Fossil Group, Inc.
Q3 2025 Earnings Call Prepared Remarks
Thursday, November 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.

I am 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 exchange offer, 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 three 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's list of World's Best Brands. For 2025, Fossil made every country list surveyed, ranking as the #1 watch brand in Germany, #2 in the US and #5 in both the UK and Mexico. We are 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. US 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 are pleased to have delivered another quarter of strong financial performance. We narrowed our sales decline to 7 percent, reflecting year-over-year improvement in both the wholesale channel and our Fossil retail stores. Global growth in wholesale demonstrates continuing strength from our strategic initiatives, as well as a shift in the timing of certain shipments from Q4 into Q3. A key callout 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 deficits, 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 promotions 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 nine months of 2024 to nearly breakeven for the same period in 2025. For full year 2025 we expect to achieve breakeven to slightly positive adjusted operating margin.

Our teams are continuing to deliver sharp execution across our three turnaround pillars: Refocusing on our Core, Rightsizing our Cost Structure and Strengthening the Balance Sheet.

Looking at the strategies under our first pillar, **refocusing on our core**. Over the past nine 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 Fossil's Global Brand Ambassador. Since the August launch, the worldwide campaign has generated nearly six billion impressions. We kicked off with a one-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 its first few months. Also compelling - some of the best selling items sell for $300-$400, a much higher price point for Fossil which is driving higher average unit retail. Additionally, Nick's global reach and influence 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 collaborations with Fantastic Four and Galactus have been standout performers in key markets globally. In the US, Fantastic Four sold out during our early access event online and was out of stock in stores within week one. In EMEA the collaboration sold out online within three days. Galactus was also a tremendous success, selling out online in both the US and EMEA on day one.

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'll 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's 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 core licensed brands, Armani, Kors and Diesel. We are continuing 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 sale 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 nine months of the year, while the Armani brand remained pressured by the macro environment in China.

Next, we continued to make progress toward 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-digits globally, with notable strength in the EMEA and Asia regions. In the US, traditional watch performance was up slightly in wholesale, while the Fossil brand grew double-digits. Within Asia, both India and Japan grew double-digits. We recently strengthened our team in Asia with the appointment of Davin Leong as 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 operations while driving increased sales and profitability. Most recently, we signed a new distribution agreement with Morellato Group in Italy, which takes effect January 1st, 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 six European markets to a distributor model and will 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 one 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 US as our new clienteling initiatives started to gain traction. Our Store of the Future, which we discussed on our Q2 earnings call, has been rolled out to all of our US stores and over a dozen EMEA locations. The mission behind this new concept is to deliver a standout experience for the customer. We've reimagined retail to meet the evolving needs of today's guests, empowering stores to shine as distinctive, experience-driven destinations - where personalized service leads, community matters, and strong results follow. We believe we can unlock profitable sales growth by blending lifestyle selling, data-informed decisions, and a purpose-driven strategy – with the goal of creating meaningful impact beyond the sale. The initial results are compelling. We're driving increased traffic to our stores, fueling higher average order values and attracting new customers.

Looking now at 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. Year-to-date, we have generated over $60 million of cost savings and reduced our SG&A rate 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**. This week marks a significant turning point for our business and sets us up for 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, returned to a 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'll turn the call over to Randy to review the third quarter financials and discuss our outlook.

Randy Greben, CFO:

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, that I'd like to take a moment to talk about them:

- Our focus on full price selling has fundamentally changed our margin architecture, with a reduction in discount rate of more than 50% versus last year on Fossil brand e-commerce sales in Q3 being just one example.
- Our sourcing initiatives resulted in improved product margins in our core categories, driven by optimization of our supply chain and successful negotiation with key suppliers in all categories.
- We have retooled our open to buy process, distorting our investments deeper into best sellers 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 with discipline, 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 percent 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 three 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 had 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 a path to profitable growth and positive free cash flow.

Our refinancing was an all-hands effort by our internal teams and our collection of world class advisors. 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 retail 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.