

GUESS INC
Form 10-K
March 29, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended February 2, 2019

OR
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File Number 1-11893

GUESS?, INC.
(Exact name of registrant as specified in its charter)
Delaware 95-3679695
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)
1444 South Alameda Street
Los Angeles, California 90021
(213) 765-3100
(Address, including zip code, and telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
common stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of the close of business on August 4, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was \$1,248,243,784 based upon the closing price of \$22.17 on the New York Stock Exchange composite tape on such date. For this computation, the registrant has excluded the market value of all shares of its common stock reported as beneficially owned by executive officers and directors of the registrant. Such exclusion shall not be deemed to constitute an admission that any such person is an "affiliate" of the registrant.

As of the close of business on March 25, 2019, the registrant had 81,726,553 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2019 Annual Meeting of Stockholders are incorporated by reference into Part III herein.

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IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

Throughout this Annual Report on Form 10-K, including documents incorporated by reference herein, we make “forward-looking” statements, which are not historical facts, but are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be in our other reports filed under the Securities Exchange Act of 1934, as amended, in our press releases and in other documents. In addition, from time-to-time, we, through our management, may make oral forward-looking statements. These statements relate to expectations, analyses and other information based on current plans, forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our goals, future prospects, global cost reduction opportunities and profitability efforts, capital allocation plans, cash needs and short or long-term strategic initiatives, including those that may be changed or initiated by our new Chief Executive Officer. These forward-looking statements are identified by their use of terms and phrases such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “goal,” “intend,” “may,” “outlook,” “pending,” “plan,” “predict,” “project,” “see,” “should,” “st” and other similar terms and phrases, including references to assumptions.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed. These forward-looking statements may include, among other things, statements or assumptions relating to: our expected results of operations; the accuracy of data relating to, and anticipated levels of, future inventory and gross margins; anticipated cash requirements and sources; cost containment efforts; estimated charges; plans regarding store openings, closings, remodels and lease negotiations; plans to improve the efficiency and effectiveness of the Company’s European distribution centers; plans regarding business growth, international expansion and capital allocation; plans regarding supply chain efficiencies and global planning and allocation; e-commerce, digital and omni-channel initiatives; business seasonality; results and risks of current and future legal proceedings; industry trends; consumer demands and preferences; competition; currency fluctuations and related impacts; estimated tax rates, including the expected impact of the Tax Cuts and Jobs Act of 2017 (“Tax Reform”), future clarifications and legislative amendments thereto, as well as our ability to accurately interpret and predict its impact on our cash flows and financial condition; results of tax audits and other regulatory proceedings; the impact of recent accounting pronouncements; raw material and other inflationary cost pressures; consumer confidence; and general economic conditions. We do not intend, and undertake no obligation, to update our forward-looking statements to reflect future events or circumstances. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. Important factors that could cause or contribute to such differences include those discussed under “Part I, Item 1A. Risk Factors” contained herein.

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PART I

ITEM 1. Business.

General

Unless the context indicates otherwise, the terms “we,” “us,” “our” or the “Company” in this Form 10-K refer to Guess?, Inc. (“GUESS?”) and its subsidiaries on a consolidated basis.

We design, market, distribute and license one of the world’s leading lifestyle collections of contemporary apparel and accessories for men, women and children that reflect the American lifestyle and European fashion sensibilities. Our apparel is marketed under numerous trademarks including GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, MARCIANO, Question Mark and Triangle Design, a stylized G and a stylized M, GUESS Kids, Baby GUESS, YES, G by GUESS (GbG), GUESS by MARCIANO and Gc. The lines include full collections of clothing, including jeans, pants, skirts, dresses, shorts, blouses, shirts, jackets, knitwear and intimate apparel. In addition, we selectively grant licenses to design, manufacture and distribute a broad range of products that complement our apparel lines, including eyewear, watches, handbags, footwear, kids’ and infants’ apparel, outerwear, fragrance, jewelry and other fashion accessories. We also grant licenses to certain wholesale partners to operate and sell our products through licensed retail stores.

Our products are sold through direct-to-consumer, wholesale and licensing distribution channels. Our core customer is a style-conscious consumer primarily between the ages of 20 and 35. These consumers are part of a highly desirable demographic group that we believe, historically, has had significant disposable income. We also appeal to customers outside this group through specialty product lines that include MARCIANO, a more sophisticated fashion line targeted to women and men, and GUESS Kids, targeted to boys and girls ages 6 to 12.

We were founded in 1981 and currently operate as a Delaware corporation.

We operate on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. All references herein to “fiscal 2019,” “fiscal 2017,” “fiscal 2016” and “fiscal 2015” represent the results of the 52-week fiscal years ended February 2, 2019, January 28, 2017, January 30, 2016, and January 31, 2015, respectively. All references herein to “fiscal 2018,” represent the 53-week fiscal year ended February 3, 2018. The additional week in fiscal 2018 occurred during the fourth quarter ended February 3, 2018. References to “fiscal 2020” represent the 52-week fiscal year ending February 1, 2020.

Business Strengths

We believe we have several business strengths that set us apart from our competition, including:

Brand Equity. The GUESS? brand is an integral part of our business, a significant strategic asset and a primary source of sustainable competitive advantage. The GUESS? brand communicates a distinctive image that is fun, fashionable and sexy. We have developed and maintained this image worldwide through our consistent emphasis on innovative and distinctive product designs and through our award-winning advertising, under the creative leadership and vision of Paul Marciano, our Chief Creative Officer and Director. Brand loyalty, name awareness, perceived quality, strong brand images, public relations, publicity, promotional events and trademarks all contribute to the reputation and integrity of the GUESS? brand.

Global Diversification. The global success of the GUESS? brand has reduced our reliance on any particular geographic region. This geographic diversification provides broad opportunities for growth, even during regional economic slowdowns. The percentage of our revenue generated from outside of the U.S. has grown from approximately 32% of our total revenues for the year ended December 31, 2005 to approximately 71% of our total revenues for the year ended February 2, 2019. As of February 2, 2019, the Company directly operated 1,161 retail stores in the Americas, Europe and Asia. The Company’s partners operated 558 additional retail stores worldwide. As of February 2, 2019, the Company and its partners operated in approximately 100 countries worldwide. We continue to evaluate the different businesses in our global portfolio, directing capital investments to those with more profit potential. For instance, we plan to allocate sufficient resources to fuel future growth, particularly in mainland China, Japan and Eastern and Northern Europe.

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Multiple Distribution Channels. We use direct-to-consumer, wholesale and licensing distribution channels to sell our products globally. This allows us to maintain a critical balance as our operating results do not depend solely on the performance of any single channel. The use of multiple channels also allows us to adapt quickly to changes in the distribution environment in any particular region.

Direct-to-Consumer. Our direct-to-consumer network is omni-channel, made up of both directly operated brick-and-mortar retail stores and concessions as well as integrated e-commerce sites that create a seamless shopping experience for our customers.

Directly operated retail stores and concessions. Distribution through our directly operated retail stores and concessions allows us to influence the merchandising and presentation of our products, enhance our brand image, build brand equity and test new product design concepts. Our store locations vary country by country depending on the type of locations available. In general, our stores average approximately 5,000 square feet in the Americas, approximately 3,000 square feet in Europe and the Middle East and approximately 2,000 square feet in Asia and the Pacific. Concessions generally average 1,000 square feet and are located primarily in South Korea and Greater China. As part of our omni-channel initiative, retail store sales in certain regions may be fulfilled from one of our numerous retail store locations or from our distribution centers.

Our directly operated retail stores and concessions as of February 2, 2019, February 3, 2018 and January 28, 2017 were comprised as follows:

Region	Year Ended Feb 2, 2019		Year Ended Feb 3, 2018		Year Ended Jan 28, 2017	
	Stores	Concessions	Stores	Concessions	Stores	Concessions
United States	288	—	306	—	339	—
Canada	89	—	89	—	111	—
Central and South America	67	27	59	27	51	30
Total Americas	444	27	454	27	501	30
Europe and the Middle East	490	37	400	33	336	31
Asia and the Pacific	227	174	157	177	108	193
Total	1,161	238	1,011	237	945	254

e-Commerce. As of February 2, 2019, we operated retail websites in the Americas, Europe and Asia. We have e-commerce available to 55 countries and in ten languages around the world. Our websites act as virtual storefronts that both sell our products and promote our brands. Designed as customer shopping centers, these sites showcase our products in an easy-to-navigate format, allowing customers to see and purchase our collections of apparel and accessories. These virtual stores have not only expanded our direct-to-consumer distribution channel, but they have also improved customer relations and are fun and entertaining alternative-shopping environments. As part of our omni-channel initiative, e-commerce orders in certain regions may be fulfilled from our distribution centers, or from our retail stores, or both.

Wholesale Distribution. We sell through both domestic and international wholesale distribution channels as well as retail stores and concessions operated by certain wholesale partners.

Wholesale. In Europe, our products are sold in stores ranging from large, well-known department stores like El Corte Inglés, Galeries Lafayette and Printemps to small upscale multi-brand boutiques. Because our European wholesale business is more fragmented, we generally rely on a large number of smaller regional distributors and agents to distribute our products. In the Americas, our wholesale customers consist primarily of better department stores, including Macy's, Liverpool and The Bay, and select specialty retailers and upscale boutiques, which have the image and merchandising expertise that we require for the effective presentation of our products. Through our foreign subsidiaries and our network of international distributors, our products are also available in major cities throughout Africa, Asia, Australia and the Middle East.

Licensed stores and concessions. We also sell product to certain wholesale customers who operate licensed retail stores and concessions which allows us to expand our international operations with a lower level of capital investment while still closely monitoring store designs and merchandise programs in order to protect the integrity of the GUESS?

brand.

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Licensed retail stores and concessions operated by our wholesale partners as of February 2, 2019, February 3, 2018 and January 28, 2017 were comprised as follows:

Region	Year Ended		Year Ended		Year Ended	
	Feb 2, 2019		Feb 3, 2018		Jan 28, 2017	
	Stores	Concessions	Stores	Concessions	Stores	Concessions
United States	2	1	2	1	2	1
Central and South America	37	—	44	—	44	—
Total Americas	39	1	46	1	46	1
Europe and the Middle East	210	—	269	—	293	—
Asia and the Pacific	309	184	337	191	396	191
Total	558	185	652	192	735	192

Licensing Operations. The desirability of the GUESS? brand name among consumers has allowed us to selectively expand our product offerings and global markets through trademark licensing arrangements, with minimal capital investment or on-going operating expenses. We currently have various domestic and international licenses that include eyewear, watches, handbags, footwear, kids' and infants' apparel, outerwear, fragrance, jewelry and other fashion accessories; and include licenses for the design, manufacture and distribution of GUESS? branded products in markets which include Africa, Asia, Australia, Europe, the Middle East, Central America, North America and South America.

Multiple Store Concepts. Our products are sold around the world primarily through six different store concepts, namely our GUESS? full-price retail stores, our GUESS? factory outlet stores, our GUESS? Accessories stores, our G by Guess (GbG) stores, our MARCIANO stores and our GUESS? Kids stores. We also have a small number of underwear, Gc watch and footwear concept stores. This allows us to target the various demographics in each region through dedicated store concepts that market each brand or concept specifically to the desired customer population. Having multiple store concepts also allows us to target our newer brands and concepts in different markets than our flagship GUESS? store concept. For instance, we have mall locations for G by Guess (GbG) stores where we would not ordinarily operate any of our full-price GUESS? stores.

Business Segments

The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: Americas Retail, Americas Wholesale, Europe, Asia and Licensing. The Americas Retail segment includes the Company's retail and e-commerce operations in the Americas. The Americas Wholesale segment includes the Company's wholesale operations in the Americas. The Europe segment includes the Company's retail, e-commerce and wholesale operations in Europe and the Middle East. The Asia segment includes the Company's retail, e-commerce and wholesale operations in Asia and the Pacific. The Licensing segment includes the worldwide licensing operations of the Company. See "Part IV. Financial Statements – Note 17 – Segment Information" in this Form 10-K for disclosures about our segment financial information.

Americas Retail Segment

In our Americas Retail segment, we sell our products direct-to-consumer through a network of directly operated retail and factory outlet stores and e-commerce sites in the Americas.

Retail stores and concessions. Our Americas Retail stores and concessions are comprised of a mix of GUESS? factory outlet stores, full-priced GUESS? retail stores, G by GUESS (GbG) stores, GUESS? Accessories stores and MARCIANO stores. For the year ended February 2, 2019, we opened 21 new stores and closed 31 stores in the Americas, ending the year with 444 stores. This store count does not include 27 concessions in Mexico. We directly operated our retail stores and concessions in Mexico and Brazil through our majority-owned joint ventures.

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e-Commerce. Our Americas Retail segment also includes our directly operated retail and other marketplace websites in the U.S., Canada, Mexico, Brazil, Chile and Peru. These websites operate as virtual storefronts that, combined with our retail stores, provide a seamless shopping experience to the consumer to sell our products and promote our brands. They also provide fashion information and a mechanism for customer feedback while promoting customer loyalty and enhancing our brand identity through interactive content online and through smartphone applications. Our U.S. and Canadian online sites are fully integrated with our customer relationship management (“CRM”) system and loyalty programs. Omni-channel initiatives that we have already deployed in the U.S. and Canada include “reserve online, pick-up in stores” and “order from store” as well as mobile-optimized commerce sites and smartphone applications. In the U.S. and Canada, e-commerce orders may be fulfilled from our distribution centers, or from our retail stores, or both.

