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## Q1 2022 Fossil Group Inc Earnings Call

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

**Operator**

Good afternoon, ladies and gentlemen, and welcome to the Fossil Group First Quarter 2022 Earnings Call. (Operator Instructions). This conference call is being recorded and may not be reduced -- reproduced in whole or in part without written permission from the company.

Now I'll turn the call over to Christine Greany of The Blueshirt Group to begin.

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**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; Sunil Doshi, Chief Financial Officer; and Greg McKelvey, EVP and Chief Commercial Officer.

I'd 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 the 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.

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

Now I'll turn the call to Kosta to begin the formal remarks.

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

Thanks, Christine. We are pleased to report strong first quarter results in line with our expectations, which includes 4% worldwide net sales growth or 6% on a constant currency basis. This was against the backdrop of an increasingly challenging macro environment in our Europe and Asia geographies. The quarter was highlighted by growth of 10% in traditional watches and growth of 38% in jewelry.

Broadly speaking, the U.S. consumer is generally considered healthy and more people are getting back to work, while Europe and Asia are being pressured by the Ukraine crisis and China's COVID situation, all with a backdrop of increased energy costs and rising global inflation. We are all disheartened by the ongoing humanitarian crisis that has unfolded in Europe and continues to worsen. At a high level, the watch category also continues to be healthy and is showing positive underlying trends. Consumer spending remains stronger in higher-priced tiers where affordable luxury, fashion and innovation have driven more excitement in the category. We are also creating brand heat through new marketing collaborations and limited editions, which create outsized awareness and broaden our consumer reach. We think these activities are positive signs for the category as a whole.

And now turning to the first quarter results. In the Americas, sales were up 6% in constant currency, led by 22% growth in traditional watches and 14% growth in jewelry. Demand in the category was driven by a strong U.S. and European consumer returning to more normalized activities after the Omicron surge in late December and early January. Store traffic growth in the quarter was strong as was average spend levels. Wholesale sell-in was also strong in the quarter, although we did see a softening in sellout trends later in the quarter, which we attribute to rising inflation and geopolitical uncertainty and some signs from lapping last year's stimulus in the United States.

In Europe, constant currency sales increased 20% as we lapped considerable closed closures from a year ago and consumers return to brick-and-mortar more broadly. We saw strong performance in both wholesale and retail, where traditional watches in jewelry were up 20% and 38%, respectively, with notable strength among key brands like Fossil, Kors, Emporio Armani and Armani Exchange. We are cognizant of how the war in Ukraine, coupled with inflation in food and energy may be weighing on the European consumer, and we have seen some uneven demand levels there. However, early indicators are showing that our increased marketing efforts in the region are paying off with market share gains in traditional watches and jewelry, and we are confident that our product newness planned for later this year will continue to build category heat.

Turning now to Asia. Constant currency sales declined 10% as the COVID situation in Mainland China dampened sales across all channels and also impacted other key markets that historically benefit from Chinese tourists. While predicting the length of lockdowns and their effect on consumer shopping patterns is difficult, we anticipate that impact that we felt in our top line trends throughout the year with some sequential improvement in the second half. Broadly speaking, we believe long-term opportunity for growth in Mainland China remains intact while we work through the current environment. In India, our second-largest market in the region, we are seeing renewed sales momentum and strong sellout trends as that country emerges from a prolonged period of COVID restrictions. Smaller markets in the region are all recovering as well as COVID situations have generally improved.

Looking at the business by channel in the first quarter. Wholesale and retail both improved on a year-over-year basis. Sales in our company-owned stores grew 25%, while sales in wholesale increased 9%, reflecting pent-up consumer demand and a return to brick-and-mortar shopping. Our digital sales declined in the quarter, largely reflecting the impact of the rolling lockdowns in China, which is a significant digital market for us. Additionally, the return to retail, which is driving in-store traffic industry-wide, was also a driver, particularly in the Americas and Europe. While digital sales were down for the quarter, they are up 60% to 2019 levels.

While our outlook for the balance of this year is more cautious, we are confident that our strategies and growth investments that we've shared with you over the past several quarters will be important catalyst for driving longer-term sustainable revenue growth. We are progressing well this year on our core growth pillars of accelerating our digital platform and building brand heat through product innovation and marketing, driving operating efficiency and pursuing our long-term growth objectives in China and India.

