

Fossil Group, Inc.
Q2 2025 Earnings Call Prepared Remarks
Wednesday, August 13, 2025

Christine Greany, Investor Relations:

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 on FossilGroup.com.

With that, I'll now turn the call over to Franco.

Franco Fogliato, CEO:

Thank you, Christine. Good afternoon everyone and thank you for joining us today.

As noted in today's press release, we delivered second quarter financial performance above expectations, raised our full year guidance and announced a comprehensive debt refinancing. These developments reflect ongoing operational and financial momentum resulting from our turnaround plan.

In Q2, our talented global teams drove a third consecutive quarter of both gross margin expansion and positive adjusted operating income against a complex macro backdrop. A few

highlights from the quarter: Net sales trends reflect continuing improvement in the wholesale channel, as well as better than expected comparable sales trends in our Fossil retail stores. This is particularly meaningful given that we substantially lowered our promotional activity and took some strategic pricing actions during the quarter. Importantly, we also fueled strong bottom line performance with gross margins of more than 57% and significant cost reduction - delivering positive adjusted operating income of \$4 million. The results demonstrate the power of our rich brand heritage and ability to connect with consumers around the world as we continue to execute under the three key pillars of our turnaround: Refocusing on our Core, Rightsizing our Cost Structure and Strengthening our Balance Sheet.

Next month will mark the completion of my first year at Fossil Group. Since joining the Company last September, the pace of change has been fast and furious – and our progress has been notable. During this time we have built a world class leadership team, bringing fresh perspective to key functions across the organization. Most recently, Laks Lakshmanan was appointed Chief Supply Chain Officer, bringing more than 20 years of expertise to the role. I am thrilled about the team we've assembled and the way everyone has united around our game plan and strong desire to succeed. We have much more work ahead but the opportunity is significant. We are operating with excellence, focus and intention. Our year-to-date results, coupled with ongoing operating and financial rigor, positioned us to raise our outlook for full year 2025. We have increased our top line guidance to the high end of our previous range and now expect to deliver breakeven to slightly positive adjusted operating margins. We're making bold moves and it is clear that our actions are paying dividends.

Now I'll move to an update on the strategies driving our results.

Looking at the strategies under our first pillar, **refocusing on our core**. Since we initiated this turnaround, we have been bringing a new Fossil brand platform to life through elevated design and storytelling and initiatives to create a standout experience for the customer. On the digital side, we recently launched a second phase of improvements under our website redesign. The site features richer storytelling and a more seamless customer journey designed to drive increased engagement times and higher conversion rates. I encourage you to visit [Fossil.com](https://www.fossil.com), where we recently refreshed our landing pages to highlight Fossil's innovation around core classics, elevating the traditional watch platforms that reflect our history of design and storytelling.

On the product and marketing front, our engine is fired up. Fossil traditional watch icons like the Neutra, Raquel and Machine platforms were top performers in Q2. These collections reflect our heritage and remain an important part of our product pipeline. Equally important, we have a long history of on-trend collaborations that enable us to enhance our storytelling and drive brand heat. Our latest launches – Fossil x Shelby, Superman and Fantastic Four - have been standouts, drawing significant media attention, delivering outsized performance across our content channels and capturing consumer mindshare.

This year we are increasing our investments in upper funnel marketing initiatives to cultivate enthusiasm for the Fossil brand through unique and immersive experiences. Consistent influencer and in-person activations around key commercial and cultural moments, globally, have contributed to rising engagement rates, press impressions and improving top line trends in traditional watches.

In Q3, our global teams are gearing up for the official worldwide launch of Nick Jonas as Fossil's global brand ambassador. We have a series of exciting consumer activations and VIP events planned, which will kick off next week when we welcome consumers and fans to the Fossil Diner - a branded pop-up experience in New York City. We will be replicating a traditional New Jersey diner, bringing this to life in an iconic Manhattan space with exclusive merchandise and experiences. We will also be investing in a robust wholesale marketing strategy to support the campaign launch. This includes window takeovers at our wholesale partners globally, point of sale marketing, new fixtures and improved storytelling collateral. We are thrilled about the launch of this campaign, which represents a pivotal moment for Fossil. We are confident that Nick's global reach and influence will help us build increased awareness of the Fossil brand, create excitement around our product offerings and drive cultural relevance.

Turning now to our core licensed brands, Armani, Kors and Diesel. We have strengthened our position in the wholesale channel by investing in point of sale and in-store presentation. This is driving improved results in key markets, including the US, India, Germany and UK, while China performance remains pressured by the macro environment. From a brand perspective, Kors and Armani Exchange both demonstrated year over year growth in the wholesale channel during the first half of the year. While Armani performance was challenged in China, the brand grew in other key markets, including North America and EMEA, in the first half.

