

# **FOSSIL**

## **GROUP**

Investor Presentation

September 2019

# DISCLAIMER

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Certain statements contained herein that are not historical facts, including multi-year profit improvement estimates, the success and future features of our connected accessories and future financial guidance, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. The actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: changes in economic trends and financial performance, changes in government regulation and tariffs, changes in consumer demands, tastes and fashion trends, lower levels of consumer spending resulting from a general economic downturn, shifts in market demand resulting in inventory risks, changes in foreign currency exchange rates, risks related to the success of the multi-year profit improvement initiative, risks related to our connected accessories and the outcome of current and possible future litigation, as well as the risks and uncertainties set forth in the Company’s Annual Report on Form 10-K for the fiscal year ended December 29, 2018 filed with the Securities and Exchange Commission (the “SEC”). These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. Readers of this presentation should consider these factors in evaluating, and are cautioned not to place undue reliance on, the forward-looking statements contained herein. The Company 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.



# Business & Industry Overview

# FOSSIL GROUP AT A GLANCE

## Portfolio Of Brands



## Multi-Category



## 50+ Countries



## Integrated Sourcing and Design



Technology

+



Design

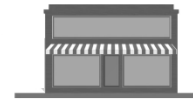
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Fashion Tech

## Multi-Channel Distribution

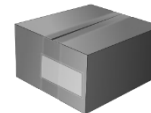
Retail



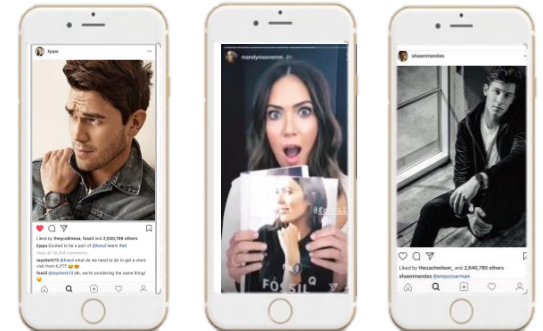
E-Commerce



Wholesale



## Digital Focus



# INVESTMENT HIGHLIGHTS

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## Uniquely Positioned To 'Own The Wrist' Across Multiple Platforms

- Leader in the growing “multi-segment” watch category
  - Traditional watches: \$33 Billion market, with expansion in emerging markets
  - Connected Wearables: \$14 Billion market, expected to reach \$33 Billion by 2021
- Leading the convergence of style and technology to become the fashion gateway to wearable technology
- Portfolio of powerful brands reaching across consumer types
- Significant competitive strengths in design, innovation, owned global distribution, and scale
- Initiatives in place to drive double digit operating margins over time as sales stabilize
- Strengthened balance sheet and positive cash flow

# GLOBAL WATCH MARKET GROWTH

2021 Market Size And Projected Growth By Product Type And Country  
(Below \$1,000)  
USD, Billions

- High growth and significant size - highly attractive
- Some growth and/or size - somewhat attractive
- Declining market - less attractive

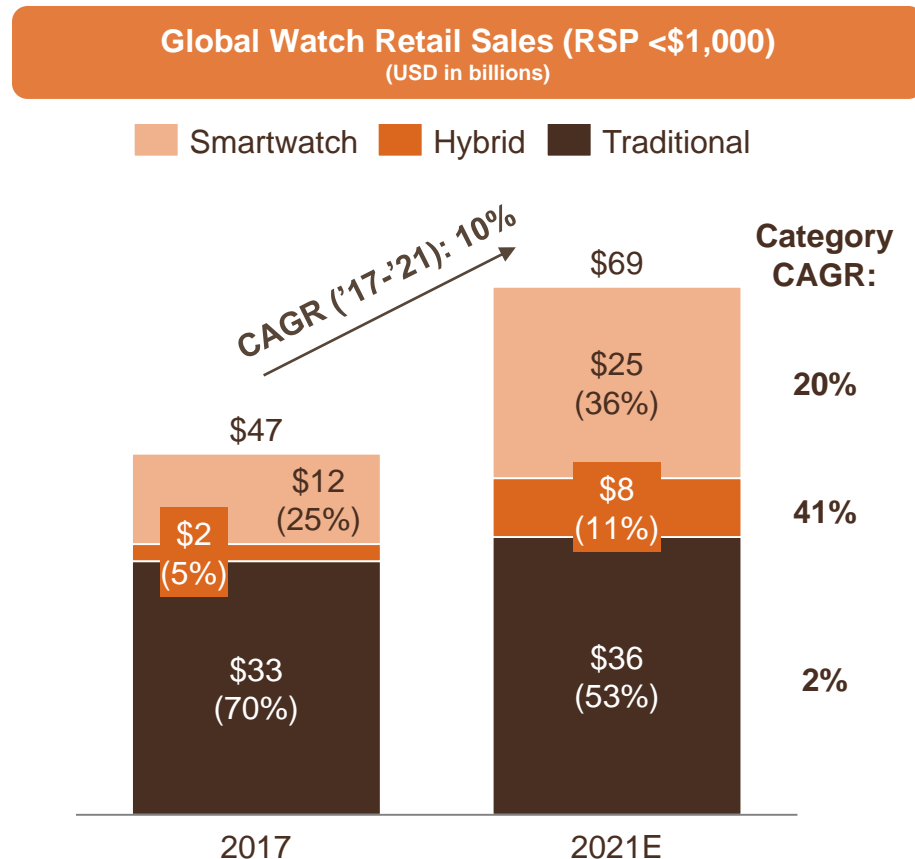
	USA	Mexico	Brazil	UK	Germany	France	China	India	S Korea
Overall Market									
Display									
Hybrid									
Traditional									

