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GES - Q4 2020 Guess" Inc Earnings Call

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## OVERVIEW:

Co. reported 4Q20 revenue of \$842m, adjusted operating earnings of \$102m and adjusted diluted EPS of \$1.22.



## CORPORATE PARTICIPANTS

**Carlos E. Alberini** *Guess?, Inc. - CEO & Director*

**Kathryn Low Anderson** *Guess?, Inc. - CFO*

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**Susan Kay Anderson** *B. Riley FBR, Inc., Research Division - Analyst*

## PRESENTATION

### Operator

Good day, everyone, and welcome to the Guess? Fourth Quarter Fiscal 2020 Earnings Conference Call. On the call are Carlos Alberini, Chief Executive Officer; and Katie Anderson, Chief Financial Officer.

During today's call, the company will be making forward-looking statements, including comments regarding future plans, strategic initiatives, capital allocation and short- and long-term outlook, including potential impact from the coronavirus outbreak. The company's actual results may differ materially from current expectations based on risk factors included in today's press release and the company's quarterly and annual reports filed with the SEC.

Now I would like to turn the call over to Carlos.

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### Carlos E. Alberini - *Guess?, Inc. - CEO & Director*

Thank you, operator. Good afternoon, and thank you all for joining us today. It was only a few weeks ago that we were very excited about our performance and the great year that we were closing, excited about our team's accomplishments and very well positioned to have yet another great year. Unfortunately, today, we are in the middle of an unprecedented time in our history. Our hearts go out to all those impacted by the events unfolding.

Today, we reported our fourth quarter and year-end results, and we were very pleased with our performance. With a solid Q4, we closed a strong year for Guess?. We grew revenues, increased operating earnings and increased adjusted EPS by almost 50%. Our free cash flow was \$133 million, and we ended the year with \$285 million in cash. This liquidity positions us well to navigate through the current crisis.

I have just celebrated my first year back with Guess?, and I'm very proud of what we have accomplished during this past year. I want to thank our team for doing a great job. In addition to great financial performance, we made significant changes to upgrade and reorganize our leadership team, we managed our capital well and we developed our long-term strategic plan, which we shared with you last December. I still believe that the opportunities that we identified in this plan for our company remain in place for the long term, and we continue to make good progress on the key strategic initiatives that we share with you.

As everyone, several weeks ago, we were challenged with the extremely difficult situation presented by the virus outbreak. Our team responded quickly and strongly to the initial signs in China, and since then, we have been actively managing the entire situation in all regions affected. We



consider the situation extremely serious and of enormous proportion and have been working diligently with our teams around the world to protect our people, customers and partners and mitigate risks to preserve the health of our company as effectively as we can. Of course, we hope the crisis will be resolved in the near term. But unfortunately, based on recent developments, we believe that things will continue to get more challenging before they get better. We are encouraged, however, by the renewed activity that we are seeing in China. Our offices are open, most of our stores have reopened, and while we still have a long way to go to return to normal conditions, our business is starting to show some signs of recovery. We hope that other markets affected follow a similar or even better trajectory to normalcy.

As you all know, our business has an extensive global reach, and most of the areas affected by the outbreak are markets where we have significant businesses. Until a few days ago, the markets most affected were Greater China, South Korea, Japan and Italy. But during the last week, we have experienced a rapid acceleration of the outbreak that has impacted most of Europe and the U.S. and Canada. As a result, we have temporarily closed the majority of our stores in these regions. I strongly believe that we are dealing with the crisis in a very effective way. We have been extremely proactive, and our management team has jumped in to manage this crisis with a commitment, determination and sense of urgency that I have never experienced before in my career. We activated a global crisis management team as well as regional and local teams to monitor, react to and manage specific situations by geography and country. We are leading our business with strong discipline, controlling inventories well and adjusting our expense structure to adapt to these unprecedented circumstances. We focus first on our people to ensure their safety and protect their health. We've provided flexibility, banned travel, limited large in-person meetings and communicated constantly among the teams.

Regarding our business, we first focus on our inventory planning and supply chain management. We are strategically reducing our inventory commitments, considering the demand deceleration. This is clearly a dynamic process, and it will require daily monitoring and active communication with our teams and vendor partners.

Next we focus on our expenses. Our goal was to reduce our cost rapidly, but responsibly, to mitigate the business deceleration that we are experiencing now and into the future. We have reduced or canceled discretionary spending and aggressively lowered variable expenses to adjust to the revenue decrease. Regarding capital expenditures, we have canceled or postponed capital projects that we don't consider mission-critical today. Next year, we will celebrate the 40th anniversary of our company and the Guess Brand. We are very proud of what our founders and our entire team have built over the years. We are very proud of our strong culture. This is a culture of never giving up, a culture where people matter most and one where, if we fall 10 times, we get up 10 times. And we are very proud of our resilience and our capacity to respond swiftly, but strongly in times of crisis and unprecedented circumstances, like the present one.

In closing, the results that we reported today highlight the benefits of our global reach, our diversified business model and the strength of our brand. Our proactive and disciplined approach to manage this crisis reflects the extraordinary commitment and dedication of our management team during a challenging time.

With that, let me pass it to Katie to give you more details on the financial results. Katie?