We have built a strong foundation of digital capabilities and continue to prioritize our digital investments, which remain on track. These initiatives will enhance our omnichannel and marketing capabilities and leveraging our growing customer file size to improve our customer lifetime value relative to customer acquisition costs.

We're in the early innings on what we view as a significant long-term opportunity. We are also investing to drive more brand heat into our core brands and categories. Product collaborations from our recent Batman collection, Fossil and our Razer smartwatch create outsized awareness for our brands. From a media lens, we are tapping into new social media channels and platforms where customers are increasingly spending their time. And with improved test-and-learn tools, we are driving better outcomes.

We also remain on track with introducing our smartwatch app later this year, which will bring existing and new consumers into our customer data platform and enable new pathways for communication and engagement. Importantly, we are confident that our digitally led model, ongoing product innovation and global reach and scale position us well to drive profitable growth in the coming years. However, as we look at the balance of 2022, we are managing to a more conservative outlook to reflect external factors affecting our international business and keeping a disciplined focus on executing the fundamentals. More on that from Sunil in a minute.

We are grateful to our teams and associates worldwide for their hard work and dedication to Fossil. We're committed to growing the top line, improving profitability and building shareholder value over the long term.

Now I'll turn the call over to Sunil to review the financials and discuss our 2022 outlook.

**Sunil M. Doshi** ***Fossil Group, Inc. - Senior VP, CFO & Treasurer***

Thanks, Kosta, and good afternoon, everyone. We started the year with a solid quarter amidst a challenging macro backdrop, which intensified during the latter part of the quarter. During Q1, the factors Kosta spoke to primarily impacted our Asia region and to a lesser degree, Europe.

Let me walk you through net sales. Q1 net sales came in at $376 million, up 4% year-over-year and up 6% on a constant currency basis. The stronger dollar resulted in 230 basis points of a headwind to our revenue growth. From a regional perspective, sales in the Americas region were up 6% in constant currency with stronger wholesale sales in the front half of the quarter and stronger brick-and-mortar traffic in retail stores throughout the quarter. Sales in Europe were up 20% in constant currency and up 14% when factoring in the stronger dollar versus the euro. In Asia, sales were down 10% in constant currency and down 12% at reported rates. Sales in Mainland China were down 34% versus last year in constant currency, but still up 28% versus 2019. Other markets that have historically benefited from Mainland China tourists, such as concessions in Korea and travel retail throughout the region were also down versus last year.

Conversely, net sales in the India market were up double digits. From a channel perspective, digital sales decreased 17% versus a year ago and represented approximately 34% of our total sales mix. As a reminder, digital sales include sales on our owned e-commerce sites, global third-party platforms and wholesale.com.

There were 2 key drivers for the decline in digital sales. First, the ongoing lockdowns in Mainland, China impacted delivery and shifted consumer spending to other nondiscretionary categories. Digital sales reflect the vast majority of our sales mix in Mainland China. Second, in Europe and Americas, traffic declines to our own e-commerce sites contributed to our digital sales declines in the quarter. However, revenue declines in our owned e-commerce sites were more than offset with stronger traffic and sales growth in our own brick-and-mortar stores. And when we combine sales on our own e-commerce sites and retail stores, comparable global DTC sales were up 12% with traditional store comps outpacing e-commerce to clients in each of our regions. We ended the quarter with 352 company-owned stores, down 11% versus a year ago and 5% from the end of 2021 as we continue our program to rationalize our store base and improve our overall store profitability.

Turning to category performance. In Q1, traditional watch sales increased 10% in constant currency with broad-based double-digit growth, including in our largest brands, Fossil and Kors, which grew in excess of 10%. Sales in Armani were down year-over-year, due to sales declines in Mainland China despite retaining its leading position on key digital platforms. Net sales in smartwatches were down 26% in constant currency as we lapped prior year's launch of LTE in the Americas and maintained a more focused product and distribution plan versus the prior year. This more focused distribution, combined with a lower level of liquidation activity on older generation products, drove a significant improvement in our overall smartwatch margins.