Detailed Data Redacted To Protect Proprietary Information

# SIGNIFICANT MARKET OPPORTUNITY

## *Fossil Group's Addressable Market Expected To Increase By Nearly 50%*

- Adding technology has enabled Fossil Group to expand the addressable market to include not only traditional fashion watches but also the connected wearables category
- Fossil Group is even more competitively advantaged today and positioned to gain share as the two wrist businesses of traditional watches and connected wearables expand



# COMPETITIVE ADVANTAGES

## Horizontal Advantage



## Vertical Advantage

Design Innovation

Sourcing

Distribution

Retail

## Technology Advantage



Display



Hybrid

Team

Platform

Partnerships



# DIVERSIFIED PORTFOLIO OF BRANDS

## Proprietary Brands

Brand	Categories	Affiliation since	Brand	Categories	Affiliation since
	<ul style="list-style-type: none"> <li>■ Watch</li> <li>■ Leather</li> <li>■ Jewelry</li> <li>■ Accessories</li> </ul>	■ N/A		<ul style="list-style-type: none"> <li>■ Watch</li> <li>■ Leather</li> <li>■ Accessories</li> </ul>	■ 1990
	<ul style="list-style-type: none"> <li>■ Watch</li> </ul>	■ 2001		<ul style="list-style-type: none"> <li>■ Watch</li> <li>■ Accessories</li> </ul>	■ 2012
	<ul style="list-style-type: none"> <li>■ Watch</li> </ul>	■ 2004		<ul style="list-style-type: none"> <li>■ Watch</li> </ul>	■ 2015

## Licensed Brands

Brand	Categories	Affiliation Since	Expiration Date	Brand	Categories	Affiliation Since	Expiration Date
	<ul style="list-style-type: none"> <li>■ Watch</li> </ul>	■ 2015	■ 2025		<ul style="list-style-type: none"> <li>■ Watch</li> </ul>	■ 2015	■ 2020
	<ul style="list-style-type: none"> <li>■ Watch</li> <li>■ Jewelry</li> </ul>	■ 2004	■ 2024		<ul style="list-style-type: none"> <li>■ Watch</li> <li>■ Jewelry</li> </ul>	■ 2000	■ 2024
	<ul style="list-style-type: none"> <li>■ Watch</li> </ul>	■ 2013	■ 2023		<ul style="list-style-type: none"> <li>■ Watch</li> <li>■ Jewelry</li> </ul>	■ 2000	■ 2025
	<ul style="list-style-type: none"> <li>■ Watch</li> </ul>	■ 2018	■ 2028		<ul style="list-style-type: none"> <li>■ Watch</li> </ul>	■ 2008	■ 2023
	<ul style="list-style-type: none"> <li>■ Watch</li> </ul>	■ 2018	■ 2023		<ul style="list-style-type: none"> <li>■ Watch</li> <li>■ Jewelry</li> </ul>	■ 1997	■ 2023

# REGIONAL GROWTH OPPORTUNITES

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## Americas

- Connected growth in the U.S.
- Direct to Consumer expansion across the region, including owned and 3<sup>rd</sup> party e-commerce
- Canada and Mexico growth across watch categories

## Europe

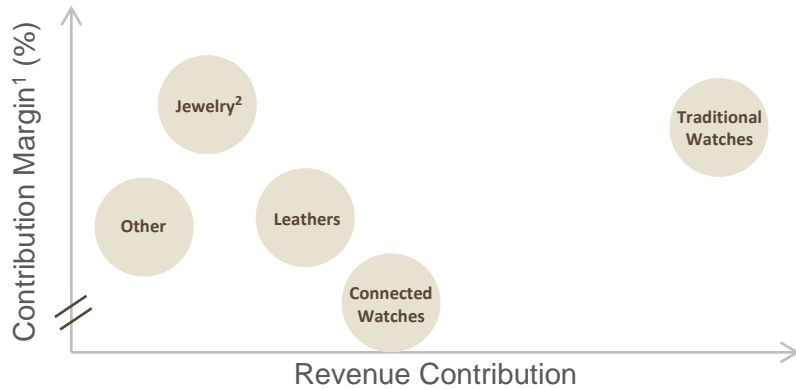
- Further connected expansion in major markets
- E-commerce growth across Eurozone markets
- Owned brand expansion in Germany and France
- Revitalize the jewelry category