Americas Wholesale Segment

In our Americas Wholesale segment, we sell our products through wholesale channels throughout the Americas and to third-party distributors based in Central and South America as well as licensed retail locations operated by our wholesale partners. Our Americas Wholesale business generally experiences stronger performance from July through November. Our Americas Wholesale customers consist primarily of better department stores, select specialty retailers, upscale boutiques as well as select off-price retailers. As of February 2, 2019, our products were sold to consumers through 1,564 major doors in the Americas as well as through our customers’ e-commerce sites. This compares to 1,501 major doors at February 3, 2018. As of February 2, 2019, these locations included 882 shop-in-shops, a designated selling area within a department store that offers a wide array of our products and incorporates GUESS? signage and fixture designs. These shop-in-shops, managed by the department stores, allow us to reinforce the GUESS? brand image with our customers. Many department stores have more than one shop-in-shop, with each one featuring women’s, men’s or kids’ apparel. We also sell product to licensed retail stores and concessions operated by certain wholesale customers. For the year ended February 2, 2019, our partners opened four new stores and closed 11 stores, ending the year with 39 licensed retail stores in the Americas. As of February 2, 2019, the total 39 licensed retail stores were comprised of 37 stores in Central and South America and two stores in the U.S. This store count does not include one concession that was operated by one of our partners in the U.S.

Our Americas Wholesale merchandising strategy is to focus on trend-right products supported by key fashion basics. We have sales representatives in New York, Los Angeles, Toronto, Montreal, Mexico City and Vancouver who coordinate with customers to determine the inventory level and product mix that should be carried in each store. Additionally, we use merchandise coordinators who work with the stores to ensure that our products are displayed appropriately. During fiscal 2019, our two largest wholesale customers accounted for a total of approximately 2.4% of our consolidated net revenue.

Europe Segment

In our Europe segment, we sell our products through direct-to-consumer and wholesale channels, primarily throughout Europe and the Middle East.

European Direct-to-Consumer. Our European direct-to-consumer network is comprised of brick-and-mortar retail stores and concessions and e-commerce sites.

Retail stores and concessions. Our European retail stores and concessions are comprised of a mix of directly operated GUESS? and MARCIANO retail and outlet stores, GUESS? Accessories retail and outlet stores, GUESS? Footwear stores, GUESS? Kids stores and G by GUESS (GbG) stores. For the year ended February 2, 2019, we opened 68 new stores and closed four stores, ending the year with 490 directly operated stores in Europe and the Middle East. During fiscal 2019, we also acquired 26 stores from five of our European wholesale partners in several countries (Switzerland, Russia, Kazakhstan, Cyprus and Hungary). This store count does not include 37 directly operated concessions in Europe. Certain of our European stores require initial investments in the form of key money to secure prime store locations. These amounts are paid to landlords or existing lessees in certain circumstances.

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e-Commerce. In Europe, similar to the Americas, our e-commerce sites operate as virtual storefronts that, combined with our retail stores, provide a seamless shopping experience to the consumer to sell our products and promote our brands. We are leveraging our existing technology and experience from the Americas to deploy similar omni-channel strategies in certain international markets. We currently offer interactive content online and via mobile, and are planning to expand to smartphone applications and integrate with CRM systems and loyalty programs.

European Wholesale Distribution. We sell our products both through wholesale distribution channels and through licensed retail stores and concessions operated by our wholesale partners throughout Europe and the Middle East. Our European wholesale business generally relies on a large number of smaller regional distributors and agents to distribute our products primarily to smaller independent multi-brand boutiques. Our products are also sold directly to large, well-known department stores like El Corte Inglés, Galeries Lafayette and Printemps. Overall, we have over 8,000 customers with no single customer representing more than 1% of our consolidated net revenue. The type of customer varies from region to region depending on both the prominence of the GUESS? brand in each region and the dominance of a particular type of retail channel in each region. In countries where the brand is well known, we operate through showrooms where agents and distributors can view our line and place orders. We currently have showrooms in key cities such as Barcelona, Düsseldorf, Lugano, Munich, Paris, Lisbon, Moscow and Warsaw. We sell both our apparel and certain accessories products under our GUESS? and MARCIANO brand concepts through our wholesale channel, operating primarily through two seasons, Spring/Summer and Fall/Winter. Generally, our Spring/Summer sales campaign is from April to September with the related shipments occurring primarily from November to April. The Fall/Winter sales campaign is from November to April with the related shipments occurring primarily from May to October. The Company may take advantage of early-season demand and potential reorders by offering a pre-collection assortment which ships at the beginning of each season. Customers retain the ability to request early shipment of backlog orders or delay shipment of orders depending on their needs. Revenues from sales to our wholesale licensed stores are also recognized as wholesale sales within our European wholesale operations. For the year ended February 2, 2019, our partners opened nine new licensed retail stores and closed 42 stores, ending the year with 210 licensed retail stores in Europe and the Middle East. During fiscal 2019, we also acquired 26 stores from five of our European wholesale partners.

Asia Segment

In our Asia segment, we sell our products through direct-to-consumer and wholesale channels throughout Asia and the Pacific.

Asian Direct-to-Consumer. Our Asian direct-to-consumer network is comprised of brick-and-mortar retail stores and concessions and e-commerce sites.

Retail stores and concessions. Our Asian retail stores and concessions include a mix of directly operated GUESS?, GUESS? Underwear, GUESS? Footwear, GUESS? Accessories, GUESS? Kids and MARCIANO stores. For the year ended February 2, 2019, we opened 88 new stores and closed 18 stores, ending the year with 227 directly operated stores in Asia and the Pacific. This store count does not include 174 directly operated apparel and accessory concessions. Concessions are widely used in Asia and generally represent directly managed areas within a department store setting.

e-Commerce. We also have e-commerce sites throughout Asia which operate as virtual storefronts that, combined with our retail stores, provide a seamless shopping experience to the consumer to sell our products and promote our brands.

Asian Wholesale Distribution. Our Asian wholesale customer base is comprised primarily of a small number of selected distributors with which we have contractual distribution arrangements and licensed stores and concessions operated by our wholesale partners. For the year ended February 2, 2019, our partners opened nine new licensed retail stores and closed 37 stores, ending the year with 309 licensed retail stores. This store count does not include 184 apparel and accessory concessions operated by our partners in Asia.

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Licensing Segment

Our Licensing segment includes the worldwide licensing operations of the Company. The desirability of the GUESS? brand name among consumers has allowed us to selectively expand our product offerings and global markets through trademark licensing arrangements, with minimal capital investment or on-going operating expenses. We currently have various domestic and international licenses that include eyewear, watches, handbags, footwear, kids' and infants' apparel, outerwear, fragrance, jewelry and other fashion accessories; and include licenses for the design, manufacture and distribution of GUESS? branded products in markets which include Africa, Asia, Australia, Europe, the Middle East, Central America, North America and South America.

Our trademark license agreements customarily provide for a multi-year initial term ranging from three to ten years, with a possible option to renew prior to expiration for an additional multi-year period. The typical license agreement requires that the licensee pay us the greater of a royalty based on a percentage of the licensee's net sales of licensed products or a guaranteed annual minimum royalty that typically increases over the term of the license agreement. In addition, several of our key license agreements provide for specified, fixed cash rights payments over and above our normal, ongoing royalty payments. Generally, licensees are required to spend a percentage of the net sales of licensed products for advertising and promotion of the licensed products and in many cases, we place the ads on behalf of the licensee and are reimbursed. Additionally, licensees also make contributions to advertising funds, as a percentage of their sales, or may elect to increase their contribution to support specific brand-building initiatives.

In addition, to protect and increase the value of our trademarks, our license agreements include strict quality control and manufacturing standards. Our licensing personnel meet regularly with licensees to ensure consistency with our overall merchandising and design strategies in order to protect the GUESS? trademarks and brand. As part of this process, our licensing department reviews in advance GUESS? third-party licensed products, advertising and promotional materials.

We strategically reposition our existing licensing portfolio by monitoring and evaluating the performance of our licensees worldwide. For instance, between 2005 and 2013, we acquired several of our European apparel licensees. As a result, we now directly manage our adult and children's apparel businesses in Europe.

Strategic Partnerships

We evaluate opportunities for strategic acquisitions and alliances and pursue those that we believe will support and contribute to our overall strategic initiatives and/or will take advantage of economies of scale. Similarly, when existing investments and alliances no longer align with strategic initiatives or as other circumstances warrant, we will evaluate various exit opportunities.

During fiscal 2019, we acquired a 30% minority interest equity holding in a privately-held apparel company headquartered in France. During fiscal 2017, we acquired the remaining 40% interest in our now wholly-owned subsidiary, Guess Sud SAS, which is based in France. During fiscal 2017, we also sold our minority interest equity holding in a privately-held boutique apparel company. During fiscal 2016, we entered into a majority-owned joint venture in Russia to accelerate our expansion in this country. During fiscal 2014, we entered into a majority-owned joint venture which oversees the development of our retail and wholesale channels in Brazil. During fiscal 2013, we entered into a majority-owned joint venture in Portugal with a licensee partner to further expand in this region. In fiscal 2010, we entered into a majority-owned joint venture in the Canary Islands with licensee partners to open new free-standing retail stores in this region. In 2006, we entered into a majority-owned joint venture to oversee the revitalization and expansion of our retail and wholesale channels in Mexico.

Design

GUESS?, G by GUESS (GbG) and MARCIANO apparel products are designed by their own separate in-house design teams located in the U.S., Switzerland and South Korea. The U.S. and Switzerland teams collaborate to share ideas for products that can be sold throughout our global markets and are inspired by our GUESS? heritage. Our design teams seek to identify global fashion trends and interpret them for the style-conscious consumer while retaining the distinctive GUESS? image. They travel throughout the world in order to monitor fashion trends and discover new fabrics. These fabrics, together with the trends observed by our designers, serve as the primary source of inspiration for our lines and collections. We also maintain a fashion library consisting of vintage and contemporary garments as

another source of creative concepts. In addition, our design teams work closely with members of our

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sales, merchandising and retail operations teams to further refine our products to meet the particular needs of our markets.

Global Sourcing and Supply Chain

We source products through numerous suppliers, many of whom have established long-term relationships with us. We seek to achieve efficient and timely delivery of our products, combining global and local sourcing. Almost all of our products are acquired as package purchases where we design and source product and the vendor delivers the finished product.

We believe that our balanced global supply chain, with deep vendor partnerships, provides us with a competitive advantage where we have the flexibility to respond to increased demand throughout the world. Our sourcing strategy provides us with the opportunity to leverage costs and improve speed-to-market.

As an ongoing strategic initiative, we leave a larger portion of our buys open prior to each season to improve the efficiency of our speed-to-market by allowing us to design and produce closer to market delivery. This allows us to better react to emerging fashion trends in the market. We are also working to shorten our lead times through partnering with our suppliers, exercising agility in the production process and continuously searching for new suppliers and sourcing opportunities in reaction to the latest trends. Additionally, offering an assortment of global products continues to be an area of focus. As a global brand, we maintain skilled sourcing teams in North America, Europe and Asia.

We are committed to sourcing our products in a responsible manner, respecting both the countries in which we conduct business and the business partners that produce our products. As a part of this commitment, we have implemented a global social compliance program that applies to our business partners. Although local customs vary in different regions of the world, we believe that the issues of business ethics, human rights, health, safety and environmental stewardship transcend geographical boundaries.

To support and ensure our social compliance, we communicate our expectations to our partners throughout our global supply chain and conduct compliance audits. If deficiencies are discovered, personnel in each region are empowered to work with the respective business partner to take a corrective course of action. Additionally, the goal of this process is to educate individuals, build strategic relationships and improve business practices over the long-term.

Advertising and Marketing

Our advertising, public relations and marketing strategy is designed to promote a consistent high impact image which endures regardless of changing consumer trends. While our advertising promotes products, the primary emphasis is on brand image.

Since our inception, Paul Marciano, our Chief Creative Officer and Director, has had principal responsibility for the GUESS? brand image and creative vision. Under the direction of Mr. Marciano, our Los Angeles-based advertising department is responsible for overseeing all worldwide advertising. Throughout our history, we have maintained a high degree of consistency in our advertisements by using similar themes and images, including our signature black and white print advertisements and iconic logos.

We deploy a variety of media focused on national and international contemporary fashion/beauty, lifestyle and celebrity outlets. In recent years, we have also expanded our efforts into influencer marketing, digital advertising with leading fashion and lifestyle websites and advertising on social media platforms including Facebook, Instagram, Twitter, Pinterest, Reddit, Snapchat and global search engines. Our smartphone applications provide a unique mobile media experience by combining fashion, e-commerce, personalized product recommendations, targeted promotions and social loyalty rewards to drive mobile brand engagement.

We also require our licensees and distributors to invest a percentage of their net sales of licensed products and net purchases of GUESS? products in Company-approved advertising, promotion and marketing. By retaining control over our advertising programs, we are able to maintain the integrity of our brands while realizing substantial cost savings compared to outside agencies.

