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Christine Greany *The Blueshirt Group, LLC - MD*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Fossil Group Fourth Quarter and Full Year 2022 Earnings Call.

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Christine Greany ***The Blueshirt Group, LLC - MD***

Hello, everyone, and thank you for joining us. With us today on the call are Kosta Kartsotis, Chairman and CEO; Jeff Boyer, Chief Operating Officer; Sunil Doshi, Chief Financial Officer; and Greg McKelvey, EVP and Chief Commercial Officer.

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. 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.

Now I'll turn the call over to Kosta to begin.

Kosta N. Kartsotis ***Fossil Group, Inc. - Chairman & CEO***

Thanks, Christine. Good afternoon, and thank you for joining us today. Our net sales for the full year of 2022 were $1.7 billion, down 5% on a constant currency basis. We continue to operate in a difficult environment with significant headwinds, including inflation, the COVID effects in China and the Ukraine crisis.

The sharp rise of the U.S. dollar was also a major headwind, the impact in our top line by almost 500 basis points and our operating margin by 160 basis points.

While the external environment had an impact on our overall results, we did make solid progress on our key strategies to advance our digital roadmap to significantly grow our addressable customer file size and to grow and strengthen the Fossil brand, all of which are critical pieces to our long-term business model.

In 2022, we grew Fossil brand sales in our core categories by 9% in constant currency. With increased investment in talent, technology and marketing, we generated some big brand moments, driving increased awareness and heat through strategic collaborations and limited additions. Our footprint remains strong globally, and we are accelerating our profits to grow the brand.

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We concluded the year with mixed fourth quarter results. Our wholesale business was challenging, especially in the U.S. and Europe, as retailers saw weaker-than-normal sales levels and operated conservatively. At the same time, results in Greater China continued to be impacted by COVID issues that weighed on consumer spending.

The impact of these was that our wholesale business was down 24% in the fourth quarter. While shipments into our wholesale channel were challenged, we continued our momentum in our DTC business, which was largely driven by our ongoing digital transformation and by much improved product assortments.

We are capitalizing on strong traffic in our digital and marketing initiatives to drive top line growth. Globally, DTC sales, about 45% of our sales mix in the quarter were up 8%, and our own store comps were up 17%, with double-digit increases in both stores and e-commerce and growth across all regions.

While it is gratifying to see our DTC channels grow and our initiatives bear fruit, we continue to have difficult businesses, particularly in smartwatches, which declined 28% in 2022. In response to this, we are continuing to plan the category conservatively and redirecting resources towards wellness features and moderate price points, two areas where the consumer has responded positively in our assortment.

As to 2023, we recognize that many of the same challenging factors we saw in 2022 will continue into this year. We believe many wholesalers will be cautious in their plans, especially in the Americas and Europe. Stickier inflation and recessionary signals and geopolitical risks, all contribute to the outlook in these regions.

In China, however, we are encouraged by early signs of the consumer coming back as COVID policy measures have eased. We are seeing signs of improvement in our DTC channels and stronger future order expectations from our wholesale accounts and our travel retail customers.

In India, the consumer backdrop remains vibrant, and we are planning growth on top of a record full year 2022. With that in mind, we have taken action to accelerate the transformation of the company. Last month, we announced our updated strategy to transform and grow our business.

At a high level, the goals of our strategy are straightforward: to simplify our business, lean into our core capabilities and distort our most significant growth opportunities, all of which are aimed at creating a more profitable company and maximizing shareholder value over time.

Within the transform aspect of our strategy, we have already taken several actions to focus on our core capabilities and simplify our operations across brands and key markets, an [outlined] plan to generate at least $100 million in annualized benefits over the next 2 years.

Last month, we began implementing important steps towards this objective, which involves some tough, but necessary decisions, including headcount reductions and the acceleration of our store optimization plans.

And as we progress through 2023, we are also putting programs in place to reduce focus on noncore activities and to operate the business on lower working capital. We expect to bring our inventory balances well below last year's levels through SKU reductions, improved speed in our supply chain and lower overall inventory purchases.

Within the grow aspect of our strategy, we intend to invest in what we view as our most significant opportunities to drive profitable sales growth. This encompasses 3 key pillars: revitalizing the Fossil brand, growing our core license brands in both watches and jewelry and growing our premium brands.

