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CORPORATE PARTICIPANTS

Gregory A. McKelvey *Fossil Group, Inc. - Executive VP & Chief Commercial Officer*
Jeffrey N. Boyer *Fossil Group, Inc. - CFO, COO & Treasurer*
Kosta N. Kartsotis *Fossil Group, Inc. - Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Irwin Bernard Boruchow *Wells Fargo Securities, LLC, Research Division - MD and Senior Specialty Retail Analyst*
Christine Greany *The Blueshirt Group, LLC - MD*

PRESENTATION

Operator

Welcome to the Q2 2020 Fossil Group Earnings Conference Call. My name is Adrian, and I'll be your operator for today's call. (Operator Instructions) Please note this conference is being recorded.

I'll now turn the call over to Christine Greany of The Blueshirt Group. Christine, you may 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 thanks for joining us today. We hope you're all safe and doing well during these unprecedented times. As the pandemic continues to have devastating effects all over the world, we remain committed to prioritizing the health and safety of our employees, customers and the communities where we operate. At the same time, we are disheartened by the racial tragedies we've seen and the underlying systemic bias that exists in our country. As an organization, we are doing our part to foster positive change. We are committed to leading by example and doing good for the planet, for our communities and for our people.

Since we spoke to you in early June, we have remained focused on navigating the highly dynamic environment, reopening our Fossil stores and executing the 4 strategic priorities we outlined at the beginning of this year. Those include: delivering exceptional storytelling and innovation; driving commercial transformation, most notably increasing our digital business; expanding on our opportunity in China and India; and continuing to implement our New World Fossil 2.0 program.

The current operating landscape has caused us to accelerate the expansion of our digital business and to increase the size of our New World Fossil program this year. More on these strategies shortly. In Q2, broad-based store closures persisted within the wholesale channel and across our Fossil retail locations throughout much of the quarter, resulting in a net sales decline of 47% on a constant currency basis. We did see, however, sequential improvement in top line trends across all regions during the period as many economies began reopening in the latter part of May and June. We delivered Q2 sales of $259 million, reflecting a stronger-than-expected pace of store reopenings and wholesale order flow.

From a global business perspective, Europe and Asia performed slightly better than the Americas, reflecting the heightened pace of the respected COVID recoveries relative to the United States.

From a channel perspective, our digital business accelerated significantly in Q2. Sales were up nearly 140% on our own e-commerce sites globally, and third-party e-commerce increased 20% despite a focus on essentials among third-party e-commerce players and the shift to prime day out of Q2. We also saw stronger performance with our wholesale partners who have strong e-comm capabilities and a well-developed online presence. Core digital sales throughout our own e-commerce sites and third-party marketplaces, such as Amazon and Tmall, shifted from 13% of our sales mix in the second quarter of last year to nearly 50% this year. This does not include our wholesale.com channel, which is a growing part of our wholesale business.

The reopening of wholesale doors and Fossil retail stores started to phase in across all geographies and channels during the latter part of the quarter. In the Americas, we had reopened approximately 175 stores by the end of Q2 with the remainder opened during July. In Europe, we have opened essentially all of our 155 locations across the continent. In the Asia Pacific region, where we currently have 89 stores, approximately 80% have reopened. Some locations in India and Australia remain close, pending government direction. During the second quarter, traffic and conversion trends were fairly similar across all regions with comp traffic down about 50% by the end of the quarter and conversion is up significantly. As we look ahead to the back half of the year, we continue to expect similar traffic and conversion trends. That said, we are facing significant uncertainty across the globe. Many regions, states and countries are struggling with containing the virus, which is particularly true here in the United States, and consumers appear slow to return to former spending levels, given the health and safety concerns.

