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+++ presentation

Operator^ Good day, everyone, and welcome to the Guess first quarter fiscal 2026 earnings conference call. (Operator Instructions) Please note that this event is being recorded. I would now like to turn the call over to Fabrice Benarouche, Senior Vice President of Finance, Investor Relations, and Chief Accounting Officer. Please proceed.

Fabrice Benarouche^ Thank you, operator. Good afternoon, everyone, and thank you for joining us today. On the call today with me are Carlos Alberini, Chief Executive Officer; Dennis Secor, Interim Chief Financial Officer; and Alberto Toni, our incoming 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 outlooks. 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. Comments will also reference certain non-GAAP or adjusted measures. GAAP reconciliations and descriptions of these measures can be found in today's earnings release.

Now I will turn it over to Carlos.

Carlos Alberini^ Thank you, Fabrice, and thank you all for joining us for our Q1 fiscal 2026 quarterly conference call. We are pleased to report our Q1 operating results that came in ahead of expectations across key financial metrics, reflecting the successful integration of

rag & bone and continued momentum in our Guess wholesale businesses across Europe and the Americas. Disciplined expense management, combined with a better-than-expected top line, enabled us to report operating results ahead of our guidance range, narrowing our loss for the quarter.

In the period, we grew our business in US dollars by 9% despite a currency headwind that consumed about 2.5 points of growth. The majority of that growth came from the acquisition of rag & bone, which added 9 percentage points to our top-line constant currency growth, reflecting a full quarter of ownership this year versus just one month in the prior year period.

Our core Guess business also contributed, adding about 3 points of constant currency growth driven by higher shipments in our wholesale operations across Europe and the Americas. These gains more than offset softer results in Asia and in our Americas retail channel. Licensing revenue declined versus the prior year, creating a modest headwind in the period.

For Guess, our European wholesale business was the largest contributor of this growth posting a mid-teen growth rate in the quarter. Our products continue to perform well among our wholesale partners in that region, and we believe that we are being rewarded for ensuring reliable product deliveries despite some of the recent supply chain challenges.

We shared on our last call that we are mitigating the supply chain risk caused by the Red Sea crisis by bringing in products early. We are not buying more. We are buying earlier. This near-term working capital investment bore fruit during the quarter, protecting our partners and our businesses as we were able to ship larger volumes than we had anticipated for the quarter, mainly driven by the availability of the product. In our European retail stores, revenues came in slightly below our expectations, posting a constant currency comp decrease of 4% as a decline in store traffic more than offset improved conversion, improved AUR and better units per transaction.

In the Americas wholesale business, the Guess brand delivered double-digit top line growth, surpassing our expectations for the quarter. Similar to Europe, we were also able to deliver more product earlier to our partners than what we had planned. And for the year, we expect this business to grow modestly. In the Americas Retail business, our performance improved in the latter part of the quarter and exceeded our expectations. While traffic headwinds remained our key productivity challenge, we were able to offset some of that with improved conversion.

As a result, we closed the period with a net 10% constant currency comp sales decline for the quarter. Our business in Asia continues to face headwinds and fell short of our expectations this quarter, with revenues declining by over 20%, with significant weakness in the Greater China market. Consistent with what we shared with you on our last call, we are continuing to look for a partner to take on our business in this market, and we have been contracting our operations here, including headcount reductions, store closings and ceasing to purchase product for future seasons.

Sales declined in most of our Asian businesses and store traffic remains the key driver of the comp sales decline in our stores there. And finally, in our licensing business, royalties declined slightly more than we had planned. Royalties declined in fragrances and footwear, while handbags royalties grew.

Moving next to our product performance, results varied by region and category throughout the quarter. In Europe, women's apparel sales increased driven by strong performance in activewear and sweaters. In accessories, fragrances and watches delivered positive comps. In the Americas, the business was negative across most categories with women's activewear and watches performing well.

Turning to rag & bone, the business significantly outperformed our expectations for the quarter, driven primarily by strong wholesale shipments. Rag & bone performance in the retail stores and online also outperformed our expectations. Paul has been working hard with many of our licensee partners to add new product categories into our rag & bone assortment.

As we shared before, we already signed a new handbag license and that business is doing well. We also have new license deals at various stages of completion in watches, fragrances and eyewear, and we are excited about the prospects for those categories in the future.

Moving now to the rest of the P&L, we delivered total company gross margin of 39.9%, 200 basis points lower than last year and also below our expectations going into the quarter. About 70% of that change was driven by business mix, mainly lower royalty income and a higher contribution from wholesale, which naturally carries lower product margins. There was a modest headwind due to increased promotional activity and that amount was fully offset by improvements in initial merchandise margins. Currencies were also a modest headwind to our margins during the period.

