

Fossil Group, Inc.
Q1 2026 Earnings Call Prepared Remarks
Wednesday, May 13, 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:

Good afternoon. Thank you, Christine and welcome everyone.

We are pleased to begin the year with strong financial performance. Our turnaround pillars are delivering results today while advancing our path to long-term profitable growth. I want to recognize our exceptional global teams. Their commitment, creativity and disciplined execution are driving tremendous progress in our turnaround.

In the first quarter, we delivered net sales of \$218 million, healthy gross margin of 59.7% and strict expense control, which drove another quarter of positive adjusted operating income totaling \$10 million. Top line results were better than we expected, led by strong performance in wholesale, core brands and key geographies, as well as notable strength in traditional watches. Looking at the balance of the year, strong first quarter performance, combined with continuing industry tailwinds, is enabling us to confidently reiterate our full year guidance, despite the dynamic macro environment.

Importantly, our teams remain laser focused on our three strategic turnaround pillars: Returning to Profitable Growth, Optimizing our Operating Model and Building Shareholder Value. We're executing several initiatives across these pillars. I'll now turn to sharing updates on our progress and plans.

First, **Returning to Profitable Growth**. We are strengthening the Fossil brand platform through actions to fuel innovation, deepen consumer engagement, grow the Traditional Watch business and reinvigorate our Jewelry and Leather categories.

Our creative teams are delivering compelling innovation to consumers through a blend of creativity and logic that leverages our unique heritage to build brand heat. The quarter was highlighted by the return of Fossil Big Tic, which reflects our creative evolution as we draw from Fossil's rich archives. The storytelling around Big Tic has generated tremendous visibility from global lifestyle media and leading watch industry publications. Experiential seeding of the product drove nostalgic excitement and placed Big Tic in the hands of media, influencers and celebrities early on. In fact, Y2K media resonated with younger males, driving social engagement and online conversion among GenZ and Millennial consumers. We will be carrying this momentum forward with additional Big Tic animations launching throughout the year. In Q2, we introduced a Limited Edition Big Tic World Flags collection, which leverages engaged fanbases and excitement around global sports moments such as the FIFA World Cup and Olympics.

More recently, we released our latest Star Wars collaboration on May 4th. A new Mandalorian + Grogu collection is garnering attention from Star Wars superfans, sci-fi audiences and watch enthusiasts. Next up, we have exciting new collaborations with Marvel rolling out in Q3.

Great storytelling remains a hallmark of the Fossil brand. Our marketing investments are helping us drive brand heat and new customer acquisition and we are amplifying our messaging around important times of the year. Our recent Mother's Day campaign focused on our iconic product offerings and doubled down on minis, which drove excitement around well-loved collections such as Harlowe and Raquel. Next month, we'll be in the market with Father's Day messaging and local events.

Moving now to our Omni-Channel Initiatives, which are focused on modernizing our brand expression at wholesale, improving our e-commerce business and optimizing our Fossil store portfolio. Our focus on full-price integrity, channel discipline and operational excellence is building traction in key areas of the business.

During Q1, wholesale grew mid-single-digits, with our core brand traditional watch sales up high single digits in the channel. Performance was strong with both our long-term wholesale partners, as well as specialty and energy retailers – a new channel that is helping us build brand awareness and create excitement among a younger demographic. From a regional standpoint, in Q1 we saw broad-based strength in both the U.S. and India. Additionally, we were pleased to see improved performance in key Asia Pacific markets such as Japan and Australia in the quarter. The results are a testament to new leadership that is advancing our commercial strategy across the region. From a high level perspective, our wholesale partner relationships are strengthening as we continue to walk the walk on full price selling and deliver compelling product assortments. In fact, our order books are building earlier and we are beginning to develop longer-term plans together, demonstrating the confidence our partners have in our brands.

Our direct-to-consumer model keeps us close to consumers, providing a deeper understanding of customer needs and fostering more relevant brand building.

- On the e-commerce front, we are continuing to drive channel profitability on a smaller sales base through two key focus areas. One - our commitment to full-price selling and two - initiatives to strengthen the online customer journey. This includes continuous improvements to our new FOSSIL brand platform, with fresh content and functional updates that enable us to showcase a more cohesive brand presentation, drive customer engagement and strengthen brand perception as we aim to build scale. A great example of this is the recent launch of new navigation across our Fossil e-

commerce sites globally. This enables richer brand storytelling within the navigation experience and sharpens focus on our collections, making it easier for customers to discover and shop key product stories. The enhancements reduce friction points across the browsing journey and empower our merchandising team with greater flexibility to respond quickly to trends and key commercial moments.