First is revitalizing the Fossil brand, which is our largest revenue brand and enjoys global consumer awareness. In 2022, we made

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significant progress in updating our brand vision and the brand's positioning.

The updated framework holistically pulls together the best of what we've created over decades with a clear vision of where we want to go, laying the foundation to galvanize Fossil's place as a global lifestyle accessories brand. The framework for this revitalization is comprehensive, anchored more deeply in consumer insights and brand positioning.

The revitalization strategy has already driven benefits by pivoting more resources to the brand's jewelery and leather assortments to better complement our sizable traditional watch business, and both of those categories achieved double-digit revenue growth in 2022.

Our upcoming plans for 2023 will pull together more aspects of the overall brand strategy to accelerate growth in these categories. More specifically, we will continue elevating our designs and product assortments and further refine our mainline and outlet segmentation.

Notably, a more robust and comprehensive marketing strategy will create both in-year and longer-term brand heat as we develop plans to reach consumers with more engaging communications, leveraged by our digital capabilities.

Turning now to our second growth strategy, to grow watches and jewelry in our core licensed brands. Our top 3 licenses, Kors, Armani and Diesel, represent another sizable mix of our global revenue, with roughly 70% of these brand sales taking place through regions outside the Americas.

These bands all showed growth outside the Americas region, with the exception of Armani, where we discussed the impact that China had on the brand's top line and full year 2022. Our strategy will distort the marketing and distribution of these brands with particular growth potential in emerging markets.

In addition, we will also allocate an increasing level of resources towards jewelry, an attractive category with strong organic growth, more frequent purchase cycles and attractive product margins.

Our third strategy is to expand in premium watches. It is clear to us that higher-priced watches and the Swiss watch market have been driving category heat. We plan to leverage our expertise across design, manufacturing, marketing and distribution to take advantage of opportunities in both men's and women's in select brands, owned and licensed to capture higher average selling prices.

This strategy will take some time to develop. But with brands like Michele, we have a strong and profitable business to grow in 2023.

We believe these growth pillars provide a runway for sustainable growth. Our ability to advance these brand and product strategies is underpinned by 3 core capabilities: Our digital roadmap, modernized marketing and foundational technology capabilities.

We started building our digital infrastructure several years ago, and over the past 18 months, we have significantly advanced our capabilities in talent and technology. We've made structural improvements in our e-commerce and social commerce capabilities and substantially improved our customer data platform.

All our foundation to an increasing digitally enabled commerce world and our efforts had positive impacts on our overall 2022 results.

Looking at 2023, our roadmap is clear. We intend to create new pathways for digital commerce and leverage our growing consumer file to build connections within consumers.

Earlier this year, we recently backed the launch of [Katchen] our global marketplace created specifically for jewelry and watches, which have partnered with over 70 brands to date. Katchen comes to live first in the U.K., with expansion in other European markets planned.

Our advancements in digital are enabling us to modernize our marketing, which means getting closer to the consumers and analytically measuring our investments. With better analytical tools and integrations to third-party channels and with our recent talent hires and a better defined core set of brand strategies, we plan to use our marketing investment to drive more sustainable revenue growth.

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In 2023, our targeted marketing increases will come to life through more impactful collaborations through social media and PR. This will complement our performance marketing capability, which are increasingly more productive.

Lastly, our foundational technology stack remains a core enabler of the business. Over the next several years, investments in the stack will further drive efficiency in our global sales, operations and in our back office functions.

We are in initial innings of our Transform and Grow plan, and there is excellent work going on all across the organization. Our people, our culture and our strong sense of purpose, are critical assets and reinforce our confidence as we embark on a new chapter.

We are confident that our TAG strategy focuses on our best growth opportunities, while also providing the framework to optimize our costs and reduce reliance on noncore parts of the business.

Giving an earlier start on reducing costs was important as the environment in many parts of our operations remains choppy. We will keep a cautious outlook and chase our best growth opportunities in the near term as we aim to return to healthier levels of sales growth and profitability over time.

We appreciate the support of our shareholders and look forward to creating meaningful value for all of our stakeholders in the years ahead.

With that, I'd like to turn over the call to Sunil to walk you through our results and our outlook for 2023.

