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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Fossil Group First Quarter 2020 Earnings Call.

(Operator Instructions) This conference call is being recorded. (Operator Instructions) Now I'll turn the call over to Christine Greany of The Blueshirt Group to begin.

Christine Greany ***The Blueshirt Group, LLC - MD***

Hello, everyone, and thank you for joining us. With us today on the call are Kosta Kartsotis, Chairman and CEO; Jeff Boyer, Chief Operating Officer and CFO; and Greg McKelvey, EVP and Chief Commercial Officer.

I would like to remind you that information made available during this conference call contains forward-looking information, and actual results could differ materially from those that will be discussed during this call. Fossil Group's policy on forward-looking statements and additional information concerning a number of factors that could cause actual results to differ materially from such statements is readily available in the company's Form 8-K and 10-Q reports filed with the SEC. In addition, Fossil assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Please note that you can find a reconciliation and other information regarding non-GAAP financial measures discussed on this call in Fossil's earnings release, which was filed today on Form 8-K and is available in the Investors section of fossilgroup.com.

With that, I will turn the call over to Kosta to begin the formal remarks.

Kosta N. Kartsotis ***Fossil Group, Inc. - Chairman & CEO***

Good afternoon, everyone, and thank you for joining us today. We hope you're all safe and doing well. On behalf of the entire Fossil organization, we would like to extend our thoughts to all those affected by COVID-19 and express our sincere gratitude to those on the front lines that are working tirelessly on behalf of us all.

Also, the events of this past week have been deeply upsetting to all of us. Our hearts go out to the many people affected by this tragic turn of events. Fossil is fortunate to have an incredible community of associates, partners and customers globally. We are using our platform and resources to listen, learn and think critically and do what we can to foster greater equality and fairness.

Turning now to our prepared remarks. Our conversation will focus on the actions we've taken in response to the COVID-19 pandemic and how we're pivoting the business for both the present and future. We'll also review our first quarter results and provide a high level picture of current Q2 trends and reopening plans.

Since the onset of the COVID crisis, we have acted decisively to protect our employees, partners and communities worldwide, adapt to rapidly changing circumstances, mitigate business disruption and to strengthen our financial position. Let me provide a summary of the actions we've taken to date. In mid-March, we closed the majority of our Fossil stores and implemented a work-from-home program globally. We implemented practices to safeguard workers at our distribution centers, including staggered work schedules, heightened cleaning procedures and reduced staffing. We lowered our operating expenses by reducing payroll, furloughing a portion of our employees and cutting other areas of SG&A. We eliminated the majority of our planned capital expenditures for 2020. We proactively reduced incoming inventory to align with current demand. In March, we drew down an additional $100 million on our revolver to enhance our financial position and liquidity. We have recently completed discussions with our primary term loan lender for the amendment of our covenants.

From a global business perspective, we experienced store closures at our wholesale partners and Fossil owned locations as early as February in the Asia Pacific region. This, of course, accelerated in March as the virus spread to Europe and the Americas. In January and February, worldwide net sales were tracking above plan, reflecting improved performance in our core business, including traditional leathers and watches as well as higher volume in our older generation connected product driven by liquidation activity in the Americas.

Our latest generation connected products, Gen 5 and Hybrid HR, continue to be well received by consumers and have strong consumer reviews. As the majority of stay-at-home mandates took effect in March, the combination of retail store closures and reduced wholesale shipments had a considerable impact on our Q1 sales and profitability.

Over the past 2 months, Fossil has participated in the consumer shift to e-commerce, and we saw triple-digit increases on our own e-commerce sites globally, with April up 150% and May growth approaching 200% versus prior year periods.

The investments we've been making in our digital capabilities prepared us well to drive these significantly higher demand levels. In fact, during Q1, we completed the implementation of our new global e-commerce platform, which provides us with a highly flexible and responsive system that integrates seamlessly with our marketing programs. We believe this has been a critical factor in our ability to drive traffic and conversion on fossil.com. I'll provide some additional color on our digital initiatives in a few minutes.

In recent weeks, the reopening of wholesale doors and Fossil retail stores have started to phase in across all geographies and channels. In the Americas, we recently opened our 8 Texas stores as well as 26 outlets, and plan to gradually reopen an additional 150 locations over the next several months, primarily dictated by local and state regulations.

In Europe, we have opened 49 of our 155 locations, beginning with Austria, Germany, Netherlands and Belgium, and we'll have another 46 open in the next 2 weeks, primarily in France and Italy.