Total company SG&A increased 11% year-over-year with the integration of rag & bone driving the majority of that increase. In the quarter, we reported an adjusted operating loss of \$26 million and an adjusted operating loss margin of 4%, both of which represented improvement over our expectations for the quarter and we delivered an adjusted loss per share of \$0.44, also an improvement over our expectations.

Before I update you on our strategic initiatives, let me spend a few moments discussing tariffs and how we believe they may impact our business and our outlook. On last quarter's call, in our discussion of tariffs, we shared a few important aspects of our business. First, roughly 75% of our business is done outside of the United States, and therefore, not directly impacted by the tariffs. Second, the remaining 25% of directly produced and distributed products represents roughly \$200 million in annual purchases. Both our Guess and rag & bone sourcing teams have undertaken a massive effort to move a substantial amount of our production out of China to other markets. We also reworked costs with vendors and pricing with retail customers.

As a result of these efforts, we expect that the year-over-year impact of tariffs on our margins this year will be less than \$10 million. And we have achieved that with very minimal price increases. That \$10 million is fully incorporated in the outlook that we are providing today. So that is the cost impact to our P&L based on what we know today. The tariffs have also sparked renewed fears of inflation or recession, but we have not attempted to predict how they may affect the consumers' appetite to spend their disposable income.

Now I would like to turn to our strategic direction and provide an update on several key initiatives underway across the business. On our last call, I outlined the key strategic initiatives that our teams are driving to grow our business, strengthen our organization, improve brand awareness and customer engagement to increase retail productivity, build a more efficient infrastructure and optimize our business model to improve profitability and return on invested capital.

Today, I will walk you through the progress that we are making against some of these priorities, starting with one of our most immediate focus areas: retail productivity. One of the key challenges for our business over the last several years has been the decline in customer traffic into our stores and to our website. Those trends have persisted in the US and Asia for some time, and we are now seeing similar patterns emerge in our European retail business. To address this, we are rolling out a range of initiatives aimed at reengaging customers and driving higher traffic across both physical and digital channels.

We continue to see a significant opportunity to increase brand awareness and customer engagement through increased marketing investment. We are in the middle of a project working with General Idea, which is a consulting firm, to craft a new market vision to transform our social media strategy that we believe will reignite our brand relevance and awareness with today's consumer.

Nicolai Marciano is our internal lead for this project. We are beginning with the implementation of several initiatives as we speak, including the reorganization of our teams, the deployment of new practices and increased investment into social channels and relationships with influencers and other collaborations to attract a younger audience.

In addition, we recently launched a customer loyalty program in Europe thus far in just two markets, Italy and Poland, and the learnings and results from this implementation have been very, very positive. In those markets, among our loyalty customers, we saw increases in revenues from those customers of roughly 36%. We also saw that those customers returned to the stores with greater frequency and they spend more per visit. Our plan is now to roll this program out to more countries in the region, starting next with Germany, Austria and Spain, with additional markets to come online later in the year.

As we continue to sign up more customers into our database and we gain insights into their shopping habits, we are investing in improving our customer insights capabilities using AI-powered tools. Next, there is an opportunity in how we buy. Over the past several years, we have been very successful in driving IMU improvements across our apparel lines. In order to drive production cost down, it necessitated a larger and earlier commitment of our production volumes, therefore, leaving less open to buy later in the year. Undoubtedly, that resulted in missing certain trends, sacrificing a level of revenues for the extra IMU points.

We think there is an opportunity to better balance that going forward. Our team is developing fast track capabilities within our supply chain to more quickly replenish best sellers and inject additional product into the market as trends develop in the season. We used to operate in this manner several years ago and had success primarily in North America. We are implementing this again with our Spring/Summer '26 collection with our goal ultimately to leave 50% of our buy open after we place our initial orders.

We are also looking closely at pricing. Over the past several years, we implemented a strategy to elevate our brand and raise the perception of our brand among consumers. That initiative was anchored in building more quality into our products, including better

fabrications, better make and better embellishments. While the program was successful in many ways, our recent analysis of pricing suggests that some of our legacy customers were not able to make that journey with us. It's also reflective of what we have experienced with today's consumer who tends to be quite sensitive to pricing.

Our plan now is to rebalance our product assortment to increase our penetration and offering of opening price point products. And finally, we think our existing clustering model is too rigid, not addressing the unique dynamics of individual stores, not leaving store management with enough flexibility to assort stores based on the unique dynamics of their particular store.