- In the retail channel, we closed seven stores in Q1 and remain on track to close approximately 15 locations in 2026. It's worth noting that we have significantly scaled back our plans to downsize the portfolio as a result of improving performance in our full price stores. It is clear that our initiatives to deliver a more engaging customer experience are bearing fruit. In Q1, comp performance was particularly strong in our full price stores. In the near-term, we are further advancing our Store of the Future strategy by rolling out an expanded suite of selling tools that equip our associates with the skills needed to maximize full-price sales. Longer-term, we plan to test and learn to build a refined store model that generates compelling returns and presents an opportunity for measured expansion.

Moving now to our Core Licensed Brands, where we are seeing growth across the spectrum, including the Armani Group, Diesel and Michael Kors.

I'll start with the Michael Kors brand, where we were pleased to see year-over-year growth in Q1. Productivity and newness fueled momentum in the wholesale channel, further supported by the ongoing work being done by the Michael Kors team to drive brand heat. Additionally, the shift toward a more competitive pricing architecture in Jewelry is driving increased AUR and improved brand positioning.

In Emporio Armani, the brand achieved strong sell-through across channels driven by elevated assortments, a shift toward premium offerings and compelling, high-visibility marketing campaigns. In the Armani Exchange brand, healthy performance is attributable to higher full price sales, strength in women's and product newness.

Looking now at India, where we are successfully scaling a proven growth engine. During Q1, we executed against the key initiatives we outlined on our last earnings call. Specifically:

- We broadened our reach with the addition of more than 70 new wholesale doors;
- We drove premium positioning with new price points, resulting in a higher mix of full-price sales as well as higher average unit retail;
- We implemented a new e-commerce platform and CRM integration tool to enhance our omni-channel capabilities; and
- We continued to leverage our market leadership position and build brand heat through strong execution across Fossil, Armani, Diesel and Kors.

Moving to our second turnaround pillar, **Optimizing Our Operating Model**. Our teams are actioning a number of initiatives to strengthen our go-to-market execution, including both operational investments and infrastructure improvements. Simplification across the organization continues as we further streamline operations, rationalize our investments and consolidate our IT stack. This includes the ongoing simplification of our analytics platform, which has reduced costs and enhanced our capabilities, establishing the data architecture required for Agentic AI.

As part of our broader strategy to build a more competitive and profitable model in smaller international geographies, subsequent to quarter end, we signed an agreement to transition another international market to a distributor model, aligning with a best-in-class partner in South Africa. This strategy enables us to leverage the local knowledge and expertise of regional distributors while lowering our operating expenses – driving strong flow-through of gross profit to the bottom line.

I'll now turn to our third and final pillar, **Building Shareholder Value**. Ongoing progress across the business is setting the stage for us to continue to drive improved profitability and deliver positive free cash flow. Our strong start to 2026 reinforces the effectiveness and durability of our turnaround plan. The impact of simplification and focus is clear. Our brand-led, consumer-focused model is enabling us to build a smaller, more profitable business that is positioned to return to growth in the fourth quarter of this year. The progress and momentum we saw throughout 2025 carried into the first quarter of 2026; with only one quarter of the year delivered, we are holding our guidance in light of the geopolitical climate and its potential impact

on the consumer. We continue to have strong conviction in the trajectory of the business and remain committed to building long-term shareholder value.

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

Randy Greben, CFO:

Thank you, Franco.

We delivered another strong quarter across the P&L, reflecting the strength of our brand portfolio and continued traction within our turnaround pillars. While our topline outperformance was primarily driven by better than expected wholesale results - including the shift of some receipts previously anticipated in Q2 moving into Q1 - we continued to make progress toward strengthening our DTC channel. In fact, every facet of our business is contributing to the success of our turnaround.

Net sales in Q1 totaled \$218 million. That's down 6% from last year. Looking deeper, the comparison versus last year includes 7 points of unfavorable impact as we lapped the extra week in last year's first quarter, as well as another 280 basis points related to the net impact of our store closure program and our smartwatch exit. Taking these factors into account, we are clearly demonstrating that the business is stabilizing and poised to return to top line growth.