## Asia

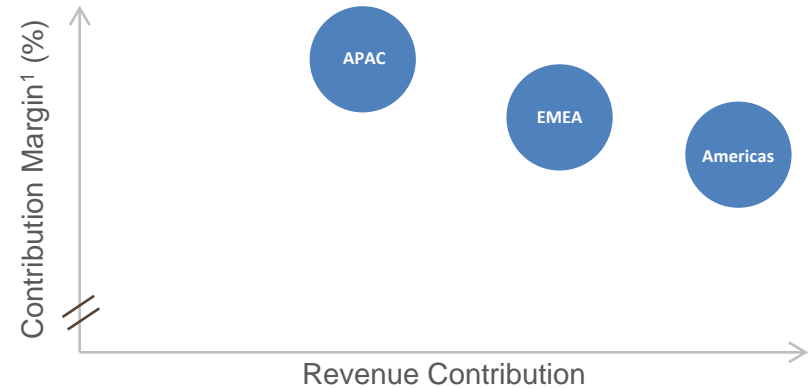
- Accelerate growth in China and India
- Leverage significant e-commerce marketplace opportunities
- Capture traditional watch share through global power brands
- Establish the jewelry category

# DIVERSE SOURCES OF PROFITABILITY

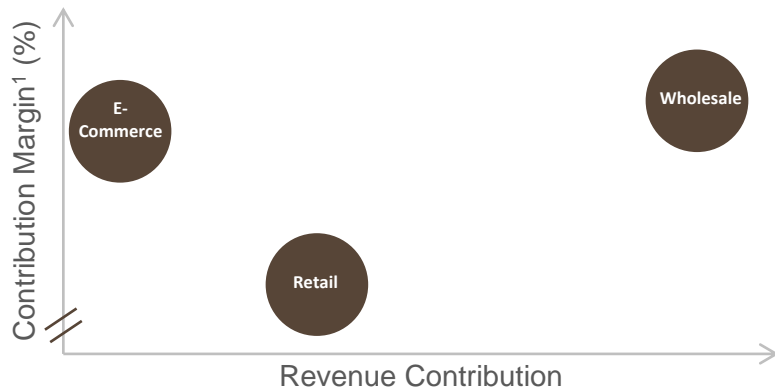
Profitability by Product



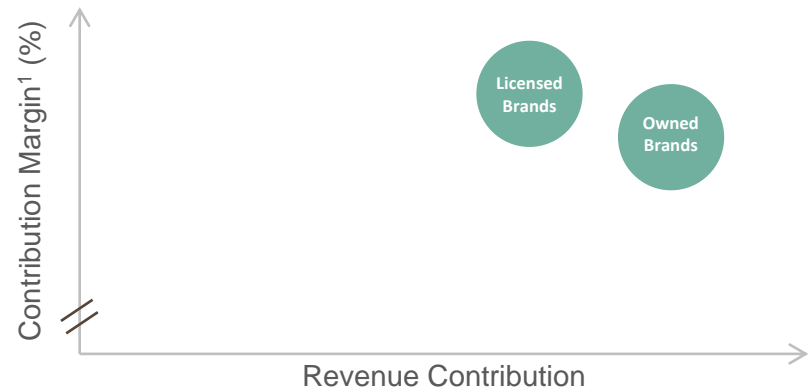
Profitability by Geography



Profitability by Channel



Profitability by Brand



Note: Charts are for illustrative purposes only; based on FY 2018 results

1. Contribution margin includes channel specific marketing and operating expenses

2. Jewelry sales have been normalized to exclude non-recurring impact of liquidation and other items related to transitioning jewelry line to more premium fashion pieces



# Our Core Strategies

# 2019 STRATEGIC INITIATIVES

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*We remain focused on stabilizing and returning our core watch business to growth through enhanced product innovation and investments in our e-commerce and digital opportunities, supported by transforming our business model and driving efficiencies throughout the Company*

## Overarching 2019 Objectives

**1 Drive product innovation**

**2 Expand e-commerce and digital marketing**

**3 Transform business model**



**4**

**Improve  
profitability**

# 1 INNOVATE PRODUCT OFFERING

*Our objective is to continuously innovate our product offering through the infusion of both design and technology*



# 1 INNOVATE PRODUCT OFFERING

## *The Watch Category Is Evolving Quickly*





# 1 CONNECTED PRODUCT EVOLUTION

Fossil Group continues to deliver significant innovations in the Connected Wearables space