One store may attract a more casual customer while another may appeal to one that is looking for a more dressy outfit. Weather patterns may be different as well, necessitating a different assortment based on seasonality. Our new model will create that greater flexibility to allow managers more autonomy to assort their stores based on the unique characteristics of that store's customer.

As part of this effort, we will also challenge the product categories to be offered in each store to optimize the product assortment and the space allocation based on expected productivity per square foot. Visual merchandising standards will be improved as well to optimize navigation throughout the stores and ease of shopping. Improving retail productivity for us is the highest priority that we have today.

Just as a point of reference, a 10% improvement in sales in our retail stores company-wide would represent roughly \$140 million in incremental revenue and around \$70 million in incremental operating profit. Thus far, the early reads on these initiatives have been encouraging. In both North America and Europe so far in the second quarter, we have seen sequential improvements in conversion rates with both regions posting sequential improvements in retail comps.

Another area of opportunity for us to improve profitability in our business is rationalizing our business model. Businesses are not static. They evolve and change over time. The profitability of certain channels has changed as consumer shopping behaviors have evolved.

Certain categories that represented large opportunities in the past may no longer generate the returns necessary to justify the investments. Markets that were once profitable may no longer generate appropriate levels of income. We are looking at this across all different

dimensions of our business to ensure that we are making and sustaining investments that deliver solid returns to our shareholders. We are examining our store portfolio, ensuring that every store serves the strategic and financial purpose to represent the brand in the marketplace and to deliver profit in that market.

We shared on our last call that in North America, we are exiting non-strategic, unprofitable full-price Guess stores, and we are consolidating some of our infrastructure supporting that business. We expect to reduce our North America store fleet by roughly 20 stores with some of them closing this year at their natural lease expirations. So far this year, we have closed six of these stores. We are examining unproductive businesses. Those may be regions or brands.

For example, on our last call, we shared the changes that we are making in China. While we continue to believe that there is an opportunity for Guess in the Greater China market given the market size and our brand's high awareness, we have not been able to make that business profitable over the many years that we have operated there.

This year, we expect that business will lose roughly \$20 million and we are committed to eliminating that loss for next year. We are looking for a third-party partner to take over this business, and we have already met with several potential candidates. In the meantime, as I said before, we are continuing to operate this business for us to minimize the negative impact on our earnings.

And just to remind you, we expect these two initiatives, North America stores and Greater China will unlock over \$30 million in operating profit starting with the next fiscal year. But there are still other dimensions of our business that we are examining. We plan to address underperforming product categories, unprofitable customer relationships, unproductive SKUs and also plan to consolidate further products at a global level, including additional categories for our factory outlet business, which are currently developed regionally.

This is all to ensure that every aspect of our business is creating value. And finally, is our infrastructure and its alignment to today's business. Since Guess was founded in 1981, our business has evolved dramatically. We started as a pure wholesale denim supplier in the United States with one lone footprint here in Los Angeles that encompassed every aspect of our business.

Over time, we grew our business by opening our own retail stores, both full price and outlets. We entered new territories, adding both operating and infrastructure functions to

support those businesses. We expanded globally, adding direct resources in new countries and ultimately developed regional centers as the business grew.

We added multiple new categories, some internal, some external and stood up the necessary infrastructure to support that expansion. We also added IT systems to support our business. And we evolved along with the consumer, adding e-commerce capabilities as the shopping habits of consumers changed over time. Today's business is far more complex across multiple dimensions and requires a more sophisticated ecosystem.

We believe that we have opportunities to reengineer those businesses to make sure that our infrastructure aligns with our business as it exists today. As an example of this, we have separate support structures that are based now in both Los Angeles and Lugano, Switzerland, one to support the North American business, while the other supports our European business, performing largely the same functions.

We see an opportunity to optimize these structures, creating one global center that can support both regions taking advantage of the significant scale of our fleet and business. We believe our European support infrastructure presents a strong opportunity for consolidation and optimization.

This year, our business in Europe should reach nearly \$1.7 billion in sales. It's large and complex, spanning more than 35 countries with a regional center, multiple country support centers and several logistics centers throughout the region. As it has evolved over time, it has undoubtedly created some duplication of effort where much of the same work that is done in the regional center is also replicated within the countries.

We see an opportunity to realign these resources where strategy is developed and set from the regional center leaving the in-country resources to manage local execution. Logistics presents an opportunity as well. In time, both in Europe and North America, we have added logistics capabilities and centers to address specific needs or opportunities at the time. Today, we have eight centers throughout Europe and another three in North America.

Within each region, there are opportunities to consolidate and optimize these networks. Another area of opportunity is our systems environment. Our IT infrastructure has evolved similarly to our business, very organically, building and adding to a network based on the business needs of that moment with different solutions and tools in different parts of our business.

