

Fossil Group, Inc.
Q4/Full Year 2025 Earnings Call Prepared Remarks
Wednesday, March 11, 2026

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:

Hello everyone and thank you for joining us.

2025 was a transformative year for the Company, defined by operational excellence and financial performance that exceeded our expectations. We took bold steps to advance our turnaround plan, delivering strong execution against the three pillars we laid out just one year ago. Those include Refocusing on our Core, Rightsizing our Cost Structure and Strengthening our Balance Sheet. We built a brand-led, consumer-focused operating model,

assembled an exceptional management team and established a culture of accountability. We recently appointed a new Chief People Officer who will be a valuable part of our efforts to continue strengthening our organizational capabilities, culture and customer-first mindset. I am incredibly proud of our teams and want to thank everyone across the organization for their energy, passion and hard work - and for upholding our commitment to keep the consumer at the center of everything we do.

Our turnaround efforts gained traction quickly, enabling us to end the year ahead of our initial plan. We delivered full year performance above the updated guidance we provided halfway through the year. Net sales totaled \$1 billion, gross margins expanded 380 basis points to 55.9% and we reduced SG&A by over \$100 million. This drove positive adjusted operating income of \$11 million, a year-over-year improvement of \$48 million.

Now I'll turn to the operating highlights and key accomplishments of 2025.

- First and foremost, we created a Fossil brand platform for the future. We accomplished this by improving the customer journey and delivering a robust pipeline of product innovation - all supported by powerful heritage brand storytelling.
- At the same time, we successfully established a full price selling model by radically transforming our promotional cadence across channels. This enabled us to return the business to a healthy gross margin profile in the mid-50s and improve profitability in both our wholesale and direct-to-consumer channels. Importantly, this has strengthened our wholesale partner relationships, creating a powerful flywheel effect that is delivering benefits across all channels.
- Next, we re-energized our core licensed brands - Michael Kors, Emporio Armani, Armani Exchange and Diesel. Most notably, strategic investments in point of sale and a renewed focus on specialty watch retail enabled us to improve our in-store presentation and performance in the wholesale channel.

- We also drove momentum in our traditional watch business by prioritizing our most scalable markets in the wholesale channel, including the U.S. and India. This resulted in wholesale traditional watch growth in our core brands of 2% globally for the full year in 2025.
- At the same time, we took clear actions to right-size our cost structure and instituted a culture of strict cost control.
- Lastly - and as importantly - we transformed our balance sheet. We now have the runway and flexibility to support the next phase of our turnaround, build a sustainable, profitable business model and deliver long-term value creation.

We have entered 2026 well positioned to leverage our foundational assets, including our 40-plus year heritage, iconic brands, innovative designs, global reach and talented teams. Also notable, the industry is experiencing strong momentum across markets and demographics. At the same time, our comeback is capturing increasing attention from consumers, partners and the press. Just last month I was at the Inhorgenta watch and jewelry show in Munich, where many of our brands were center stage. In 2026, we will be making more bold moves on our journey to reinvent Fossil Group and lead the industry. It's an exciting time for the Company as we continue to foster a collaborative, creative and energetic culture with accountability and a strong commitment to win.

We are turning the page to a new chapter and evolving our three strategic pillars as follows: Returning to Profitable Growth, Optimizing our Operating Model and Building Shareholder Value. Over the next three years, this evolution of our turnaround is expected to generate a return to top line growth, high-single-digit adjusted operating margins and positive free cash flow. More on our financial outlook shortly but first let's talk about the initiatives we'll be executing against to further advance our turnaround.

Within our first pillar, **Returning to Profitable Growth**, our teams will be focusing on defined initiatives across the Fossil brand platform to fuel innovation, deepen consumer engagement, grow the Traditional Watch business and reinvigorate our Jewelry and Leather categories.

In 2026 we will be Fueling Innovation Through Design, Technology and Storytelling. This includes reigniting key icons, continuing to delight our customers with culturally relevant collaborations, reviving one of Fossil's most sought-after Y2K innovations and introducing a select group of premium products. Let me take you through the roadmap.

Starting with our watch icons, which make up a significant portion of our business, we'll be innovating and expanding upon key collections, including our Everett, Harlow, Machine, and Raquel platforms and our watch rings. Additionally, we will be doubling down on our minis collection across all of our top women's platforms.

Following the success of 2025 collaborations such as Fantastic Four, Galactus, Minecraft, Shelby and Superman, we will continue activating culturally relevant partnerships with both new and returning properties in 2026. These collaborations deliver highly engaged audiences, customer acquisition at scale and meaningful earned media. Importantly, as we anniversary successful 2025 partnerships, we are focused on converting collaboration shoppers into long-term Fossil customers, improving retention and lifetime value.

