Fossil Group, Inc.
Q2 2026 Earnings Call Prepared Remarks
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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 deliver another quarter of strong financial performance, which reflects the compounding benefits of our turnaround plan and disciplined execution. Our Q2 net sales totaled $211 million, led by strength in key brands, channels and geographies, which is setting the stage for our return to topline growth in the fourth quarter of this year. Gross margins of 62.4% were above our expectations, largely attributable to our full price selling model, and adjusted operating income doubled versus a year ago, coming in at $8.6 million. These standout results and continuing momentum enabled us to confidently raise our full year outlook - underscoring the strength of our turnaround pillars and our commitment to driving durable growth and value creation.

During the quarter we saw notable strength in two of our biggest and most scalable markets - the US and India. From a regional perspective, the Americas region stabilized and was highlighted by mid-single-digit growth in the US, and the Asia region increased 4%, with strong double-digit growth in India. Solid performance in these two regions is particularly gratifying given the headwinds we're seeing in EMEA, which is being increasingly impacted by the geopolitical climate in the Middle East. Another standout this quarter was our Fossil brand traditional watch business, which delivered impressive growth of 12% globally in the wholesale channel.

We are pleased that our solid top line results, healthy gross margins and effective cost management translated to strong bottom line delivery in the quarter. We view this as a testament to the hard work and commitment of our teams around the world and would like to express our gratitude for their ongoing dedication to helping us consistently deliver on our plans.

Now I'll turn to some updates on the initiatives under our three strategic turnaround pillars.

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 product engine is key to growing our business. As a market share leader, we are benefitting from structural tailwinds that are driving traditional watch growth across markets and demographics – and we are uniquely positioned to capture this opportunity by continuing to deliver a steady pipeline of innovation. We are building a portfolio that allows Fossil to win at every level—from attainable everyday style to elevated watchmaking. We're thrilled to have recently been nominated for American Watch Brand of the Year, Volume Watch Brand of the Year and Best Marketing Campaign for Big Tic Y2K for the upcoming WatchPro Awards in September - a premier watch industry event. This is a tremendous honor that speaks to the enduring strength of the Fossil brand and the talented teams driving our product engine and storytelling.

Fossil has over 40 years of design heritage that we're drawing from to inspire innovation for the future. By bringing back iconic products from our archives, we're transforming nostalgia into a competitive advantage. And we are just getting started in 2026. In the first half of the year, we launched Big Tic, introduced a World Flags collection to coincide with the World Cup Games, and continued to bring high profile collaborations with Star Wars and Marvel to market.

At the same time, Fossil icons like the Everett, Machine, Neutra and Townsman collections for Men and the Harlow, Racquel and Scarlette collections for Women continue to drive scale and market share. And we are continually innovating our icons forward, which has enabled us to create best-sellers like watch rings and minis - two categories that Fossil has defined within the industry. This fall we're launching an exciting evolution of our Machine platform - the X-1 - which is bolder, sportier and marks another step forward in our premiumization strategy.

We are focused on elevating our brand equity through innovation, materials, craftsmanship and now, Swiss watchmaking. Among our biggest product stories in the second half of the year is the launch of Signature - a premium platform that introduces a new level of technical sophistication and Swiss-made craftsmanship. We are incredibly proud of this offering and believe it represents an important new chapter for the Fossil brand. The Signature collection will premier at New York Watch Week in October, supported by a dedicated campaign designed to celebrate craftsmanship and drive engagement with watch industry press and influencers. This will be quickly followed by a launch event in India, where consumers are increasingly seeking premium products. We will be amplifying the India launch by partnering with Padmanabh Singh as our global Signature ambassador. Padmanabh is the Maharaja of Jaipur and one of India's leading polo players; he represents a unique blend of heritage, modern style and global influence that we believe will help drive excitement and engagement.

Storytelling is also critical to our brand-led, consumer focused operating model and in Q2 we accelerated our investments in demand creation. In the first half of 2026, the combination of robust product innovation and targeted marketing investments helped us drive brand heat and new customer acquisition. Our global marketing teams have been focusing on putting

Fossil at the center of culture with a digital first approach, social engagement and immersive events. During Q2 we held a Fossil fan event featuring K-pop star “L” at our flagship store in the capital of Malaysia. The event drew an overwhelming response from hundreds of fans - far exceeding the capacity of our store. It also captured live media attention, drove exceptionally high engagement rates on social media, and generated 600,000 impressions in one day. We are continuing to invest behind marketing and events to drive cultural relevance and have more storytelling on deck for the second half, including our Signature launch and other key moments leading up to the holiday season.

Looking further out, there is much more to come next year in terms of product innovation and creative marketing. We just held our Spring/Summer 2027 Global Sales Meeting at our headquarters in Dallas last month. The energy, collaboration and enthusiasm from our teams from around the globe was tremendous and reflective of the exciting opportunities in front of us.

