



FOSSIL
GROUP

LETTER TO STOCKHOLDERS

Dear Stockholders,

It was a difficult year for Fossil Group as we were faced with many challenges. We are not pleased with our overall results, but we feel we made significant progress toward our objectives, including driving growth in wearables across our portfolio of brands, leveraging our scale to lower supply chain costs, increasing our digital capabilities and transforming our business model. In the process, we delivered almost \$2.8 billion in sales and generated strong operating cash flows.

Notably, our New World Fossil initiative—the organization-wide program designed to improve financial performance and drive long-term shareholder value—is already paying off in a big way as we build a more nimble, efficient and responsive operating platform. The initiative improved profits by \$80 million in 2017, positioning us to achieve our multi-year \$200 million profit improvement goal.

Our Strategy

Building on the momentum we established in 2017, we are focused on achieving our 2018 goals by driving increased efficiency gains and addressing nine strategic priorities:

Becoming a smaller, more focused company

In our business, it's critical to evolve with consumer needs. Our ability to recognize and respond to changing consumer dynamics has helped us focus on growing—and investing in—the right parts of our business. We're focused on the areas where we see long-term growth potential, rather than opportunities for short-term gain. This has enabled us to improve our margins across the entirety of our business—all categories, brands, customers, geographies and operations. It has also enabled us to significantly reduce our overhead cost structure as we focus our efforts on our most significant opportunities.

Growing wearables

We're experiencing outstanding demand for wearables that merge the worlds of tech and fashion. We're bringing a fashion-first focus and a never-before-seen variety to the wearables industry, infusing robust technology into beautiful designs that have broad appeal. It's proving to be a winning formula—more design, more diversity, more brands and more fashion. No other company in the world is as well positioned as we are to do this.

In 2017, we nearly doubled our wearables business to more than \$300 million—about 14 percent of our total watch sales. In the process, we introduced new hybrid and display smartwatches across 14 brands.

The fourth quarter—which encompasses the holiday season—is our most important, and wearables delivered \$142 million in watch sales, accounting for 20 percent of total watch sales, a growth of

44 percent compared to the fourth quarter of 2016. This focus on wearables, combined with the innovation we're introducing across our traditional watch styles, sets us up for sustained and stable growth over time.

Stabilizing our traditional watch business

We sell more than 30 million total watches each year, and this market remains central to our long-term success. Although this business remains difficult due to the dramatic growth of wearables in the overall wrist market, we are continuing to innovate with differentiated new ideas and materials in watches that we feel will resonate strongly with consumers this year. Therefore, we will continue to focus on fashion-forward traditional watches to meet customer demand, even as we place a major emphasis on advancing our wearables business.

Slowing the decline in leathers and jewelry

Our leathers and jewelry products declined last year. We expect to slow these declines by taking advantage of the distinct market opportunities we continue to see in these categories and focus on the areas that drive healthy growth. Great brands and products continue to command significant market share, even in this disruptive retail environment.

Generating owned brand growth and efficiencies

In 2017, the overall numbers don't tell the entire Fossil brand story. While total brand sales declined in the fourth quarter, driven by leathers and jewelry, Fossil brand watch sales increased by two percent. In our direct-to-consumer channel, comparative sales for our retail stores and e-commerce sites increased two percent—our first positive comp sales since 2015, with watch sales up five percent in this channel.

By closing unprofitable retail store locations in 2018 and further refining our wholesale and concession distribution in select geographies while investing in our retail experience, we believe our team will be able to focus on the most significant growth opportunities while improving profitability.

Speeding licensed brand growth

From Kate Spade New York and Marc Jacobs to Michael Kors and Emporio Armani, the breadth of our 10 licensed brands remains an important advantage for Fossil Group. We will continue to find strategic opportunities to partner with the right brands to attract new, brand-loyal customers to the watches and wearables category.

And, thanks to wearables launches ahead of the holiday season, we significantly improved the trajectory for Michael Kors watches and drove a double-digit increase in Armani watch sales in the fourth quarter.

Reducing costs

A 20 percent reduction in wearables product costs helped drive meaningful improvements in our core wearables margin, setting the stage for gross margin improvement in 2018. We're also continuing the successful expense reduction initiatives we began in 2017 by reducing our spend in less productive areas, such as fixtures and displays, and redeploying marketing dollars toward higher-return digital activities.

Maximizing the potential of our digital channels

In 2017, we worked hard to expand our digital sales channels, driving a 31 percent increase in e-commerce sales in the fourth quarter alone. We also significantly expanded our growth with pure-play online retailers by 77 percent. As a result, 17 percent of our total fourth-quarter sales were from online channels, up from nine percent over the comparable quarter.

We focused heavily on developing and growing our brands across e-commerce platforms, as well as mobile and social media. We optimized our sales funnel by precisely targeting customers, and, as a result, more than a third of Fossil brand business started with a digital interaction—via social, search, digital media, email or other digital marketing efforts.