One of our most significant introductions this year is the return of Fossil Big Tic - a bold, animated movement that combines analog craft with digital innovation. Originally introduced in the late 1990s, Big Tic is one of Fossil's most recognizable and emotionally resonant designs. The designs are geared toward Millennial watch consumers nostalgic for Y2K, GenZ consumers craving analog-forward accessories, and the male watch enthusiast looking for a big, bold watch to match his style. Earlier this month, we recently launched a nostalgic limited edition Y2K capsule, quickly followed by a reinvention of Big Tic Machine. Initial response from consumers and acclaim from the press has been tremendous thus far.

Our Big Tic marketing campaign reflects the evolution of our creative strategy featuring a dynamic, animated concept built around the idea that everything Big Tic touches becomes larger than life. Its bold storytelling reinforces product distinctiveness while driving modern relevance. We have a lot more exciting Big Tic innovation coming and anticipate that momentum will continue to build as we roll out additional collections throughout the year.

Another significant innovation coming later this year is the introduction of Signature, Fossil's first premium platform in more than a decade. Rooted in craftsmanship and timeless design, the collection represents an important evolution for the brand and is designed to resonate with watch enthusiasts and collectors alike. Signature will also introduce a new level of technical sophistication and assembly that reflects Fossil's continued commitment to quality and innovation. We look forward to sharing more details in the coming quarters.

While we are first and foremost a watchmaker, our jewelry and leather offerings expand our expression as an accessories brand. Our strategies for these categories focus on staying true to our brand DNA of quality, value and timelessness. We are repositioning the businesses with modern designs, including jewelry introductions inspired by our most important watch collections and increased personalization through engravable offerings.

We will be supporting all of this product innovation with a focused, high-impact marketing roadmap. In 2025, we concentrated our investments in priority markets, and the results validated that disciplined, brand-led investment drives stronger engagement and return. This year we will continue scaling this approach, deploying our resources to opportunities where we can build further brand equity and accelerate growth. Our 2026 storytelling is designed to celebrate Fossil's heritage, reinforce our quality and design credentials and elevate cultural relevance. A great example of this is our exciting partnership with brand ambassador Nick Jonas. Nick has proven to be an authentic and highly engaged partner, currently anchoring campaigns across the Nick Jonas Collection, Machine and Big Tic.

Moving now to our Omni-Channel Initiatives, which are designed to modernize our brand expression at wholesale, improve our e-commerce business and optimize our Fossil store portfolio.

In the wholesale channel, we are focusing on our top customers in must-win markets, including the U.S., France, Germany and India. For example, in the U.S. the strength of the Fossil brand, our robust product pipeline and engaging campaigns are driving growth with key partners. Additionally, we are expanding distribution to specialty and energy retailers that can help build brand awareness and create excitement among a younger demographic.

In the e-commerce channel, we have reshaped our business through two major actions over the past 18 months. First, we dramatically reduced our discounting posture by more than 50%, establishing a full price selling model. Next, we implemented a comprehensive redesign of the FOSSIL site, featuring richer storytelling and a more seamless customer journey. The result is a smaller but more profitable sales channel, with higher AUR across the entire marketplace. As we pursue long-term growth, we will continue to deliver consistent pricing and promotions, while investing in personalization, inspiration and a more cohesive brand presentation to drive customer engagement and strengthen brand perception.

In the retail channel, we are optimizing our store portfolio and deploying our Store of the Future strategy in the U.S. and EMEA. We are very pleased with the initial results from our Store of the Future concept, which blends lifestyle selling, data-led decision-making and purpose-driven strategy. Importantly, it is shifting our selling culture to proactive clienteling and outreach, personalized service and community focus. This has resulted in improvement across key performance indicators, including AUR and conversion.

Turning to our Core Licensed Brands, we are focusing on initiatives to return the brands to sustained sales growth.

- We believe there is a significant opportunity to unlock potential in Michael Kors jewelry and men's watches. Our strategy for Kors Jewelry is centered on modern, wearable design while leaning into one of our strongest assets - the MK logo. We have recalibrated our pricing architecture to improve accessibility and enhance our competitive positioning. In Men's Watches, we are returning to proven Michael Kors design codes and investing behind hero platforms that have historically driven scale. We will do this by focusing on bold, confident styling, recognizable attributes, and strong perceived value within key price tiers.
- For the Emporio Armani brand, we are pursuing opportunities in select markets outside of China where there is strong local demand for premium products and additional runway in the wholesale channel to broaden assortments and leverage long-standing partnerships.