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**Kathryn Low Anderson** - *Guess?, Inc. - CFO*

Thank you, Carlos. Good afternoon. This is my first earnings call since I joined the company in December. As we were closing the year, I too was excited about sharing our great results with you on this call. Now here we are in the midst of an unprecedented global crisis. But I have to tell you I'm really grateful to be here at Guess?. It normally takes years to get to know an organization and to fully understand and integrate with the leadership team. Responding to this evolving situation, I feel like those years have become weeks for me here. It's in extreme circumstances that you learn about the true character of people and the culture of a company. What I have experienced with this team is a unique spirit of collaboration, urgency and pride. This is a deep culture with an inherent drive to win.

As Carlos said, we finished our fiscal year strong with a great fourth quarter. We beat EPS expectations, continued rightsizing inventory levels and generated substantial cash flow, resulting in a healthy balance sheet. The strength of our business in Europe enabled us to more than offset softness in Americas Retail and Asia and grow earnings in the quarter. Coronavirus did not significantly impact our business during the fourth quarter as the outbreak began towards the end of January. However, the situation has escalated rapidly since then and will no doubt have a significant negative impact on our Q1 and full year financial results. We currently have a large portion of our stores closed all over the world and cannot

reasonably estimate the impact this will have on consumer demand, our supply chain and our financial results in the future. It is for this reason that we are not in a position to issue guidance for the first quarter and fiscal year 2021.

That said, I still want to give you some additional insight into how we performed during the fourth quarter and fiscal year 2020. Before I begin, please keep in mind that during this conference call, our comments reference certain non-GAAP or adjusted measures. GAAP reconciliations and descriptions of these measures can be found in today's earnings release.

Fourth quarter revenues were \$842 million, up 1% in U.S. dollars and 2% in constant currency. Our European business delivered double-digit top line growth, more than offsetting declines in the Americas and continued softness in Asia. Total revenue was slightly below our expectations, driven by our performance in Asia. Every other segment either met or exceeded our guidance.

For the year, we grew revenue to \$2.6 billion, up 3% in U.S. dollars and 5% in constant currency. Gross margin for the quarter expanded 360 basis points versus prior year, mainly benefiting from higher IMUs as a result of our supply chain initiatives and logistics efficiencies in Europe.

Adjusted operating margin in the fourth quarter was 12.1%, up 290 basis points from prior year and slightly above the high end of our guidance. Adjusted operating earnings for the fourth quarter were \$102 million, an improvement of \$25 million and over 30% versus last year. Adjusted SG&A as a percentage of sales increased by 70 basis points, primarily driven by higher performance-based compensation. For the full year, adjusted operating earnings were \$150 million, a \$35 million and 30% increase to prior year.

Our fourth quarter adjusted tax rate was 16.5%, down from 22.7% last year, driven by a mix of statutory earnings. Adjusted diluted earnings per share was \$1.22, \$0.10 above the high end of our guidance, mainly driven by a lower-than-expected tax rate. This represents a 74% increase to prior year EPS of \$0.70.

For the full year, adjusted EPS was \$1.45, almost 50 -- an almost 50% increase to prior year. The increase in adjusted EPS includes the impact of accretion from the convertible debt transaction and share repurchases of \$0.22 for the quarter and \$0.14 for the year.

Now let's move on to segment performance, starting with Americas Retail. Revenue for the quarter finished down 4% in both U.S. dollars and constant currency, in line with our expectations. Comp sales for the quarter, including e-commerce, were down 3% in U.S. dollars in constant currency, driven by negative traffic trends. Operating margin for this segment was 6.4% for the quarter, down 240 basis points from prior year as IMU improvements were more than offset by increased promotional activity at the end of the holiday season and deleverage on negative retail comps.

Moving on to Americas Wholesale. In Q4, revenues declined 3% in U.S. dollars and 4% in constant currency, primarily due to the timing of shipments. This is in line with our expectations. Operating earnings were flat to last year, driven by higher gross margin, offset by higher expenses and lower revenue. This segment had a strong year with revenue growth for the full year of 9% in U.S. dollars and 10% in constant currency and operating margin expansion of 160 basis points, resulting in operating earnings growth of 19% versus the prior year.

Turning to Europe, where we had an exceptionally strong quarter and year. Fourth quarter revenues grew 13% in U.S. dollars and 16% in constant currency, finishing above our expectations. This growth was driven by an increase in wholesale revenues, new store openings and positive sales comps, including e-commerce of 1% in U.S. dollars and 3% in constant currency. Our business in Europe was showing great momentum coming into the new year. We saw significant margin expansion in this segment, with operating margin up 790 basis points over prior year. We've been very successful in improving IMU as well as rightsizing logistics costs. We also benefited from sales leverage and lower retail markdowns. For the year, this segment grew operating earnings by 130%.

Moving to Asia. Fourth quarter revenues were down 28% in U.S. dollars and 26% in constant currency. Comps, including e-commerce, were down 26% in U.S. dollars and 25% in constant currency. This is the only region with sales that fell below our expectations. We saw softness across all of our major markets within Asia, including China, Korea and Japan. Operating margin for the Asia segment contracted 200 basis points for the quarter versus prior year. This was the result of deleverage from negative same-store sales, partially offset by lower markdowns and higher IMUs.