This continuing expansion is critical to our future growth and value creation. As the major disruption in retail continues, more sales and customer engagement will take place online where Fossil Group is strongly positioned for success.

Designing a sustainable future

We care about the things that matter: our people, our customers, our shareholders, our communities and our planet. Our newly-launched sustainability platform, Make Time for Good, is setting

the tone for our innovation efforts, as we work to design products with the future in mind.

We're looking for ways we can repurpose, recycle, and identify new sustainable materials, as well as rethinking our manufacturing processes. This also involves managing our product lifecycles and giving our products a second life where it will make the most impact. We're committed to challenging the norms of the watch and accessory industry as we develop a more sustainable product design process. And, through this effort, we aspire to bring sustainable design elements to more than half of our global product assortment by 2025.

Beyond product design, our team is also developing measurable goals for reducing waste, creating more leadership opportunities for women, bringing positive change to our communities, and preparing our global workforce to meet the needs of tomorrow's customer today.

Looking Ahead

Taken all together, the strategy I've just outlined, aligned with our New World Fossil initiative, will improve long-term performance and create shareholder value.

Going forward, we're focused on delivering innovative wearable and traditional watch styles, while improving performance in the handbag and jewelry categories and driving increases in digital sales. We continue to expect that North America will be a particular challenge given the dynamics of the regional retail and consumer environment. But, with our commitment to drive out cost through our New World Fossil initiative and with our efforts to improve sourcing costs, we expect to deliver more profit to the bottom line to further fuel our progress in fiscal 2018.

These are challenging times for Fossil Group but also very exciting times as we transform the company and position it for future growth. Our heartfelt thanks go out to all of our Fossil Group team members all over the world for their relentless focus, energy and creativity, day-in and day-out, all year long.

Sincerely,



Kosta N. Kartsotis

Chairman and Chief Executive Officer

FINANCIAL HIGHLIGHTS

FISCAL YEAR (in thousands, except per share data)	2017	2016	2015	2014	2013
Net sales (\$)	2,788,163	3,042,371	3,228,836	3,509,691	3,259,971
Gross profit (\$)	1,358,839	1,578,186	1,753,467	2,001,172	1,861,686
Operating income (\$)	<\$424,276>	127,146	291,234	566,536	561,596
Net income attributable to Fossil Group, Inc. (\$)	<\$478,172>	78,868	220,637	376,707	378,152
Earnings per share:					
Basic (\$)	<\$9.87>	1.64	4.52	7.12	6.59
Diluted (\$)	<\$9.87>	1.63	4.51	7.10	6.56
Weighted average common shares and common equivalent shares outstanding:					
Basic	48,468	48,136	48,800	52,882	57,401
Diluted	48,468	48,323	48,924	53,080	57,676
Working capital	—	932,705	953,141	1,008,264	939,573
Total assets (\$)	1,658,372	2,186,897	2,355,661	2,177,460	2,186,251
Total long-term liabilities (\$)	568,337	756,874	933,589	747,351	618,978
Stockholders' equity attributable to Fossil Group, Inc. (\$)	576,133	1,006,236	921,388	977,860	1,068,677
Return on average stockholders' equity attributable to Fossil Group, Inc. ¹	-62.3%	8.2%	24.7%	37.5%	33.1%

¹ | Calculated by dividing net income attributable to Fossil Group, Inc. by five quarter average stockholders' equity attributable to Fossil Group, Inc.

CORPORATE INFORMATION

EXECUTIVE OFFICERS & DIRECTORS

Kosta N. Kartsotis

Chairman of the Board
and Chief Executive Officer

Randy C. Belcher

Executive Vice President, Asia Pacific

Jeffrey N. Boyer

Executive Vice President,
Chief Financial Officer
and Treasurer

Steve Evans

Executive Vice President, Owned Brands

Martin Frey

Executive Vice President, EMEA

Darren E. Hart

Executive Vice President, HR

Greg A. McKelvey

Executive Vice President,
Chief Strategy and Digital Officer

John A. White

Executive Vice President
and Chief Operating Officer

William B. Chiasson

Director

Mauria A. Finley

Director

Diane L. Neal

Director

Thomas M. Nealon

Director

Mark D. Quick

Director

James E. Skinner

Director

Gail B. Tifford

Director

James M. Zimmerman

Director

OUR WEBSITE

The company maintains a website at www.fossilgroup.com. Certain event and investor relations information concerning the company are available at the site.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on

Wednesday, May 23, 2018, at 9:00a.m. CDT at the company's headquarters, 901 S. Central Expressway, Richardson, Texas 75080.

COMPANY INFORMATION

A copy of the company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, and the Annual Report to Stockholders, in addition to other company information, is available to stockholders without charge upon written request to Fossil Group, Investor Relations, 901 S. Central Expressway, Richardson, Texas 75080-7302, or online at www.fossilgroup.com.

CORPORATE INFORMATION

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