- We are also continuing to drive the Armani Exchange brand, which is experiencing strong momentum across major markets, including the U.S. and India. Key initiatives include elevating our retail presence, expanding distribution, building on the success of our icons and delivering localized product offerings.

Turning now to the final area of focus under our Growth Pillar. We see a significant opportunity in India, which has been the fastest-growing large economy in the world for the past four years. This is an important strategic market where our brands have category leadership, strong momentum and secular tailwinds. I was in India last month with other members of our executive team as part of our focus on unlocking the full potential of this geography, where we are experiencing growth across all channels and brands. In 2026, we will be building further brand heat across our portfolio by broadening our assortments, entering premium price points and introducing limited editions - all supported by dynamic storytelling. We will also be increasing our footprint through expanded distribution, opening additional wholesale doors with both new and existing partners, and opening new Fossil retail stores. We have a highly seasoned team in India who is committed to driving continued growth and rapidly scaling the business.

Moving now to our second turnaround pillar, **Optimizing Our Operating Model**. We made significant progress toward rightsizing our expense structure in 2025. With this improved baseline and an emphasis on strict cost control, we are well positioned to continue to drive optimization across the organization. We will be focused on initiatives to strengthen our omnichannel strategy and go-to-market execution, while prioritizing operational investments and infrastructure improvements.

Key areas of focus include: Sharpening our go-to-market execution to elevate point-of-sale engagement, reduce complexity and improve business agility; enhancing our digital and technology infrastructure; delivering best-in-class supply chain performance; and prioritizing high-impact projects and KPIs.

I'll now turn to our third and final pillar, **Building Shareholder Value**. The rapid progress we made in year one of the turnaround, our accelerating profit profile and our strengthened balance sheet give us conviction that we're set up to create lasting value for all of our

stakeholders. We expect to continue improving profitability, affording us the optionality to strategically invest for growth and value creation.

Building on the strong execution and financial performance we delivered in 2025, we are pleased to be raising the financial targets we introduced one year ago. As a reminder, we previously communicated a 2027 sales target of at least \$800 million. We now expect to surpass that benchmark one year earlier than planned. In 2026, we expect sales in the range of \$945 million to \$965 million, highlighted by a return to top line growth in the fourth quarter. Additionally, we expect positive adjusted operating margins of 3% to 5% and breakeven free cash flow.

Our commitment to operational excellence and returning the business to profitable growth is grounded in a focus on discipline, accountability and performance. I am grateful to our teams, partners and shareholders for their continuing support of Fossil Group and look forward to reporting to you on our progress throughout the year.

Before I turn the call to Randy, I'd like to acknowledge the current geopolitical climate. As a global company, we are disheartened by the events occurring in the Middle East and we are closely monitoring the safety and well-being of our employees and partners in the region.

Now, I'll turn the call to Randy to discuss the financials.

Randy Greben, CFO:

Thank you, Franco. 2025 was a year of tremendous progress on multiple fronts. I'm pleased that we gained strong traction on our turnaround initiatives, delivered financial results ahead of our expectations and transformed our balance sheet. Our 2025 performance reflects the strength of our brands, strategies and teams – and demonstrates that we have the right building blocks in place to drive long-term growth and profitability.

Now I'll turn to the specifics of our fourth quarter and full-year performance. Net sales for Q4 totaled \$274 million, reflecting a decline of 20%, including four points of impact from store closures. For the full year in 2025, net sales were \$1 billion, including 330 basis points of impact from store closures and 80 basis points of impact from the exit of connected watches.

Fourth quarter gross margin came in at 57.4%. That's up 350 basis points from last year and reflects the ongoing strength of product margins, as well as our focus on full price selling, which allowed us to drive structurally higher margins over the past 12-18 months. Indeed, full year gross margin for 2025 was 55.9%, representing 380 basis points of expansion versus 2024 even with the continued, and compounded headwind of minimum royalty guarantee shortfalls, which as previously shared are expected to be materially abated in full-year 2026.

In 2025, we executed against several initiatives that drove a meaningful improvement in gross margin. Specifically, we substantially lowered our discount rate, strengthened our supply chain, negotiated better terms with key suppliers, retooled our open to buy processes and implemented targeted price increases. I am pleased to note that all of these actions not only improved our underlying gross margin profile, but also enabled us to largely mitigate tariff headwinds throughout the year. The fact that we were able to absorb the impact of tariffs in 2025 while delivering a return to healthy gross margins demonstrates the agility of our supply chain and is a testament to our teams around the globe. Looking at 2026, we expect to continue to offset the current rate structure with our mitigation strategies and have not embedded material rate changes or any tariff refunds into our forward looking guidance.