Now let me talk about our cash flow and balance sheet. Inventories were \$393 million, down 16% or USD 76 million and 14% in constant currency versus prior year. This was an improvement to our decrease of 5% in Q3 and in line with our expectations. We made significant progress on inventory this year. We ended the year in a clean position, and our ownership was in line with our expectations.

Free cash flow for the year was \$133 million, an increase of \$161 million versus the negative \$28 million last year. If we exclude the impact of the \$46 million European Commission fine paid in the first quarter of fiscal year 2020, our free cash flows improved by over \$200 million. This improvement was driven by better operating performance, a decrease in capital expenditures and better management of inventories and working capital.

Total capital expenditures were \$62 million versus \$108 million in the prior year. During the year, we redeployed capital and returned incremental value to our shareholders through significant share repurchases while reducing our dividend by 50%. In aggregate, our total shares purchased during the fiscal year amounted to 16.7 million, representing over 20% of our shares outstanding at the beginning of the year.

We ended the year with cash and cash equivalents of \$285 million compared to last year's \$210 million. We gain comfort in the fact that in addition to our strong cash position, at year-end, we also had access to over \$250 million undrawn credit facility. We will, of course, continue to monitor our cash position as we navigate through this situation.

In closing, I have been in this role just over 100 days. As I shared with you during the Investor Day in December, I was looking for 3 main things in this job: I wanted to work at a brand that I believe in, with smart people who want to win and a place where I can add value. During the last few weeks, I have become more aware of the power of the Guess Brand globally. I've had a chance to work with a team of people that I truly admire. And this same team has demonstrated to me that I can certainly add value working with them.

I want to thank you all for welcoming me so warmly and let you know that despite the current challenges we are facing, I am very excited to be part of this journey together.

With that, I conclude the company's remarks, and I will open up the call to your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Susan Anderson from B. Riley FBR.

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**Susan Kay Anderson** - *B. Riley FBR, Inc., Research Division - Analyst*

Nice job on the quarter. I guess, I know it's tough because it's a pretty -- I know it's a very fluid situation, but I don't know if there's any color you can give on kind of the pattern that you saw in China during the store closures and how that has evolved now that things are opening up. And I guess, I'm curious, too, was the impact kind of consistent across the country or worse in the more impacted areas.

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

Oh, yes. Thank you, Susan. Yes, of course, you're absolutely right. This is a very fluid situation. And just to tell a little bit of the history of how we are in this position today, just one advantage that we have as a company is that we are truly very global. We have a big global reach. And as soon as this started in China, we saw it very clearly. Of course, we didn't have any idea of how significant this was going to be globally, but we saw a very rapid series of events that impacted China. We had to close about 127 stores. That is a very significant number out of about 170 that we own. The government, in most of those provinces and cities, was very, very forceful in really leading the people and the communities to really be very disciplined. And in some areas, even when we didn't close stores, we saw a significant deceleration in the business because people were not going to shop. The stores that remained open, which were only a few, saw a significant decline in traffic. And then when -- even if we had some business,



the business became only a fraction of what it usually is. Overall, all of that resulted in revenues being down to also a fraction in general and for the whole region. We -- of course, the area of Wuhan was much more affected than others, but the stop in revenues was pretty general across the country. We also saw similar trends in Hong Kong, Macau, not as severe in Taiwan. We have seen some improvements in terms of the trends versus -- in the last few weeks compared to the bottom. But of course, those are only certain signs of improvement that nothing compared to the kind of business that we used to do.

We feel that the great thing about all this is that now people are back to more of a normal life. It's not completely normal, but we hear that the subways are at -- operating at full capacity. We hear that restaurants have a lot more traffic. We hear that they are opening parks, they are opening museums. And of course, that's the way to begin. And I think the important thing to me here, too, is that, that fear factor that impacted how the business was negatively hit is now much less severe. People are much more confident that the government has this under control. And as a result, they are acting with a lot more comfort in conducting their lives.

In other markets in Asia, like Japan, Korea, just we saw somewhat of a different pattern. We definitely saw a significant decline in revenues. But not as extreme, the government's dealt with the situations in a different way. I think that Korea is a great example. There has been a very quick and swift response from the government with testing being available in mass. I'm sure that everybody is reading the same reports, but this was very effective. And there was no need for a lockdown like what we saw in China. And I believe that they have the situation very much under control. They are very well prepared and organized. We started to experience some deceleration in comps after we saw all this in China, and I'm going to kind of like take you all the way through what we see today.

So -- and that deceleration in comps in Europe and in Americas was very notable, just we saw a business that we closed in Europe that was very healthy when we closed the year. And then all of a sudden, as we went into a new year in February, this decelerated relative to the trends that we had experienced, even in January. The same thing happened in the Americas. And we think that probably the lack of travel and tourism started to impact our businesses in other parts where the Chinese consumer probably had a pretty significant impact, especially considering the Chinese New Year and all those people just going through different parts of the world.

And also as the news kept on growing around the outbreak, we think that, that may have created some of this initial fear factor for local consumers as well. So we saw a deceleration in business. In the last couple of weeks, that deceleration of comps in Europe and Americas has increased further not to the degree that we saw in China, but pretty significantly and very notable. And then, of course, it came, the Italy issue and the lockdown of, first, the northern part of the country and then extending to the entire country. Then we saw it in France and in Spain, Poland, Germany, Austria, I mean, the list goes on, and we ended up closing the majority of the stores in all of these countries and regions.