During this time of significant business disruption and uncertainty, we are taking steps to strengthen our operations and our financial position. In the first half of 2020, we took actions to reduce costs, manage inventory levels, preserve cash and to increase our financial flexibility. We continue to have productive discussions with our landlords and licensing partners regarding a mutually beneficial path forward. On the real estate front, we are taking a critical lens to the portfolio. With a significant percentage of our leases coming due in the next few years, we'll be evaluating opportunities to increase the productivity of our fleet. Importantly, we are making progress against the 4 strategic priorities I mentioned earlier. The first is storytelling and innovation. We are leveraging our strengths to bring great style, brands, stories and value to the marketplace. In the second half of this year, we'll be engaging the consumer with the introduction of critical shapes and styles in traditional watches while also bringing new enhancements and upgrades to our connected category. We continue to see dive-inspired watches perform well globally, especially in the assortment of our Fossil Blue collection. Our Gen 5 watches continue to garner excellent consumer feedback. With a mid-August rollout, our Fossil smartwatch app can help you stay healthy, adding oxygen consumption and sleep tracking features to our current contactless payment function. And we're looking forward to bringing LTE to the market and expanding to new channels of distribution later this year. Additionally, we are expanding our digital and social marketing programs in tandem with our growing e-commerce presence as well as emerging trends in media consumption as consumers increasingly gravitate to all things digital.

Moving now to our second strategic priority, commercial transformation. The expansion of our digital capabilities is enabling us to leverage the fast forward of online adoption among consumers. We have accelerated our investments in the digital channel for the last 12 to 18 months, investing in a new e-commerce platform, digital tools and online marketing programs, which are beginning to bear fruit. Our digital channels, which include fossil.com and third-party e-commerce, are performing well and represented nearly 50% of sales in Q2. We are excited about the pace of digitization and expect to continue growing the digital channel as a percentage of our overall mix. Watches are particularly well suited to online sales and the economics within our own business model are margin-accretive. The high-value small cube in an e-commerce marketplace lends itself to great branding, striking visuals and powerful economics. At Fossil, we already have the infrastructure in place across systems, warehousing and distribution to help us drive scale. As we shift a greater portion of our sales toward direct-to-consumer touch points, particularly fossil.com, we expect to strengthen gross margins and expand profitability in that segment over the long term.

Looking at our third strategic priority. We're continuing to focus on expanding our opportunity in China and India. In 2019, we implemented a segmented assortment strategy supported by localized marketing, which drove double-digit gains in these markets. While India continues to be affected by stay-at-home measures, Mainland China has been faster to recover. Despite the pandemic impacts, we grew our Mainland China business by 37% versus last year in the second quarter. We believe both of these markets will be important growth vehicles for Fossil when market conditions stabilize and begin to rebound.

Turning to New World Fossil. We are on pace to deliver our targeted expense savings of $100 million for 2020. We will continue to look for additional opportunities as rightsizing the cost structure and driving greater efficiency throughout the organization remain key priorities. As we approach fall and holiday, we believe we're well positioned on several fronts. We have a focused collection of innovative products in the market and greatly enhanced digital capabilities across functionality, fulfillment, customer interface and marketing. Our view of the retail marketplace remains cautious in the near term given the number of macro uncertainties. Looking farther out, as we are confident that our strategic focus and purposeful actions as we adapt to a new reality will enable us to strengthen our business model and emerge stronger with a more powerful product assortment, a more digital-focused channel mix and an improved margin and cost structure over the long term.

Before turning the call over to Jeff, we want to express our thanks and appreciation to the entire Fossil organization. Our teams have done a tremendous job of coming together and quickly adapting to the current environment. We also want to thank all of our stakeholders for your ongoing support during these unprecedented times.

And now I'll ask Jeff to discuss the financials in detail.

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

Thanks, Kosta. As we wrap up the first half of the year, we remain highly focused on liquidity in the near term and feel increasingly confident about our ability to navigate the impacts of COVID over the longer term. We have lowered costs across the organization, significantly reduced capital expenditures and proactively managed our working capital requirements primarily through inventory reductions. These actions, coupled with the successful amendment of our credit facility, have provided us with greater near-term flexibility. We ended the second quarter with a cash position of $278 million, somewhat higher than anticipated due to better-than-expected revenue combined with aggressive management and timing of cash outflows.