In the Asia Pacific region, where we currently have 90 stores, approximately half have reopened thus far. We have been proactively reducing incoming inventory and working closely with our wholesale partners to align on the best path forward. With closures in effect for nearly 2/3 of the quarter, we currently expect the second quarter to be the most challenging one from a top line perspective in 2020. Where we have reopened our retail stores, traffic is running at approximately 50% of the May 2019 levels. Sales in these stores, however, are at 70% to 80% of last year's levels as conversion has been significantly higher. Our wholesale partners globally are reporting similar trends.

As we look to the balance of the year and plan for 2021, we have developed action plans against multiple scenarios to navigate anticipated headwinds and prepare the company for the future state of business. When we spoke to you on our year-end earnings call in February, we've described our focus on pivoting to opportunities outside of the wholesale channel and capturing efficiencies under our New World Fossil transformation program. We also outlined our 4 strategic priorities for 2020. Those include delivering exceptional storytelling and innovation, driving commercial transformation, particularly in digital and e-commerce channels, expanding on our opportunity in China and India and continuing to implement New World Fossil 2.0.

Notwithstanding the COVID pandemic, these strategies remain highly relevant, and we believe they will be important to the long-term success of Fossil.

That said, the current operating environment has compelled us to move faster on certain elements of our strategy. Specifically, driving commercial transformation and executing on our New World Fossil Transformation Program.

First, I'll discuss storytelling and innovation. With the challenging environment and dramatic shift to digital businesses, we are more focused than ever, significantly reducing our product range to focus on the most iconic and innovative product in our categories with an effort to tell fewer and better stories to our consumer. We see this as an opportunity to celebrate not only our new products, but the relevance of our icons, such as our Dive and Mechanical platforms. New introductions of critical shapes and styles will continue in traditional watches in leathers and in jewelry. Exciting developments in Gen 5 enhancements, smaller sizes in Hybrid HR and meaningful upgrades and the software experience will continue to flow through the balance of the year. These current times require that we lean into our strengths with great style, great brands, great stories and great value.

Our second strategic priority, and one of the areas where we're really putting the pedal to the floor, is in commercial transformation. We have deployed substantial resources toward increasing our digital capabilities in recent years, and that is helping us to serve our customers during this time of heightened demand. We have invested in a robust set of tools that can support a much larger direct-to-consumer business in the future. Today, our direct-to-consumer business encompasses Fossil retail stores, Fossil.com and third-party e-commerce. Collectively, we expect this DTC channel to represent nearly 60% of our worldwide sales in the second half of this year.

Looking more specifically at our owned e-commerce, we believe there is an opportunity to significantly increase sales penetration globally from current levels of approximately 10% in the first quarter to over 30% for the second quarter and nearly 20% for the year.

As you know, secular trends have been driving the contraction in the wholesale channel for some years now. We have been leaning into that shift and preparing to support a much more robust online business through our expanded digital commerce and marketing capabilities.

Moving now to our third strategic priority, expanding our opportunity in China and India. In 2019, we delivered strong double-digit growth in these markets. And this year, we are continuing to execute against a proven strategy centered around localized marketing and segmented assortments. The impacts of COVID may disrupt our growth trajectory in the short-term, but we are seeing strong performance in China year-to-date, and continue to view both of these markets as compelling long-term opportunities.

Moving now to New World Fossil, where we're significantly expanding our current program as a result of COVID. As you know, our teams have been making good progress toward driving greater efficiency in our processes and work streams throughout the organization and rightsizing our cost structure. In 2019, operating expenses were reduced by nearly $50 million. Given the current environment and our perspective on the future state of business, we have made the strategic decision to expand our New World Fossil 2.0 program. Specifically, we are shifting a portion of the immediate savings from our COVID-specific actions into permanent reductions. This is expected to generate incremental benefits of approximately $50 million this year, which increases our total savings to $100 million in 2020.

Our teams are much leaner today than several months ago, but are functioning well, even on a remote basis due to improved focus and efficiency throughout the organization. We believe Fossil will emerge from this crisis as a stronger, leaner, more efficient and more digitized organization. There are notable learnings from the last 3 months that are guiding us forward. We can do more with less. Our employees are nimble and can adapt to a new work environment. The investments we've made in our digital capabilities make our e-commerce business highly scalable. Having fewer new product stories that are being told in a more compelling way is helping us jump-start the fashion watch category despite the current environment.