## Key Feature Trends



**Health & Wellness**

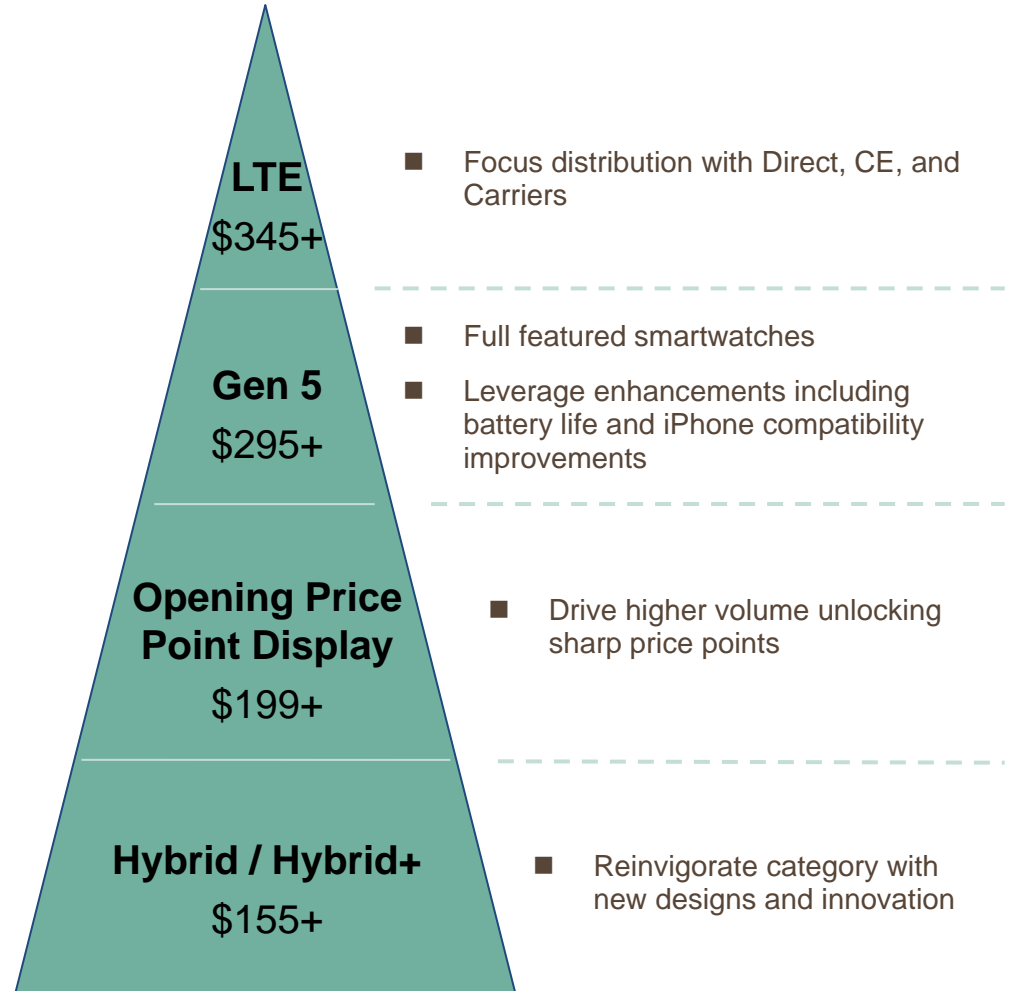


**Connectivity**



**Voice Assistant**

## Overall Assortment Strategy





# 1 CONNECTED GEN 5 PRODUCT FEATURES

Enhanced product features and software experiences put Fossil Group devices on parity with key competitors