Moving now to the P&L. Q2 net sales came in at $259 million, down 48% versus a year ago and 47% in constant currency, reflecting the impact of ongoing store closures throughout much of the quarter. Top line results came in better than expected primarily due to the strong pace of store reopenings and wholesale order flow across all 3 regions during the latter part of the quarter. From a regional lens, Asia Pacific and EMEA both reported sales contractions in the mid-40s, performing slightly better than the Americas, which was down 52% year-over-year. Within the Asia Pacific region, similar to what we saw in the first quarter, and as Kosta mentioned, Mainland China continues to outperform, delivering 37% growth in the quarter on a constant currency basis. Within our direct-to-consumer business, our Fossil-owned e-commerce business delivered sales growth of nearly 140%, while global comp sales in constant currency decreased 36%. In the second quarter, we permanently closed a total of 15 stores, ending the quarter with 436 Fossil locations.

Turning to category performance. Total watches declined 48% in constant currency with traditional watch sales also declining 48%. Connected watch sales, which represented 20% of total watch sales in the quarter, decreased 50%.

Second quarter gross margin was 54.3%, up 140 basis points from 52.9% a year ago. The increase can primarily be traced to a higher mix of e-commerce sales and partial abatement of royalty costs, which was partially offset by heightened promotional activity and increased freight costs versus a year ago. We expect the environment to remain fairly promotional for the foreseeable future. But we believe our initiatives around product assortment and channel shifts should help us partially offset those pressures and contribute to strengthening our margin over the long term. SG&A expense was $167 million in the second quarter, down substantially versus $256 million a year ago. We continued to make good progress against our New World Fossil 2.0 program generating a benefit of $39 million in the second quarter.

Total operating expenses decreased $86 million, reflecting a combination of reductions in force, salary and pay reductions and lower spending levels across several buckets, including marketing, travel, professional fees, services and contract labor. Looking further ahead, as Kosta mentioned, we'll be taking a closer look at our real estate and evaluating opportunities to capture expense savings. We have lease expirations representing nearly 60% of the portfolio over the next 3 years, which provides us with the flexibility to continue driving the direct-to-consumer channel, but with a strengthened mix of digital and physical touch points.

From an earnings perspective, net loss was $0.44 per diluted share and included New World Fossil restructuring charges of $0.16. Currencies, including both the translation impact on operating earnings and the impact of foreign currency hedging contracts, had a favorable EPS impact of $0.05.

Looking at the balance sheet and cash flow. We ended the second quarter with $278 million of cash and cash equivalents and total debt of $269 million. This compares to a cash position of $245 million at the end of Q1 and reflects a lower cash burn rate, which I discussed earlier. Quarter end inventory totaled $376 million, down 18% from a year ago, primarily reflects our ability to continue to move through connected product and carefully manage inbound receipts. As we consider the balance of the year, we anticipate that continued macro uncertainty and potential resurgences are likely to create a choppy environment. Taking these factors into account, we expect Q3 net sales to decline by approximately 35% to 45% compared to last year. As such, we're closely managing cash and liquidity, planning inventories conservatively and carefully controlling our cost base. As Kosta mentioned, we remain on track to achieve full year operating expense reductions totaling $100 million under our New World Fossil 2.0 program in 2020. We believe the actions we're taking, combined with the strategic priorities that Kosta discussed, particularly around product and channel focus, will position us to deliver improved performance when macro conditions begin to stabilize.

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

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.

So first, I'll start with Kosta. How should we think about the shift from wholesale to digital at Fossil? And can you walk us through the economics on your e-commerce business?