Sunil M. Doshi ***Fossil Group, Inc. - Executive VP, CFO & Treasurer***

Thanks, Kosta, and good afternoon, everyone. I'll start with some color on the fourth quarter, and then dive into the actions under our Transform and Grow strategy and how that's driving our outlook for 2023. The headline is that Q4 performance was mixed, with sales of approximately $500 million, down 17% or 12% in constant currency and adjusted operating margins of 0.6%.

Currency headwinds were in line with our expectations, coming into the quarter. Relative to last year, the strong dollar impacted net sales by 510 basis points, gross margins by 190 basis points and operating margins by 240 basis points.

As Kosta noted, from a brand lens, Fossil, our largest revenue brand, performed well in the quarter. The brand was down 2% across categories, but up 8% in the core categories of traditional watches, leathers and jewelry. We are particularly pleased with the results in leathers and jewelry as we believe these categories have the potential for higher growth rates in the coming years.

Net sales in our direct-to-consumer channels were strong in the quarter and grew 8%. Comparable retail sales to find as sales in our company-owned stores and owned websites were up 17%, with double-digit growth in each region.

In our wholesale channels, sales declined to 24%. In the Americas and Europe, larger wholesale accounts were increasingly cautious and focused on driving down their inventory levels through both increased promotions and constrained replenishment.

Adjusted operating margins of 0.6% were lower than our expectations, driven by key factors: First, shipments into the wholesale channel were lower than expected, which against the fixed cost structure pressured our adjusted operating income margins. Second, in our direct-to-consumer channels, we experienced a greater promotional sales mix and higher variable costs in marketing and shipping.

Other factors like headwinds from FX rates and freight rates and tailwinds from our product mix were generally in line with our expectations.

With that in mind, let's walk through some metrics for the quarter, starting with the regional sales breakdown. Sales in the Americas declined 12% in constant currency. Wholesale sales were down 32% in constant currency, while the underlying sell-out was down in the low teens. We attribute the softer sell end results primarily to the ongoing stock balancing measures from many large retailers.

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Partially offsetting the wholesale decline, our direct-to-consumer channels in the region grew 15%, and comparable retail sales were up even higher. From a brand lens, Fossil brand, our largest brand in the region, grew in the low single digits, offset by significant wholesale declines in Michael Kors.

In Europe, sales declined 12% in constant currency. Similar to the Americas region, wholesale shipments in the region declined 21%, a sharper decline than the sell-out trends we saw. In our direct-to-consumer channels, sales grew 8% in constant currency and comparable retail sales were up double digits.

Moving to Asia, sales were down 13% in constant currency, primarily impacted by sales in Mainland China, which declined 38%. Sales in India were up 26%, reflecting strong growth in our major brands, including Fossil, Kors and Armani Exchange. Throughout the entire region, Fossil brand grew double digits, with broad-based growth in India, Singapore, Malaysia and Australia.

Global store count ended at 342 stores, down approximately 8% versus last year. Looking at our quarterly category performance across the globe, in Q4, traditional watch sales decreased 15% in constant currency, primarily due to declines in licensed brands.

Net sales in our smartwatch category were down 32% in constant currency and reflected about 9% of our quarterly sales mix. Q4 net sales in our Jewelry category were down 3% in constant currency, with growth in Fossil offset by declines in licensed brands. Net sales in our leathers category increased 30% in constant currency. And as a reminder, our leathers category is specific to the Fossil brand.

Moving down the P&L, let's look at gross margin. Fourth quarter gross margin was down 290 basis points to last year.

The year-over-year decline is primarily attributable to three major factors: First, about a 190 basis point of a currency impact, higher freight costs primarily due to higher capitalized inbound freight and variable freight costs associated with our e-commerce channel, and three, increased promotional activity.

These headwinds were partially offset with gains from our currency hedging contracts and a more favorable product mix.

Total operating expenses were down 8% versus last year. As a percentage of sales, OpEx increased 470 basis points versus last year due to a lower sales base. Q4 operating income came in at $1.3 million compared to $47 million a year ago. Adjusted operating income was $3.2 million, and adjusted operating margin was 0.6%, which includes the FX-driven headwinds of 240 basis points that I previously mentioned.