## Product Features



**HEART RATE + FITNESS TRACKING**  
*Track heart rate during workouts and throughout the day*



**NOTIFICATIONS**  
*Receive call, text, email, app alerts and more*



**SPEAKER + MICROPHONE**  
*Answer tethered calls, talk to and hear back from Google Assistant*



**SWIMPROOF**  
*Users can keep their watches on while in the pool or shower*



**BUILT-IN GPS**  
*Track distance, laps, pace and view run routes*



**INCREASED STORAGE + MEMORY**  
*Download more content, music, and apps to the device*



**NFC PAYMENTS**  
*Quick payments with a tap of the wrist*



**QUALCOMM SNAPDRAGON 3100**  
*New processor optimizes power usage*

## Software Enhancements



**SMART BATTERY MODES**  
*Users can easily alter settings to achieve 2-3 days of battery life*



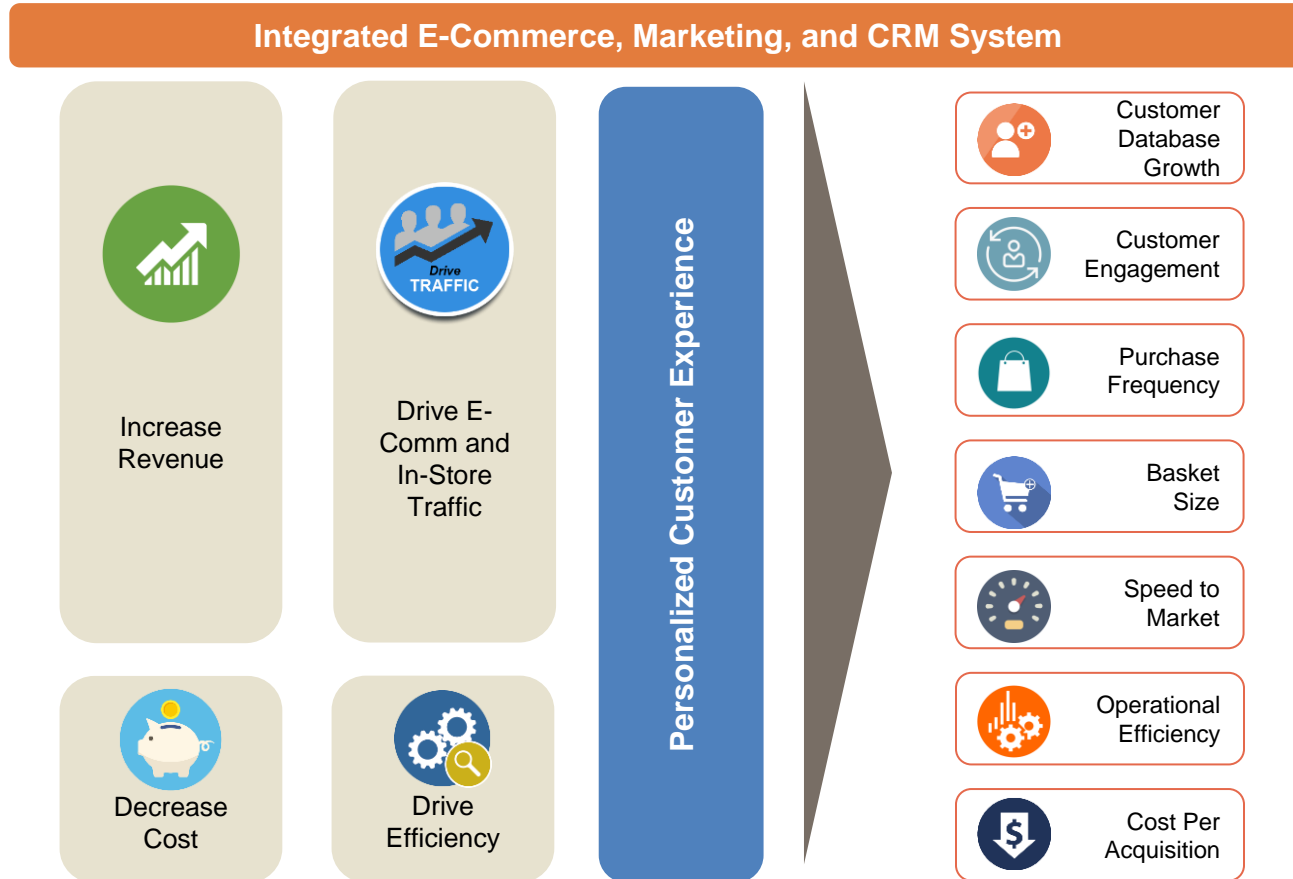
**BRANDED SOFTWARE**  
*Unique branded microapps and customizable watch faces*



**HEALTH & WELLNESS USE CASES**  
*Leveraging Google updates and partnerships to unlock sleep tracking and enhanced wellness metrics*

## 2 EXPAND ECOM & DIGITAL MARKETING

Transitioning to Salesforce Marketing Cloud will allow the Company to scale and simplify E-Comm and CRM



*Fossil's integrated E-Commerce and marketing platform will enhance E-Commerce growth in new countries and more efficiently target new customers at a faster speed and lower cost*

### Digital Approach

- Media spend mix continues to shift digital, with more than 90% of working marketing spend invested in digital channels, including social media, digital media, and paid search
- Continuing to expand celebrity influencer activity along side hundreds of additional brand ambassadors and activation partners to expand reach through segmented, engagement-driven storytelling
- Fossil Brand was recognized in the top 10 among all U.S. specialty retail brands in Gartner's L2 rankings of Digital IQ based on:
  - Site and omni-channel capabilities
  - Digital marketing
  - Social media
  - Mobile capabilities