Q1 net sales growth in our jewelry category increased 38% in constant currency with broad-based global growth across all of our major owned and licensed brands. Net sales in our leathers category increased 2% in constant currency as improvements in our in-stock positions drove better wholesale channel sell-in as well as better sell-through in our stores and e-commerce channels. It's worth noting that we have increased prices in the majority of our categories and across all of our regions, which is serving as a benefit to margin and helping us to offset other inflationary costs. We have taken a thoughtful approach that has allowed us to take stock of the inflationary environment, while maintaining a strong pricing architecture with no observable impact on overall demand.

Moving down the P&L. First quarter gross margin was 49%, down 130 basis points versus 2021. The year-over-year decline is primarily attributable to 3 factors: approximately 180 basis points of higher freight and duty costs, unfavorable region mix due to lower APAC sales and a stronger U.S. dollar. These elevated costs were partially offset by product margin improvements primarily due to global price increases that began flowing through mid-quarter and reduced smartwatch liquidation selling.

Turning to expenses. Total operating costs were $199 million, flat versus last year. Both impairment and restructuring costs were down versus last year as we wound down costs under the New World Fossil 2.0 - Transformation Program. Operating expenses as a percent of sales improved by 210 basis points. SG&A costs, which excludes impairment and restructuring costs, were $196 million, up 4.5% versus last year. As a percentage of sales, SG&A costs were 52.1%, up 50 basis points versus the prior year period as increases in labor costs and investments in our digital initiatives were only partially offset with reduced store costs arising from lower store count versus the prior year.

Q1 operating loss was $14 million compared to $17 million in the year ago period. Operating margin was negative 3.8% compared to negative 4.6% last year. Adjusted operating loss was $11 million compared to $5 million last year. Adjusted operating margin was negative 3% versus negative 1% last year. In Q1, interest expense was $4 million, down $3.3 million versus the prior year period due to lower average debt balances and an overall lower cost of debt. Our Q1 income tax provision was $4.7 million or negative 28% of our pretax loss of $17 million. Our quarterly tax provision is derived from applying the full year expected effective tax rate to the quarter's earnings. The full year effective tax rate is estimated to be between 30% to 35%. Diluted loss per share was $0.41 compared to a diluted loss per share of $0.47 in the prior year period. On an adjusted basis, diluted loss per share was $0.37 compared to $0.29 in the prior year period.

Looking at the balance sheet. Inventory balances at the end of Q1 were $386 million or up 20% from last year. The increase in inventory reflects increased receipt flow as well as higher levels of in-transit inventory as we have extended planned transportation times due to supply chain constraints.

Coming off a strong 2021 and considering our near-term liquidity position and the company's valuation, we repurchased 1 million shares during the quarter. Under the current share repurchase authorization level, a primary purpose of this repurchase activity is to offset dilution from stock grants. Longer term, we will evaluate our overall capital allocation strategies as our profitability continues to improve.

Turning to our outlook for fiscal 2022. The first quarter largely played out in line with our expectations. However, as Kosta mentioned, operating conditions in our international markets have intensified, creating some near-term headwinds. In addition, the dollar has strengthened against many of the major currencies of our foreign operating subsidiaries. Therefore, we are taking a more conservative view for the balance of the year. For fiscal 2022, we now expect full year revenue to be in the range of flat to 3%, down from our previous guidance of 2% to 6%. Using the midpoints of our current and previous revenue range, the decrease in revenue outlook can be traced to 2 key drivers: a 100 basis point impact from prevailing rates, and a 150 basis point impact in lower revenue growth primarily in our international markets.

First, using prevailing rates, we estimate that the stronger dollar will result in approximately 350 basis points of headwind on our top line in fiscal 2022. This compares to our previous estimate of 250 basis points. The impact will be most acute in Q2 and Q3 with an estimated 500 basis points in each quarter versus its respect to prior year. Second, increased headwinds in our international regions are expected to impact our global revenue growth by approximately 150 basis points. Relative to our prior guidance in February, this is primarily driven by lower demand expectations due to the war in Ukraine that is driving higher inflation in food and energy in the region as well as COVID control measures in Mainland China that are persisting into the second quarter.

It's worth noting here that from everything we see today, demand signals from consumers in the Americas region remain consistent in aggregate with our prior assumptions, although we do see some channel shifts within the region. Looking at the cadence of revenue for the remainder of 2022, we anticipate that the impact of the stronger dollar and the external headwinds will result in contraction in Q2 revenue versus the prior year, with sequential improvement in the second half of the year.