We believe that there are opportunities to restructure this and reengineer a systems network that is more uniform and standardized globally. These are just a few of the areas that we are tackling, but they reflect a broader goal: to build a unified global platform that enables us to operate as one integrated business rather than a collection of regionally siloed operations.

By centralizing what makes sense and tailoring only where necessary, we aim to support our future growth with greater agility, efficiency and strategic alignment. Now let me share a few thoughts on our outlook for the remainder of this year. We have updated our outlook to reflect the relatively minor changes in business trends that we experienced in Q1.

For the year, we still expect our revenue growth will be driven by owning rag & bone for a full year, solid growth from our European wholesale business and the conversion of our Middle East business to a joint venture. We have moderated our expectation coming from our European retail stores, given our first quarter experience. Though we do expect some improvement later in the year given our marketing and retail productivity initiatives that I just summarized.

In addition, the US dollar has weakened over the past two months, which should result in a stronger currency tailwind on revenues. All in, we expect full year revenues to grow in the range of 5.5% to 7.4%. For the full year, we now expect adjusted operating margin between 4.4% and 5.1% and adjusted EPS in the range of \$1.32 to \$1.64 a share. Dennis will share more details in just a moment.

Before I turn the call over, I want to comment on our Chief Financial Officer transition. In April, we announced the appointment of Alberto Toni, a seasoned executive with more than three decades of international experience in finance and operations. His proven ability to drive performance across design-led, retail and consumer-facing organizations will be instrumental as we sharpen our focus on operational efficiency, portfolio discipline and long-term value creation for Guess.

Alberto will be based in Lugano, Switzerland and will lead Guess's financial team globally. Dennis Secor, Interim CFO, will remain on board as Executive Vice President through September of 2025 to ensure a seamless leadership transition. With a deep bench of finance leaders that includes Fabrice Benarouche and several other talented executives, we are well positioned to advance our strategic priorities and deliver sustainable growth.

In closing, this year, we are managing through a complex environment and have made

meaningful strides in advancing our operational, strategic and financial priorities. On behalf of Paul and myself, I want to extend our appreciation to our global teams for their dedication and strong execution. As we begin fiscal year 2026, we are energized by the opportunities ahead. Our strategic focus remains on driving higher productivity across our direct-to-consumer channels and enhancing profitability through targeted business and portfolio optimization. We are firmly committed to unlocking our full potential and delivering long-term shareholder value.

With that, let me welcome and pass the call to Alberto.

Alberto Toni^ Thanks, Carlos, and good afternoon, everyone. This is my first week of work at Guess, and I'm very thrilled to join such a great organization and an amazing brand. I'm currently in LA to start a thorough handover from Dennis to secure a smooth transition. I'm looking forward to contributing to the next chapter of Guess' long and successful history. So with that, let me turn the call over to Dennis to walk you through our results and provide additional context on our outlook.

Dennis Secor^ Thank you, Alberto, and good afternoon, everyone. As Carlos shared, total company revenues increased 9% in US dollars to \$648 million. In constant currency, the increase was 12%. The biggest driver of the increase was the acquisition of rag & bone, adding 9 points of constant currency growth. Last year's rag & bone results include revenues for just one month, April, the month of acquisition, while this year includes the full quarter.

The core Guess business grew 3% in constant currency in the quarter, with growth in wholesale businesses, both in Europe and the Americas, offsetting negative comps from our direct businesses. In Europe, we grew 8% in US dollars to \$306 million. In constant currency, the growth was 9%. Retail comps, including e-comm, declined 4% in US dollars and 3% in constant currency. Our wholesale business continues to perform well with revenues increasing in the mid-teens in the quarter. As Carlos shared, we were able to ship some orders earlier than we had planned. The adjusted operating loss margin in our European business was 2.9%, 270 basis points lower than a year ago, driven primarily by the impact of the infrastructure spending and currencies. In Americas Retail, revenues grew 9% in US dollars, reaching \$157 million.

In constant currency, the growth was 12%. The segment's growth was driven primarily by the acquisition of rag & bone, more than offsetting the impact of negative comps in our core Guess retail stores as well as the impact of currencies. Comps from our US and

Canadian stores declined 10% in constant currency with the trend improving in the latter part of the quarter. Including our e-com business, the constant currency comp decline was 11%.

Traffic to our stores continued to be down, though some of that was offset with an improvement in conversion. Americas Retail posted an adjusted operating loss margin of 10.5%, a 330 basis point decline from last year's first quarter.