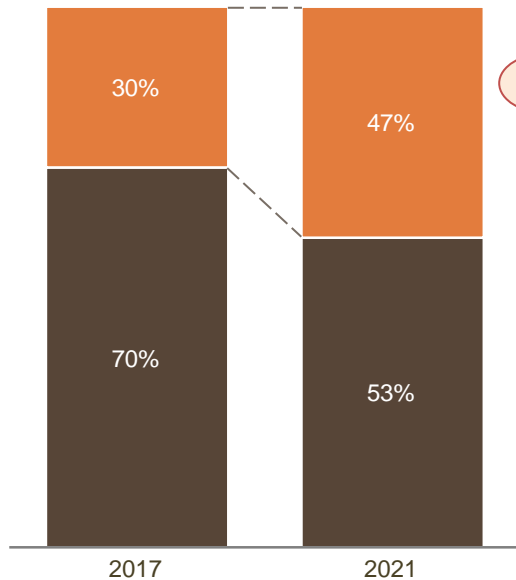
# 3 TRANSFORM BUSINESS MODEL

## The Industry is Evolving...

### Product category

More than 2 of every 5 wrists will be wearing some form of connected watch

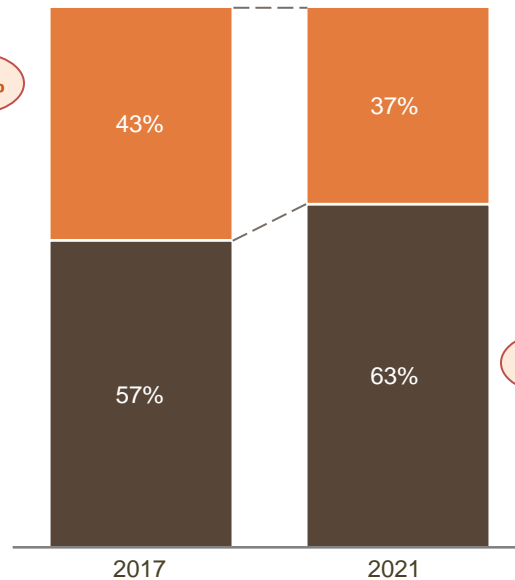
Connected Traditional



### Geographic market

Developing countries will make up almost 2/3 of the traditional watch market

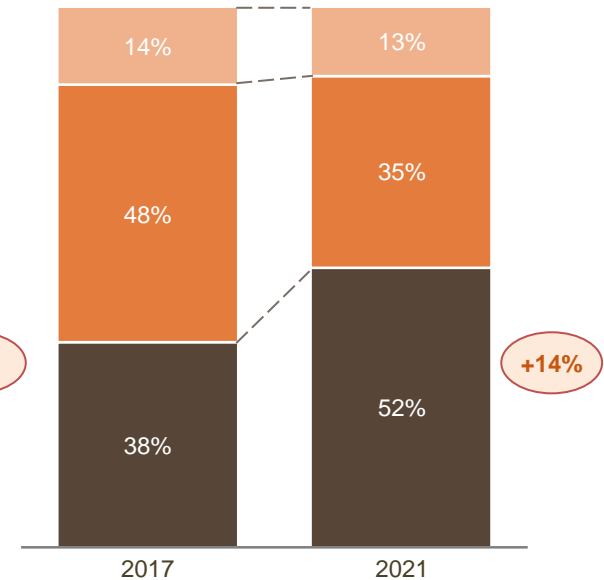
Developed Developing



### Purchase channel

Over 50% of watch sales will take place online (both owned and third-party)

Retail WS E-commerce



Source: Euromonitor International with connected wearables assumptions based on IDC Quarterly Wearable Device Tracker (through 2017 Q4); 2018 Consumer Research

### 3 TRANSFORM BUSINESS MODEL

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## *Raising the game on New World Fossil (“NWF”) with NWF 2.0*

### What we’ve accomplished...

#### **NWF 1.0: Right-Sizing**

- Right-size organization given recent market shifts and financial realities
- Focus on operational and organizational efficiencies for cost savings
- Cross-functional initiatives driving savings in...
  - Design to value
  - Sourcing negotiations and procurement
  - Component cost take-outs

### Sustaining and expanding impact...

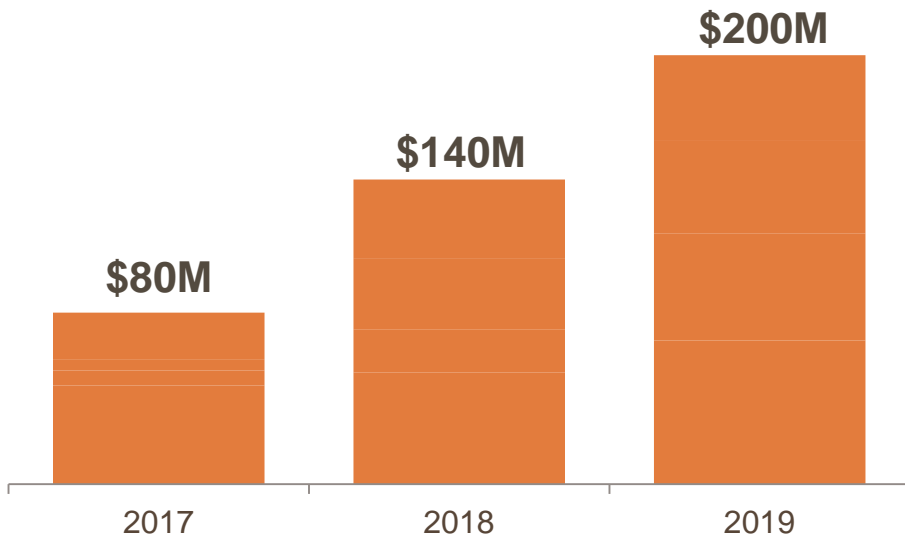
#### **NWF 2.0: Transform To Grow**

- Refocus organization on prioritized consumer and market opportunities for growth
- Create long-term process and system enhancements to maintain momentum
- Key opportunities in...
  - Speed to market
  - Strategic sourcing
  - Procurement technology and process
  - Pricing and trade optimization