Turning now to profitability. We expect full year adjusted operating margins to be between 5.5% to 6.5% compared to our prior guidance of 6% to 7%, primarily driven by some impact from FX headwinds as well as lower revenue mix from international regions, which typically carry a higher margin.

With that, I'd like to turn the call back to Christine to take us through some Q&A.

## QUESTIONS AND ANSWERS

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

Thanks, Sunil. Let's run through some questions that we're hearing from the investment community, starting with Kosta. Can you talk about the widely understood headwinds out there and how you're thinking about consumer demand going forward? We know that geopolitical uncertainty and inflation are on the minds of consumers, especially in Europe. What are the data sets that you're looking at both internally and externally to monitor the consumer?

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

Yes, Christine, there's a number of macro events that are expected to impact spending levels over the next few quarters. Obviously, high inflation rates and energy prices, interest rate increases and geopolitical unrest are considered some of the most significant. At the same time, many of our countries that we operate in are reducing their COVID-related restrictions and consumers are returning to the marketplace.

For much of the last 2 years, consumers redirected spending away from affordable fashion accessories towards home, tech and family-related areas as many countries were locked down and social distancing was in place. Beginning in the second half of last year and continuing in the first quarter, we saw consumer demand build nicely as consumers' activity started to return to more normal patterns of returning to the office, dining out, visiting with friends and family, et cetera. And with that return to normalcy, our watch, jewelry and leather business rebounded. We saw a similar pattern back in 2010 after the housing-related recession in 2008, which were some of the strongest growth years we've ever witnessed.

The fundamental question is, will the consumer demand remains strong, our will world and macro events cause a pullback in their spending? We believe U.S. and European consumer spending will remain relatively strong in our categories from a growth perspective partly due to an overall return to normal and partly due to pent-up demand. As to what type of data we look at, our best info on our consumer spending in our categories comes from our own DTC channel where our combined stores and e-commerce sales are growing as consumers return to the marketplace. Stores are rebounding nicely since they're now more open than last year and some volume is shifting out of our e-commerce sites towards our stores, but the net is a positive growth trend overall in DTC.

Globally, our wholesale business showed solid double-digit growth in the first quarter, with particular strength in traditional watches and jewelry. We have solid insights into sales data in the U.S. and parts of Europe where we are seeing good growth in sell-out. Sell-in did run ahead of our sell-out near the end of the quarter and some of our accounts are replenishing at a slower rate now in Q2, as Sunil has mentioned.

In addition to our own data insights, we review category and market share information from outside firms, these reports provide additional insights into market share performance. Most notable for the first quarter are the share gains we delivered in the United States, Germany and the U.K. in our traditional fashion, watch category, and this is on top of share gains in the U.S. in the fourth quarter of last year.

We currently have the least forward visibility into our consumer trends in our APAC region, particularly with regards to China. Currently, the rolling lockdowns in China have reduced both online and offline consumer shopping in our core categories. We expect it will be several quarters before our China business is on a path to normalcy. However, as we are experiencing elsewhere in APAC, as economies open back up, consumer spending accelerates again in our categories. India is our best model for this spending resurgence and our India business was up 13% in the quarter.

One last comment before I turn it back to you, Christine, is that our organization has done a fantastic job of building out our multichannel capabilities across the globe. We continue to invest heavily in our digital channels to support both our own sites and third-party e-commerce sites, but we also continue to operate with agility in our stores and with our wholesale partners. Around the world, wherever the consumer wishes to purchase fashion watches and accessories, we have teams willing and able to meet their needs.

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

Great. Thank you. On to Sunil. With the varying puts and takes that Kosta mentioned, can you provide some additional framing and context around the company's updated guidance for us?

**Sunil M. Doshi** ***Fossil Group, Inc. - Senior VP, CFO & Treasurer***

Sure, Christine. Starting with the revenue guidance, like I mentioned, there are 2 key drivers of the revision to our full year outlook that took the midpoint from a 4% growth rate to a midpoint of 1.5%. First is FX. As I mentioned, we estimate that the impact of prevailing rates to be around 350 basis points versus the previous estimate of 250. Q2 and Q3's estimate are closer to 500 basis points, and we estimate Q4's impact to be more similar to Q1. In developing these estimates, we are using prevailing rates, including the euro at $1.05 compared to our previous prevailing rate of $1.09, both of which are weaker than historical averages of around $1.13 to $1.15. Other major currencies like the renminbi, the Indian rupee, the British pound, the Canadian dollar have all recently depreciated versus the dollar.