And then as this was happening, we continued to see more deceleration in traffic in U.S. and Canada, and based on that and based on becoming -- being good corporate citizens and being aware of what -- how important it was to minimize exposure, we made the decision to close our stores in the U.S. and Canada temporarily until March 27. We want to protect our employees, our communities, our customers, where we operate. So we think that we operate today in a very volatile environment, very difficult situation, but we feel that we are doing what we can to control what we can control. And that's where we are focusing most of our efforts.

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**Susan Kay Anderson** - B. Riley FBR, Inc., Research Division - Analyst

Great. That's very helpful. I guess, maybe if I could just follow up on the operating margin in Europe in fourth quarter. Some very nice improvement there. Obviously, everything is kind of off the table for now. But I guess, can you maybe talk about that improvement that you saw in fourth quarter? How much of it was levered at the (inaudible)? How much IMU? And I guess, if we hadn't had this incident, how much of that would be, I guess, repeatable as we kind of went through the next few quarters?

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**Kathryn Low Anderson** - Guess?, Inc. - CFO

Yes. Susan, it's Katie. Yes. So we had great success in operating margin in Europe. It was over -- up 790 basis points over prior year. So most of that was IMU improvement and then rightsizing logistics. As you know, we had a lot of issues with logistics in Europe in the past, and we fixed a lot of

those, and we continue to fix those. We also had some sales leverage from our momentum in the top line there as well as lower markdowns in prior year.

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

And that was a big thing because on markdowns, as you remember, we had ended the year with a less than desirable inventory position. So at the time, we took some extra markdowns just to really level the inventory ownership that we had and we had this plan that we were going to reduce our inventory position, which we did, I think, very effectively. And also, we were able to avoid any extra charges that impacted margin the year before. So we picked up a pretty nice change in margin improvement.

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**Operator**

Our next question comes from Janine Stichter from Jefferies & Company.

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**Janine M. Stichter** - *Jefferies LLC, Research Division - Equity Analyst*

Just a few questions around the expense structure. So you mentioned pulling back on discretionary spending, obviously, in the environment that we're in. Can you just give us some sense of the potential magnitude of expense reduction? Maybe what percent of your SG&A is variable? And how much you could pull back on if we're in the status quo for quite a while? And then kind of same question on CapEx. You mentioned pulling back on some noncritical projects. How should we be thinking about CapEx for the year? And then maybe just a sense of what your maintenance CapEx levels look like?

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

Yes. Thank you, Janine. I'm going to start and then, Katie, I'm sure will have a lot to add here. But just as I just mentioned, we are trying to focus on all those things that we can control. The slowdown of our business in China early on, I think, gave us a great look into and an opportunity to learn about what we can do and the things that are impacting a crisis of this nature and how fast can things escalate so quickly is pretty incredible. So this knowledge, I believe, that really enabled us to react very quickly, very early on when we saw the signs of the slowdown in other regions. And fortunately, we have great leadership in China. That team really was very proactive and came up with a lot of innovative and creative ways to really deal with the crisis. And we are learning and applying a lot of that into the way we are managing the crisis in the other regions.

The first priority for us has been people. I know that you're asking about expenses, but I just want to make sure that everybody understands, we consider that our top priority, as I'm sure most companies. And we want to make sure that we protect them and we protect the communities where we operate. We have facilitated working from home. We have banned travel. I mentioned that during my prepared remarks. We have closed stores, and we feel that this is primarily a human crisis that we are just dealing with.

The second big priority has been to protect our balance sheet and our financial position, and we have been diligent in reviewing all types of costs. And this goes to your question about what is that we are looking at. Of course, store expenses is a major part of our cost structure. And in many cases of that P&L, there are a lot of expenses that are somewhat variable, and we have been looking at all those and trying to rightsize the total expenses to really adjust to the business or the traffic that we are seeing coming or anticipating. We are looking at back-office expenses, that's also a relatively sizable number in our P&L and cost structure. And then on capital, we are looking at many areas that represent projects, that are either new stores or remodels or even capital projects inside that plan, that we think that we can either postpone, cancel or reschedule or just eliminate completely.

Another big area where we are spending our time and trying to look into is inventory buys. As you know, inventories, we are in a fashion business, so having good control of inventory is very important. So the good thing we have here is that because we have several channels, we can use inventory in a very synergistic way. And that's where we are trying to plan what we do with inventories in the future. We have, of course, anticipated

cuts and we are buying 6 to 9 months out. And in many cases, we also have flexibility to cancel things that may already be in the works. So a lot of time spent on that.

And then just, of course, this is a big -- we have 1,700 stores worldwide, about 1,200 of those we operate directly. And so looking at the store portfolio, it's supercritical. We are somewhat fortunate here. I think we reviewed with you during Investor Day that we have a lot of the stores and leases that become renewable within the next 2, 3 years, depending on the different regions, but the numbers are pretty big. In U.S. and Canada, that number is like 75% within the next 3 years, roughly about 2/3 in Europe and about 90% of the leases that we have in China become renewable during that time. So we have a lot of flexibility here to either just terminate those leases or just looking at renegotiating terms based on the potential business that we see for each of those locations.