We will continue to regularly assess and implement marketing initiatives that we believe will build brand equity and grow our business by investing in marketing programs to build awareness and drive customer traffic to our stores,

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websites and smartphone applications. We plan to further strengthen communications with customers through an emphasis on digital marketing, and through our websites, loyalty programs, direct catalog and marketing mailings. We also plan to strengthen communities on various social media platforms, which enable us to provide timely information in an entertaining fashion to consumers about our history, products, special events, promotions and store locations, and allow us to receive and respond directly to customer feedback.

As part of these initiatives, we currently have loyalty programs in North America, Europe and Asia covering all of our brands. Certain of these programs reward our members who earn points for purchases that can be redeemed on future purchases either in our stores or online. In addition to earning rewards with the program, our loyalty members may receive other benefits including invitations to special VIP events in our stores, double points during their birthday month and access to seasonal savings, depending on their purchasing tier. Our Guess List loyalty program has experienced growth in its overall member engagement numbers through the introduction of experiential rewards and unique member content. In addition to this, we use these programs to promote new products to our customers which in turn increases traffic in the stores and online. We believe that the loyalty programs generate substantial repeat business that might otherwise go to competing brands. We continue to enhance our loyalty program offerings by understanding our members' interests and needs, and strategically marketing to this large and growing customer base.

Quality Control

Our quality control program is designed to ensure that products meet our high-quality standards. We test the quality of our raw materials prior to production and inspect prototypes of each product before production runs commence. We also perform random in-line quality control checks during and after production before the garments leave the contractor. Final random inspections occur when the garments are received in our distribution centers. We believe that our policy of inspecting our products is important to maintain the quality, consistency and reputation of our products.

Logistics

We utilize distribution centers at strategically located sites. The Company's U.S. distribution center is based in Louisville, Kentucky. At our distribution facilities in the U.S., we use fully integrated and automated distribution systems. The bar code scanning of merchandise and distribution cartons, together with radio frequency communications, provide timely, controlled, accurate and instantaneous updates to our distribution information systems. Distribution of our products in Canada is handled primarily from Company operated distribution centers in Montreal, Quebec. In Europe, distribution of our products is handled primarily by third-party distributors. During fiscal 2019, the Company transitioned most of its European product distribution from Italy to facilities located in Venlo, Netherlands. The Company also utilizes smaller distribution facilities throughout Europe. We utilize several third-party operated distribution warehouses that service the Asia region.

Competition

The apparel industry is highly competitive and fragmented and is subject to rapidly changing consumer demands and preferences. We believe that our success depends in large part upon our ability to anticipate, gauge and respond to changing consumer demands and fashion trends in a timely manner and upon the continued appeal to consumers of the GUESS? brand. We compete with numerous apparel retailers, manufacturers and distributors, both domestically and internationally, as well as several well-known designers. Our licensed apparel and accessories also compete with a substantial number of well-known brands. Although the level and nature of competition differs among our product categories and geographic regions, we believe that we differentiate ourselves from our competitors by offering a global lifestyle brand on the basis of our global brand image and wide product assortment comprising both apparel and accessories. We also believe that our geographic diversification, multiple distribution channels and multiple store concepts help to set us apart from our competition.

Information Systems

We believe that high levels of automation and technology are essential to maintain our competitive position and support our strategic objectives and we continue to invest in and update computer hardware, network infrastructure, system applications and cyber security. Our computer information systems consist of a full range of financial, distribution, merchandising, point-of-sales, customer relationship management, supply chain, digital platform, enterprise resource planning and other systems. During fiscal 2019, key initiatives included digital platform

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improvement and stabilization, continued development of mobile-based initiatives to support both our wholesale and direct-to-consumer businesses, various customer-focused initiatives and continued enhancements of our product lifecycle management system to facilitate vendor collaboration and increase the efficiency of the supply chain. In addition, we continue to enhance our systems to align our IT standards globally, accommodate future growth and provide operational efficiencies.

Trademarks

We own numerous trademarks, including GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, MARCIANO, Question Mark and Triangle Design, a stylized G and a stylized M, GUESS Kids, Baby GUESS, YES, G by GUESS, GbG, GUESS by MARCIANO and Gc. As of February 2, 2019, we had over 4,700 U.S. and internationally registered trademarks or trademark applications pending with the trademark offices in over 175 countries around the world, including the U.S. From time-to-time, we adopt new trademarks in connection with the marketing of our product lines. We consider our trademarks to have significant value in the marketing of our products and act aggressively to register and protect our trademarks worldwide.

Like many well-known brands, our trademarks are subject to infringement. We have staff devoted to the monitoring and aggressive protection of our trademarks worldwide.

Wholesale Backlog

We generally receive orders for fashion apparel three to six months prior to the time the products are delivered to our customers' stores. The backlog of wholesale orders at any given time is affected by various factors, including seasonality, cancellations, the scheduling of market weeks, the timing of the receipt of orders and the timing of the shipment of orders and may include orders for multiple seasons. Accordingly, a comparison of backlogs of wholesale orders from period-to-period is not necessarily meaningful and may not be indicative of eventual actual shipments.

U.S. and Canada Backlog. Our U.S. and Canadian wholesale backlog as of March 26, 2019, consisting primarily of orders for fashion apparel, was \$45.2 million in constant currency, compared to \$38.6 million at March 27, 2018, an increase of 17.2%. We estimate that if we were to normalize the orders for the scheduling of market weeks, the current backlog would have increased by 16.8% compared to the prior year.

Europe Backlog. As of March 24, 2019, the European wholesale backlog was €248.2 million, compared to €238.2 million at March 25, 2018, an increase of 4.2%. The backlog as of March 24, 2019 is primarily comprised of sales orders for the Spring/Summer 2019 and Fall/Winter 2019 seasons.

Employees

As of February 2019, we had approximately 15,700 associates, both full and part-time, consisting of approximately 6,500 in the U.S. and 9,200 in foreign countries. The number of our employees fluctuates during the year based on seasonal needs. In some international markets, local laws provide for employee representation by organizations similar to unions and some of our international employees are covered by trade-sponsored or governmental bargaining arrangements. We consider our relationship with our associates to be good.

Environmental and Other Sustainability Matters

We and our licensing partners and suppliers are subject to federal, state, local and foreign laws, regulations and ordinances that govern activities or operations that may have adverse environmental effects (such as emissions to air, discharges to water, and the generation, handling, storage and disposal of solid and hazardous wastes). We are also subject to laws, regulations and ordinances that impose liability for the costs of clean up or other remediation of contaminated property, including damages from spills, disposals or other releases of hazardous substances or wastes, in certain circumstances without regard to fault. Certain of our operations and those of our licensing partners and suppliers routinely involve the handling of chemicals and wastes, some of which are or may become regulated as hazardous substances. We have not incurred, and do not expect to incur, any significant expenditures or liabilities for environmental matters. As a result, we believe that our environmental obligations will not have a material adverse effect on our consolidated financial condition or results of operations.

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Website Access to Our Periodic SEC Reports

Our investor website can be found at <http://investors.guess.com>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished to the Securities and Exchange Commission (“SEC”) pursuant to Section 13(a) or 15(d) of the Exchange Act, are available at our investor website, free of charge, as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. In addition, the charters of our Board of Directors’ Audit, Compensation and Nominating and Governance Committees, as well as the Board of Directors’ Governance Guidelines and our Code of Ethics are posted on our investor website. Printed copies of these documents may also be obtained by writing or telephoning us at: Guess?, Inc., 1444 South Alameda Street, Los Angeles, California 90021, Attention: Investor Relations, (213) 765-5578.

We have included our Internet website addresses throughout this filing as textual references only. The information contained within these websites is not incorporated into this Annual Report on Form 10-K.

ITEM 1A. Risk Factors.

You should carefully consider the following factors and other information in this Annual Report on Form 10 K. Additional risks which we do not presently consider material, or of which we are not currently aware, may also have an adverse impact on us. Please also see “Important Factors Regarding Forward-Looking Statements” on page (ii). Demand for our merchandise may decrease and the appeal of our brand image may diminish if we fail to identify and rapidly respond to consumers’ fashion tastes.

The apparel industry is subject to rapidly evolving fashion trends and shifting consumer demands. Accordingly, our brand image and our profitability are heavily dependent upon both the priority our target customers place on fashion and our ability to anticipate, identify and capitalize upon emerging fashion trends. Current fashion tastes place significant emphasis on a fashionable look. In the past, this emphasis has increased and decreased through fashion cycles. If we fail to anticipate, identify or react appropriately, or in a timely manner, to fashion trends, we could experience reduced consumer acceptance of our products and a diminished brand image. These factors could result in higher wholesale markdowns, lower average unit retail prices, lower product margins and decreased sales volumes for our products and could have a material adverse effect on our results of operations and financial condition.

The apparel industry is highly competitive, and we may face difficulties competing successfully in the future. We operate in a highly competitive and fragmented industry with low barriers to entry. We compete with many apparel manufacturers and distributors, both domestically and internationally, as well as many well-known designers. We compete with many other retailers (both brick and mortar and e-commerce sites), including department stores, some of whom are our major wholesale customers. Our licensed apparel and accessories compete with many well-known brands. Within each of our geographic markets, we also face significant competition from global and regional branded apparel companies, as well as retailers that market apparel under their own labels. These and other competitors pose significant challenges to our market share in our existing major domestic and foreign markets and to our ability to successfully develop new markets. Some of our competitors have competitive advantages over us, including greater financial and marketing resources, higher wage rates, lower prices, more desirable store locations, greater online and e-commerce presence and faster speed-to-market. In addition, our larger competitors may be better equipped than us to adapt to changing conditions that affect the competitive market and newer competitors may be viewed as more desirable by fashion conscious consumers. Also, in most countries, the industry’s low barriers to entry allow the introduction of new products or new competitors at a fast pace. In other countries, high import duties may favor locally produced products. Any of these competition-related factors could result in reductions in sales or prices of our products and could have a material adverse effect on our results of operations and financial condition.

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Slowing customer traffic in malls or outlet centers could significantly reduce our sales, increase pressure on our margins and leave us with excess inventory.

Unfavorable economic conditions, changing shopping patterns, including significant increases in e-commerce sales, changing demographic patterns and other factors have adversely affected customer traffic in mall and outlet centers. This, in turn, has resulted in significant pricing pressures and a highly promotional retail environment in the apparel sector. Should these trends continue or worsen, it could negatively impact our sales, increase pressure on our margins, leave us with excess inventory, cause a decline in profits and negatively impact our liquidity.

Our inability to protect our reputation could have a material adverse effect on our brand.

Our ability to maintain our reputation is critical to our brand. Our reputation could be jeopardized if we or our third-party providers fail to maintain high standards for merchandise quality and integrity. Any negative publicity about these types of concerns may reduce demand for our merchandise. Failure by us or our third-party providers to comply with ethical, social, product, labor, health and safety or environmental standards could also jeopardize our reputation and potentially lead to various adverse consumer actions, including boycotts. They could also impact investment decisions by investors, including some large institutional investors and funds, which could negatively impact our stock price. With the increased proliferation of social media, public perception about our products, our stores or our brand, whether justified or not, could significantly impair our reputation, involve us in litigation, damage our brand and have a material adverse effect on our business. Failure to comply with local laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial statement information could also hurt our reputation. Damage to our reputation or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our results of operations and financial condition, as well as require additional resources to rebuild our reputation.

Poor or uncertain economic conditions, and the resulting negative impact on consumer confidence and spending, have had and could in the future have an adverse effect on our business, prospects, operating results, financial condition and cash flows.

The apparel industry is cyclical in nature and is particularly affected by adverse trends in the general economy. Purchases of apparel and related merchandise are generally discretionary and therefore tend to decline during periods of economic uncertainty and recession, but may also decline at other times. Over the last several years, volatile economic conditions and uncertain market conditions in many markets around the world have resulted in cautious consumer spending. For example, a number of European countries experienced difficult economic conditions, including sovereign debt issues that negatively impacted the capital markets. These conditions resulted in reduced consumer confidence and spending in many countries in Europe, particularly Southern Europe. While these conditions have recently improved, if conditions in Europe, or other economic regions in which we do business, worsen or fail to further improve, there will likely be a negative impact on our business, prospects, operating results, financial condition and cash flows.

In addition to the factors contributing to the current economic environment, there are a number of other factors that could contribute to reduced levels of consumer spending, such as increases in interest rates, currency fluctuations, inflation, unemployment, consumer debt levels, inclement weather, taxation rates, net worth reductions based on market declines or uncertainty, energy prices and austerity measures. Similarly, natural disasters, labor unrest, actual or potential terrorist acts, geopolitical unrest and other conflicts can also create significant instability and uncertainty in the world, causing consumers to defer purchases and travel, or prevent our suppliers and service providers from providing required services or materials to us. These or other factors could materially and adversely affect our business, prospects, operating results, financial condition and cash flows. Uncertainty surrounding potential U.S. policies related to immigration, global trade and other matters could amplify many of these risks and potential impacts.

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Our business is global in scope and can be impacted by factors beyond our control.