Turning 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.

On the wholesale front, we are driving growth with our long-term partners and extending our footprint in specialty retail doors. This is primarily being driven by three major factors: Great product supported by a robust innovation pipeline, engaging storytelling and our commitment to full price selling. During Q2, we saw traditional watch growth in both the Americas and Asia regions, with strength across brands in key markets. This includes the important US market, where wholesale channel performance was highlighted by traditional watch growth of 16% – led by even stronger performance from the Fossil brand.

Looking now at DTC, in the e-commerce channel, we are continuing to drive higher product margin and AUR as we prioritize full price integrity and implement initiatives to provide a more engaging customer journey. In the retail channel, we are pleased to note that our Store of the Future strategy is continuing to gain traction, driving improved performance in our full price stores during the quarter. Most notably, we’re seeing accelerating trends across product margin and AUR.

Building on the momentum we've seen across channels, we recently strengthened our leadership in the Americas region by bringing in seasoned industry veterans to lead our wholesale and retail businesses. We believe these leadership additions will accelerate our efforts to strengthen operational excellence, drive productivity and increase market share.

Moving now to our Core Licensed Brands.

In the Michael Kors brand, watches and jewelry delivered another quarter of improved performance in our most important channels and geographies. The brand is undergoing a successful turnaround and we are following their lead on style and fashion authority. We are evolving our strong hero watch collections like Lexington that resonate globally with consumers, while also building new platforms, beginning with the Chelsea collection this fall. We are also focused on reigniting jewelry through elevated design and a refined pricing strategy and bringing new energy to Men's across collections and price points.

In Emporio Armani, the brand continues to generate strong sell-through driven by innovation and a focus on premium offerings, while the Armani Exchange brand is benefitting from product newness and curated events featuring celebrity collaborations. This fall, Emporio Armani will introduce the next evolution of the Archetipo, a classic dress watch positioned in the $200-$300 price segment – and one of the brand's most iconic timepieces, which will serve as the foundation of the collection for years to come.

Looking now at India, one of our most important strategic markets, where we are seeing ongoing strength in all brands and channels. During Q2, we delivered double-digit growth in the Fossil, Armani, Diesel and Kors brands - with strong performance in both the wholesale and direct-to-consumer channels. This was driven by product newness, disciplined full-price selling and great storytelling, as our experienced teams continue to deliver strong execution.

We are actioning a number of initiatives to continue the momentum. In the Fossil brand, we are maintaining a robust pipeline of newness to drive consumer engagement and brand heat. At Michael Kors, we are leveraging the brand image and amplifying our bridge-to-luxury positioning as we cater to local consumers with a strong desire for upscale products. In the Armani brands, we are delivering newness and premiumization at Emporio Armani, while continuing to focus on product innovation, premiumization and customer engagement initiatives at Armani Exchange.

To support the pace of growth we're seeing in this market, our operational and supply chain teams have been working fast and furious and delivering strong execution. Our India factory has been delivering increased through-put and recently achieved ISO certification indicating outstanding commitment to quality procedures and protocols.

We believe there is still tremendous runway ahead to unlock additional growth in India as we double down on product, marketing and channel expansion opportunities.

Moving to our second turnaround pillar, **Optimizing Our Operating Model.** Major areas of focus include sharpening go-to-market execution, enhancing our digital and technology infrastructure, delivering best-in-class supply chain performance, and prioritizing high-impact projects and key performance indicators.

During the quarter we made several important tactical advancements that bear mentioning. First, the deployment of AI is supercharging automation and productivity improvements across our back office. Next, we completed the transition of our South Africa subsidiary to a distributor model, which is expected to lower our operating costs and drive greater flow through of gross profit to the bottom line. We also transitioned our Malaysia and Singapore markets to a new hybrid operating model, capturing synergies in the region while yielding G&A reductions. Another key initiative is the recent execution of lease extensions on more than 25 of our best performing stores in the Americas region. Lastly, during Q2 we also executed a lease for a new North American fulfillment and distribution center. The new facility, located in Sunnyvale, Texas will come on line later this year, replacing our existing Retrodome. The upgraded space is not only fit for purpose based on our current business mix, but also accommodates our future growth plans at a lower cost, further underscoring our commitment to optimizing our cost structure as we return to profitable growth. These are just a few examples that demonstrate the rigor with which our teams are executing across the business on a wide range of operational initiatives to capture efficiencies, unlock value, and strengthen performance.

Now, turning to our third pillar, **Building Shareholder Value.** We are pleased to be delivering a second year of traction under our turnround plan. We're driving improved topline trends, have established a healthy gross margin profile, demonstrated disciplined cost management, and returned the business to profitability. As we look at the balance of the year, based on our strong first half and positive business trends we are pleased to be raising our full year outlook on the top and bottom line. Most importantly, we continue to expect to return the business to sustainable topline growth beginning in Q4 and now expect to generate positive free cash flow on a full year basis in 2026.