Turning to the balance sheet. Inventory at year-end totaled $376 million, up 8% to last year. We have adjusted our future flow of inventory, which I'll comment on more in my outlook for 2023. Cash and cash equivalents at year-end were about $200 million, and we had $140 million of availability under our revolving credit facility.

Turning now to our outlook. As Kosta noted, we've entered 2023 focused on the core elements of our Transform and Grow strategy. Our plans include to invest and grow Fossil brand, our largest revenue brand. We are investing in a revitalized brand strategy with growth in jewelry, leathers and traditional watches and a more conservative approach to our smartwatch category.

We are also leaning into recapturing growth in China, where we are encouraged by the signs we are seeing from the countries reopening. At the same time, we are maintaining a cautious outlook on the consumer in light of the near-term macro environment and why we believe it's prudent to have initiated decisive cost actions as outlined in our Transform and Grow Plan.

In sum, we are taking the right steps to improve our cost structure now and to lean into strategies to return the business to top line growth and improve profitability over the next couple of years. With that context, for the full year 2023, we expect net sales to be in the range of down 5% to plus 1% and adjusted operating margin in the range of 0% to plus 3%.

Let me outline more specific assumptions that are embedded in our outlook. At prevailing rates, we estimate that we will see

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approximately 200 to 250 basis points of currency impact on our revenue in the first half of the year and approximately 160 to 180 basis points of tailwind on our revenue in the second half of the year. That would average out to a flat impact on a full-year basis.

We are estimating to close approximately [50] stores in FY 2023 that we take advantage of our opportunity to close stores with negligible profit contribution at natural lease expiration.

In 2023, store closures are estimated to have about a 2-point impact on our top line, but again, a negligible impact on our adjusted operating income. After 2023, we would expect a lower store closure count, based on the profit contribution of our remaining fleet.

Our annual sales guidance also assumes a double-digit decline in Q1 of '23 versus the prior year, similar to the rate of decline that we saw in Q4 of 2022. We expect wholesale shipping trends to remain challenging in the quarter, with large accounts managing their inventory levels tightly, particularly in the Americas and in Europe.

Our annual sales guidance incorporates improving sales trends in Mainland China and in adjacent markets that we would expect to benefit from increased Chinese tourism.

From a gross margin perspective, we expect to see some improvement in our gross margins year-over-year, particularly in the second half of the year as freight rates have come down over the past few months and our outlook includes a more stable freight rate market.

Our product sales mix, a projected increase in our high-margin China sales and prevailing currency rates are also expected to help gross margins, particularly in the second half of the year as we navigate some increased promotional mix in the first half of the year.

As we previously noted, the TAG program is expected to generate benefits of at least $100 million in run rate savings by the end of FY 2024, primarily in our operating expenses. Our fiscal 2023 guidance assumes that we realize 50% to 60% of that annualized goal in 2023.

Associated with the TAG program, we estimate approximately $25 million to $30 million in restructuring costs, of which approximately $10 million will be incurred in Q1 of '23.

Finally, from a balance sheet perspective, we are expecting to reduce working capital in 2023, primarily through working our inventory levels down throughout the year. We aim to achieve this through reductions in inventory receipts as well as through initiatives to improve our end-to-end supply chain operations. The combination of these activities are expected to significantly improve our cash flows in 2023.

With that, I'd like to turn the call back over to Christine to take us through some questions.

QUESTIONS AND ANSWERS

Christine Greany ***The Blueshirt Group, LLC - MD***

Thanks, Sunil. I'll start with Kosta. You talked about the strength of the Fossil brand. Can you share more color on how that moves forward in 2023 and beyond?

Kosta N. Kartsotis ***Fossil Group, Inc. - Chairman & CEO***

Yes. The Fossil brand has actually been relatively strong, and it's a significant opportunity for the company as we continue to transform. There's a lot of activities going on right now in Fossil. We've been investing in additional design and merchandising capabilities and are just starting to get the benefits of that.

We have some great product coming in. We're also getting strong sell-throughs on more premium aspiration product. We're seeing strength in our jewelry and leather goods businesses, and so we're expanding those to be a bigger part of the brand as well.

We are also ramping up our marketing and PR capabilities. We have been doing a lot of research and segmentation on the brand over

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the last year, and we'll be launching new creative this year to new cohorts of potential customers, based on those insights. We believe our rapidly increasing digital and marketing capabilities will facilitate additional growth for the brand globally.