Next, we are remaining focused on optimizing our global wholesale footprint. We're prioritizing key geographies where we continue to see strengthening trends. This includes the Americas, where Fossil traditional watch sales were up double-digits in the second quarter, as well as India, where we're seeing strong momentum across brands and channels. Additionally, we're gaining traction quickly with our European distributor partners, driving increased sales and profitability in those geographies.

Our aggressive actions to strengthen channel profitability are paying dividends. Our strategic decision to dramatically scale back promotional activity in our e-commerce channel is driving significant improvement in our gross margin profile and bottom line profitability. We're also seeing uplift in KPIs, including traffic quality and average unit retail in both our Fossil stores and e-commerce site. This is having a halo effect across other channels, most notably wholesale. We're pleased to be leading by example with our return to a full price selling model, further demonstrating our commitment to strengthening our relationships with our wholesale partners.

Looking at our Fossil retail stores, we are continuing to optimize the portfolio through the closure of underperforming doors. In Q2, we exited an additional 6 locations. As part of our efforts to deliver an engaging shopping experience and improve fleet productivity, we have begun prototyping our Store of the Future which blends lifestyle selling, data-led decision-making and purpose-driven strategy. This new program is shifting our selling culture to one that is rooted in proactive clienteling and outreach and prioritizes personalized service and community. We started with a pilot in our home base of Dallas and are quickly expanding to more than 50 of our US stores this summer. The initial results are compelling. We're seeing month-over-month increases in conversion, average daily sales and units per transaction. We are planning to roll out the program to all of our North American locations this year and have some pilot stores underway in EMEA.

Turning to our second turnaround pillar, **rightsizing Fossil Group's cost structure**. We have taken actions to strengthen our operating model and continue to act with financial rigor to position the business for long-term profitable growth. Our cost cutting actions have generated nearly \$50 million of savings in the first half of 2025 and we remain on track to capture full year SG&A savings of \$100 million. Additionally, we are continuing to evaluate incremental opportunities, including the potential sale of non-core assets.

Lastly, I'll turn to our third key pillar, **strengthening the balance sheet**. I am pleased to share that we successfully refinanced our revolving credit facility and entered into a transaction support agreement with our largest bondholders to amend and extend our bond maturities into 2029. This balance sheet transformation, which Randy will cover in more detail, will meaningfully improve our liquidity and provide us with added flexibility to execute our turnaround and return Fossil to a profitably growing, cash generating organization. We are incredibly grateful to our stakeholders for their support and appreciate their conviction in our team, our business plans and our long-term vision.

Looking ahead, I am confident we have what is needed to win: World class teams, a clear strategy and plan of action, a solid balance sheet and strong brand equity underpinned by our 40 year heritage in watchmaking. As we face an increasingly complex environment, we're controlling what we can and leaning into our strengths. Halfway through the year, we're performing ahead of our expectations and gaining increasing traction against our initiatives. Importantly, as we continue on our path to restoring top line growth, we're strengthening our underlying operating model and unlocking efficiencies, which is driving improved profitability. We greatly appreciate the support of our shareholders and look forward to keeping you updated on our progress.

Now I'll turn the call over to Randy to review the second quarter financials and discuss our outlook.

Randy Greben, CFO:

Thank you, Franco and good afternoon everyone.

We're pleased to have delivered another quarter of out-performance across the P&L, as we continue to advance our turnaround strategies. As a result of our strong year-to-date performance, we're raising full year guidance on the top and bottom line, with adjusted operating margin now expected to be breakeven to slightly positive.

Second quarter net sales totaled \$219 million, down 16% in constant currency and in line with our expectations.

Second quarter gross margin expanded 480 basis points compared to last year, coming in at 57.4%. You'll note that this is now the third consecutive quarter of meaningful gross margin expansion. The year-over-year increase primarily reflects higher product margins in our core categories driven by improved product costing, our exit from Connected watches, lower freight costs, and importantly, a completely refreshed philosophy with significantly lower reliance on discounts and promotions.

We are proactively addressing the tariff landscape and remain confident that we can mitigate the full impact to our cost of goods sold in 2025. As a global organization with a flexible supply chain and significant scale, we are well positioned. We have several tactics in our arsenal, ranging from cost sharing with vendors, to optimizing our sourcing allocations and distribution, to strategic pricing actions. Specific initiatives include:

- Partnering with our long standing suppliers to drive cost reduction on key platforms;
- Utilizing our strong supply base to optimize costs across multiple sourcing regions and supply chain tiers;
- Leveraging our free trade zone status at our Dallas distribution center; and
- Implementing surgical price increases.

With respect to pricing, thus far, we have not seen any pushback from the consumer, which we view as a testament to our democratic pricing architecture.