That margin decline was driven primarily by deleverage on the fixed cost base given the comp declines both in-store and online, more markdowns and higher store costs, partially offset by the addition of the rag & bone business and an increased IMU. In Americas Wholesale, revenues increased by 63% in US dollars to \$101 million, driven by the addition of rag & bone, along with higher guest shipments in the US and in Mexico.

In constant currency, the growth rate was 70%. The increase in the US Guess business was primarily to our off-price accounts. Adjusted operating margin was 19.9%, 280 basis points lower than a year ago, primarily due to the impact of rag & bone's business.

In Asia, revenues decreased 20% in US dollars to \$58 million. In constant currency, the decline was 16%. Most of our Asian businesses declined with the most impactful declines from South Korea and China, where as Carlos shared, we are purposefully constraining our business. Retail comps, including e-com for the region decreased 20% in constant currency.

Our adjusted operating loss margin in Asia was 3.1%, 820 basis points lower than last year, driven mainly by the impact of the lower revenues on the expense base. And finally, our Licensing segment revenues declined 14% to \$25 million.

As Carlos shared, we delivered total company gross margin of 39.9%, 200 basis points lower than last year, driven mainly by business mix. Adjusted SG&A expenses for the quarter increased 11% to \$285 million. The most significant drivers of this change resulted from our acquisition of rag & bone, the conversion of our Middle East business to a joint venture partially offset by the favorable impact of currencies on our expense base. For the quarter, the SG&A rate increased 80 basis points to 44%.

In the quarter, our adjusted operating loss totaled \$26 million and with a lower gross margin and higher SG&A rate, our adjusted operating margin declined 270 basis points to negative 4%. In the quarter, we recorded an adjusted effective tax rate of 18.1% lower than what we

expect for the full year.

In the first quarter, we recorded \$6 million in adjusted net nonoperating income primarily resulting from a revaluation of certain of our foreign subsidiaries, net assets and liabilities into US dollars. Our adjusted Q1 diluted loss per share was \$0.44 compared to an adjusted Q1 loss per share last year of \$0.27.

Moving now to the balance sheet. We ended the quarter with \$638 million of inventory, up 15% in US dollars and 14% in constant currency compared to last year's Q1. About 3/4 of that increase is in Europe, where we've accelerated product deliveries to mitigate against potential disruptions given the Red Sea crisis and to support our growing business. That increase represents roughly five weeks of Europe supply, where, as Carlos said, they're not buying more, just earlier.

Our goal is that once that situation is resolved, we can begin to reduce that working capital investment. The balance of the inventory growth is split roughly evenly between the Americas and Asia. Our receivables were \$331 million, an 11% increase in both US and constant dollars compared to last year's Q1.

This increase supports our growing wholesale business, both in Europe and the Americas. For the first quarter, capital expenditures were \$22 million, mainly driven by investments in store remodels, new stores and technology. This compares to \$21 million last year. We ended the quarter with \$151 million in cash compared to \$242 million a year ago.

The most significant drivers of that \$91 million cash consumption over the last four quarters includes \$70 million in dividends and minority interest distributions, \$50 million in share repurchases from July of last year and \$21 million in free cash flow consumption, partially offset by \$38 million of net borrowings and \$40 million related to the gross proceeds from the sale of our US distribution facility. We ended the first quarter with just under \$350 million of borrowing capacity on our various global facilities, so roughly \$0.5 billion of available liquidity. We also announced today that our Board has approved our regular quarterly cash dividend of \$0.30 per share.

So moving now to our outlook. Carlos just shared the key drivers of our business for this year, and we've experienced only relatively modest changes to our expected business trends thus far. Therefore, we are making only minor adjustments to our outlook for the year.

Moving positively, Americas Retail exceeded our Q1 expectations as did our European wholesale business, though some of that is just a shift between the first and second quarters. Trending lower than our expectations are our European retail stores and our Asia business. We've also revised Americas wholesale as one of our customers there has ceased operations, and we've made a modest adjustment to the phasing of our Middle East joint venture.

We've also adjusted our outlook to the current currency environment, which is markedly different from our prior outlook. That will now more favorably impact both revenues and operating profit and we've been able to reduce some anticipated spending. So as Carlos shared, we've updated our full year outlook for revenue growth between 5.5% and 7.4%, adjusted operating margin between 4.4% and 5.1% and adjusted EPS between \$1.32 and \$1.64. And again, this outlook fully absorbed the anticipated impact of tariffs based on what we know today.

For the second quarter, we expect US dollar revenues to grow between 2.9% and 4.7%. Now let me give you some extra color to this to help you better understand the underlying trends. First, the second quarter is our first fully comparable quarter with rag & bone, so we will no longer benefit from acquisition growth as we did in Q1, just from their organic growth.