I'd like to close by acknowledging the many ways that this pandemic is impacting each and every one of us as global citizens. We are managing the business with our communities top of mind, a high level of flexibility and a focus on maintaining Fossil's solid financial position to help us navigate through these uncertain times. We greatly appreciate the dedication of our associates and the support of our stakeholders.

And now I'll turn the call over to Jeff to discuss the financials.

Jeffrey N. Boyer ***Fossil Group, Inc. - CFO, COO & Treasurer***

Thanks, Kosta. Before I review the first quarter financials, I'll begin by outlining the steps we're taking to manage expenses and preserve cash in response to the COVID-19 crisis. Since mid-March, we've made a number of strategic decisions that enabled us to reduce costs, increase flexibility and strengthen our financial position. We have completed discussions to amend our credit facility to provide greater near-term flexibility, which includes financial covenant adjustments through the third quarter of 2021. We expect the amendment will be finalized and filed in the next few days.

Beginning in mid-March, we implemented cost-cutting initiatives across the business. Specifically, we closed all of our North American stores and the majority of our locations in Europe. We reduced compensation costs by nearly 40% in the quarter through a combination of pay reductions, shortened work weeks, furloughs and reductions in force. In addition, we implemented salary reductions for the executive team and reduced Board of Director compensation. We also significantly reduced expenses across several other buckets, including marketing, travel, professional fees and services, and contract labor.

In addition to these cost reductions, we've also taken several actions to preserve cash and increase liquidity. First, we drew down approximately $100 million under our revolver in late March to enhance our financial position. At quarter end, we had approximately $33 million of availability remaining undrawn.

Second, we eliminated the majority of our planned capital expenditures for 2020, cutting total CapEx spending by nearly 80%.

Third, we've been managing working capital by proactively working with our vendors and reducing incoming inventory to align with anticipated demand.

Lastly, we are working constructively with our landlords and licensing partners to align on the best path forward in the new operating environment.

We have significantly reduced our cash outflows, and expect to end the second quarter with a cash position of approximately $200 million. We anticipate that our currently quarterly cash burn rate of approximately $45 million will moderate in the second half of the year as sales productivity is expected to increase on an overall lower cost base.

Moving now to the first quarter financials. Q1 net sales came in at $391 million, down 16% versus a year ago and 15% in constant currency. Excluding the 3% incremental sales benefit from the extra week in our first quarter, our net sales contraction in the first quarter was primarily due to the impact of COVID-19.

From a regional lens, Asia Pacific decreased high single digits, while the Americas and EMEA experienced double-digit declines. Although net sales in Asia decreased 7% on a constant currency basis, we saw strong double-digit growth in Mainland China. Our business in China continues to expand strongly behind our brand portfolio, particularly Armani, as well as our strong digital capabilities. In the Americas and Europe, sales declined 20% and 14%, respectively, primarily reflecting softness in the wholesale channel in those regions as well as store closures in the final weeks of the quarter.

Moving now to our direct-to-consumer business. First quarter 2020 included 14 weeks while the comparative 2019 period included 13 weeks. Global retail comp sales in constant currency, based on a 14-week calendar, decreased 14% in Q1. Prior to COVID-19-related store closings, our global comp sales were trending up about 1%, with full price comps down, but outlet comps positive double digits driven by more effective promotions.

In the first quarter, we permanently closed a total of 10 stores, ending the quarter with 447 Fossil locations.

Within the e-commerce, double-digit comp increases internationally were offset by softness in the Americas.

Turning to category performance in Q1. Watches declined 14% in constant currency, with traditional watch sales declining double digits. Connected watch sales, which represented 18% of total watch sales in the quarter, decreased high-single digits.

First quarter gross margin was 35.9%, down substantially from a 53.3% margin a year ago. The Q1 pressure can primarily be traced to the liquidation of older generation connected inventory, which we had planned for, and connected inventory valuation adjustments, as well as minimum product royalties. This was partially offset by margin optimization efforts through our New World Fossil program as well as favorable regional and product mix.

SG&A expense was $263 million in the first quarter, up modestly versus $258 million a year ago. We continued to make good progress against our New World Fossil 2.0 program, generating an operating expense reduction of $12 million in the first quarter. This was offset by noncash charges of about $20 million related to operating lease right-of-use and intangible asset impairment as well as minimum marketing royalties.