So we intend to use this flexibility to close underperforming stores, of course, and negotiate better terms. We believe that landlords have the responsibility to deliver spaces and environments for us to conduct business in a positive way with our consumers and customers. And if that is not being delivered, of course, we see that as an opportunity and as a situation to be able to renegotiate.

If conditions are impaired, it gives us that opportunity. We have used this type of approach in China, and we have been relatively successful with the negotiations with the landlords.

So to conclude, just to me, this crisis is of major proportions. But when you look back, there is one big takeaway, and that is, I think, in order to be successful is you have to have good people and you have to have people that really care and that are passionate. And I think that we are fighting, just everybody is using this term invisible enemy, but that is exactly what it is. This is a threat to society, and I think that we are at war, and that's the way we are approaching this. I strongly believe that the difference between winning and losing here will be about the people that are fighting the war. I believe in leadership, good planning, preparedness and execution. And this is why I think China is winning this war, and so is South Korea. They have strong leadership within their governments, they were prepared with testing and a clear strategy, and they are executing those plans very well. And I strongly believe that we have exactly the same at Guess?. Starting with Paul Marciano. He's not in this call, but he has been incredible during these times of crisis with us. He had incredible vision and extraordinary leadership, and we developed a plan with the team. We set the strategy right away, and we have been executing and adjusting very effectively. And in addition, our teams all over the world have been phenomenal. In China, I mentioned, our leader there is a star. And this has set the tone for the model, which we followed in other countries and regions. We did the same in South Korea. We have a very strong team in Europe and in our headquarters, but also in key European countries. And these great leaders are really helping us executing very well.

And our team in Los Angeles has been tremendous also. Fabrice has been tirelessly working on all this. We have -- we are just in the middle of developing plans. And of course, those plans are changing by the minute. And Katie, she made a comment about being welcomed here. I want to give her a big credit because she has been very instrumental in this fight, too, in only a few weeks being here.

So -- and last, I just want to say that, to me, this is also about communication. We have been communicating, learning from each other's ideas and supporting each other nonstop. Both Paul and I have been doing videos. We have been writing e-mails and personally connecting with the team members to keep our entire organization connected, inspired and focused on the right priorities, which I think is everything that we can do to really continue to control what we can control.

So let me tell you something, if I'm going to war, I'm going with this team. I think it's a difficult time, but I'm very hopeful that we're going to see this in history. And hopefully, that will happen very soon.

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**Kathryn Low Anderson** - *Guess?, Inc. - CFO*

So -- and Janine, I'll go back to your -- go back to SG&A as well. It's hard to estimate exactly how much we can adjust SG&A given the situation. And as Carlos said, we're looking at everything. We're looking at supply chain and distribution costs, we're looking at marketing, we're looking at corporate expenses, consulting meetings. And in a situation like this, even what you would normally consider fixed costs or maybe not fixed, Carlos mentioned rent. If the landlords can't provide us with an environment that we can do business, then we're going to have to talk about that. So

we're considering everything to try to reduce G&A, and we're taking this very seriously, and we want to protect the long term of our company. And CapEx is the same. Our maintenance CapEx is pretty small, but everything is on the table at this point.

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**Operator**

Our next question comes from John Kernan from Cowen & Company.

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**John David Kernan** - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Congrats on a nice performance at the end of the year. So inventory is a situation, I think, a lot of people are also concerned on, just the modeling of gross margin across the retail ecosystem. There's obviously going to be a lot of spring and summer inventory in the channel when things do normalize. How do we think about the ability to clear this? And what's going to be left among your competitors and also within your own stores and wholesale partners? Just any detail on how to think about inventory buying and the markdown structure that's going to go into getting back to lower levels of inventory throughout the channel?

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

Yes. Thank you, John. Yes. So let me start with the year-end because just we worked very hard last year to really clear inventories. And as you know, we closed the third quarter with inventories down about 5%. And at the time, we were hoping that we were going to be able to close the year with inventory down in the double digits. And frankly, we did -- I think the team did a great job. We ended up with inventories down 16%. It represented \$75 million of a reduction in inventories with business that had grown. So we felt very good about that. And this is a fortunate event because who would have known that this was going to come. But to start this year with a clean inventory position, I think is supercritical with respect to the question you're asking.

So what we are doing is looking at our ownership today, like I mentioned before, if we see things that are not being delivered on time or just we would be very, very careful with not taking the orders that we don't think that should be taken. So that should help us alleviate the inventory situation in light of the decelerating demand. But then we have opportunities now to really move the development cycle to -- into the future. So then it releases pressure from all the inventory that is supposed to be coming during the next weeks and months. And that is one of the big things that we are doing. So something that we were going to develop in the month of June may now be developed a few weeks later, and that creates like a month of open to buy under normal circumstances. And in addition to that, we are cutting the quantities based on what we think could be the impact of something like this, though this is a very fluid process. I mean, we are looking -- moving -- looking at this every single day. And also, we are reducing the assortments because we think that, that is the best way to really limit the risk and put our inventory dollars within less programs. So that's kind of like the way we are approaching it. It's -- as you know, we not only have a retail business that is very significant, we also have a wholesale business. The wholesale business, especially in Europe, has been just growing. And again, we had a very strong backlog, and now we are looking at and trying to anticipate because, obviously, that business is also going to get just impacted by all this. So we're trying to anticipate, okay, how we think that we could service all those clients without just creating a potential excess inventory on our end or on their end.