Moving now to operating expenses, strict cost control enabled us to lower SG&A expenses by 16% versus prior year. The improvement is attributable to 49 fewer stores in operation versus a year ago, as well as lower compensation and administrative expenses. During Q4, we closed six additional stores, ending the year with 199 locations globally. All 49 closures in 2025 occurred at natural lease expiration with minimal closing costs. Given the improving performance of our fleet, we expect to reduce our number of store closures down to approximately 15 locations this year.

As we continue to focus on improving our cost structure, our teams are acting with financial discipline and rigor. I am pleased to note that on a full year basis, we slightly over-delivered on our full year SG&A savings target of \$100 million. Zooming out, the successful delivery of 2025's SG&A savings target was a key follow-on to work that began in 2023. In total, the Company's SG&A levels have been right-sized by more than \$250 million over the last 36 months. And while the lion's share of this work is behind us, we're never done. As Franco mentioned, in 2026 we expect to further optimize our operating model by capturing

efficiencies throughout the organization. We will be directing resources toward go-to-market execution, operational investments and infrastructure improvements.

Looking now at our bottom line performance in Q4, strong gross margins north of 57% and exceptional expense management translated to a profitable quarter, with adjusted operating income totaling \$11 million. We also achieved positive adjusted operating income for the full year, also at \$11 million. This is notable after two consecutive years of losses on the bottom line and is another very tangible demonstration of our turnaround taking root.

Turning to the balance sheet, we ended the year with \$96 million in cash and cash equivalents, \$67 million of availability under our asset-based revolver and no utilization of our ATM program. Year-end inventory totaled \$152 million, down 15% versus last year – consistent with sales and in line with our expectations. It's worth noting that we have brought inventory levels down by more than \$200 million over the last three years. The reduction in inventory, particularly in the last year, has not only seen us become more appropriately balanced in terms of weeks of supply and turns, but as importantly, it occurred as we rebalanced our overall inventory position to include far more full-margin products.

Strengthening the balance sheet was a key pillar under the first phase of our turnaround and we delivered on that in spades. We are pleased to have entered 2026 in a healthy position, with the right combination of liquidity and debt maturity horizon.

Now let's take a look at our outlook for 2026 and beyond. We're incredibly proud of the work our teams are doing and believe we're poised for another year of strong execution as we embark on the next evolution of our turnaround plan that Franco just laid out. Provided there is no significant disruption in the macroeconomic environment, we expect our turnaround pillars to deliver the following outcomes for full year 2026.

Worldwide net sales of \$945 million to \$965 million, including approximately \$21 million of impact related to retail store closures. That's down 4% to 6% and represents a significant improvement in the rate of decline versus last year. For added context, the impact of store closures and the extra week in 2025 is worth about 360 basis points. And it's worth reiterating

the point that Franco made a few minutes ago - based on the guidance we're providing today, we now see 2026 as the sales low point under our turnaround, one year earlier than previously planned, and materially higher than the approximately \$800M in revenue we indicated for 2027 one year ago.

As we look at the cadence of the year, we anticipate that 2026 will be second half weighted, with year-over-year declines slowing through the year, and an expected return to top line growth in the fourth quarter. This is in line with seasonal trends, but more importantly, reflects the compounding benefits of our turnaround initiatives. This includes the lapping of last year's store closures and selected further closures this year, the sunsetting of some non-core/small licensed brands and our watchstation.com website, and the comping of last year's inventory reset as we shifted our focus to full-price selling.

Importantly, we anticipate that gross margins will remain healthy in the mid-to-upper 50s. Further, we expect that the intra-quarter volatility we've experienced, particularly in Q3 of previous years, should be largely abated with the benefit of our minimum guaranteed royalty relief.

Additionally, expense control is expected to drive another year of meaningful SG&A reduction and enable us to achieve SG&A leverage. While we will be investing in marketing to support the robust pipeline of innovation that Franco spoke about, total marketing dollars are expected to be down slightly versus 2025.

We are positioned to achieve improved profitability in 2026 and expect adjusted operating margins to be in the range of 3% to 5% on a full year basis. Additionally, our focus on improving cash conversion is expected to result in breakeven free cash flow as we drive the business to be cash generating in 2027 and beyond.

With innovative product offerings, favorable watch industry dynamics and talented teams, we are looking forward to building upon the foundation and track record we established in year one of our turnaround. To that end, we are rolling forward our previously communicated three year outlook by one year. In 2028, we expect our turnaround plan to be driving mid-single-digit sales growth, high-single-digit adjusted operating margins and positive free cash flow.

Looking further ahead, we believe our brand-led, consumer-focused and increasingly optimized operating model will deliver benefits well into the future.

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