Income tax benefits in the first quarter were approximately $64 million, and included a favorable impact from a loss carryback provided under the CARES Act and the release of certain deferred tax asset valuation allowances.

Moving down the P&L. Net loss of $1.69 per diluted share included New World Fossil restructuring charges of $0.15. Currencies, including both the translation impact on operating earnings and the impact of foreign currency hedging contracts, had an unfavorable EPS impact of $0.12.

Turning now to the balance sheet and cash flow. We ended the first quarter with $245 million of cash and cash equivalents. Quarter-end inventory totaled $440 million, up 14% from a year ago due to lower sales volume. Net debt was $74 million, reflecting the drawdown on our revolving credit facility as well as higher inventory levels.

Moving on to some high-level color on the second quarter and full year. With the majority of our global business effectively closed during April and May, we currently anticipate that second quarter net sales will decrease by approximately 60% to 70%, reflecting declines in retail and wholesale, partially offset by ongoing strength in both owned and third-party e-commerce. As economies begin to reopen, we believe challenges for retail will exist for the foreseeable future, and anticipate the operating environment will be highly promotional. We are aggressively managing our cost base and have expanded our New World Fossil initiatives to deliver increased savings under our 2.0 program. In 2020, we now expect to achieve operating expense reductions totaling $100 million, approximately double our prior plan, driven by a combination of reductions in force, salary and pay reductions, and lower spending levels.

As we look further ahead and consider the level of uncertainty that remains, we are taking a conservative view of future top line performance. We believe this is prudent and assists us in establishing the right cost structure going forward.

With this conservative outlook, we are prioritizing liquidity, cash preservation and inventory management to navigate the current environment, and feel confident that the measures we're taking will allow us to manage our business through the pandemic.

Now I'll turn the call to Christine to take us through some questions.

QUESTIONS AND ANSWERS

Christine Greany ***The Blueshirt Group, LLC - MD***

Thanks, Jeff. I'm going to start with a few questions that are top of mind for investors, and then we'll turn the call over to Wells Fargo to continue the Q&A.

Kosta, what are you seeing from the consumer in the initial days and weeks of reopening, both in the wholesale channel and in your Fossil-owned retail stores? And how are you thinking about consumer behavior, traffic and conversion for the balance of the year?

Kosta N. Kartsotis ***Fossil Group, Inc. - Chairman & CEO***

Well, we're obviously watching the consumer very closely. And as we've opened some of our stores throughout Europe and the United States, we're seeing traffic down about 50%, which is what we expected. And we got that from looking at our stores that reopened in Asia. So initially, they were running about 50% traffic. But the surprise has been is that our conversion rate has actually been much higher. So we're down 50% in traffic and down 20% in sales so far. So, so far, so good. Part of that, it seems like there is some pent-up demand, and the customers are coming in the stores are motivated to buy and the conversion rates are high. We also are driving additional sales by having more promotional activity than normal in those stores too. So we're watching that closely as well. And we're also seeing this pattern in our wholesale partners as well and around the world. So we're hearing similar things. So we'll see how that plays out over the next several weeks and months.

That said, for the second half of the year, we're still planning very conservatively. And we're expecting traffic and sales levels to remain soft due to both the uncertainty of the health crisis, but also the recessionary pressures we're expecting. So there's still a lot of unknowns, and we're looking forward to a more normalized environment.

Christine Greany ***The Blueshirt Group, LLC - MD***

Appreciate that. Jeff, could you tell us how should we think about liquidity and cash burn for the remainder of the year?

Jeffrey N. Boyer ***Fossil Group, Inc. - CFO, COO & Treasurer***

Sure, Christine. The organization has done a great job reducing cost structural expenses and cash outflow in this quarter, which is really an unprecedented quarter in terms of how business operations have changed. Our net operational cash flow, really, the cash receipts and the cash payments from just operating the business is actually expected to be relatively flat this quarter. The majority of our cash outflow in Q2 is really for financing reasons. It's primarily for the paydown of our revolving credit balance that's outstanding. As we work inventory levels down, the revolving balance is coming down, so we're paying that down. Given the near total shutdown we've experienced in the first several months of this quarter, we believe that this quarter is going to have the most significant operational impact. As I just told you, the operational cash flow has been pretty good. So we've managed through this in pretty good shape in Q2. As we begin to reopen stores in the second and third quarter, and assuming there aren't -- there's isn't a second wave with additional closures, we do expect to see a stabilization in our cash utilization and usage in the second half. And then we'll have net positive cash generation by the time we get to the fourth quarter.