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**John David Kernan** - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Excellent. That's helpful. Just back to the liquidity questions, and obviously, there's concerns, we can all see that, in the markets with where the valuations are. How long can the industry withstand no revenue in some regions? What is the liquidity situation of your wholesale partners and your own liquidity position? Like, what gives you the confidence that you can withstand, say, 3 months of almost no revenue in North America and Europe. Could it get to that? Obviously, there's e-commerce, but much of your business is still done in stores and in your wholesale partners. So just the confidence level on liquidity going forward would I think would be helpful to everyone on the call and investors as well.



**Kathryn Low Anderson** - *Guess?, Inc. - CFO*

Yes. Thanks, John. Here's what I can tell you. So we ended the year with \$285 million in cash and access to over \$250 million of available borrowing. And we actually have since then drawn down over \$200 million of that just as a precautionary measure given the circumstances. So we have a lot of money in the bank. On the -- or we have a decent amount of money in the bank.

On the expense side, we mentioned we're aggressively managing expenses, cutting as much as we can, capital, really controlling costs. As you saw in the press release, we postponed the decision to declare a dividend. And we're considering, and everything is on the table, even taking advantage of government funding programs that are helping companies impacted by this crisis. So we're looking at everything to help us manage our liquidity. This is a fluid situation. We hope it's temporary, but I assure you we're reacting swiftly and appropriately, and we consider this very serious.

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

And I would add to that, that you asked about our wholesale accounts. I mean, in many cases, those receivables have insurance behind them. So in terms of what we are owed, we feel that there is a certain level of security there. But also just we're going to be watching what we do with each and every one of those accounts, we value them tremendously. Just the same kind of access to governmental programs that we may have, they will have as well. And these are becoming very prominent, by the way. So we feel -- I mean, obviously, we are not taking this lightly, and please don't take that. But I would say that we are going to look at each and every one of those relationships and be very careful with how we manage.

I think that -- I'd like to go back to the China example. Because I think that the key thing here is for people to really start going back to normalcy, just a feeling that there is a normal life in front of us. And if a country like China with so many people was able to control this and put everybody back into a more normal routine, we believe that most countries are going to have an opportunity to do the same. And if that happens, then just the length of the crisis will be significantly shorter, and which is what we need for the customer to start thinking, okay, just life is going back to normal. Now I can go back to the way I used to live my life. So that's our hope. Obviously, it is hopeful thinking. But we think based on what we have experienced in China, that this is a realistic expectation in the next few weeks.

And when you look at our position, just like Katie just said, we definitely have ample flexibility here from a financial standpoint, and we are doing everything we can to really reduce any exposure or risk.

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**Operator**

Our next question comes from Dana Telsey from Telsey Advisory Group.

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**Dana Lauren Telsey** - *Telsey Advisory Group LLC - CEO & Chief Research Officer*

Carlos, as we're going through these times that would not even be imaginable even a year ago, and you think about SG&A, with occupancy and payroll being so important, how tight you're managing them, where is the bigger opportunity? Is there more opportunity to reduce occupancy? More occupancy to reduce -- more opportunity to reduce payroll? How do you see it? And is this also an opportunity to further optimize the store fleet in your mind?

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

Yes. So I'll start with that. I have to say, Dana, we are not discriminating here at all. We are looking at every single piece of the expense structure. And those 2 buckets that you mentioned are huge for us, both payroll and occupancy. So we are looking at everything and trying to minimize as much as we can. We also just think that this may be an opportunity to figure out how to do things more efficiently, too. Just -- so we are looking at everything. And really, there is no stone that we are leaving unturned here.

With respect to the store portfolio. I think I mentioned, but just we do see this as a great opportunity to really challenge ourselves on every decision on stores that we have, leases that we have that maybe were marginal before, and now with this deterioration in consumer traffic are even more than marginal. So then we will definitely don't hesitate and take the decision to close those locations as well. And then I'm sure that this -- obviously, this is impacting everyone that is in retail. So I'm sure that landlords are going to be more open to really provide different terms if they want to keep a healthy tenant, like we are.

So we think that there is a lot of work to be done here in front of us. But we are working diligently and looking at every opportunity. And those 2 are huge opportunities, but there are many others, too. So we are looking at every single -- we have a complex business. And we have many locations, and we have different headquarters and groups and so forth, and this doesn't stop in the U.S., by the way. We are looking at every single organization and every single operation and line item in -- all over the world.

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#### Operator

Our next question comes from Janet Kloppenburg from JJK Research Associates.

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#### Janet Joseph Kloppenburg - JJK Research Associates, Inc. - President

Congratulations on -- I wanted to ask a question because we are hearing Carlos that business, as you've indicated, is getting back to normal in China. Obviously, not -- it's not a boom, but better. And given your disappointing numbers there in the fourth quarter, I was just wondering, maybe if you could talk a little bit about that, I know it was a difficult year in Asia -- in China. Maybe you could talk about the outlook for China and why the fourth quarter was disappointing? And I also wondered if you could just address the licensing revenues, which had a nice quarter. I thought that was encouraging. And as far as Europe goes, given the popularity of your brand there, I'm just wondering what your digital capacity is there? And how much business you see transferring to that channel? And if you foresee any disruptions on the digital fulfillment side, which some companies are experiencing right now?