As a result of our large and growing international operations, we face the possibility of greater losses from a number of risks inherent in doing business in international markets and from a number of factors which are beyond our control. Such factors that could harm our results of operations and financial condition include, among other things:

- political instability or acts of terrorism, which disrupt trade with the countries where we operate or in which our contractors, suppliers or customers are located;
- recessions in foreign economies;
- inflationary pressures and volatility in foreign economies;
- reduced global demand resulting in the closing of manufacturing facilities;
- challenges in managing broadly dispersed foreign operations;
- local business practices that do not conform to legal or ethical guidelines;
- adoption of additional or revised quotas, restrictions or regulations relating to imports or exports;
- additional or increased customs duties, tariffs, taxes and other charges on imports or exports;
- anti-American sentiment in foreign countries where we operate resulting from actual or proposed changes to U.S. immigration and travel policies or other factors;
- delays in receipts due to our distribution centers as a result of labor unrest, increasing security requirements or other factors at U.S. or other ports;
 - significant fluctuations in the value of the dollar against foreign currencies;
- increased difficulty in protecting our intellectual property rights in foreign jurisdictions;
- social, labor, legal or economic instability in the foreign markets in which we do business, which could influence our ability to sell our products in, or distribute our products from, these international markets;
- restrictions on the transfer of funds between the U.S. and foreign jurisdictions;
- our ability and the ability of our international retail store licensees, distributors and joint venture partners to locate and continue to open desirable new retail locations; and
- natural disasters in areas in which our contractors, suppliers, or customers are located.

Further, our international presence means that we are subject to certain U.S. laws, including the Foreign Corrupt Practices Act, as well as the laws of the foreign countries in which we operate, including data privacy laws. If any of our international operations, or our employees or agents, violates such laws, we could become subject to sanctions or other penalties that could negatively affect our reputation, business and operating results.

Violation of laws or regulations, or changes to existing laws or regulations could adversely affect our business, reputation and results of operations.

We are subject to numerous laws and regulations at the state, federal and international levels, including, but not limited to, the areas of health care, taxes, transportation and logistics, data privacy, the environment, trade, conflict minerals, product safety, employment and labor, advertising and pricing practices, consumer protection, e-commerce, anti-competition, anti-corruption and intellectual property. Compliance with these numerous laws and regulations is complicated, time consuming and expensive. In addition, the laws may be inconsistent from jurisdiction to jurisdiction and are subject to change from time to time, sometimes unexpectedly. Failure to comply or to effectively anticipate changes in such laws or regulations could have a material adverse effect on our business, reputation and results of operations.

Violation of labor, environmental and other laws and practices by our licensees or suppliers could harm our business. We require our licensing partners and suppliers to operate in compliance with applicable laws and regulations. While our internal and vendor operating guidelines, code of conduct and monitoring programs promote ethical business practices and compliance with laws, we do not control our licensees or suppliers or their labor, environmental, safety or other business practices. The violation of labor, environmental, safety or other laws by any of our licensees or suppliers, or divergence of a licensee's or supplier's business practices or social responsibility standards from ours or from those generally accepted as ethical in the U.S., could interrupt or otherwise disrupt the shipment of our products, harm the value of our trademarks, damage our reputation or expose us to potential liability for their wrongdoings.

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Our business could suffer if our computer systems and websites are disrupted or cease to operate effectively. The efficient operation of our business is very dependent on our computer and information systems. In particular, we rely heavily on our merchandise management and ERP systems used to track sales and inventory and manage our supply chain. In addition, we have e-commerce and other Internet websites worldwide. Given the complexity of our business and the significant number of transactions that we engage in on an annual basis, it is imperative that we maintain constant operation of our computer hardware and software systems. Despite our preventative efforts, our systems are vulnerable from time-to-time to damage or interruption from, among other things, ineffective upgrades or support from third-party vendors, difficulties in replacing or integrating new systems, security breaches, computer viruses, natural disasters and power outages. Any such problems or interruptions could result in incorrect information being supplied to management, inefficient ordering and replenishment of products, loss of orders (including e-commerce orders), significant expenditures, disruption of our operations, inability to produce accurate financial statements, and other adverse impacts to our business.

A data privacy breach or failure to comply with data privacy laws could damage our reputation and customer relationships, expose us to litigation risk and potential fines and adversely affect our business.

As part of our normal operations, we collect, process, transmit and where appropriate, retain certain sensitive and confidential employee and customer information, including credit card information. There is significant concern by consumers and employees over the security of personal information, consumer identity theft and user privacy. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, cyber-attacks, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. As a result of recent security breaches at a number of prominent retailers, the media and public scrutiny of information security and privacy has become more intense and the regulatory environment has become more uncertain. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our vendors, could result in significant legal and remediation expenses, severely damage our reputation and our customer relationships, harm sales, expose us to risks of litigation and liability and result in a material adverse effect on our business, financial condition and results of operations. Additionally, changing privacy laws in the United States, Europe and elsewhere, including the adoption by the European Union of the General Data Protection Regulation (“GDPR”), which became effective May 2018, created new individual privacy rights and imposed increased obligations on companies handling personal data. Consequently, we may incur significant costs related to prevention and to comply with laws regarding the protection and unauthorized disclosure of personal information. A failure to comply with the stringent rules of the GDPR could result in fines of up to €20 million.

A significant disruption at any of our distribution facilities could have a material adverse impact on our sales and operating results.

Our U.S. business relies primarily on a single distribution center located in Louisville, Kentucky to receive, store and distribute merchandise to all of our U.S. retail stores, wholesale customers and e-commerce customers. Distribution of our products in Canada is handled primarily from two distribution centers in Montreal, Quebec. In Asia, we utilize several third-party operated distribution warehouses that service the Asia region. In Europe, distribution of our products is handled primarily by third-party distributors. During fiscal 2019, the Company transitioned most of its European product distribution from Italy to facilities located in Venlo, Netherlands.

Any significant interruption in the operation of any of our distribution centers due to natural disasters, weather conditions, accidents, system failures, capacity issues, labor issues, relationships with our third-party warehouse operators or landlords, failure to successfully complete or delays in transitioning to new facilities (including as a result of the Venlo transition discussed above), new providers, and/or new distribution systems or other unforeseen causes could have a material adverse effect on our ability to efficiently manage the volume and/or costs associated with the distribution of our products without encountering shipment delays or wholesale order cancellations. Such impacts could negatively impact our sales, inventory positions, operating results and customer relations.

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Failure to deliver merchandise timely to our distribution facilities and to our stores and wholesale customers could lead to disruptions to our business.

The efficient operation of our global retail and wholesale businesses depends on the timely importation and customs clearance, the timely receipt of merchandise to and from our regional distribution centers and our ability to efficiently and effectively process such merchandise. We receive merchandise at our distribution facilities and deliver merchandise to our stores and wholesale customers using independent third parties who import as well as transport goods. The independent third parties and other entities which they rely on have employees which may be represented by labor unions. Disruptions in the delivery of merchandise caused by importation delays or work stoppages by employees or contractors of any of these or other third parties could delay the timely receipt of merchandise. There can be no assurance that such stoppages, delays or disruptions will not occur in the future. Any failure by a third-party to respond adequately to our distribution needs could disrupt our operations and negatively impact our financial condition or results of operations.

Difficulties in the credit markets could have a negative impact on our customers, suppliers and business partners, which, in turn could materially and adversely affect our results of operations and liquidity.

The impact of difficult credit conditions on our customers, business partners, suppliers, insurance providers and financial institutions with which we do business cannot be predicted and may be quite severe. The inability of our manufacturers to ship our products could impair our ability to meet delivery date requirements. A disruption in the ability of our significant customers, distributors or licensees to access liquidity could cause serious disruptions or an overall deterioration of their businesses. A disruption in the ability of a large group of our smaller customers to access liquidity could have similar adverse effects, particularly in our important multi-brand wholesale channel in Southern Europe, where many customers tend to be relatively small and not well capitalized. These conditions could lead to significant reductions in future orders of our products and the inability or failure on our customers' part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity. Similarly, a failure on the part of our insurance providers to meet their obligations for claims made by us could have a material adverse effect on our results of operations and liquidity. Continued market difficulties or additional deterioration could jeopardize our ability to rely on those financial institutions that are parties to our various bank facilities and foreign exchange contracts. We could be exposed to a loss if the counterparty fails to meet its obligations upon our exercise of foreign exchange contracts. In addition, instability or other distress in the financial markets could impair the ability of one or more of the banks participating in our credit agreements from honoring its commitments. This could have an adverse effect on our business if we were not able to replace those commitments or to locate other sources of liquidity on acceptable terms.

Domestic and foreign currency fluctuations could adversely impact our financial condition, results of operations and earnings.

Since the majority of our international operations are conducted in currencies other than the U.S. dollar (primarily the Canadian dollar, Chinese yuan, euro, Japanese yen, Korean won, Mexican peso, Russian ruble and Turkish lira), currency fluctuations can have a significant impact on the translation of our international revenues and earnings into U.S. dollar amounts. These amounts could be materially affected by the strengthening of the U.S. dollar, negatively impacting our results of operations, earnings and our ability to generate revenue growth. Furthermore, our products are typically sourced in U.S. dollars. As a result, the cost of these products may be affected by changes in the value of the applicable local currencies. Changes in currency exchange rates may also affect the U.S. dollar value of the foreign currency denominated prices at which our international businesses sell products. Our future financial results could be significantly affected by not only the value of the U.S. dollar in relation to the foreign currencies in which we conduct business, but also the speed at which these fluctuations occur. If the U.S. dollar strengthens relative to the respective fiscal 2019 foreign exchange rates, foreign exchange could negatively impact our revenues and operating results as well as our international cash and other balance sheet items during fiscal 2020, particularly in Canada, Europe (primarily the euro, Turkish lira and Russian ruble) and Mexico.

Although we hedge certain exposures to changes in foreign currency exchange rates, we cannot assure that foreign currency fluctuations will not have a material adverse effect on our financial condition or results of operations.

Furthermore, since some of our hedging activities are designed to reduce volatility of fluctuating exchange rates,

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they not only reduce the negative impact of a stronger U.S. dollar, but they also reduce the positive impact of a weaker U.S. dollar. In addition, while our foreign currency hedges are designed to reduce volatility over the forward contract period, these contracts can create volatility during the period. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities.

Fluctuations in the price or availability of quality raw materials and commodities could increase costs and negatively impact profitability.

The raw materials used to manufacture our merchandise are subject to availability constraints and price volatility caused by high demand for fabrics, currency fluctuations, crop yields, weather patterns, supply conditions, government regulations (including tariffs), labor conditions, energy costs, transportation or freight costs, economic climate, market speculation and other unpredictable factors. Negative trends in any of these conditions or our inability to appropriately project fabric requirements in the future could increase costs and negatively impact profitability.

We are subject to periodic litigation and other regulatory proceedings, which could result in unexpected obligations, as well as the diversion of time and resources.

We are involved from time-to-time in various U.S. and foreign lawsuits relating to our business, including purported class action lawsuits and intellectual property claims. In addition, we can be subject to regulatory scrutiny which may result in regulatory proceedings, such as the European Commission allegations of breach of certain European Union competition rules by the Company which resulted in a fine of €39.8 million (\$45.6 million), which was imposed during the fourth quarter of fiscal 2019 and paid by the Company in the first quarter of fiscal 2020. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such new or existing proceedings. Should management's evaluation of any such claims or proceedings or the likelihood of any future claims or proceedings prove incorrect, our exposure could materially exceed expectations, adversely impacting our business, financial condition and results of operations. In addition, any significant litigation or regulatory matters, regardless of the merits, could divert management's attention from our operations and result in substantial legal fees. See "Part IV. Financial Statements – Note 14 – Commitments and Contingencies" in this Form 10-K for disclosures about our legal and other proceedings.

We could find that we are carrying excess inventories if we fail to shorten lead-times or anticipate consumer demand, if our international vendors do not supply quality products on a timely basis, if our merchandising strategies fail or if we do not open new and remodel existing stores on schedule.

Although we have shortened lead-times for the design, production and development of a portion of our product lines, we expect to continue to place orders with our vendors for most of our products a season or more in advance. If we are not successful in our efforts to continue to shorten lead-times or if we fail to correctly anticipate fashion trends or consumer demand, we could end up carrying excess inventories. Even if we effectively shorten lead-times and correctly anticipate consumer fashion trends and demand, our vendors could fail to supply the quality products and materials we require at the time we need them. Moreover, we could fail to effectively market or merchandise these products once we receive them. In addition, we could fail to open new or remodeled stores on schedule, and inventory purchases made in anticipation of such store openings could remain unsold. If we experience excess inventories as a result of these or any other factors, we could incur inventory write-downs and more markdowns, which in turn could have a material adverse effect on our results of operations and financial condition.

Our success depends on the strength of our relationships with our suppliers and manufacturers.

We do not own or operate any production facilities, and we depend on independent factories to supply our fabrics and to manufacture our products to our specifications. We do not have long-term contracts with any suppliers or manufacturers, and our business is dependent on our partnerships with our vendors. If manufacturing costs were to rise significantly, our product margins and results of operations could be negatively affected. In addition, very few of our vendors manufacture our products exclusively. As a result, we compete with other companies for the production capacity of independent contractors. If our vendors fail to ship our fabrics or products on time or to meet our quality standards or are unable to fill our orders, we might not be able to deliver products to our retail stores and wholesale customers on time or at all.

Moreover, our suppliers have at times been unable to deliver finished products in a timely fashion. This has led, from time-to-time, to an increase in our inventory, creating potential markdowns and a resulting decrease in our

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profitability. As there are a finite number of skilled manufacturers that meet our requirements, it could take significant time to identify and qualify suitable alternatives, which could result in our missing retailing seasons or our wholesale customers canceling orders, refusing to accept deliveries or requiring that we lower selling prices. Since we prefer not to return merchandise to our manufacturers, we could also have a considerable amount of unsold merchandise. Any of these problems could harm our financial condition and results of operations.