Christine Greany ***The Blueshirt Group, LLC - MD***

Great. One final question for Greg. What are your thoughts on e-commerce performance during the period and what it means for Fossil's digital transformation?

Gregory A. McKelvey ***Fossil Group, Inc. - Executive VP & Chief Commercial Officer***

Thanks. Over the last several years, we've all been witnessing the shift in consumer shopping to online channels, driven by both convenience and value. And in response, we've been aggressively building our capabilities and developing our digital channels. For us, we've been going after online sales in 3 distinct channels. The first is our direct-to-consumer ecosystem, which includes our own branded .com websites and the platform capabilities to drive online sales, like digital marketing, technology platforms, CRM, et cetera, but also the platform and how the platform integrates with our store network through loyalty programs, buy online, pick up in-store, virtual shopping experiences with our store associates, endless aisle in the store, all of which together create an exceptionally strong digitally enabled direct-to-consumer ecosystem across online and brick-and-mortar environments for us.

The second is 1P and 3P, so first-party and third-party marketplaces. So this includes Amazon, Tmall and jd.com in China, Zalando in Europe, Flipkart in India and many others in emerging marketplaces. Success with these partners is more about understanding and optimizing algorithms than it is selling fashion that we've historically done. So it's taken time to really build that capability and start to scale these businesses. But we're really hitting our stride, invested heavily over the last few years, and it's just at the right time, I think, paying significant dividends.

And then the third is wholesale.com. So we have great traditional brick-and-mortar partners across the world that are aggressively making the pivot digital, and we're very well positioned to help them on their journey, given our capabilities. And I think this, in total, will strengthen our total online and off-line relationship with them as a result. So now with that as the backdrop and then the impact from COVID and the closing of our and our partner retail stores globally, this shift has just accelerated enormously. As I mentioned, we've been focusing and investing heavily for several years. So we're well -- we've been well prepared to support and drive digital business during the crisis, and it's showing in our results. Our weekly e-commerce sales, globally so far in Q2 across the digital channels that I mentioned, so our own and our partner sites have been increased in the range of 200% to 300% year-over-year, some weeks, much higher than that. While this significant triple-digit level of growth is something we may not sustain, we do expect continued outsized growth e-commerce. And we're seeing this across -- and believe that this because of the metrics across all facets of the business. So it's not just traffic that's up. It's conversion that's up and our ability to convert customers effectively. It's a lower cost of acquisition. It's the effectiveness our performing -- of our marketing performance. It's the accelerated growth that we're seeing in the file size of our customer database and ability to drive lifetime value off that. We're seeing everything really start to work after years of investment. So we're excited about it.

Beyond the macro channel shift and the capabilities we've built, our product categories, particularly traditional connected watches, also are just very well suited to online sales given small product dimensions, which results in lower cost of shipping, accessible price points for customers and the products that don't need significant sizing or education on its use, unlike some other categories. And then the ability to translate beautiful product design and branded storytelling, which has been a brick-and-mortar strength of ours for literally decades. We've been able to replicate an online format in a really compelling way with richer content than you can achieve in a store. So given these attributes, our online sales are not only growing, but give us great economics. So we've got tremendous growth opportunity online with great economics. So as a result, we're going to continue to increase our focus and investment in these channels.

Kosta N. Kartsotis ***Fossil Group, Inc. - Chairman & CEO***

One additional data point I'd add is that this year, 50% of our sales -- 50% of our entire company sales, will go through some e-commerce side, either our own e-commerce, pure play or wholesale.com. So it shows that we're in position for future long-term growth as digital becomes more important.

Christine Greany ***The Blueshirt Group, LLC - MD***

Terrific. Thank you, Kosta, Jeff and Greg. Now I'm going to ask the operator to open the line of Ike Boruchow at Wells Fargo to ask some additional questions of the team.

Irwin Bernard Boruchow ***Wells Fargo Securities, LLC, Research Division - MD and Senior Specialty Retail Analyst***

I hope everyone and your families are doing well. So I know you guys are in a tough spot from visibility. You're not able to offer guidance. But it's going through the 8-K of this presentation in there. It's got a lot of detail. On 3Q and 4Q, it looks like your revenue outlook is for a decline of 40% and 30%. I guess my -- just my question on that is, is that based on your backlog? Is that based on your wholesaler conversations? I'm just kind of curious where those expectations are coming from?