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#### Carlos E. Alberini - Guess?, Inc. - CEO & Director

Okay. Thank you, Janet. Well, so starting with China. You are absolutely right. We were disappointed with our performance in the fourth quarter. Just in fact, I was -- the only business that -- where we didn't make the numbers and our guidance as we -- when we guided back in at the end of the third quarter for the fourth quarter. And we had a tough fourth quarter. I think a lot of it was driven by some of our own issues. I think we've discussed it when we work together before, and even when we release third quarter numbers that we thought that we had an opportunity with product, especially just being a lot more kind of like surgical with the design and fit and the direction that we have with products.

So the same thing impacted us in the fourth quarter. I think, as part of the issue too, was that because we started the year, I'm talking about last year with a lot of excess inventory. I think we tried to use some of that excess to continue to feed our demand throughout the year and end the year in a place. And frankly, in some cases, those designs were probably somewhat dated. The customer had already seen them and was not that interested in buying them. So all that impacted us. And as a result, also, we had a tough online business with Tmall, which had been a big driver of our business in the fourth quarter of the year before, both Double 11 and Double 12 were somewhat disappointing, Double 11 much more. Then we learned some things and we did some things better, but Double 12 was still disappointing relative to our initial expectations.

In terms of the outlook, it's very difficult to say. I mean, we are in a very, very -- completely strange situation right now. And I couldn't even begin to tell you what to think about next month, let alone long 3 months from now, hopefully, things are going to again continue to correct.

But I want to say that maybe others are seeing things going back to normal. I think that -- I just want to make sure that everybody understands that for us, they are very far from being normal. I mean, just -- yes, better than 5 weeks ago, but very far from being normal. So don't think that we are now back to a healthy business there at all.



With respect to licensing, we were very, very happy because we have a couple of new licenses that have done really well lately. One is fragrance. It performed really well. And overall, the year, just -- I mean, we were up about 3%, I think, in total licensing. And you -- a lot of this business was -- because it was a new business impacted our fourth quarter. And then with respect to digital, we continued to be super excited about this. Just -- we did cut a lot of projects, but one that we did not cut is the sales force implementation. Because we see a big opportunity, especially with what's happening to really continue to grow our e-commerce business, which is very underdeveloped compared to others in the industry. So we think that there is a big opportunity here. Obviously, all the things that are impacting customer behavior should eventually help the e-commerce business. We haven't seen that yet. I mean, definitely, the deceleration in business was not nearly as severe and dramatic as what we saw with the stores in our digital channels. But we are not seeing a significant increase. But we hope that over time, this business continues to be a lot more promising, and we expect to take full advantage of that opportunity. So we continue to see that. Just I think we shared some numbers with you. I think at our e-commerce business represents only like 10% of the total business, and we can see doubling that penetration very easily.

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**Janet Joseph Kloppenburg** - *JJK Research Associates, Inc. - President*

And one last question if I may...

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

And this is before we talk about changes in consumer demand.

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**Janet Joseph Kloppenburg** - *JJK Research Associates, Inc. - President*

Okay. I was wondering if you or Katie could talk about your visibility on your forward wholesale orders and what degree of risk you have there as the wholesalers in both Europe and Americas try to reduce their inventory flows.

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

Yes. So I'll start. Just -- this is kind of early, I think. To be completely honest with you, obviously, retail is the best leading indicator for us. I mean, we have that advantage that we can see what happens in retail. But because normally, the wholesale business will follow what happens at retail, right? And so it's early for us to even start speculating what could happen. I mean, obviously, we are closed in Italy, we have been closed for over a week. So our clients, our customers. So definitely, that is going to impact their business.

As I mentioned before, our backlog was incredible. I mean, just we were up double digits again, just this has been over 3 years now with an incredible business season after season after season, but this is this is game over in many ways. We are going back to a completely different set of our paradigm. So I think we have to think very differently. And it will be impossible for us to even attempt to give you a number, and this is partly why we didn't think that we would be in a position to give -- provide guidance today for both the first quarter and for the full year.

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**Kathryn Low Anderson** - *Guess?, Inc. - CFO*

And in terms of AR, we have good -- Carlos mentioned that we have good insurance coverage going forward, so we gain comfort in that as well.

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**Janet Joseph Kloppenburg** - *JJK Research Associates, Inc. - President*

And -- Katie. You talked a little bit about government assistance. I've been following that pretty closely. Are there some firm assistance programs out there that you would be able to tap into? Or are you just talking about what it looks like from the stimulus bill?

**Kathryn Low Anderson** - *Guess?, Inc. - CFO*

Well, we're following across the world. We're already taking -- there are some programs in Europe, for example, that we're already taking advantage of, but these are kind of coming out real time. So we're all over it and making sure that we can take advantage when we can.

**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

And we had some opportunities in China as well. And in some cases, these benefits may have different forms and come in different flavors. It could be a deferral of taxes. It could be the elimination of taxes. It could be social costs that could be absorbed by the government and so forth.