Christine Greany ***The Blueshirt Group, LLC - MD***

Great. So zooming out a little bit, what is the state of the traditional watch category? And how does Fossil's performance fit into that?

Kosta N. Kartsotis ***Fossil Group, Inc. - Chairman & CEO***

Well, it's actually -- it's great to see the activity in the category. The fashion watch business, especially at wholesale, has been relatively soft, as we mentioned earlier. The Swiss watch business has been strong in creating sales growth and a lot of activity and awareness, which is very helpful to the overall category. This is obviously a luxury-driven core watch consumer, and it's typically more male than female.

We are also seeing the more aspirational parts of our business do well and are tuning our assortments to include more premium products and more sports luxury-type watches, which make up the bulk of the Swiss watch business.

We also have a lot of collaborations and limited editions and other storytelling that's launching this year. We think all this activity will be helpful to our overall watch category.

Christine Greany ***The Blueshirt Group, LLC - MD***

Moving on to Jeff. Can you talk about how the business has changed since you completed the New World Fossil programs, those captured $250 million in cost savings and efficiency over the last several years. What were the key inputs and considerations that fueled the new $100 million program? And then, can you talk more broadly about the Transform and Grow strategy?

Jeffrey N. Boyer ***Fossil Group, Inc. - COO***

Sure, Christine. If I can, I'll recap our broad Transform And Grow strategy that Kosta and Sunil shared earlier and then dive a bit more into our efficiency opportunities. .

As Kosta mentioned, our growth program is comprised of 3 strategic initiatives: one, to revitalize the Fossil brand; two, to grow watches and jewelry in our core license brands; and three, expand in premium munches.

Underlying these initiatives are additional [foundation] capabilities, which we continue to build out our digital roadmap, our program to modernize our marketing approach and our continued investment in technology. These elements are all critical to grow our business.

But as you noted in your question, we also need to continue to transform our business model as well and become more efficient. And we are currently targeting $100 million in annualized savings from this program.

As our business has evolved since New World Fossil, we're able to identify these additional savings through a heightened focus on core categories, becoming closer to the customer and thereby reducing layers in our organization, more fully utilizing our tech capabilities, rationalize our back office costs and moving work to lower-cost locations, including our Bangalore GBS facility, which now has over 400 fossil associates.

And as Sunil mentioned, we continue to optimize our store base. These programs together will help us be a more effective organization while also reducing our cost structure and will generate savings that are incremental to our previous New World Fossil initiative.

Christine Greany ***The Blueshirt Group, LLC - MD***

Thank you, Jeff. Moving on to Greg. Looking at the decline in the smartwatch business this year, what is the strategy to reverse the trend there? And more broadly speaking, how do you see Fossil fitting into the competitive landscape among much larger players?

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Gregory A. McKelvey ***Fossil Group, Inc. - Executive VP & Chief Commercial Officer***

Thanks, Christine. We are not pushing the smartwatch business like we were prior to 2020 when we were trying to establish a position in a new emerging category and launching new generations of product with significant marketing and inventory support.

The primary reason is that the sales trajectory and margin profile of our traditional categories are simply much stronger. As Kosta mentioned, we are seeing solid performance in smartwatches at modern price points and with wellness features. And our current focus is, therefore, in these areas.

Christine Greany ***The Blueshirt Group, LLC - MD***

Thanks, Greg. We're reading about the rebound in consumer spending in China, given the reduced COVID policies there. What are you seeing in China right now?

Gregory A. McKelvey ***Fossil Group, Inc. - Executive VP & Chief Commercial Officer***

Yes. After China unexpectedly canceled all domestic COVID restrictions in early January, we began to see sales recovery in both offline and online channels. Week by week, we've seen and continue to see a clear uptrend in both traffic and sales.

Overall, we're expecting modest year-over-year growth in Q1 2023, with accelerating trends throughout the quarter, followed by strong year-over-year growth trajectory for the rest of the year, starting in Q2.

In terms of channel specifics, our offline business is clearly recovering, but it will likely take us another quarter before we're going to see growth year-over-year due to recovery being uneven throughout the country. Tier 1 cities are bouncing back more quickly, while Tier 2 and Tier 3 cities are experiencing slower recovery in traffic as they deal with the tail of COVID impact.