First quarter gross margin came in at 59.7%, down 160 basis points year-over-year, reflecting both strong product margins and our ongoing focus on full price selling. Similar to revenue, there's quite a bit to unpack as it relates to the inputs to our results.

- First, we incurred higher tariff expenses this year versus Q1 of 2025. While prevailing tariff rates, at present, remain lower than they were before this year's court ruling, they are still elevated as compared to where they were prior to "Liberation Day" which you will recall was a Q2 2025 event.
- Next, we recognized a portion of our anticipated full-year minimum royalty shortfall in the quarter. As a reminder, in recent years the GMR true-up was recognized in our second half, with the majority of it being booked in Q3. Concurrent with negotiating more favorable license agreement terms for 2026 last year, we are now amortizing the

shortfall throughout all four quarters. It bears reminding that the quantum amount of shortfall is forecast to be materially lower than in recent years and should result in much more consistent quarterly gross margin, which we continue to anticipate being in the mid to upper 50% range.

- These two impacts - higher tariff expense and licensed brand minimum royalties - were partially offset by the recognition of a tariff refund claim during the quarter. Of the total \$5.9 million claim, \$4 million was recognized as a reduction to cost of sales, \$900,000 was recognized as a reduction to SG&A and the remaining \$1 million was recorded as a reduction to inventory on the balance sheet. The majority of the \$4 million cost of goods benefit is related to costs incurred in 2025 and therefore, has been adjusted out of operating income.
- Net net, our Q1 gross margin is very healthy and reflects not only the power of our portfolio of brands, but also the strength of our robust supply chain. Importantly, we remain confident that we can maintain this margin profile throughout the balance of the year.
- It's also worth noting that we have not embedded any further refunds into our 2026 outlook.

Turning now to operating expenses, we lowered SG&A dollars by 13%, which exceeded our sales decline and drove expense leverage in the quarter. The improvement is attributable to 27 fewer stores in operation versus a year ago, as well as lower compensation and administrative expenses. During Q1, we closed seven stores and expect to close up to 15 in total this year. This would put us at 185 locations globally at the end of 2026. As you heard from Franco, we are continuing to focus on optimizing our operating model by capturing efficiencies and rationalizing investments across key areas of the business, including go-to-market and information technology. I will also point out that restructuring costs have come down considerably, totaling just \$2 million in Q1 2026 versus \$16 million a year ago. The leverage we achieved in SG&A, with costs coming out in excess of our sales decline, is a tangible example of the discipline that underpins all of the efforts of the Group today. And subsequent to quarter-end, we've continued to fine tune the operating model, including as Franco mentioned, signing the agreement to transition our South Africa subsidiary to a distributor during Q2.

The combination of healthy gross margins and expense control absolutely translated to the bottom line, where we delivered another quarter of profitability. Q1 adjusted operating income came in at \$10 million versus \$9 million a year ago.

Turning to the balance sheet, we ended the quarter with \$81 million of cash and cash equivalents, and \$28 million of availability under our asset-based revolver, reflecting our seasonal working capital cadence. Additionally, as of quarter end, we had no utilization under our ATM program. Inventory at quarter end totaled \$156 million, down 14% versus last year, which is in line with our expectations to increase turns even as we lean into more full-price selling. In Q1 of this year, our cash used in operations reduced by over 50% from the same period last year, reflecting our strengthening profitability and improved working capital management.

Moving now to guidance, strong execution against our turnaround pillars is enabling us to reiterate our outlook for the full year 2026. While results to date are in fact ahead of expectations, we believe this is prudent given the uncertainty that exists in the geopolitical environment, and the potential effects on input costs and consumer behavior.

- We continue to expect worldwide net sales to decline in the range of 4% to 6%. Of note, the net impact of store closures and the extra week in 2025 are worth about 360 basis points.
- Further, we continue to anticipate that 2026 will be second half weighted and will be punctuated by an expected return to top line growth in the fourth quarter as we continue to harness the compounding benefits of our turnaround initiatives.
- On the bottom line, we continue to expect adjusted operating margin in the range of 3% to 5%.
- Lastly, we continue to expect to achieve breakeven free cash flow on a full year basis.

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