Our Americas Wholesale business is highly concentrated. If any of our large customers decrease their purchases of our products or experience financial difficulties, our results of operations and financial condition could be adversely affected.

In fiscal 2019, our two largest wholesale customers accounted for a total of approximately 2.4% of our consolidated net revenue. No other single customer or group of related customers in any of our segments accounted for more than 1.0% of our consolidated net revenue in fiscal 2019. Continued consolidation in the retail industry could further decrease the number of, or concentrate the ownership of, stores that carry our products and our licensees' products. In recent years, there has been a significant increase in the number of designer brands seeking placement in department stores, which makes any one brand potentially less attractive to department stores. If any one of our major wholesale customers decides to decrease purchases from us, to stop carrying GUESS? products or to carry our products only on terms less favorable to us, our sales and profitability could significantly decrease. Similarly, some retailers have recently experienced significant financial difficulties, which in some cases have resulted in bankruptcy, liquidation and store closures. Financial difficulties of one of our major customers could result in reduced business and higher credit risk with respect to that customer. Any of these circumstances could ultimately have a material adverse effect on our results of operations and financial condition.

Since we do not control our licensees' actions and we depend on our licensees for a substantial portion of our earnings from operations, their conduct could harm our business.

We license to others the rights to produce and market certain products that are sold with our trademarks. While we retain significant control over our licensees' products and advertising, we rely on our licensees for, among other things, operational and financial control over their businesses. If the quality, focus, image or distribution of our licensed products diminish, consumer acceptance of and demand for the GUESS? brands and products could decline. This could materially and adversely affect our business and results of operations. In fiscal 2019, approximately 80% of our net royalties were derived from our top five licensed product lines. A decrease in customer demand for any of these product lines could have a material adverse effect on our results of operations and financial condition. Although we believe that in most circumstances we could replace existing licensees if necessary, our inability to do so effectively or for any period of time could adversely affect our revenues and results of operations.

We depend on our intellectual property, and our methods of protecting it may not be adequate.

Our success and competitive position depend significantly upon our trademarks and other proprietary rights. We take steps to establish and protect our trademarks worldwide. Despite any precautions we may take to protect our intellectual property, policing unauthorized use of our intellectual property is difficult, expensive and time consuming, and we may be unable to adequately protect our intellectual property or to determine the extent of any unauthorized use, particularly in those foreign countries where the laws do not protect proprietary rights as fully as in the U.S. We also place significant value on our trade dress and the overall appearance and image of our products. However, we cannot assure you that we can prevent imitation of our products by others or prevent others from seeking to block sales of GUESS? products for purported violations of their trademarks and proprietary rights. We also cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of GUESS?, that our proprietary rights would be upheld if challenged or that we would, in that event, not be prevented from using our trademarks, any of which could have a material adverse effect on our financial condition and results of operations. Further, we could incur substantial costs in legal actions relating to our use of intellectual property or the use of our intellectual property by others. Even if we are successful in such actions, the costs we incur could have a material adverse effect on us.

Potential strategic and other changes resulting from the recent appointment of our new Chief Executive Officer could be disruptive to, or cause uncertainty in, our business and results.

On February 20, 2019, Carlos Alberini was appointed as the Company's new Chief Executive Officer, replacing Victor Herrero, who departed the Company effective February 2, 2019. As with any change in senior leadership,

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Mr. Alberini may make changes in the strategic direction of the Company and may pursue initiatives that differ from his predecessor. Such changes in leadership or plans could be disruptive to, or cause uncertainty in, our business or results of operations. Any failure to ensure a smooth transition in leadership or strategy could hinder or delay our plans or execution, impact our relationships with business partners and affect our ability to attract and retain other experienced and talented employees. These types of disruptions or uncertainties could have a material impact on our business, results of operations or financial condition.

If we fail to successfully execute growth initiatives, including acquisitions and alliances, our business and results of operations could be harmed.

We regularly evaluate strategic acquisitions and alliances and pursue those that we believe will support and contribute to our overall growth initiatives. Our historical acquisitions include our former European jeanswear licensee in 2005, our former European licensee of children's apparel in 2008 and our former European licensee of MARCIANO apparel in 2012. In addition, we have entered into joint venture relationships with partners in Brazil, the Canary Islands, Mexico, Portugal and Russia and have been directly operating our South Korea and China businesses since 2007, our international jewelry business since 2010, our Japan business starting in 2013, our retail businesses in Australia and Singapore since 2017 and our retail businesses in Cyprus, Hungary and Kazakhstan since 2019.

These efforts place increased demands on our managerial, operational and administrative resources that could prevent or delay the successful opening of new stores and the identification of suitable licensee partners, adversely impact the performance of our existing stores and adversely impact our overall results of operations. In addition, acquired businesses and additional store openings may not provide us with increased business opportunities, or result in the growth that we anticipate, particularly during economic downturns. Furthermore, integrating acquired operations (including operations from existing licensees or joint venture partners) is a complex, time-consuming and expensive process. Failing to acquire and successfully integrate complementary businesses, or failing to achieve the business synergies or other anticipated benefits of acquisitions or joint ventures, could materially adversely affect our business and results of operations.

We may be unsuccessful in implementing our plans to open and operate new stores, which could harm our business and negatively affect our results of operations.

New store openings have historically been an important part of the growth of our business. To open and operate new stores successfully, we must:

- identify desirable locations, the availability of which is out of our control;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- efficiently build and equip the new stores;
- source sufficient levels of inventory to meet the needs of the new stores;
- hire, train and retain competent store personnel;
- successfully integrate the new stores into our existing systems and operations; and
- satisfy the fashion preferences of customers in the new geographic areas.

Any of these challenges could delay our store openings, prevent us from completing our store opening plans or hinder the operations of stores we do open. These challenges could be even more pronounced in foreign markets, including markets where we have identified opportunities for store growth (such as Japan, mainland China, and Eastern and Northern Europe) due to unfamiliar local regulations, business conditions and other factors. Once open, we cannot be sure that our new stores will be profitable. Such things as unfavorable economic and business conditions and changing consumer preferences could also interfere with our store opening plans.

Failure to successfully develop and manage new store design concepts could adversely affect our results of operations. The introduction and growth or maintenance of new store design concepts as part of our overall growth and productivity strategies could strain our financial and management resources and is subject to a number of other risks, including customer acceptance, product differentiation, competition and maintaining desirable locations. These risks may be compounded during difficult economic climates or any future economic downturn. There can be no assurance that new store designs will achieve or maintain sales and profitability levels that justify the required investments. If we are unable to successfully develop new store designs, or if consumers are not receptive to the products, design

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layout, or visual merchandising, our results of operations and financial results could be adversely affected. In addition, the failure of new store designs to achieve acceptable results could lead to unplanned store closures and/or impairment and other charges, which could adversely affect our results of operations and ability to grow.

We may not fully realize expected cost savings and/or operating efficiencies related to cost-saving initiatives.

We have identified several areas that present opportunities for future cost savings and efficiencies, including improved working capital management, distribution, supply chain, and other initiatives, based on a number of assumptions and expectations which, if achieved, would improve our profitability and cash flows from operating activities. However, there can be no assurance that the expected results will be achieved. These and any future spend reductions, if any, may also negatively impact our other initiatives or our efforts to grow our business, which may negatively impact our future results of operations and increase the burden on existing management, systems and resources. In addition, these cost savings may be negated or offset by unexpected or increased costs and poorer performance in other areas of the business.

Changes in subjective assumptions, estimates and judgments by management related to complex tax matters, including those resulting from regulatory reviews, could adversely affect our financial results.

We are subject to routine tax audits on various tax matters around the world in the ordinary course of business (including income tax, business tax, customs duties and Value Added Tax (“VAT”) matters). We regularly assess the adequacy of our uncertain tax positions and other reserves, which requires a significant amount of judgment. Although we accrue for uncertain tax positions and other reserves, the results of regulatory audits and negotiations with taxing and customs authorities may be in excess of our accruals, resulting in the payment of additional taxes, duties, penalties and interest. See “Part IV. Financial Statements – Note 11 – Income Taxes” in this Form 10-K for disclosures about our tax matters, including reserves for uncertain tax positions.

From time-to-time, we make VAT and other tax-related refund claims with various foreign tax authorities that are audited by those authorities for compliance. Failure by these foreign governments to approve or ultimately pay these claims could have a material adverse effect on our results of operations and liquidity.

Changes in tax laws, significant shifts in the relative source of our earnings, or other unanticipated tax liabilities could adversely affect our effective income tax rate and profitability and may result in volatility in our financial results.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change. We record tax expense based on our estimate of future payments, which include reserves for uncertain tax positions in multiple tax jurisdictions and requires significant judgment in evaluating and estimating our provision and accruals. Our effective income tax rate in the future could be affected by a number of other factors, including: the outcome of income tax audits in various jurisdictions around the world, changes in our stock price, the resolution of uncertain tax positions and changes in our operating structure. We and our subsidiaries are engaged in a number of intercompany transactions across multiple tax jurisdictions. Although we believe that these transactions reflect arm’s length terms and that the proper transfer pricing documentation is in place, these transfer pricing terms and conditions may be scrutinized by local tax authorities during an audit and any resulting changes may impact our mix of earnings in countries with differing statutory tax rates. In addition, the relative amount of our foreign earnings, including earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, as well as losses in jurisdictions where we are unable to realize the related tax benefits, can create volatility in our effective income tax rate. Any one of these factors could adversely impact our income tax rate and our profitability and could create ongoing variability in our quarterly or annual tax rates.

The Organization for Economic Co-operation and Development (OECD), an international association comprised of 36 countries, including the United States, has made changes to numerous long-standing tax principles. There can be no assurance that these changes, once adopted by countries, will not have an adverse impact on our provision for income taxes.

The recently enacted 2017 Tax Cuts and Jobs Act in the U.S. (referred to herein as the “Tax Reform”) significantly changes how the U.S. taxes corporations and requires complex computations to be performed that were not previously required in U.S. tax law. Interpretation of the provisions of the Tax Reform require significant judgment and

estimates.

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The IRS and other standard-setting bodies could interpret or issue additional guidance on how provisions of the Tax Reform should be applied that is different from our interpretation. Publication of additional interpretations, or enactment of additional legislation, may materially impact our provision for income taxes in the future periods in which the adjustments are made.

Future changes to U.S. tax or trade policies impacting multi-national companies could materially affect our financial condition and results of operations.

During fiscal 2019, we sourced most of our finished products with partners and suppliers outside the U.S. and we continued to design and purchase fabrics globally. In addition, over time we have increased our sales of product outside of the U.S. In fiscal 2019, approximately 71% of our consolidated net revenue was generated by sales from outside of the U.S. We anticipate that these international revenues will continue to grow as a percentage of our total business over time. The current political landscape has introduced greater uncertainty with respect to future tax and trade regulations for U.S. companies like ours with significant business and sourcing operations outside the U.S. In addition, there have been recent changes to U.S. participation in, and discussions concerning the potential renegotiation of, certain international trade agreements. We cannot predict whether, and to what extent, there may be changes to such international trade agreements or whether quotas, duties, tariffs, exchange controls or other restrictions will be changed or imposed by the U.S. or by other countries. If we or our vendors or product licensees are unable to obtain raw materials or finished goods from the countries where we or they wish to purchase them, either because of such regulatory changes or for any other reason, or if the cost of doing so should increase, it could have a material adverse effect on our results of operations and financial condition.

Abnormally harsh or unseasonable weather conditions could have a material adverse impact on our sales, inventory levels and operating results.

Extreme weather conditions in areas in which our retail stores and wholesale doors are located, particularly in markets where we have a concentration of locations, could adversely affect our business. For example, heavy snowfall, rainfall or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. Reduced sales from extreme or prolonged unseasonable weather conditions could have a material adverse effect on our results of operations, financial condition and cash flows.

Our results of operations could be affected by natural events in the locations in which we or our customers or suppliers operate.

Our corporate headquarters, as well as other key operational locations, including retail, distribution and warehousing facilities, are located in areas that are subject to natural disasters such as severe weather and geological events that could disrupt our operations. Many of our suppliers and customers also have operations in these locations. The occurrence of such natural events may result in sudden disruptions in business conditions of the local economies affected, as well as of the regional and global economies. Such disruptions could result in decreased demand for our products and disruptions in our management functions, sales channels and manufacturing and distribution networks, which could have a material adverse effect on our business, financial condition and results of operations.

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Our Chairman and our Chief Creative Officer own a significant percentage of our common stock. Their interests may differ from the interests of our other stockholders.

Maurice Marciano, our Chairman and Board member, and Paul Marciano, our Chief Creative Officer and Board member, collectively beneficially own approximately 30% of our outstanding shares of common stock. The sale or prospect of the sale of a substantial number of these shares could have an adverse impact on the market price of our common stock. Moreover, these individuals may have different interests than our other stockholders and, accordingly, they may direct the operations of our business in a manner contrary to the interests of our other stockholders. As long as these individuals own a significant percentage of our common stock, they may effectively be able to:

- elect our directors;
- amend or prevent amendment of our Restated Certificate of Incorporation or Bylaws;
- effect or prevent a merger, sale and/or purchase of assets or other corporate transactions; and
- control the outcome of any other matter submitted to our stockholders for vote.