Overall, what we believe we're seeing in sellout is consistent with the watch and jewelry category overall in China.

Our online business, on the other hand, has bounced back much more quickly than offline, with Chinese New Year and peak day performance beating expectations. Online is significant within our channel mix in China. So bounce back in online is an important signal about the opportunities we can chase into for the rest of the year.

Lastly, I'd highlight the strength of our Hong Kong, Macau and travel retail businesses. While international flights in the Greater China remains sparse, we are seeing significant traffic and sales increases from Mainland Chinese tourists taking advantage of the relaxed travel restrictions within Greater China.

As international inbound flights get back to pre-COVID levels, we expect these channels to continue to see a nice recovery throughout the rest of the year.

Overall, we're obviously very pleased to see a more accelerated recovery in Greater China than we were expecting. Our brand and commercial teams, as a result, are working feverishly on back half product opportunities and marketing campaigns to chase every opportunity we're seeing in a resurgence of this important business.

Christine Greany ***The Blueshirt Group, LLC - MD***

Thank you, Greg. Let's wrap up with a question for Sunil on the outlook. Sunil, could you please provide some additional color on the -- on your expectations for 2023, particularly how you see the trends playing out over the course of the year?

Sunil M. Doshi ***Fossil Group, Inc. - Executive VP, CFO & Treasurer***

Yes. Sure, Christine. There are various dynamics at play, which come through the year at different times. At a high level, there are a few key topics that are we're stepping through. First, wholesale sell-in trends or prevailing currency rates, direct-to-consumer trends and then the recovery in China that Greg just discussed. .

I'll start with first half of the year. First, shipments into the wholesale channel will still have some downward pressure, we estimate, on a

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year-over-year revenue comparisons.

In Q1, we see that retailers are still managing replenishment type and below underlying sellout trends as they maintain a cautious outlook on consumer discretionary categories in general. We think the majority of this selling impact on our revenue should be in the first half of 2023.

Second, with respect to currencies, while the dollar has weakened a bit since late Q3 of last year, prevailing currency rates will still create some year-over-year headwinds on sales, about 200 and 250 basis points in the first half of the year.

In our direct-to-consumer channels, we are seeing continued comparable retail sales growth enabled by investments from our digital roadmap. But we will see some overall revenue decline in the channel from planned store closures that are likely front half weighted. But again, these are lower productivity stores, hitting their natural lease expirations.

Partially offsetting this, we are starting to see rebounds in China. Many of our accounts are reforecasting for a return to growth, and we are seeing better consumer spending on our direct channels in the market.

So our expectation is that revenue and adjusted operating margins will be down on a year-over-year basis from the first half of 2023. And in the second half, we anticipate that trend will reverse, enabling us to deliver sales growth and adjusted operating margins above 2022 levels.

More specific to the second half of the year, first, more balanced wholesale sell-in pattern should emerge, where sell-in should be more aligned with sell-out trends. That, coupled with lapping the pullback that we saw in the back half of last year creates for better year-over-year comparisons by the second half of the year.

Second, prevailing currency rates on our major operating currencies like the euro, are also favorable by the second half when the dollar had its record strengthening in 2022. This tailwind should benefit both sales and margins.

Third, the China reopening that we are seeing in Q1 provides a nice tailwind for year-over-year revenue growth by the second half of the year. As a reminder, China is a very, very profitable country model for us. It's also worth noting that our revitalization strategy for Fossil brand, which has demonstrated growth in its core categories, will be fueled by a major marketing campaign in the second half of the year.

And lastly, adjusted operating margin should also benefit from a lower freight rate market this year and from cost actions contemplated in our tax strategy.

Underlying the dynamics of the first half and second half of the year is our Transform and Grow strategy, which we believe creates a better and more profitable company with an accelerated path toward more sustainable top line growth, focusing on our best brands and core categories, supported by increased marketing, improved gross margins with better assortment and category mix and through cost reductions that have already begun in efficiency and improved cash flow through lower working capital.

Christine Greany ***The Blueshirt Group, LLC - MD***

Terrific. Thank you, team for the Q&A. That concludes today's call. We all look forward to updating you on our first quarter 2023 call in May.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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