Continuing down the P&L and looking at operating expenses - our commitment to strict cost control was evident in the quarter. Our teams brought down SG&A by \$32 million to \$122 million, excluding an \$11 million gain from the sale-leaseback of our European Distribution Center which we discussed on our May earnings call and, as expected, closed in Q2. As a percentage of sales, SG&A was 340 basis points lower versus prior year, coming in at 55.7%. The year-over-year improvement in SG&A is attributable to 44 fewer stores in operation versus a year ago, lower compensation and administrative expenses, and a planned decrease in performance marketing spend. On a year-to-date basis, we have delivered \$48 million of SG&A savings, putting us well on track to capture our targeted full year savings of \$100 million.

During Q2, we closed another six stores, bringing us to 34 closures year to date. We expect to close 45 to 50 locations this year as we work toward optimizing the fleet and improving

productivity. As a reminder, virtually all of our store closures are occurring at natural lease expiration with minimal closing costs.

Turning now to earnings, we delivered a third consecutive quarter of profitability. Second quarter adjusted operating income came in at positive \$4 million compared to a loss of \$17 million a year ago. This strength drove a Q2 adjusted operating margin of 1.7%. Of note, adjusted operating income does not include the \$11 million gain I just discussed.

Moving to the balance sheet, we ended the quarter with \$110 million of cash and cash equivalents, which includes more than \$20 million from the sale-leaseback of our German distribution center. Inventory levels were down 12% compared to the prior year and totaled \$178 million. Most importantly, as Franco pointed out, subsequent to quarter end we meaningfully strengthened the balance sheet – a critical pillar under our turnaround plan that we have been working with urgency to address. The comprehensive financing plan we announced today considerably improves our liquidity position and provides us with the runway to transform Fossil into a consistent profitable grower and strong cash flow generator. Let me unpack the mechanics of what we announced.

- We are pleased to have secured a new \$150 million asset-based revolving credit facility with Ares Management Credit funds, a best-in-class lender and partner. The new facility, which has a five year maturity, is commensurate with the size of our current business, carries enhanced terms and provides increased availability to meet our working capital needs.
- Concurrently, we have signed a transaction support agreement with our two largest bondholders to amend and extend the maturity on our 7% Senior Notes into 2029. We are pleased to have reached this collaborative agreement with these key stakeholders, which also includes their commitment to provide a cash backstop of \$32 million in additional funding to further fuel our turnaround. Their support covers approximately 60% of our outstanding bonds, and we expect to launch a public exchange later this month to address the balance of our notes. We look forward to sharing the results of the exchange with the investor community prior to year end.

Before moving to guidance, I'd like to underscore the importance of these balance sheet movements. As Franco mentioned, we are confident that we now have ample liquidity to effect our turnaround. A big thank you to our bondholders, advisors and new partners.

Turning now to guidance. Based on the results we're seeing from our turnaround initiatives, and ongoing momentum across the business, we're raising our full year outlook for 2025 as follows.

- We expect worldwide net sales to decline in the mid-teens, which includes approximately \$40 million of impact related to retail store closures. This compares to prior guidance of a decline in the mid to high teens.
- We are also taking up our expectations on the bottom line, reflecting the combination of gross margin expansion and significant cost reduction. Our updated outlook calls for breakeven to slightly positive adjusted operating margins, which compares to prior guidance of negative adjusted operating margins in the low single digits.

To provide more context, I'll speak to the cadence of profitability in the second half. First and foremost, we continue to expect to deliver healthy gross margins in the mid to upper 50s on a full year basis. From an accounting perspective, we recognize any minimum royalty deficits in the second half of the year, the majority of which are recorded in our third quarter. In 2025, the impact will be more significant than prior years due to our smaller sales base. Therefore, in Q3, we anticipate that gross margin and adjusted operating margin will decline on both a year-over-year and sequential basis. Excluding royalty shortfalls, we expect Q3 gross margin to increase versus prior year.

Our turnaround efforts began to take root in Q4 of last year, when we started to see meaningful gross margin expansion associated with our lower promotional / full price selling strategies. Therefore, we expect a more comparable gross margin rate year over year in Q4, as the minimum royalty reductions we've agreed with our license partners benefit us moderately in 2025, and much more meaningfully in 2026, when we expect to bend the curve of these minimum royalty guarantee shortfalls. Implicit in our outlook is a return to positive adjusted operating income in the fourth quarter.

In summary, we are entering the second half of the year with momentum from both an operational and financial perspective. Our teams are delivering strong execution against our

turnaround pillars and acting with financial rigor, remaining committed to driving long term profitable growth and building durable shareholder value.

Now I'll ask the operator to open the call to Q&A.