Second, that Q2 revenue growth range includes roughly 1 point of tailwind from currencies. So in constant currency, think of that in very round numbers as up 2% to 4%. And that growth aligns with the 3% core constant currency growth rate that we just achieved in the first quarter.

As we move into the second half of this year, as we said on our last call, we do expect to see some improvement in retail trends as we benefit from the portfolio of marketing and retail productivity initiatives that Carlos described. We expect adjusted Q2 operating margin between 2.5% and 3.3% and adjusted earnings per share between \$0.11 and \$0.21. The lower operating margin versus last year is split roughly evenly between a higher occupancy rate and a higher SG&A rate largely due to the comp declines in our retail businesses.

For the full year, we still expect free cash flow of roughly \$55 million, including \$65 million of CapEx. We are planning the changes in the earnings outlook to be offset by a tightening of working capital. And with that, I'll conclude our prepared remarks and open the call up to your questions. Operator?

+++ q-and-a

Operator^ (Operator Instructions) Mauricio Vega, UBS.

Mauricio Serna Vega^ I was wondering if you could talk a little bit more about how you're thinking about the rag & bone brand organic growth expectations for the year? And then maybe on the Americas Retail business, you said that one came ahead of your expectations in Q1. How are you thinking about that business trajectory as the year progresses and your initiatives kind of like start materializing into hopefully better performance?

Carlos Alberini^ Thank you, Mauricio. I appreciate your questions. So let me start with rag & bone. We have been very pleased with this business and with the acquisition and with everything that it's bringing to the Guess business and our portfolio. We had a very good first quarter, and this was on top of a year or the 10 months that we owned the business where we exceeded our expectations.

We had, I think, very high expectations for this year coming in and we were able to really do better than that in the first quarter. And the great thing is that most of the performances that were better than expected were across the different channels. So we had a great wholesale business in the first quarter. The business shipped a lot more than what we had anticipated, and it came from multiple accounts.

In addition to that, our direct-to-consumer business was also strong, both on in stores and e-commerce where we saw some pretty significant increases over what -- over the prior year. We have a big plan for this year. We are talking about \$320 million plus and that is just to put -- give you a point of reference here before we acquired the company, the business did \$250 million on an annualized basis. So to go from \$250 million to over \$320 million is a pretty significant increase. Of course, some of this is driven by the addition of new stores. We currently have 41 stores.

When we acquired the company, we had 38. And we have an expectation to open over 10 stores in the next few months. So a lot of that growth is going to come from that. But in addition to that, we are seeing same-store sales growth in addition to the organic growth of our wholesale business. And we are adding new markets.

We are trying to expand the presence of the brand into the European market. We opened

one store, and we have two more to open in the next few months in Germany. The one that we opened is in Amsterdam. And we are also trying to develop other markets worldwide. The brand is already represented in Korea, and there are a few other markets where we have a presence and we think that the brand can really be very aligned with what customers are looking for in those new markets. And then you have the additional product categories, which are represented by both internal development;

the team is working on new categories, new products, and the products look amazing. And we can see that our customers at wholesale are very, very excited about growing their business with us. But in addition to that, we are adding licensed products to the assortment. We did a deal in handbags that Paul drove with our licensee that has been our partner for many, many years.

And the bags are already in the stores and doing very well. We are very excited with that. There are some other deals that are being worked on as we speak, including fragrances. We have a couple of deals already done with watches and eyewear and more to come.

So overall, the team is doing a phenomenal job under the leadership of Andrew Rosen. We couldn't be more pleased that he is with us on driving a great business. They are doing a lot of great things on the product to really expand certain product categories that have been very successful including denim. We have a very unique product called Miramar that has been just phenomenal for us. And they have been strengthening the team, which is another big thing to really drive the business to a completely new level.

So we have a new Chief Marketing Officer that is starting very soon, and we have a new Head of Human Resources and several others. And we continue to look for just ways to strengthen our talent there. So very excited about everything that is going on. We have changed some of the business models, including outlets, for example, outlet used to run the stores with excess product from the other channels, and now we have created an entirely new business model where we are making product for those stores. And we have opened several stores just to expand our outlet distribution. So very excited on the business on fire there.

Your second question, Mauricio, it's about Americas retail, and I'm very excited about this. Definitely, we continue to see some weakness in traffic and that traffic is impacting our ability to really turn around the business. But we are seeing a lot of great moves here with the changes that we have made, starting with product, just we -- I think what we shared with you in the last call that we were going after more casual assortment and trying to really

bring a lot more denim into the product selection that we had in those stores and bringing more casual and less dressy type of product.