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

Sure, Christine. First of all, the watch business has changed a lot over the last 4 years, and a large part of that has been the shift from retail to e-commerce and the pandemic has actually accelerated that process. For us, this has been a shift from wholesale towards e-commerce. 4 years ago, our wholesale was about 60% of our sales, and now it's less than 40%, and it's on its way to 20% pretty short order. So we've been increasingly investing in our digital capabilities and have seen that pay off over the past several quarters and, of course, more recently, as a result of the pandemic. Since March, our own e-commerce business has been consistently trending at a triple-digit growth level. And for the full year of 2020, we anticipate that our total digital business, which includes our own e-commerce and third-party marketplaces, it will be about 1/3 of our total sales. It was 50% in Q2. So the economics on e-commerce are very attractive for us and our business in particular. First of all, the gross margin is higher than the company average. But also keep in mind, there are a number of advantages for watches and accessories in e-commerce. First of all, the small cube size, which we mentioned earlier, which causes low freight costs. But also there's fewer SKUs online than in wholesale. So imagine we have 30% at least fewer SKUs and just imagine the inventory efficiency of that. So we have fewer points of sale, fewer -- not as many locations at retail, it's easier to stay in stock, it's much easier to align supply and demand and it's got a much better cash conversion cycle since we get paid immediately. There's also -- there's no sizes for accessories and watches like there is in apparel and footwear. So our return rates are running at 8% to 12%, which is a big advantage for us. In addition, we already have infrastructure in place in terms of systems, our new platform and our automated warehouses around the world. So the flow-through to the bottom line is highly accretive and should get more so over time. To take advantage of this, we've accelerated our investments in e-commerce over the last 18 months, and we just implemented our new state-of-the-art platform that is very scalable. The system is very robust and highly automated and significantly increases our ability to build larger and more engaged communities through personalization, automation and the use of data. One example is the fact that our e-mail file is up 40% year-to-date. So overall, we're on a mission to build a global e-commerce and marketing platform for watches and accessories. It really is a combination of art and science. Great product, innovation and storytelling, combined with a digitized, data-driven, automated platform.

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

And if I could add a couple of data points as well to further illustrate Kosta's points. As he mentioned, our total e-comm growth includes 3 channels, our own.com sites, pure-play and wholesale. I'll give you a little bit of color on each. For our own direct-to-consumer sites, which delivered 138% growth year-over-year, it was really driven by significant increases in both traffic and conversion. In fact, we had more than a 2x improvement in conversion year-over-year, largely from the benefits of our salesforce platform implementation. The first part of that is driven by our algorithm, cross-sell and upsell effectiveness. And it's just feeding better and relevant content in an automated algorithm-driven way as customers are shopping the site.

The second is just how well we've mobile-optimized the site. So it's easy to browse product. We've designed a much simpler card checkout process for customers. Both of these combined have really given us what we believe is a new level of conversion that we're going to be able to sustain and support future growth with. With pure-play e-comm, which includes marketplaces like Amazon, Tmall, jd.com and others, growth was only 21% up in the quarter. However, it was heavily weighed down by Amazon in both the U.S. and Europe, which was just selling only essential goods for a significant portion of the quarter and Prime Day was moved out of the quarter to later in the year. And normally in the second quarter, we receive significant orders in anticipation of Prime Day in July. So we are expecting significant improvement to the trend in pure-play as we go through the back half of the year and already starting to see that in Q3. And we don't often talk about wholesale.com, but helping our brick -- traditional brick-and-mortar partners and licensed boutiques, continue to drive growth online and digital sales has been a strategic imperative of ours, and we've continued to double down on that and have seen the benefits of that with high double-digit growth in wholesale.com, and we expect that to continue as the year goes on.

And the last thing I'd point out is just the very strong performance that we had in marketing as well. Although our spend year-over-year was down in line with our revenue declines, so we roughly held rate. As soon as the pandemic crisis hit, we went into implementing a plan that had a dramatic shift in our mix to digital conversion driving marketing. And we've delivered, in the quarter, historic highs and returns on that investment. One of the key enablers there is our -- of our marketing returns are the real-time analytics platform that we've implemented that's just allowing us to do real-time ROI-optimized decisions on a daily basis. Another significant benefit, as Kosta mentioned, that bodes well for our future is a substantial uptick in our acquisition of new customers to our file at 40% growth year-over-year. And I'd note that, that's with the majority of our stores closed. So the ability to drive lifetime value -- customer lifetime value off a larger database is a clear strategy of ours as well. All of this is really strong performance in digital all around and, I would say, great leading indicators for sustained growth in the channel going forward.

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

Terrific. Jeff, question for you. What is your expectation for liquidity and cash burn for the remainder of the year? And are there other areas of opportunity beyond the initiatives you've put in place during the first half?