While the strengthening of the dollar does create a revenue headwind, it's important to note that our costs also translate lower, and so overall operating margins are typically only impacted by about 20 to 40 basis points. Excluding the estimated FX impact on revenue, we also shared that we've revised our revenue outlook for the remainder of the year globally by around 150 basis points, primarily driven by our international markets. First, in APAC, sales results in Mainland China are the primary pressure point. Our prior guidance had factored in some conservatism in 1 half -- first half of the year. But with current policies extending into the second quarter, we are incorporating a more cautious outlook for the balance of the year with some normalization beginning in Q4. As a reminder, we are lapping a 20% decline in sales in our Mainland China results from Q4 of last year. Outside of Mainland China, we are encouraged with how other markets are showing signs of normalization as COVID measures abate.

Second, in Europe, stepping into the second quarter, we have seen some slower sell-throughs as we -- and we have factored in some assumption that the Ukraine crisis and its ripple effects will continue to some degree throughout the remainder of 2022. That said, we are encouraged by some positive early responses to our fall newness as well as improved early reads on market share gains from our Q4 2021 marketing investments.

Lastly, in the Americas region in light of the macro backdrop of inflation and some of the global geopolitical uncertainty, we have incorporated a slightly more cautious outlook for the second quarter based on sell-through exiting Q1. But more broadly, as we mentioned in our prepared remarks, there are some puts and takes in the region. Stores are doing well in offsetting some of the traffic declines in e-commerce. From an adjusted op margin perspective, our revised outlook reduces our range by about 50 basis points to a midpoint of 6%. The range reflects both impact from FX and some margin compression given that most of the revenue impact is coming from our higher-margin international markets.

Finally, it's worth noting that our restructuring and impairment costs and interest costs are significantly lower than last year and Q1's costs are a reasonable run rate level for the balance of 2022, and these provide a tailwind for EPS versus last year.

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

Great. Greg, the smartwatch category is down in the quarter. Can you share some additional perspective on the quarter as well as the balance of the year outlook for this category?

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

Sure. Thanks, Christine. Our smartwatch business remains in a state of transition this year. As Sunil mentioned, margins are up significantly in the business, while revenue was down as we lap prior year's liquidation, the LTE launch for Fossil brand and hold back somewhat on pushing sales while the new operating system from Google is not yet available to us. Later this year, we will be relaunching our Gen 6 product line with Google's new Wear 3 operating system. I think it's important to highlight how meaningful of a change this holiday's Gen 6 relaunch with this new operating system represents. Currently, Google's own app runs our smart watches, and we are unable to access even basic customer information.

With this relaunch, however, we will now be taking over the app for all of our smartwatches, which allows us to own the customer data and relationship, build a better product experience and leverage the customer data to drive post-purchase cross-sell and upsell revenue margin. With this launch, and then followed by the next generation of smartwatches that we're already innovating on. We're not just launching new devices. Rather, we are launching a new customer acquisition and engagement business model that we've architected into our unique-to-the-industry smartwatch platform.

Our smartwatch business is about to become a critical accelerator of our customer acquisition and CLTV model overall as a company. Every smartwatch we sell in any channel and any country in the world will feed our customer file and create a new direct-to-consumer marketing and commercial channel of customer engagement. As you can tell, we remain excited about the potential of this business and what our teams are accomplishing. We remain patient in working through near-term headwinds and financial results as the technology platform goes through this transition, but are very bullish on the long term. We have a fashion tech platform that's unique in the industry, and we remain well positioned to take advantage of the growth potential in front of us.

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

Thank you. Shifting gears over to supply chain. A question for Jeff. Can you talk about supply chain impacts and how your teams are navigating those headwinds? This is a multidimensional issue for many companies out there that have impacts across materials, manufacturing and logistics. What is FOSSIL seeing here? And then more specifically, how do the China lockdowns factor in?