Also, we are addressing pricing there and trying to cover many of the opening price points that we had not had enough of an assortment or an offering. We are doing a lot in terms of allocating the product where it belongs, depending on the characteristics of the stores that we are trying to serve.

We have done more in the whole retail process, addressing people and addressing visual merchandising to do a better job and we are seeing that for the first time in a long time that many days, we are seeing positive comps in the stores, which is very exciting. Of course, we only have 60 stores in that chain. I'm talking about the full price, free-standing stores, sorry?

Mauricio Serna Vega^ No, just the full price, that's what you're saying, right?

Carlos Alberini^ Yes, full price stores. And as part of this, we are seeing, for example, in the first quarter that women's apparel was positive at a plus 3%. Just we haven't seen this in a very long time. And our business now is primarily focusing on women, just we think that the customer represents about 85% of the total customer base. And of course, if we turn women's, that's a major, major sign of success for us.

So we are excited. We are seeing conversion up about 6% in spite of the traffic being down about 11%. But that traffic trend is better than what we saw in the fourth quarter. We are seeing AUR up. We are seeing the ADS up and all of this is converting into a much better bottom line relative to what we were expecting, and this has been one of the major reasons why we had a better first quarter than what we had expected.

We expect just our outlook today does not include a significant change from the current trends. But between us, I think that could happen. It could happen that we continue to see improvement and that could turn from the trends that we are experiencing now. And this could include our other part of the business, which is more the factory outlet business, which is a much bigger business for us now here in North America than the full-price stores.

And we have seen improved conversion in that business as well. We are addressing pricing. I think we mentioned this in the past that we thought that in some cases, we had opportunities to recapture customer share by addressing prices, and we are being more

promotional, but we were able to absorb that with an increased IMU during the period. So we feel good about how we are positioned with that business as well. So I'll stop there, and I don't know if you have a follow-up question, Mauricio.

Mauricio Serna Vega^ No, this is very encouraging and super helpful to hear. I guess just a quick follow-up. As you're thinking about the second half of the year and maybe thinking about the ranges of your operating margin outlook. How are you thinking about like second half potentially being able to have a little bit of modest margin expansion or maybe like flattish margins on a year-over-year basis on the second half, not full year?

Carlos Alberini^ Dennis?

Dennis Secor^ Yes, let me take that. I think I'd start first. I think the way to understand this year is really the first understand the top line. And as always, our model has a lot of moving parts, but if you start with the top line, the shape of this year's growth curve is really an inverted bell curve. We start high, then we moderated a bit in the middle two quarters.

Still positive and then up again in the fourth quarter. So you start with the quarter, we just completed 9.4%. That's buoyed by the extra two months that we get from rag & bone, some earlier shipments a bit in wholesale. But as we said, the core Guess business grew at 3 points. And that's an important data point to keep in mind. But within that first quarter, we're also flying into about a 2.5 point headwind on currencies.

As you move into the second quarter, we just guided to that using, again, very round numbers, about 3% to 5% top line growth. Now with a 1 point tailwind that's the 2% to 4% we talked about, which compares to that 3% core organic growth that we talked about.

Third quarter looks pretty similar to that. It's mostly the organic growth at work. There's always a little bit of noise from wholesale shipments. We start to see some modest improvement in the retail business based on the initiatives that we've got going. But again, that's generally the dynamic of those middle quarters.

And then when you get to the fourth quarter, based on what we know right now, we see a significant change, mostly due to currencies. We expect the fourth quarter to be up in the high single to approaching 10% range. It's an important quarter for us. It's the biggest quarter for us in the year. That organic growth is still working.

We're starting to see, as Carlos alluded to, those retail improvements that we talked about.

But in Q4, currency becomes a 5 point tailwind based on where it is right now. So one data point for you. The euro now was today was over 1.14; it was 1.05 on average last Q4.

So that's almost 9% growth. So from the first quarter to the fourth quarter, about an 8 point swing. So for the full year, we guided to 5.5 to 7.5 round numbers, organic growth of Guess is in there at about 3 points. The extra two months of rag & bone gives us about 2 points of growth in currencies based on where they are right now, another 2 points of growth.

So if you look at that and then from an operating margin perspective, the first three quarters generally relative to last year are still in that same range as we expect to see some compression of our operating margins. But when we get to the fourth quarter, that's the opportunity with that currency tailwind there, some better performance in the retail businesses, we start to leverage our fixed cost base. So I hope that gives you some insight into how we see the year progressing.

Operator^ (Operator Instructions)

Dennis Secor^ Is that, Eric, because the line was cracking here? Go ahead.

Eric Beder^ Okay. a lot of pieces here. When you look at how should we be thinking about inventories? I know that this quarter was unusual. How are you going to kind of look at the rest of the year in terms of flowing inventories based upon tariffs in the rest of the world here.