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

Thanks, Christine. A good question. Focused a little bit first on Q2. As we look at Q2 and where all meant from a cash standpoint, we do believe that Q2 would be the toughest and most challenging one, really given the extent, the depth and extensive of closures -- of store closures, and those are both our own locations as well as wholesale doors, and then the closing down of the brick-and-mortar part of our business, which is still fairly substantial, really drastically reduced our cash flow. Went into the quarter, we were pretty conservative on what that cash flow would mean. So we got very aggressive on many other elements. We did forecast the sales to be down between 60% and 70%. So the overall stronger performance we had on sales was a really positive driver for us from a cash management standpoint. But equally importantly, we really managed some of the major cash outflows as well, primarily the receipt of inventory as well as the rent payment structures that we had.

And lastly, the organization did a fantastic job and really quickly reduced spending to an absolute minimum. And we're very appreciative to all the hard work and outstanding work that the Fossil teams did around the world to manage through a tough, tough quarter. And we did a good job, a very good job in the second quarter of managing our liquidity, and that continues to be the primary focus really with many of the same elements we had in Q2. In the back half of the year, we expect that program to continue. We expect inflows and outflows to actually be fairly balanced, given our sales outlook, how we're managing expenses in the back half of the year as well as our balance sheet management overall. The one caution or caveat it had to that balanced cash burn in the back half of the year is it does assume we'll continue to go through a modest improvement in the overall consumer environment, and if there's any major resurgence of the virus, that could change. But right now, we're expecting a fairly balanced inflow and outflow of cash around our balance that we have right now. Thanks.

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

Great. Last question for Greg. What is your view of the connected business, Greg? And when do you expect to see growth in that category?

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

Yes. We remain confident in the category, which continues to grow and offers us substantial total addressable market opportunity. We also remain very confident in our team's ability to compete and grow this business. For us, everything starts with product. Our engineering and design teams just continue to step up our product offering in ways that keep us, frankly, inspired about the future of this business. To that point, not only do we continue to see strong performance in our Gen 5 smartwatches, which launched last fall, but we have substantial innovation and product road map that's coming to the market, including frequent software feature upgrades that are keeping the platform relevant and selling well. Later this month, in fact, we will have another major software release that will bring significant new functionality, including upgrades in watch face designs with much more user personalization; health tracking, including sleep tracking and improved battery life during workouts; battery life management, which includes streamlined user control that allow our customers to optimize battery life around their lifestyle and feature choices; and then also upgraded Fossil-only or Fossil-exclusive phone app on the watch, which allows our users to seamlessly answer or make calls on their watch even if paired to an iPhone and much more. And we've got initiatives underway this year that position our core smartwatch business to return to growth in 2021.

As we discussed at the beginning of the year before COVID crisis, we began implementing a more focused connected strategy built around a core set of brands, SKUs and channels that perform well today. This includes emphasizing direct-to-consumer and online sales, expanding into consumer electronics and telecom channels while reducing our connected presence in wholesale. We're also exiting certain brands and SKUs to simplify and focus the business. We've been implementing this plan in the first half, have accelerated it during the crisis and we'll end the year with a much more focused platform for growth. At the same time, we are reshaping the business around a profitable core. We've continued to keep pace with innovation. In addition to the software features on Gen 5 that I mentioned that we're launching in August, we've also been hard at work on our first cellular LTE-connected watch built on our successful Gen 5 software platform that will launch this year. And we have several yet-to-be-announced new products that will release later this year and throughout next year. The LTV version of Gen 5 is particularly interesting from a growth perspective and that it opens us up to the telco channel as a meaningful incremental distribution opportunity.

So in summary, the near-term refocusing of the wearables business, along with continuing to push on innovation, is creating a path to profitable growth and connected. And we think and believe 2021 is the turning point where our teams make that happen again.

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

Great. I appreciate that. Operator, could you please go ahead and open the line of Ike Boruchow to ask some additional questions?

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

A couple of questions from us. So Jeff, I think I heard you allude to promotional pressures remaining a little elevated here in Q3. You gave us the revenue outlook, which is really helpful. But any chance you could talk us through the margins on -- gross margins and the promotion -- the promotional environment you're expecting and just maybe what that revenue decline could mean from an EBIT perspective?