The detailed **roadmap for NWF 2.0** is currently under development - this will guide our continued efforts through 2020 and beyond

### 3 NEW WORLD FOSSIL

**New World Fossil 1.0**  
**Cumulative Run-Rate Financial Impact**  
(USD in millions)



#### Primary Drivers of New World Fossil

- Improved design for value
- Product sourcing
- Category and pricing management
- Indirect spending management
- Organizational efficiencies

While the detailed roadmap for NWF 2.0 is currently under development, the initial work indicates the savings benefits are expected to be similar to NWF 1.0

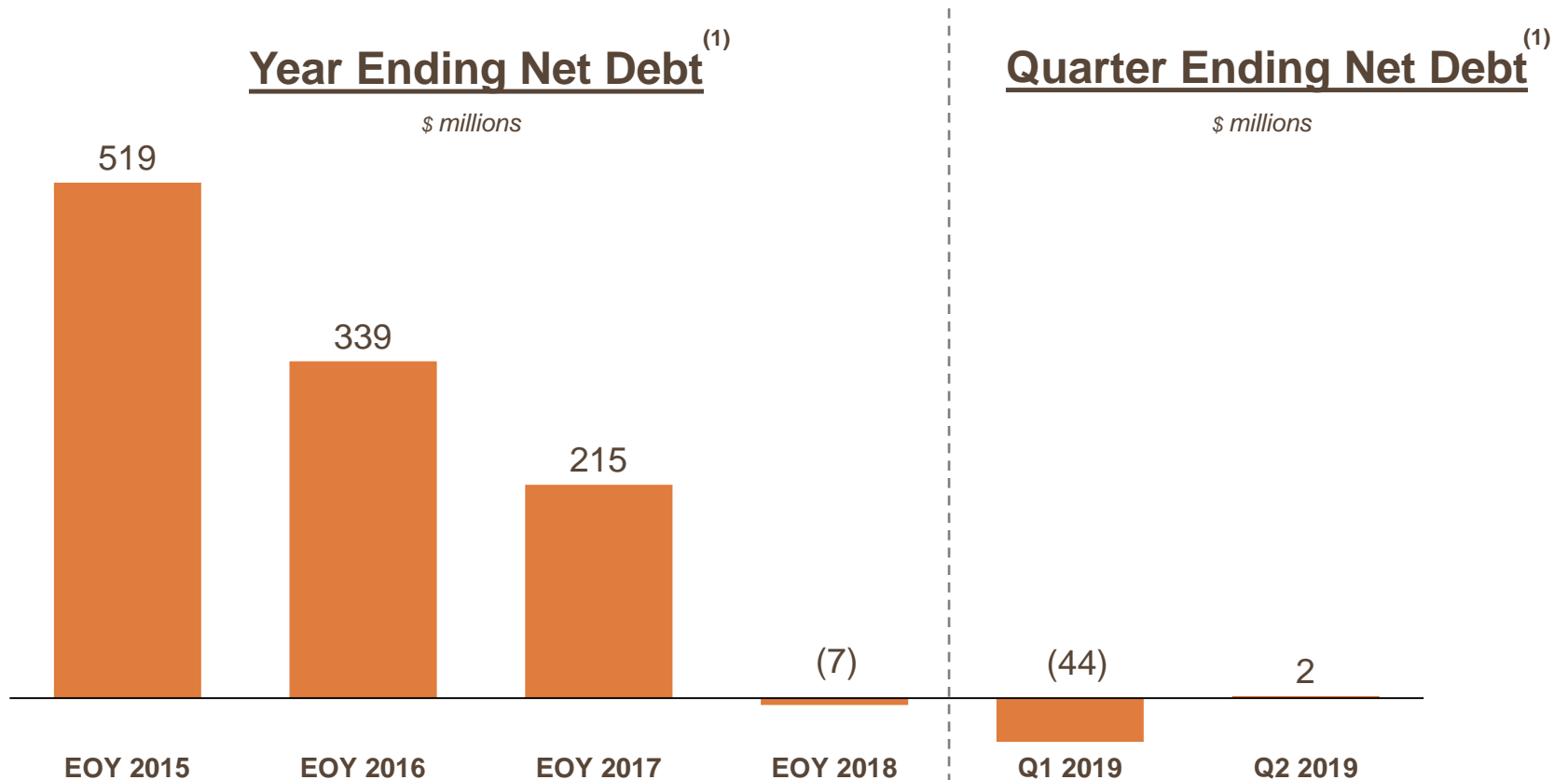
2019

- Core sales trends improving
  - Innovative technology and designs driving connected offset by reduced liquidation sales
  - Store closures, business exits, and currency negatively impacting sales performance approximately 500 basis points
- EBIT margins expanding before negative impact of currency
  - New World Fossil delivering gross margin and operating expense enhancements