Their stock ownership, together with the anti-takeover effects of certain provisions of applicable Delaware law and our Restated Certificate of Incorporation and Bylaws, may discourage acquisition bids or allow the Marcianos to delay or prevent a change in control that may be favored by our other stockholders, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our common stock price.

Our failure to retain our existing senior management team or to retain or attract other key personnel could adversely affect our business.

Our business requires disciplined execution at all levels of our organization in order to ensure the timely delivery of desirable merchandise in appropriate quantities to our stores and other customers. This execution requires experienced and talented management in various areas of our business including: advertising, design, finance, merchandising, operations, and production. Our success depends upon the personal efforts and abilities of our senior management, particularly Carlos Alberini, our Chief Executive Officer, Paul Marciano, our Chief Creative Officer, and other key personnel. Although we believe we have a strong management team with relevant industry expertise, the extended loss of the services of these or other key personnel and failure to effectively identify and attract suitable successors could materially harm our business.

Fluctuations in quarterly performance including comparable store sales, sales per square foot, operating margins, timing of wholesale orders, royalty net revenue or other factors could have a material adverse effect on our earnings and our stock price.

Our quarterly results of operations for each of our business segments have fluctuated in the past and can be expected to fluctuate in the future. Further, if global growth plans or productivity initiatives fail to meet our expected results, our overhead and other costs could increase without an offsetting increase in sales and net revenue. This could have a material adverse effect on our results of operations and financial condition, including but not limited to future impairments of store assets or goodwill.

Our net revenue and operating results have historically been lower in the first half of our fiscal year due to general seasonal trends in the apparel and retail industries. Our comparable store sales, quarterly results of operations and stock price can also be affected by a variety of other factors, including:

- shifts in consumer tastes and fashion trends;
- the timing of new store openings and the relative proportion of new stores to mature stores;
- the timing and effectiveness of planned store closures;
- calendar shifts of holiday or seasonal periods;
- the timing of seasonal wholesale shipments;
- the effectiveness of our inventory management;
- the effectiveness and efficiency of our product distribution network;
- changes in our merchandise mix;
- changes in our mix of revenues by segment;
- the timing of promotional events;

actions by competitors;

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- weather conditions;
- changes in the business environment;
- inflationary changes in prices and costs;
- changes in the payment of future cash dividends;
- changes in currency exchange rates;
- population trends;
- changes in patterns of commerce such as the expansion of e-commerce;
- the level of pre-operating expenses associated with new stores; and
- volatility in securities' markets which could impact the value of our investments in non-operating assets.

An unfavorable change in any of the above factors could have a material adverse effect on our results of operations and our stock price.

ITEM 1B. Unresolved Staff Comments.

None.

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ITEM 2. Properties.

As of February 2, 2019, all of our principal facilities were leased with the exception of our U.S. distribution center based in Louisville, Kentucky and our administrative office based in Florence, Italy. Certain information concerning our principal facilities is set forth below:

Location	Use	Approximate Area in Square Feet
Los Angeles, California	Principal executive and administrative offices, design facilities, sales offices, warehouse facilities and sourcing used by our Americas Wholesale, Americas Retail, Corporate and Licensing support groups	341,700
Louisville, Kentucky	Distribution and warehousing facility used by our Americas Wholesale and Americas Retail segments	506,000
New York, New York	Administrative and sales offices, public relations and showrooms used by our Americas Wholesale segment	13,400
Montreal/Toronto/Vancouver, Canada	Administrative offices, showrooms and warehouse facilities used by our Americas Wholesale and Americas Retail segments	206,800
São Paulo, Brazil	Administrative office and showroom used by our Americas Wholesale and Americas Retail segments	4,000
Lugano/Stabio, Switzerland	Administrative, sales and marketing offices, design facilities and showrooms used by our Europe segment	153,400
Venlo, Netherlands	Distribution and warehousing facilities used by all of our segments.	1,046,400
Paris, France	Administrative office and showroom used by our Europe segment	16,000
Düsseldorf/Munich, Germany	Administrative office and showrooms used by our Europe segment	18,400
Florence, Italy	Administrative office used by our Europe segment	113,000
Warsaw, Poland	Administrative office and showrooms used by our Europe segment	14,000
Lisbon, Portugal	Showroom used by our Europe segment	6,000
Moscow, Russia	Administrative office and showroom used by our Europe segment	6,500
Barcelona, Spain	Administrative office and showroom used by our Europe segment	8,600
Istanbul, Turkey	Administrative office used by our Europe segment	4,200
Shanghai, China	Administrative offices used by our Asia segment	17,800
Kowloon, Hong Kong	Administrative and sales office, showroom and licensing coordination facilities used primarily by our Asia segment	17,100
Seoul, South Korea	Administrative and sales offices, design facilities and showrooms used by our Asia segment	54,700
Tokyo, Japan	Administrative and sales offices and showroom used by our Asia segment	5,100

Our corporate, wholesale and retail headquarters and certain warehouse facilities are located in Los Angeles, California, consisting of four buildings totaling approximately 341,700 square feet. These facilities are leased by us from limited partnerships in which the sole partners are trusts controlled by and for the benefit of Maurice Marciano and Paul Marciano (the “Principal Stockholders”) and their families pursuant to a lease that expires in July 2020. The total lease payments related to these facilities are approximately \$0.3 million per month with aggregate minimum lease commitments through the term of the lease totaling approximately \$5.4 million as of February 2, 2019.

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In addition, the Company, through a wholly-owned Canadian subsidiary, leases warehouse and administrative facilities in Montreal, Quebec from a partnership affiliated with the Principal Stockholders. During fiscal 2019, the Company exercised an option to extend the lease term through August 2021. All other terms of the existing lease remain in full force and effect. The monthly lease payment is CAD\$49,000 (US\$37,000) with aggregate minimum lease commitments through the term of the lease totaling approximately CAD\$1.4 million (US\$1.1 million) as of February 2, 2019.

The Company, through a French subsidiary, leases a showroom and office space located in Paris, France from an entity that is owned in part by an affiliate of the Principal Stockholders. The lease expires in May 2020. Due to excess capacity, the lease was amended to reduce the square footage by approximately 5,100 square feet to 16,000 square feet during fiscal 2018. The amendment also provided for a corresponding reduction in aggregate rent, common area maintenance charges and property tax expense due to the lower square footage. All other terms of the existing lease remain in full force and effect. The aggregate minimum lease commitments through the term of the lease totaled approximately €0.9 million (US\$1.1 million) as of February 2, 2019.

See “Part IV. Financial Statements – Note 13 – Related Party Transactions” in this Form 10-K for disclosures about our related party transactions.

Our U.S. distribution center is a fully automated facility based in Louisville, Kentucky. Distribution of our products in Canada is handled primarily from two leased facilities based in Montreal, Quebec. Distribution of our products in Europe is also handled by third-party distributors. During fiscal 2019, the Company transitioned most of its European product distribution from Italy to facilities located in Venlo, Netherlands. Additionally, we utilize several third-party operated distribution warehouses that service the Asia region.

We lease our showrooms, advertising, licensing, sales and merchandising offices, remote distribution and warehousing facilities and retail and factory outlet store locations under non-cancelable operating lease agreements expiring on various dates through January 2039. These facilities had aggregate real estate minimum lease commitments as of February 2, 2019 totaling approximately \$997.0 million, excluding related party commitments. The terms of our store and concession leases (including executed leases for stores that have not yet opened), excluding renewal options and kick-out clauses, as of February 2, 2019, expire as follows:

Years Lease Terms Expire	Number of Stores and Concessions		
	Americas	Europe	Asia
Fiscal 2020-2022	286	159	268
Fiscal 2023-2025	132	177	88
Fiscal 2026-2028	44	143	51
Fiscal 2029-2031	11	60	6
Thereafter	1	10	—
	474	549	413

We believe our existing facilities are well maintained, in good operating condition and are adequate to support our present level of operations. See “Part IV. Financial Statements – Note 14 – Commitments and Contingencies” in this Form 10-K for disclosures about current lease obligations.

ITEM 3. Legal Proceedings.

See “Part IV. Financial Statements – Note 14 – Commitments and Contingencies” in this Form 10-K for disclosures about our legal and other proceedings.

ITEM 4. Mine Safety Disclosures.

Not applicable.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market and Shareholder Information

Since August 8, 1996, the Company's common stock has been listed on the New York Stock Exchange under the symbol 'GES.' On March 25, 2019, there were 302 holders of record of the Company's common stock.

Prior to the initiation of a quarterly dividend on February 12, 2007, the Company had not declared any dividends on our common stock since our initial public offering in 1996. The payment of cash dividends in the future will be at the discretion of our Board of Directors and will be based upon a number of business, legal and other considerations, including our cash flow from operations, capital expenditures, debt service and covenant requirements, cash paid for income taxes, earnings, share repurchases, economic conditions and U.S. and global liquidity. On March 20, 2019, the Company announced a regular quarterly cash dividend of \$0.225 per share on the Company's common stock.

Share Repurchase Program

The Company's share repurchases during each fiscal month of the fourth quarter of fiscal 2019 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
November 4, 2018 to December 1, 2018				
Repurchase program ¹	—	\$ —	—	\$374,636,677
Employee transactions ²	432	\$ 22.76	—	
December 2, 2018 to January 5, 2019				
Repurchase program ¹	—	\$ —	—	\$374,636,677
Employee transactions ²	134,010	\$ 21.43	—	
January 6, 2019 to February 2, 2019				
Repurchase program ¹	—	\$ —	—	\$374,636,677
Employee transactions ²	19,565	\$ 19.45	—	
Total				
Repurchase program ¹	—	\$ —	—	
Employee transactions ²	154,007	\$ 21.18	—	

On June 26, 2012, the Company's Board of Directors authorized a program to repurchase, from time-to-time and as market and business conditions warrant, up to \$500 million of the Company's common stock. Repurchases under the ¹ program may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under the program, which may be discontinued at any time, without prior notice.

Consists of shares surrendered to, or withheld by, the Company in satisfaction of employee tax withholding ² obligations that occur upon vesting of restricted stock awards/units granted under the Company's 2004 Equity Incentive Plan, as amended.

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Performance Graph

The Stock Price Performance Graph below compares the cumulative stockholder return of the Company with that of the S&P 500 Index (a broad equity market index) and the S&P 1500 Apparel Retail Index (a published industry index) over the five fiscal years beginning February 1, 2014. The return on investment is calculated based on an investment of \$100 on February 1, 2014, with dividends, if any, reinvested. Past performance is not necessarily indicative of future performance.

COMPARISON OF FIVE YEAR TOTAL RETURN
AMONG GUESS?, INC.,
S&P 500 INDEX AND S&P 1500 APPAREL RETAIL INDEX

Period Ending

Company/Market/Peer Group	2/1/2014	1/31/2015	1/30/2016	1/28/2017	2/3/2018	2/2/2019
Guess?, Inc.	\$ 100.00	\$ 69.57	\$ 71.92	\$ 50.59	\$ 64.35	\$ 87.27
S&P 1500 Apparel Retail Index	100.00	120.27	125.26	122.05	129.70	144.32
S&P 500 Index	100.00	114.22	113.46	137.14	168.46	168.36

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ITEM 6. Selected Financial Data.

The selected financial data set forth below has been derived from the audited Consolidated Financial Statements of the Company and the related notes thereto. The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and the related notes contained herein and with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding accounting changes and other items affecting comparability.

	Year Ended ¹				
	Feb 2, 2019	Feb 3, 2018	Jan 28, 2017	Jan 30, 2016	Jan 31, 2015
	(in thousands, except per share data)				
Statements of income data:					
Net revenue ²	\$2,609,694	\$2,363,754	\$2,190,453	\$2,184,495	\$2,395,447
Earnings from operations ^{3,4,5,6,7,8,9}	52,212	67,355	24,763	122,439	128,956
Income tax expense ⁹	29,542	74,172	28,212	42,464	45,824
Net earnings (loss) attributable to Guess?, Inc. ^{3,4,5,6,7,8,9,10,11}	14,099	(7,894)) 22,761	81,851	94,570
Net earnings (loss) per common share attributable to common stockholders ^{2,3,4,5,6,7,8,9,10,12} :					
Basic	\$0.17	\$(0.11)) \$0.27	\$0.97	\$1.11
Diluted	\$0.16	\$(0.11)) \$0.27	\$0.96	\$1.11
Dividends declared per common share	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90
Weighted average common shares outstanding—basic	80,146	82,189	83,666	84,264	84,604
Weighted average common shares outstanding—diluted	81,589	82,189	83,829	84,525	84,837
	Feb 2, 2019	Feb 3, 2018	Jan 28, 2017	Jan 30, 2016	Jan 31, 2015
Balance sheet data:					
Working capital	\$545,331	\$640,860	\$698,559	\$709,193	\$790,333
Total assets ²	1,649,205	1,655,634	1,534,485	1,538,748	1,601,405
Borrowings and capital lease, excluding current installments	35,012	39,196	23,482	2,318	6,165
Stockholders' equity	853,645	933,475	980,994	1,031,293	1,089,446

The Company operates on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. The results for fiscal 2018 included the impact of an additional week which occurred during the fourth quarter ended February 3, 2018.