**Jeffrey N. Boyer** ***Fossil Group, Inc. - Executive VP & COO***

Sure, Christine. As you mentioned, supply chains around the globe are being impacted to varying degrees by 3 primary issues: one, the availability and the cost of raw materials; two, manufacturing interruptions; and three, logistical challenges. On the cost and availability of material side of the equation, our raw material suppliers have been great partners throughout this. And we've seen little interruptions in the flow of components and only modest cost pressure on raw materials at this point in our cycle. The majority of our traditional watch suppliers are located in Southern China in close proximity to Hong Kong. Although there have been COVID-related rolling lockdowns, these lockdowns have been of a fairly short duration and have not had a material impact on our raw material availability or on our costs.

Our manufacturing partners have also worked extremely hard on managing the flow of product into their operations as well as holding down their input costs and achieving additional efficiencies. These partners are extremely entrepreneurial and are great at adapting to new operating constraints as they develop. They've worked extremely hard at navigating rolling lockdowns with positive outcomes, and we greatly appreciate their efforts to support our business.

The logistical part of the supply chain equation has been the most challenging. However, we're likely more fortunate than many other companies and that we only ship a limited amount of product out of the port of Shanghai, which currently has the highest level of congestion and delays in the world. As we've mentioned on past calls, our traditional watch and jewelry categories are shipped mostly out of Hong Kong via airfreight given their small cube size and high average AUR. Though air freight rates have increased dramatically due to the overall global supply chain imbalances, our traditional watch and jewelry product is flowing relatively well. And with this inbound transportation mode to the U.S. and Europe, using airfreight, we avoid many of the port delays on all sides of the Pacific.

Due to the potential for unexpected COVID-related lockdowns, we did make a strategic decision earlier in the quarter to carry more inventory and place inventory closer to market in our large regional distribution centers or in country-level sub warehouses. This creates a few weeks of buffer stock of our best-selling product should there be a more prolonged lockdown situation.

Our most significant logistical issue is with our leather goods, which does shift nearly exclusively via ocean freight. Shipping times remain elongated, and rates remain high. And unfortunately, variability and delivery time has also increased, making it more challenging to manage seasonal and promotional programs as product deliveries can miss key arrival date. Fortunately, the products subject to these types of delivery issues represent a pretty small percentage of our total product line, so it's not material to our business overall, but it does impact our leather category and our stores in a more significant manner, particularly in our Americas region.

To wrap up, the global supply chain is going through unprecedented challenges as we exit COVID in many parts of the world. We feel we're navigating this better than most due to our product characteristics, the dedication of our teams and the extraordinary efforts of our vendor and supply chain partners.

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

Great. Thank you so much. Now over to Greg. Kosta spoke to the importance of continued investments in digital and marketing. Can you expand on that and discuss how thoughtful is using data and analytics to drive engagement, lower the cost of customer acquisition and increased lifetime value.

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

Yes. Thanks, Christine. I'd start by saying that everything we do in the digital e-commerce and marketing space is highly analytic and data driven and enabled by the best cloud-based customer data and marketing tools in the industry. We've also recently added over 70 people to the digital team that have quickly taken us to another level of capability. There are 2 areas I'd highlight where we are making dramatic progress. The first area is customer data acquisition, segmentation and targeting, where we are on track for another year of significant increases in our file size as our teams around the world adopt and rally around this new model for driving revenue and margin in our business.

At the same time, we are nearly finished with the initial release of our new customer data platform, which is greatly enhancing our ability to deliver more relevant and personalized communication, the focus on improving purchase frequency of our most loyal and high customer lifetime value customers. These cloud-based AI-driven tools are game changers for our team's ability to deliver and scale highly effective personalized campaigns to tens of millions of consumers real time.

The second area we're making dramatic progress is in real-time optimization of our marketing spend. Broadly, media and customer acquisition costs across the industry are increasing as more companies shift marketing spend to digital and social media. For many companies, we believe this is squeezing ROI on advertising spend, which limits growth online. We've built a team with the right mix of analytics, e-commerce and digital marketing skills and have created agile ways of working that allow them to rapidly test, learn and then scale tactics across audiences and marketing channels. As a result, our teams are actually expanding our customer lifetime value to customer acquisition cost ratio as they deliver CLTV increases that are multiples of what we're seeing in customer acquisition cost inflation. We're really proud of what our teams are accomplishing and look forward to sharing more progress and results with you over the coming quarters.

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

Great. Thank you, team, for the questions. Now I'll just turn it back to Kosta to close this out.

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

Thanks for participating today, and we look forward to talking to you on our next call. Thank you very much.

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**Operator**

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

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