2020 &  
Beyond

- Initial sales stabilization begins
  - Connected growth offsets moderating declines in traditional watches
  - International and Direct Channel growth scales to offset traditional wholesale declines
  - Continued rationalization of retail store footprint offset by growth in e-commerce
- EBIT margin expansion
  - Expanded New World Fossil initiatives deliver gross margin and SG&A improvements

## 4 IMPROVING BALANCE SHEET



- Net debt has been reduced by over \$500 million since the end of 2015 as a result of:
  - New World Fossil driving improved gross margins and operational efficiencies
  - Improved working capital management

(1) Net Debt is calculated as Short Term Debt + Long Term Debt – Cash and Cash Equivalents.



## 4 CAPITAL STRUCTURE

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### Capital Structure

- Current Credit Facility – Q2 2019
  - Term loan with amortization
    - March 2020: \$64 million
    - December 2020: \$165 million
  - ABL-like facility
    - Capacity up to \$325 million, with approximately \$220 million available as of the end of Q2
- Cash generation capability
  - Operating cash flow
  - Working capital

### Capital Structure Philosophy

- Significant business volatility
  - Fashion risk
  - Technology risk
  - Currency risk
- Capital structure implications
  - Conservative debt posture
  - Maintain ABL for flexibility

# FINANCIAL GUIDANCE PROVIDED AUGUST 7, 2019

	Q3 2019	Q4 2019	FY 2019
Net Sales	(13%) to (6%)	(5%) to 1%	(12%) to (8%)
Gross Margin	52.0% to 54.0%	50.0% to 53.0%	52.0% to 53.0%
Operating Expenses <sup>(1)</sup>	\$275 million to \$295 million	\$305 million to \$335 million	\$1,110 million to \$1,160 million
Operating Margin	0.0% to 2.5%	9.0% to 11.0%	2.5% to 3.5%
Other Income (Expense)	Approximately \$1 million	Approximately \$1 million	Approximately \$27 million
Interest Expense	Approximately \$8 million	Approximately \$8 million	Approximately \$31 million
Income (Loss) Before Taxes	\$(7) million to \$6 million	\$62 million to \$77 million	\$45 million to \$75 million

Note: Excluded from this guidance is any potential impact from tariff charges related to List 4 under Section 301. As of our August 7, 2019, earnings announcement, we estimated the gross exposure from an additional 10% List 4 tariff, which could be recognized in the second half of 2019, as approximately \$5 million to \$10 million assuming no offsets for price increases, sourcing changes, or other additional changes to regulatory rulings.

(1) Includes a range of restructuring charges as follows: Q3 = \$8-11 million, Q4 = \$7-9 million, FY 2019 = \$33-37 million

# QUARTERLY REVENUE PHASING

	Q1	Q2	Q3	Q4	FY
	<b>2018</b>				
Year / Year Change in Sales	(2%)	(3%)	(12%)	(15%)	(9%)
Impact of Currency	(5%)	(3%)	1%	2%	(1%)
Constant Currency Change in Sales	(7%)	(6%)	(11%)	(13%)	(10%)
	<b>2019</b>				
Year / Year Change in Sales <sup>(1)</sup>	(18%)	(13%)	(13%) to (6%)	(5%) to 1%	(12%) to (8%)
Impact of Currency <sup>(1)</sup>	3%	2%	2%	1%	2%
Constant Currency Change in Sales <sup>(1)</sup>	(15%)	(11%)	(11%) to (4%)	(4%) to 2%	(10%) to (6%)

Note: Business exits and store closures have negatively impacted top line results and will continue to do so in Q3 and Q4 2019. In addition, higher liquidation levels in the first half of 2018, which caused more difficult comparisons for the first half of 2019, diminish in Q3 and Q4 2019.

(1) Q3 2019, Q4 2019, and FY 2019 represent guidance estimates as provided August 7, 2019.

# SUMMARY

## *Near-term focus is growth through transformation*

We will continue to evolve with the industry to:

Reach consumers... whenever, wherever, however

Reignite **traditional watch** through product innovation

Grow **connected and jewelry**

Accelerate **China/India growth**

Expand **online selling**, both owned and third-party

Pivot To Growth

...with world class commercial effectiveness

Optimize and grow **direct to consumer** channels

Grow share and maximize profitability in **wholesale**

Advance **pricing and revenue management** capabilities

Apply **analytics and science** to everything we do

Improve Operational Efficiencies

...and end to end operational proficiency

Upgrade **planning and sourcing** methods

Expedite **indirect sourcing** savings

Dramatically improve **speed to market**

Establish an optimally sized **commercial infrastructure**