Carlos Alberini^ Eric, I'll start and then I'm sure that Dennis will finish. But just our inventories are up about 15% in dollars and about 14% in constant currency. And these numbers are a little bit higher than what we had anticipated. But everything that drove these numbers has been intentional. Just we have been watching the whole supply chain challenges, especially all the inventory that is coming into Europe from Asian countries, and with the Red Sea crisis, this has been a significant challenge to make sure that inventory or product was available to support both our wholesale business and also our own retail direct-to-consumer businesses.

So we have been very aggressive in bringing product early, even if that represented a need for an additional investment and we are happy with it because having access to all that product enabled us to really ship product early and because the product is selling well and our retail customers are very happy with our relationship. They want to take that product early. And this happened in both in Europe, but it also happened here in North America. I

mean, we will continue to really make sure that we can support our business for sure.

But of course, over the long term, we expect to really run the business with a more streamlined inventory ownership. We are now comparing apples-on-apples. Meaning just now we have anniversaried the acquisition of rag & bone. So the 15% is a true 15% increase in inventory. And we think that over time, we could take just a lot of that increase out of the model, but I'm talking about more medium term. I mean we don't anticipate that we'll be able to close the year with a number that is significantly different than that.

Of course, we are trying to work in such a way that we protect the business, but also we run with a streamlined efficient model. And if we see opportunities to reduce inventory levels, we will try to do so even this year. But over the medium term, especially if the supply chain issues with in transit times, get normalized, we would fully expect to really get a reduction in inventory ownership.

Dennis Secor^ Just I would add to that, we're focused, Eric, on driving improvements to our cash flows and Carlo's prepared remarks, he talked a lot about profit initiatives and growth initiatives. Those obviously are designed to improve cash flows. Working capital is another area we've made the investments.

And I would size that investment somewhere in the order of \$50 million. That has been very important to protect the business, we believe and we've heard from our accounts that we are rewarded in gaining share because we've been so reliable on delivering products. And once the Red Sea crisis wanes and it's a more normal environment, we expect to be able to reclaim that cash once again.

Eric Beder^ Okay. Could we get an update on Guess jeans?

Carlos Alberini^ Guess Jeans, well, we are very pleased with the development of Guess Jeans. Just we have a very nice distribution, especially in Europe. And the business is primarily a wholesale business now. We have been able to deliver a few seasons now and we continue to exceed our expectations, not by a huge amount, but we are doing better than what we had anticipated. There is a lot of work that is being done by the teams here to really improve our product offering.

We have been very, very much in a listening mode working with the different accounts just to understand whether we have everything that they want or they need more, and we have been developing more product based on that, both for men and women. And we are trying

to understand just where the customer is gravitating and try to strengthen the offering. Based on that, we think that we are in a very good place in terms of the type of trends that are in the marketplace. And how we are addressing them with our products.

I think the product line looks great. And we think that the pricing model that we are following is also pretty much in line with what it needs to be. We have several accounts in North America. We wish that the North America business was bigger by now, but we think that at the end of the day, it's like in every one of our businesses, product will win. We are also excited about our marketing initiatives because we think that what we are talking about and doing as it relates to social media, is also going to impact a brand like Guess Jeans that appeals to a much younger consumer that is -- lives with social media.

So we are excited about that as well. And we're trying to really make sure that all those new practices that we are trying to implement as it relates to marketing that they have into consideration the Guess Jeans needs, including influencers, including the whole idea of collaborations and things that we can do to really expand the distribution and the awareness. We are excited about the new stores. We have now three stores opened in Europe, and we are planning to open Melrose here in Los Angeles. We are planning to open Tokyo in a few months.

So we have a lot going on to really put the brand out there. And every time that we do one of these events, we get significant participation and a lot of excitement from that younger consumer. So we think that it's just the beginning of a great opportunity.

Carlos Alberini^ Well, just in closing, I want to thank you all for participating today. We are very pleased with the start of our year. We are encouraged by the early results of our initiatives regarding product, marketing and retail productivity in both North America and in Europe. And we believe that these successes can be leveraged across the rest of our direct-to-consumer business. And especially in the second half of the year as Dennis was just alluding to.

So we are excited. We have a big plan for the second half, but we think that we have opportunities to meet and exceed those plans. We have a strong just opportunity with our direct-to-consumer business, but also in our wholesale business, our trends are very strong. And we are excited and ready to drive the business and gain market share, leveraging the strong inventory position that we have built.

We look forward to reporting back to you on our progress, and we wish you have a great day.

Thank you so much.