Jeffrey N. Boyer ***Fossil Group, Inc. - CFO, COO & Treasurer***

Yes. First comment is just important to note that, that presentation is really for refinancing purposes, as we stated on that. So not really made for investment purposes. But that said, what I would tell you is that's an estimate of store traffic and consumer traffic in the category, effectively being down a bit more than that with online business and the digital business being stronger. So it's just an expectation of it. In general, I would tell you it's a generally conservative outlook, really in order to ensure we could develop our financials to go through a refinancing discussion for revised covenants.

Irwin Bernard Boruchow ***Wells Fargo Securities, LLC, Research Division - MD and Senior Specialty Retail Analyst***

Got it. Okay. And then just something else in the presentation, not numbers or guidance, just the detail, I wanted to understand. I think you mentioned in that the license royalties are currently under negotiation, talking about payment and arrears versus prepaid. Just can you help me understand maybe a little better detail, what exactly is taking place on that front? What exactly these negotiations are?

Gregory A. McKelvey ***Fossil Group, Inc. - Executive VP & Chief Commercial Officer***

Yes. We have agreements with our licensors for different payment streams on different bases. And in certain cases, there are oftentimes minimums on that. And as you can appreciate, those minimums are out there to help drive the healthy performance on our part to drive the business overall. They were established many years ago when the business was really different in terms of channels and how they performed. So we're in discussions with them to discuss that structure of the (inaudible) overall, also as well as the timing in terms of the payment. So really most everything revolving around our licensing agreements, we're having discussions with our key partners. Very constructive, we've been very successful with these partners. They've benefited greatly over the years. So we love the partnership and the discussions. So we continue to have those, and we'll have those probably for the next few weeks and months.

Irwin Bernard Boruchow ***Wells Fargo Securities, LLC, Research Division - MD and Senior Specialty Retail Analyst***

Got it. And then just big picture, last question. Your store count today relative to where maybe you expect it to move in the coming year or 2, just as retail continues to evolve very, very quickly. Just any thoughts on maybe the store count in the U.S. and then globally?

Jeffrey N. Boyer ***Fossil Group, Inc. - CFO, COO & Treasurer***

I can't tell you specifically by region, I'll put it at high level. We've had strategic discussions. We have had conversations about moving from the brick-and-mortar model that we're in right now to a more digital model, but still, stores are really important and having really productive stores around the globe, but there would be some contraction, probably getting below the 400 store mark. With the evolution we've seen with the great growth we've had in digital, it's probably forced that evolution faster than a number of years down the road. So we think that reduction won't be just to a 400 store chain, it could be at 350. But we're still going to have a sizable number of stores around the world. Full price towards outlet stores. We think they're a great presence overall. And we are finding that they work very holistically with the online business on it from an omnichannel perspective.

Kosta N. Kartsotis ***Fossil Group, Inc. - Chairman & CEO***

Yes. And the way our digital initiatives are set up is that they're not only driving e-commerce, but driving traffic to our stores. So it's an ecosystem approach that we think can have a smaller number of smaller stores that are highly -- more productive, driven by e-commerce and all the other things go with it, which is buy online, pick up in store, curbside, everything else. So we're pretty interested in the future for us as we migrate to a more DTC and digital model and what the benefits could be to our entire profitability as a company. Not only that, but our use of inventory, our SKU counts, our cash conversion cycle, I mean, there's a lot of benefits in all that.

Jeffrey N. Boyer ***Fossil Group, Inc. - CFO, COO & Treasurer***

The 1 thing I would add to that just from a portfolio standpoint. Our portfolio, I would say, is fairly fresh in terms of expirations, meaning we have a fair amount of stores that are coming up for expiration over the next 2 years. So that gives us a lot of flexibility in terms of, as Kosta said. There may be -- we -- the number of stores may not change as much, maybe the size and location might. So it really gives us a chance to reestablish and reset the store portfolio base to be as productive as possible and as efficient as possible, with limited amount of exit costs to long term.

Operator

And this concludes the question-and-answer session. I'll turn the call back over to Kosta for final remarks.

Kosta N. Kartsotis ***Fossil Group, Inc. - Chairman & CEO***

Well, we want to thank everyone for joining us again, and we'll speak to you again at the end of the third quarter. Stay safe, everyone.

Operator

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