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

Yes. It probably won't go all the way to an EBIT perspective for you. But in terms of promotional intensity, we still believe coming out of the COVID crisis and getting consumers back into the spending pattern and a discretionary access rate category, we will be somewhat promotional. We're really successful this quarter in terms of margin performance overall. We do think there'll be a little bit more pressure as we'd be in the back half of the year. We're not giving guidance, but I know you've got to put a model together, Ike. If you think about it, probably a couple of points below where we're at this year, probably in the high 40s is the way to think about that as you do some modeling. And almost all of that is going to be promotional pressure as we continue to build the business and attract consumers in these times right now.

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

Got it. And then on the expense line, the incremental New World Fossil savings, I think you said that those are incremental to next year. It's the same run rate for this year, but also kind of -- is that true? And then curious the other $50 million you added to it, what exactly does that comprise.

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

As a combination of organizational savings as well as some spending savings expenses as well as we took a look at what's going on through the crisis, we got a bit more aggressive in how we're going to organize the company, and we made some more reductions and adjustments to that. We also have been, from a spending standpoint, really focused on our learnings. We went through a New World Fossil 2.0 when we expanded it, went to a minimum viable organizational approach, and we just expanded that and got more aggressive to get additional savings in 2020 and some additionals that will carry into 2021 as well. So mostly organizational savings with some expense savings as well.

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

Got it. Jeff, could you maybe allude to, in terms of the current trends you're seeing or your current wholesale outlook, specifically in North America, just by channel, I know your e-comm business is doing very well, but especially on the wholesale side, just department stores, other specialty stores? I'm kind of curious where your visibility is kind of the best and where you have the least amount of visibility regarding your North America wholesale business, if you can kind of talk about that.

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

I may have Greg jump in. He's really close on the commercial side to that. So Greg, you want to tell us what you're seeing?

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

Yes. I think the way to think about it is we really lack visibility to how wholesale brick-and-mortar is going to perform in the back half of the year. They are lean on inventory. So we may have the ability to drive a business there. But we just don't know how consumers are going to respond, how the next -- the current wave that's happening with COVID is going to impact the business. So we're being conservative in our approach and just closely partner them to make sure that we're balancing supply and demand as we see the demand signals. I would highlight, though, that, as I mentioned earlier, wholesale.com is incredibly healthy and driving our wholesale business, a substantial mix within our wholesale business in ways it has not, and we're partnering with them on helping drive that digital growth in sharing marketing tactics and specific product strategies to drive their digital businesses. So we can kind of grow that pie together.

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

Got it. I guess my last one. Again, I know you guys aren't giving guidance. So I mean I'll take my shot. I mean, when we think about the business into Q4, I mean, I think you had a pretty challenging Q4 last year. I mean I'm assuming you're expecting margin expansion even though sales are probably going to be down. Is there any color you could provide on what your best expectation is on revenue and potential income in the holiday quarter?

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

Well, I'd probably say just to help you model a little bit, even though we're not giving guidance. I know it's always a tough thing, Ike, when you're in this situation. So in the second quarter, we were down, I'd call it, roughly 50%, it was 48%, but roughly 50%. You're seeing from our guidance, we've given a range of between 35% and 45% being down, the midpoint is 40%. So you've seen an improvement of that of about 10 full percentage points on that. I actually -- if I were you, I would have used a similar extension of that going into Q4, that it'd be another 10% increase, an improvement in contraction. So that'll give you some sense that we should go from a 50% to a 40% to something -- somewhat further improvement in fourth quarter.

From a margin standpoint, yes, the fourth quarter last year had a fair amount of liquidation of connected product. We'll be through a great deal of that this year. So the margin should be much more in that. I think we were probably mid-ish 40s last year, 45%, 46% maybe was what our fourth quarter was last year, which should be much more in the high 40s, just for your modeling purposes. So not quite as strong as this quarter, which had some favorabilities in it, as we -- as I mentioned, but still some competitive pressures. So that will help you get the top line maybe in the margin structure about right, just from -- just a general sense of where our heads were at on that.

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

Okay. Thanks, Ike, and thanks to everyone for listening. We appreciate your support and interest, and we look forward to talking to you at the end of Q3. Thank you very much.

Operator

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