We believe our strategies, talented teams and disciplined execution position us to deliver long-term profitable growth and remain committed to driving value creation for all of our stakeholders.

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

Randy Greben, CFO

Thank you, Franco.

Q2 was another strong proof point that our turnaround plan is delivering on all fronts. Sharp execution across our initiatives enabled us to exceed expectations on the top line, expand gross margins, capture operating efficiencies and deliver 2x in adjusted operating income versus last year.

Net sales in Q2 totaled $211 million. That represents a decline of 4% versus last year and includes approximately 220 basis points of impact related to our store closure program. This was better than our expectations and marks another quarter of improving sales trends, with the rate of decline continuing to narrow.

Gross margin performance in the second quarter was strong, expanding 490 basis points to 62.4%. The year-over-year improvement is first and foremost attributable to our commitment to full price selling, which drove strong product margins, and is a continued testament to the strength of our supply chain initiatives. Lower tariffs compared to last year also served as a tailwind. We are pleased with our healthy gross margin profile and based on Q2's particularly strong performance, we now anticipate that full year gross margins will be in the upper 50s. It's worth noting that this assumes we do not capture any additional tariff refunds in 2026.

Turning now to operating expenses, SG&A came in at $123 million, essentially flat excluding an $11 million gain recorded in Q2 of last year resulting from the sale of our European

Distribution Center. In aggregate, SG&A in Q2 2026 reflects fewer stores in operation, as well as lower compensation and administrative expenses, which more than offset a planned increase in marketing spend to support our storytelling engine. Disciplined cost management remains a core tenet of our turnaround strategy. That said, we have continued to balance demand generating marketing with some of our savings reinvested back into the business, as seen this quarter, as we work to support key product launches in Q3 and the seasonally important Q4.

In Q2, we ended the quarter with 17 fewer stores including 6 closures and 11 stores that we transitioned to a distributor in South Africa, which we talked about last quarter. We have another 2 closures planned for this year and expect to end the year with approximately 178 locations globally. Stepping back, we believe the hard work of optimizing the store portfolio is largely behind us. Going forward we will continue to deploy our successful Store of the Future strategy and evaluate longer term opportunities to drive growth and productivity of the fleet. Physical retail remains a core pillar of our omnichannel business, and we are pleased to have extended our lease agreements on more than 25 of our best retail locations in the Americas, as Franco referenced earlier. Zooming out, we remain focused on optimizing our operating model by capturing efficiencies and rationalizing investments across key areas of the business, including go-to-market, IT and back-office functions.

Looking at the bottom line, driving flow through remains a priority. Gross margin expansion and disciplined SG&A management converted our top line performance into bottom line delivery. Q2 adjusted operating income doubled compared to last year, coming in at $9 million.

I believe it's worthwhile to pause here and reflect on our bottom-line performance for the first six months of 2026. Year-to-date adjusted operating income of $18.1 million is 35% greater than last year's $13.4 million, even on reduced sales. And as we have continued to advance our turnaround, the cost of restructuring is far less impactful this year than last, which translates to a meaningful increase in GAAP operating income - up nearly $14 million versus a year ago, even before normalizing for the gain of the European Distribution Center sale in last year's Q2.

Turning to the balance sheet, we ended the quarter in solid financial condition with $79 million of cash and cash equivalents, and $18 million of availability under our ABL. Additionally, during the quarter we collected $4.9 million of the $5.9 million tariff refund we recognized in Q1, and we had no utilization under our ATM program. Inventory at quarter end totaled $178 million. That's approximately flat compared to Q2 of last year and in line with our seasonal expectations, leaving the business well positioned to support an anticipated return to growth in the fourth quarter, consistent with our emphasis on a full-price selling model. Importantly, higher year-over-year profitability and improved working capital management enabled us to narrow operating cash use versus a year ago.

Moving now to guidance, given our strong first half performance and business momentum, we are raising our full year outlook on the top and bottom line.

- Worldwide net sales are now expected to decline in the range of 3% to 5%, which compares to our prior expectation for a decline in the range of 4% to 6%. As a reminder, about 360 basis points of the decline can be traced to the net impact of store closures and the extra week in 2025. Of note, our outlook assumes an expected return to top line growth in Q4 as we continue to unlock the benefits of our turnaround plan.
- On the bottom line, we now expect adjusted operating margin in the range of 4% to 6% – up from our prior range of 3% to 5%.
- As a result of this improved profitability outlook, we now expect to generate positive free cash flow on a full year basis.

We are incredibly pleased with the way the business is performing, which is a testament to the work our teams are doing to reignite sales growth and strengthen our operating model, putting us firmly on a path to generate durable, profitable growth.

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