. I was hoping you guys could help us understanding the difference between the 2 channels.

Randy Greben: Yes, absolutely. I just want to correct one point. When you talk about the store comps declining, that's not store comps, that's our full direct-to-consumer. We're actually quite pleased with the performance of our physical fleet. Our stores are performing quite well. As we've talked about in prior calls, the company has intentionally shrunk its e-commerce business as we've changed the full promotional strategy to drive really better margin architecture and more sales. So you have to look at it -- we have to look at it really on a channel-by-channel basis. To your point, wholesale is performing quite well. And then when you deconstruct direct-to-consumer, we're very pleased with our store performance. And our e-commerce business is performing absolutely in line with our expectations which was to be smaller. With respect to regions, I'll hand it to Franco.

Franco Fogliato: Yes. Look, Francesco, I think let me recall probably one of the first call I did when I joined the company. We clearly said that our retail direct-to-consumer was very promotional, was driving the entire AUR marketplace price down. And we took since, I would say, towards the end of quarter 4 last year, we changed completely the policy. And we said that we're going to reduce dramatically the promotional activity. We've been performing very well to the point, honestly, that the wholesale came back probably faster than what we were expecting. Our retailers, our customers and partners have been very pleased with our policies, very encouraged. I remember the first time I met with them and they were like, oh, we already heard that story, and now they're seeing that we're very consistent with what we said to the point that they are growing the business with us and are very willing to invest with us going forward. Our DTC will continue, I think it is performing well from a comp perspective. We are driving AUR higher. We're driving -- we're converting better than what we use because we have initiatives like Store of the Future and we're pretty pleased with that. Now performances have been very different depending by region. I think from a DTC perspective, our store have been performing better than what we anticipated in the U.S. We still see a little weakness out of some of our retail in Asia, while in general, India remains strong. So those are kind of trends we see probably common to the watch industry with really U.S. coming back. Asia is still pretty challenging, even we said we've seen some improvement, but India continuing to perform strong.

Francesco Marmo: Okay. That makes a lot of sense. This is great leading to my next question. Asia actually this quarter I would say, positive growth in constant currency, I think it was like flat overall in reported currency. There was strength in traditional watches, there was strength in jewelry and even gross margin expansion for the region. I was wondering whether you guys could give us some color around what's happening in the region.

Randy Greben: Sorry, Francesco. Once again, we missed the first part of your question. If you could please repeat it.

Francesco Marmo: Okay. Sure. And I was asking about Asia. The Asia region seemed particularly solid this quarter with positive constant currency growth, strength in traditional watches and jewelry and gross margin expansion. I was wondering if you guys give us some color, you already mentioned India, but anything else would be appreciated.

Franco Fogliato: No, thanks for asking. It's a great question. Look, we're pleased the region performances have been led by India. We continue to be extremely positive not only about our leading position in India, but we have a very strong team, very strong recognition. Our retail performed well and the market is growing. So it's really a combination of the perfect storm from that perspective, and we are one of the leading company there, no doubt about that. We've seen, I would say, maybe -- I wouldn't -- we still are shrinking in China, honestly. The market hasn't -- is better, but still not into positive growth. And we've been also taking a policy of being less promotional, to drive improving gross margin. And I think that's also helping. And I would say the other market, which has been pretty pleased has been Japan. Honestly, Japan was one of the question mark we had 12 months ago when I joined the company. We have a strong team there. Our brands are performing well. We -- in particular, Diesel is very strong in the region, and we're very encouraged about the opportunities there. We have a new

leader for the region, Davin Leong joined early October. We're very excited because we needed that leadership to come from the region. He's got -- is a very strong leader, and we're very encouraged. So look, we -- it's good to see Asia performing better and performing well. It's definitely led by India, but also pleasing to see Japan doing well and China maybe seeing some better selling.

Francesco Marmo: Okay. Great. And then if I may, one last question that has to do with your inventory position. Your inventory appears leaner every quarter, which is great. I was wondering whether you guys could give us a sense for what initiatives driving this improvement and also how this tighter inventory position fits within your broader distribution and promotional strategy?

Franco Fogliato: It's a great question. Let me take a general view, and then I'll let Randy and Jeff can either. Look, we're very pleased. I think the -- we are very -- I made it clear, we're going to be a smaller company, but we're going to be a lot more profitable than what we used to be. And I think the working capital position, the inventory control, we had the sales down 7% in the quarter, but inventory was down 26%. We've reduced the number of SKUs. We're focusing on what matters. We're really driving stories that count. All of this comes together with a higher gross margin, comes together higher AUR and drives the company in a better position. Would I expect this to continue forever? No. We will invest going forward. We believe we have performed a very clean inventory, both on what we own and what sits in our retailers. We manage inventory together with them. Our sales are performing well. We're very encouraged. And the fact that we fixed the balance sheet is also helping a lot to drive our investment from a strategic perspective. I will ask Randy maybe to comment a little more into the details.

Randy Greben: Francesco, I'm so glad that you asked the question because it gives us an opportunity to acknowledge the work that the organization has done really across the globe to manage working capital in a significantly tighter fashion. We're proud of the work that we've done as it relates to overhauling the way we think about open to buy, the way in which we think about where we lean in on product investment and the wonderful byproduct of all of this is not only as working capital become quite more efficient, but we've managed to increase availability of products at the same time. So we're ordering the right inventory, getting it to the right place, and it's a comprehensive effort that is nice to be seeing bearing fruits.

Operator: At this time, there are no further questions. I will now turn the call back over to management for closing remarks.

Franco Fogliato: Thank you, everyone, for joining us today. This has been an exciting earnings call, an exciting week. We have announced a new milestone, the company with a stronger balance sheet. We're looking forward to meet everyone to -- for the quarter 4 earnings call, and we wish everyone happy holidays.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.