**Operator**

(Operator Instructions) And our next question comes from Omar Saad from Evercore ISI.

**Omar Regis Saad** - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Softlines, Luxury & Department Stores Team*

And Carlos, maybe you could talk -- of course, and great end of the year, by the way, nice quarter.

**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

Thank you.

**Omar Regis Saad** - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Softlines, Luxury & Department Stores Team*

Unfortunately, it kind of gets lost with everything else going on. Can you talk about -- maybe you can talk a little bit more about the curve you saw -- you've seen in China, the decline and then kind of stabilization, and obviously, it sounds like things aren't anywhere near getting back to normal there. But there's been some uptick towards return to normal. And then maybe kind of compare and contrast that to what we've seen in other markets, whether it's Korea or Japan or Italy, North America, other parts of Europe. Do they seem to be following a similar curve? Because we're -- I guess, we're 8 or 9 weeks in China now. As we try to do our best job triangulating and formulating a rationale for how long this might last, kind of any -- any kind of comparison and contrast of different curves would be helpful.

**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

Yes, yes. Thank you, Omar. Well, just this is a moving target here. But let me tell you what we have been able to see. The case of China, I think, is somewhat of an extreme in terms of how quickly the government jumped in and also, nobody knew anything until all of a sudden, we knew, and the country was stopped, the kind of thing.

So during the first few weeks of that process, just we saw a very, very extreme drop in our revenues. We're closing most of the stores. And then just things -- and people were in their homes. So there was no activity. I mean, I'm sure we all saw those pictures and videos of Shanghai with nobody in the street, right? So all that is exactly what we saw on the commercial activities on our end.

Then at some point, China became more kind of like, okay, now people are -- the cases slow down, new cases, just the government felt that they were more in control of the crisis. And then there was an opportunity for people to really consider going back to their cities. Remember that this was Chinese New Year. They extended the Chinese New Year, so a lot of people couldn't even get back to work until they could travel to those cities. And I think that they did it in a very orderly way. But when that started happening, then we started seeing just the revitalization of those cities and markets. And -- but that has been slow. And -- so I think that, that is somewhat an extreme case, but maybe there are some other examples like that. Just I don't know, maybe Italy could look like that. Italy definitely went into a very similar situation where the whole country stopped and



it's still stopped. But then you have an example as Korea and Japan, in those cases, just -- and I think I mentioned this before, they did not close the country and the engine. Definitely, we saw the impact in our numbers of deceleration of customer traffic, but it was not nearly as severe, I would say, like half as severe. So -- and we continue to see something similar in that pattern. So it's very difficult to pick the model and say, "Oh, this is going to apply to the U.S. and this one, this other model is going to apply to France." I mean, it's just very difficult to see. The one thing that we know now is that a lot of the countries in Europe, for example, have taken that Italy route. And we think that, that may be a very good way to deal with the situation because the key is to stop people from interacting and keeping people in their homes, so then the risk of contagion and exposure is minimized.

So -- and I think that everybody in the world now is aware of that, and they're doing it. And I think that, that is applying to America as well.

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**Omar Regis Saad** - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Softlines, Luxury & Department Stores Team*

That's helpful. Can you talk a little bit about the role e-commerce played in China and some of these markets through this period? How has it been? Has it -- I mean, probably, haven't seen the same level of declines, but did you see a big falloff? Did that come back before some of the store spending came back? Maybe help us think about how consumers may or may not be using e-commerce, given the scenario we're in.

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

Yes. No, I think that the deceleration in e-commerce was also noticeable everywhere. So it's not that people go home and they start shopping for handbags and jeans. So I think that and we have seen that kind of like across the board. You mentioned China, we have good connections with some of the big companies like Alibaba, and we share that this has been kind of like across the board other than for essentials and basic items. We -- since then, we continue to see some on-and-off type of business, not nearly as severe. You take a region like Europe. Our business is still just kind of like a much healthier business than what we saw in some of the countries where things had to be locked down.

So overall, less of an impact, but very significant. And just since you mentioned e-com, I just realized I would -- never answered Janet's question about the disruption in facility. So far, our business has been serviced fully. We have a facility in Italy that services our e-commerce business in Europe, and that has been operational for all the time. And of course, we are making it a priority that we can service our customers within the guidelines that we expect for that business. And that has worked well. Now we are dealing with more of a skeleton-type of team, but still being able to service the business as we would expect. And our business here in the U.S. and in Canada has not suffered any disruption with respect to servicing that business as well.

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**Operator**

And we have no further questions at this time. And I would like to turn the call back over to Carlos for closing comments.

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**Carlos E. Alberini** - *Guess?, Inc. - CEO & Director*

Yes, thank you. I just want to thank you all, again, for taking time to really join us on this call. It's a very special time, and we appreciate your interest in our story and our point of view. We will continue to lead our organization through these challenging times with a relentless commitment and determination. You have our promise on that. We're very confident that we'll see this through. We are in a good position as a company, and we have the resources and a great team with the experience and the passion that I think are necessary to win in this kind of challenging time. So we hope this crisis will be history soon. I said it before. And we look forward to keeping you informed about our progress. Thank you so much.

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**Operator**

Thank you, ladies and gentlemen. This concludes today's conference call. Thank you for your participation. You may now disconnect.



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