² Net revenue for fiscal 2019 reflects the adoption of the new revenue recognition standard. Prior period balance sheet amounts have not been restated and continue to be reported under accounting standards in effect for those periods. During fiscal 2019, the Company incurred net gains on lease terminations of \$0.5 million related primarily to the modification of certain lease agreements held in North America. During fiscal 2018, the Company incurred net gains on lease terminations of \$11.4 million related primarily to the modification of certain lease agreements held with a common landlord in North America. During fiscal 2017, fiscal 2016 and fiscal 2015, the Company recorded net gains on lease terminations of \$0.7 million, \$2.3 million and \$3.8 million, respectively, related primarily to the early termination of certain lease agreements in Europe.

⁴ During each of the years presented, the Company recognized asset impairment charges for certain retail locations resulting from under-performance and expected store closures. Asset impairment charges recognized were approximately \$6.9 million

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in fiscal 2019, \$8.5 million in fiscal 2018, \$34.4 million in fiscal 2017, \$2.3 million in fiscal 2016 and \$24.8 million in fiscal 2015. Refer to “Part IV. Financial Statements – Note 5 – Property and Equipment” in this Form 10-K for further detail.

5 During fiscal 2019 and 2018, the Company incurred certain professional service and legal fees and related costs of \$6.1 million and \$0.5 million, respectively.

6 During fiscal 2019, the Company incurred charges of €39.8 million (\$45.6 million) for a fine imposed by the European Commission related to alleged violations of European Union competition rules by the Company. The Company paid the full amount of the fine during the first quarter of fiscal 2020.

7 During fiscal 2019, the Company announced the departure of its former Chief Executive Officer (“CEO”) and the terms of his separation. As a result, the Company incurred CEO severance charges of \$5.2 million during fiscal 2019.

8 During fiscal 2017, the Company incurred restructuring charges of \$6.1 million.

9 During fiscal 2016, the Company recognized a \$1.7 million curtailment gain, before taxes, related to an amendment that accelerated the amortization of the prior service credit.

10 During fiscal 2019, the Company incurred additional expense of \$6.3 million related to revising the provisional amounts previously recorded related to deemed repatriation of foreign earnings related to the Tax Reform. During fiscal 2018, the Company recognized additional tax expense of \$47.9 million related to the enactment of the Tax Reform. This was comprised of a \$24.9 million charge for the provisional re-measurement of certain deferred taxes and related amounts and a provisional charge of \$23.0 million to income tax expense for the estimated effects of the transitional tax on the deemed repatriation of foreign earnings. During fiscal 2017, the Company recorded valuation reserves of \$6.8 million resulting from jurisdictions where there were cumulative net operating losses, limiting the Company’s ability to consider other subjective evidence to continue to recognize the existing deferred tax assets. During fiscal 2017, the Company also recorded an estimated exit tax charge of \$1.9 million related to the Company’s reorganization in Europe as a result of its global cost reduction and restructuring plan. Refer to “Part IV. Financial Statements – Note 11 – Income Taxes” in this Form 10-K for further detail.

11 During fiscal 2017, the Company sold its minority interest equity holding in a privately-held boutique apparel company for net proceeds of approximately \$34.8 million, which resulted in a gain of approximately \$22.3 million which was recorded in other income.

12 Holders of the Company’s restricted stock awards are not required to participate in losses of the Company.

Accordingly, in periods in which the Company reported a net loss, such losses were not allocated to these participating securities, and as a result, basic and diluted net loss per share were the same in those periods.

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

General

Unless the context indicates otherwise, when we refer to “we,” “us,” “our” or the “Company” in this Form 10 K, we are referring to Guess?, Inc. and its subsidiaries on a consolidated basis.

Business Segments

The Company’s businesses are grouped into five reportable segments for management and internal financial reporting purposes: Americas Retail, Americas Wholesale, Europe, Asia and Licensing. Management evaluates segment performance based primarily on revenues and earnings (loss) from operations before corporate performance-based compensation costs, net gains (losses) from lease terminations, asset impairment charges, restructuring charges and certain non-recurring charges, if any. The Americas Retail segment includes the Company’s retail and e-commerce operations in the Americas. The Americas Wholesale segment includes the Company’s wholesale operations in the Americas. The Europe segment includes the Company’s retail, e-commerce and wholesale operations in Europe and the Middle East. The Asia segment includes the Company’s retail, e-commerce and wholesale operations in Asia and the Pacific. The Licensing segment includes the worldwide licensing operations of the Company. The business segment operating results exclude corporate overhead costs, which consist of shared costs of the organization, net gains (losses) on lease terminations, asset impairment charges, restructuring charges and certain non-recurring charges, if any. Corporate overhead costs are presented separately and generally include, among other things, the

following unallocated corporate costs: accounting and finance, executive compensation, corporate performance-based compensation, facilities, global advertising and marketing, human resources, information technology and legal. Information regarding these segments is summarized in “Part IV. Financial Statements – Note 17 – Segment Information” in this Form 10-K.

Products

We derive our net revenue from the sale of GUESS?, G by GUESS (GbG), GUESS Kids and MARCIANO apparel and our licensees’ products through our worldwide network of directly operated and licensed retail stores, wholesale customers and distributors, as well as our online sites. We also derive royalty revenue from worldwide licensing activities.

Foreign Currency Volatility

Since the majority of our international operations are conducted in currencies other than the U.S. dollar (primarily the Canadian dollar, Chinese yuan, euro, Japanese yen, Korean won, Mexican peso, Russian ruble and Turkish lira), currency fluctuations can have a significant impact on the translation of our international revenues and earnings into U.S. dollar amounts.

In addition, some of our transactions that occur primarily in Europe, Canada, South Korea, China and Mexico are denominated in U.S. dollars, Swiss francs, British pounds and Russian rubles, exposing them to exchange rate fluctuations when these transactions (such as inventory purchases) are converted to their functional currencies. As a result, fluctuations in exchange rates can impact the operating margins of our foreign operations and reported earnings (loss), and are largely dependent on the transaction timing and magnitude during the period that the currency fluctuates. When these foreign exchange rates weaken versus the U.S. dollar at the time U.S. dollar denominated inventory is purchased relative to the purchases of the comparable period, our product margins could be unfavorably impacted if the relative sales prices do not change.

During fiscal 2019, the average U.S. dollar rate was weaker against the euro, the Korean won and the Chinese yuan and stronger against the Canadian dollar, the Mexican peso, Russian ruble and Turkish lira compared to the average rate in fiscal 2018. This had an overall unfavorable impact on the translation of our international revenues and earnings from operations during fiscal 2019 compared to the prior year.

If the U.S. dollar strengthens relative to the respective fiscal 2019 foreign exchange rates, foreign exchange could negatively impact our revenues and operating results as well as our international cash and other balance sheet items during fiscal 2020, particularly in Canada, Europe (primarily the euro, Turkish lira and Russian ruble) and Mexico. Alternatively, if the U.S. dollar weakens relative to the respective fiscal 2019 foreign exchange rates, our revenues and operating results, as well as our other cash balance sheet items, could be positively impacted by foreign currency fluctuations during fiscal 2020, particularly in these regions.

The Company enters into derivative financial instruments to offset some but not all of the exchange risk on foreign currency transactions. For additional discussion regarding our exposure to foreign currency risk, forward contracts designated as hedging instruments and forward contracts not designated as hedging instruments, refer to “Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”

Recent Developments

On February 20, 2019, Carlos Alberini began his service as the Company’s new Chief Executive Officer and member of the Board, replacing Victor Herrero, who separated from the Company on February 2, 2019. Mr. Alberini previously served as President and Chief Operating Officer of the Company from 2000 to 2010. From 2010 until 2014, Mr. Alberini was Co-CEO of Restoration Hardware and at present, remains a Director on the Board of Restoration Hardware. From 2014 until February 2019, Mr. Alberini served as the Chairman and CEO of Lucky Brand.

Although Mr. Alberini is currently in the process of developing a strategic vision and implementation plan for execution with our leadership team, he has already identified several key principles he plans to deploy to drive value creation. Those key principles include: (i) capital allocation; (ii) product development and distribution optimization; (iii) global strategies; (iv) cost and structure optimization; and (v) a concept called Customer Centricity; each as further described below:

Capital Allocation. We plan to continue to prioritize capital allocation toward investments that support growth and infrastructure, while remaining highly disciplined in the way we allocate capital across projects, including new store development, store remodels, technology investments and others. When we prioritize investments, we will

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focus on their strategic significance and their return on invested capital expectations. We also plan to manage product buys and inventory ownership rigorously and optimize overall working capital management consistently.

The Company's investments in capital for the full fiscal year 2020 are planned between \$55 million and \$65 million. The planned investments in capital are related primarily to retail and e-commerce expansion in Europe and Asia, as well as continued investments in technology to support our long-term growth plans.

Product Development and Distribution Optimization. The Company has a highly diversified customer base that offers opportunities for an expanded distribution of certain product categories, which may be matured in certain markets and underdeveloped in others. For example, denim has always been at the core of the GUESS? business. Today, our denim penetration is much lower than our historic levels and we plan to increase the penetration with a great product assortment, strong store presentation and effective marketing. We will explore other product opportunities as well.

Global Strategies. We plan to leverage and support our global business more effectively, including areas such as sourcing and product development, data capture and analysis regarding product performance and customer history and behavior, and information technology and innovation.

Cost and Structure Optimization. We believe there are several areas that present opportunities for cost savings in our Company and that we can structure our organization more effectively to improve accountability, collaboration and efficiency.

Customer Centricity. We plan to place the customer at the center of everything we do, including striving to perfect the omni-channel experience.

Comparable Store Sales

The Company reports National Retail Federation calendar comparable store sales on a quarterly basis for our retail businesses which include the combined results from our brick-and-mortar retail stores and our e-commerce sites. We also separately report the impact of e-commerce sales on our comparable store sales metric. As a result of our omni-channel strategy, our e-commerce business has become strongly intertwined with our brick-and-mortar retail store business. Therefore, we believe that the inclusion of e-commerce sales in our comparable store sales metric provides a more meaningful representation of our retail results.

Sales from our brick-and-mortar retail stores include purchases that are initiated, paid for and fulfilled at our retail stores and directly operated concessions as well as merchandise that is reserved online but paid for and picked-up at our retail stores. Sales from our e-commerce sites include purchases that are initiated and paid for online and shipped from either our distribution centers or our retail stores as well as purchases that are initiated in a retail store, but due to inventory availability at the retail store, are ordered and paid for online and shipped from our distribution centers or picked-up from a different retail store.

Store sales are considered comparable after the store has been open for 13 full months. If a store remodel results in a square footage change of more than 15%, or involves a relocation or a change in store concept, the store sales are removed from the comparable store base until the store has been opened at its new size, in its new location or under its new concept for 13 full months. E-commerce sales are considered comparable after the online site has been operational in a country for 13 full months and exclude any related revenue from shipping fees.

The comparable stores sales for fiscal 2019 have been adjusted to compare to the appropriate week in the prior year as a result of the additional week included in fiscal 2018.

Definitions and calculations of comparable store sales used by the Company may differ from similarly titled measures reported by other companies.

Executive Summary

Overview

Net earnings attributable to Guess?, Inc. were \$14.1 million, or diluted earnings of \$0.16 per common share, for fiscal 2019, compared to net loss attributable to Guess?, Inc. of \$7.9 million, or diluted loss of \$0.11 per common share for fiscal 2018.

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During fiscal 2019, the Company recognized a fine imposed by the European Commission of €39.8 million (\$45.6 million), asset impairment charges of \$6.9 million, net gains on lease terminations of \$0.5 million, certain professional service and legal fees and related costs of \$6.1 million, CEO severance charges of \$5.2 million and income tax charges totaling \$6.3 million related to the enactment of the Tax Reform (or a combined \$66.3 million after considering the related tax benefit of \$3.4 million), or an unfavorable \$0.82 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$80.4 million and adjusted diluted earnings were \$0.98 per common share for fiscal 2019. During fiscal 2018, the Company recognized asset impairment charges of \$8.5 million, net losses on lease terminations of \$11.4 million, certain professional service and legal fees and related costs of \$0.5 million and additional income tax charges totaling \$47.9 million related to the Tax Reform (or a combined \$66.6 million after considering the related tax benefit of \$1.6 million), or an unfavorable \$0.81 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$58.7 million and adjusted diluted earnings were \$0.70 per common share for fiscal 2018. References to financial results excluding the impact of these items are non-GAAP measures and are addressed below under “Non-GAAP Measures.”

Highlights of the Company’s performance for fiscal 2019 compared to the prior year are presented below, followed by a more comprehensive discussion under “Results of Operations”:

Operations

Total net revenue increased 10.4% to \$2.61 billion for fiscal 2019, compared to \$2.36 billion in the prior year. In constant currency, net revenue increased by 10.6%.

Gross margin (gross profit as a percentage of total net revenue) increased 90 basis points to 36.0% for fiscal 2019, compared to 35.1% in the prior year.

Selling, general and administrative (“SG&A”) expenses as a percentage of total net revenue (“SG&A rate”) increased 50 basis points to 32.0% for fiscal 2019, compared to 31.5% in the prior year. SG&A expenses increased 12.6% to \$835.3 million for fiscal 2019, compared to \$741.6 million in the prior year.

During fiscal 2019, the Company recognized charges of €39.8 million (\$45.6 million) for a fine imposed by the European Commission related to alleged violations of European Union competition rules by the Company. The Company paid the full amount of the fine during the first quarter of fiscal 2020.

During fiscal 2019, the Company recognized asset impairment charges of \$6.9 million, compared to \$8.5 million in the prior year.

During fiscal 2019, the Company recognized net gains on lease terminations of \$0.5 million, compared to net losses on lease terminations of \$11.4 million in the prior year.

Operating margin decreased 80 basis points to 2.0% for fiscal 2019, compared to 2.8% in the prior year. The European Commission fine recorded during fiscal 2019 negatively impacted operating margin by 170 basis points.

Net gains on lease terminations recorded during fiscal 2019 favorably impacted operating margin by 50 basis points compared to the prior year. Higher expenses related to certain professional service and legal fees and related costs recorded during fiscal 2019 negatively impacted operating margin by 10 basis points compared to the prior year. CEO severance charges recorded during fiscal 2019 negatively impacted operating margin by 20 basis points. Earnings from operations decreased 22.5% to \$52.2 million for fiscal 2019, compared to \$67.4 million in the prior year.

Other expense, net (including interest income and expense) totaled \$5.5 million for fiscal 2019, compared to other income, net (including interest income and expense) of \$2.9 million in the prior year.

The effective income tax rate decreased 40.2% to 63.2% for fiscal 2019, compared to 105.6% in the prior year. The Company’s effective tax rate for 2019 benefited from a lower statutory tax rate as a result of the Tax Reform and adjustments made during fiscal 2018 as a result of the enactment of the Tax Reform. These items positively impacted the Company’s effective tax rate by 41.8% in fiscal 2019. The Company’s effective tax rate for 2018 included additional income tax expense of \$47.9 million related to the enactment of the Tax Reform, which negatively impacted the Company’s effective tax rate by 68.2% in fiscal 2018.

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Key Balance Sheet Accounts

The Company had \$210.5 million in cash and cash equivalents and \$0.5 million in restricted cash as of February 2, 2019, compared to \$367.4 million in cash and cash equivalents and \$0.2 million in restricted cash at February 3, 2018. The Company invested \$17.6 million to repurchase 1,118,808 of its common shares during fiscal 2019. During fiscal 2018, the Company invested \$56.1 million to repurchase 3,866,387 of its common shares. In addition, during the fourth quarter of fiscal 2019, the Company received proceeds from borrowings of \$22.7 million and made payments for borrowings and capital lease obligations of \$23.5 million.

Accounts receivable consists of trade receivables relating primarily to the Company's wholesale business in Europe and, to a lesser extent, to its wholesale businesses in Asia and the Americas, royalty receivables relating to its licensing operations, credit card and retail concession receivables related to its retail businesses and certain other receivables. Accounts receivable increased by \$62.0 million, or 23.8%, to \$322.0 million as of February 2, 2019, compared to \$260.0 million at February 3, 2018, and includes the impact of \$36.0 million of allowances reclassified from accounts receivable to accrued expenses from the adoption of the new revenue recognition standard in the first quarter of fiscal 2019. On a constant currency basis, accounts receivable increased by \$86.9 million, or 33.4%.

Inventory increased by \$40.6 million, or 9.5%, to \$468.9 million as of February 2, 2019, compared to \$428.3 million at February 3, 2018, and includes the impact of \$12.4 million in reclassifications of accrued inventory from estimated returns to other assets from the adoption of the new revenue recognition standard in the first quarter of fiscal 2019. On a constant currency basis, inventory increased by \$69.9 million, or 16.3%.

Global Store Count

In fiscal 2019, together with our partners, we opened 199 new stores worldwide, consisting of 97 stores in Asia and the Pacific, 77 stores in Europe and the Middle East, 14 stores in Central and South America, six stores in Canada and five stores in the U.S. Together with our partners, we closed 143 stores worldwide, consisting of 55 stores in Asia and the Pacific, 46 stores in Europe and the Middle East, 23 stores in the U.S., 13 stores in Central and South America and six stores in Canada.

We ended fiscal 2019 with 1,719 stores and 423 concessions worldwide, comprised as follows:

Region	Stores			Concessions		
	Total	Directly Operated	Partner Operated	Total	Directly Operated	Partner Operated
United States	290	288	2	1	—	1
Canada	89	89	—	—	—	—
Central and South America	104	67	37	27	27	—
Total Americas	483	444	39	28	27	1
Europe and the Middle East	700	490	210	37	37	—
Asia and the Pacific	536	227	309	358	174	184
Total	1,719	1,161	558	423	238	185

Of the total 1,719 stores, 1,405 were GUESS? stores, 198 were GUESS? Accessories stores, 68 were G by GUESS (GbG) stores and 48 were MARCIANO stores.

Results of Operations

The following table sets forth actual operating results for the fiscal years 2019, 2018 and 2017 as a percentage of net revenue:

	Year Ended					
	February 2, 2019		February 3, 2018		January 28, 2017	
Product sales	96.8	%	96.9	%	96.7	%
Net royalties ¹	3.2		3.1		3.3	
Net revenue	100.0		100.0		100.0	

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Cost of product sales ¹	64.0	64.9	66.0
Gross profit	36.0	35.1	34.0
Selling, general and administrative expenses ²	32.0	31.5	31.0
European Commission fine	1.7	—	—
Asset impairment charges	0.3	0.3	1.6
Net (gains) losses on lease terminations	(0.0)	0.5	(0.0)
Restructuring charges	—	—	0.3
Earnings from operations ²	2.0	2.8	1.1
Interest expense	(0.1)	(0.1)	(0.1)
Interest income	0.2	0.2	0.1
Other income (expense), net ²	(0.3)	0.1	1.3
Earnings before income tax expense	1.8	3.0	2.4
Income tax expense	1.1	3.2	1.2
Net earnings (loss)	0.7	(0.2)	1.2
Net earnings attributable to noncontrolling interests	0.2	0.1	0.2
Net earnings (loss) attributable to Guess?, Inc.	0.5	% (0.3 %)	1.0 %

During the fourth quarter of fiscal 2018, the Company reclassified net royalties received on the Company's inventory purchases of licensed product from net revenue to cost of product sales. Accordingly, amounts related to net royalties, net revenue and cost of product sales as well as operating results as a percentage of net revenue have been adjusted for fiscal 2017 to conform to the current period presentation.

During the first quarter of fiscal 2019, the Company adopted new authoritative guidance which requires that the non-service components of net periodic defined benefit pension cost be presented outside of earnings (loss) from operations. Accordingly, amounts related to selling, general and administrative expenses, earnings from operations and other income (expense), net, as a percentage of net revenue have been adjusted for fiscal 2018 and fiscal 2017 to conform to the current period presentation. Refer to "Part IV. Financial Statements – Note 2 – New Accounting Guidance" in this Form 10-K for further information.

Fiscal 2019 Compared to Fiscal 2018

Consolidated Results

Net Revenue. Net revenue increased by \$245.9 million, or 10.4%, to \$2.61 billion for fiscal 2019, compared to \$2.36 billion in fiscal 2018. In constant currency, net revenue increased by 10.6% as currency translation fluctuations relating to our foreign operations unfavorably impacted net revenue by \$5.1 million compared to the prior year. The increase in revenue was driven primarily by retail expansion in our international markets and, to a lesser extent, higher wholesale shipments in Europe and the Americas as well as positive comparable sales.

Gross Margin. Gross margin increased 90 basis points to 36.0% for fiscal 2019, compared to 35.1% in fiscal 2018, of which 100 basis points was due to higher overall product margins, partially offset by 10 basis points related to a higher occupancy rate. The higher overall product margins were driven primarily by lower markdowns in Americas Retail. The higher occupancy rate was driven primarily by higher distribution costs related to the relocation of the

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Company's European distribution center, partially offset by overall global leveraging of expenses and cost reductions due primarily to negotiated rent reductions in Americas Retail.

Gross Profit. Gross profit increased by \$110.8 million, or 13.4%, to \$939.6 million for fiscal 2019, compared to \$828.8 million in fiscal 2018. The increase in gross profit, which included an unfavorable impact from currency translation, was due primarily to the favorable impact on gross profit from higher revenue and, to a lesser extent, higher overall products margins, partially offset by higher distribution costs related to the relocation of the Company's European distribution center. Currency translation fluctuations relating to our foreign operations unfavorably impacted gross profit by \$3.6 million.

The Company includes inbound freight charges, purchasing costs and related overhead, retail store occupancy costs, including rent and depreciation, and a portion of the Company's distribution costs related to its retail business in cost of product sales. The Company also includes net royalties received on the Company's inventory purchases of licensed product as a reduction to cost of product sales. The Company's gross margin may not be comparable to that of other entities since some entities include all of the costs related to their distribution in cost of product sales and others, like the Company, generally exclude wholesale-related distribution costs from gross margin, including them instead in SG&A expenses. Additionally, some entities include retail store occupancy costs in SG&A expenses and others, like the Company, include retail store occupancy costs in cost of product sales.

SG&A Rate. The Company's SG&A rate increased 50 basis points to 32.0% for fiscal 2019, compared to 31.5% in fiscal 2018. The Company's SG&A rate included the negative impact of 10 basis points from higher expenses related to certain professional service and legal fees and related costs which the Company otherwise would not have incurred as part of its business operations. The Company's SG&A rate also included the negative impact of 20 basis points from CEO severance charges. Excluding these amounts, the Company's SG&A rate would have increased 20 basis points driven primarily by higher distribution costs related to the relocation of the Company's European distribution center, partially offset by lower performance-based compensation costs.

SG&A Expenses. SG&A expenses increased by \$93.7 million, or 12.6%, to \$835.3 million for fiscal 2019, compared to \$741.6 million in fiscal 2018. The increase, which included an unfavorable impact from currency translation, was driven primarily by higher distribution costs resulting from the relocation of the Company's European distribution center and, to a lesser extent, higher advertising expenses (in part due to classification changes under the new revenue recognition standard) as well as higher store selling expenses driven by retail expansion, partially offset by lower performance-based compensation costs. Currency translation fluctuations relating to our foreign operations unfavorably impacted SG&A expenses by \$4.2 million.

European Commission Fine. The Company recognized charges of €39.8 million (\$45.6 million) during fiscal 2019 for a fine imposed by the European Commission related to alleged violations of European Union competition rules by the Company. The Company paid the full amount of the fine during the first quarter of fiscal 2020. Refer to "Part IV. Financial Statements – Note 14 – Commitments and Contingencies" in this Form 10-K for more information regarding this matter.

Asset Impairment Charges. During fiscal 2019, the Company recognized asset impairment charges of \$6.9 million, compared to \$8.5 million in the prior year.

Net Gains (Losses) on Lease Terminations. During fiscal 2019, the Company recognized net gains on lease terminations of \$0.5 million, compared to net losses on lease terminations of \$11.4 million in the prior year. The net gains on lease terminations during fiscal 2019 related primarily to the early termination of certain lease agreements in North America. The net losses on lease terminations during fiscal 2018 related primarily to the modification of certain lease agreements held with a common landlord in North America.

Operating Margin. Operating margin decreased 80 basis points to 2.0% for fiscal 2019, compared to 2.8% in fiscal 2018. The European Commission fine recorded during fiscal 2019 negatively impacted operating margin by 170 basis points. Net gains on lease terminations recorded during fiscal 2019 favorably impacted operating margin by 50 basis points compared to the prior year. Higher expenses related to certain professional service and legal fees and related costs recorded during fiscal 2019 negatively impacted operating margin by 10 basis points compared to the prior year. CEO severance charges recorded during fiscal 2019 negatively impacted operating margin by 20 basis

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points compared to the prior year. Excluding the impact of these items, operating margin increased by 70 basis points compared to the prior year. Currency exchange rate fluctuations had an immaterial impact on operating margin.

Earnings from Operations. Earnings from operations decreased by \$15.1 million, or 22.5%, to \$52.2 million for fiscal 2019, compared to \$67.4 million in fiscal 2018. Currency translation fluctuations relating to our foreign operations unfavorably impacted earnings from operations by \$7.5 million.

Interest Income, Net. Interest income, net, decreased by \$0.6 million, or 35.1%, to \$1.1 million for fiscal 2019, compared to \$1.7 million in fiscal 2018 and includes the impact of hedge ineffectiveness of foreign exchange currency contracts designated as cash flow hedges.

Other Income (Expense), Net. Other expense, net, was \$6.6 million for fiscal 2019, compared to other income, net, of \$1.2 million in fiscal 2018. The increase in other expense, net, was driven primarily by lower net unrealized mark-to-market revaluation gains on foreign currency balances and, to a lesser extent, the impact of unrealized losses on non-operating assets in the current year compared to gains in the prior year, partially offset by lower net realized and unrealized mark-to-market revaluation losses on foreign exchange currency contracts.

Income Tax Expense. Income tax expense for fiscal 2019 was \$29.5 million, or a 63.2% effective tax rate, compared to \$74.2 million, or a 105.6% effective tax rate, in fiscal 2018. The decrease in the effective income tax rate was due primarily to a lower statutory tax rate in fiscal 2019 and adjustments made during fiscal 2018 as a result of the enactment of the Tax Reform. These items positively impacted the Company's effective tax rate by 41.8% in fiscal 2019. The Company's effective tax rate for fiscal 2018 was primarily impacted by the enactment of the Tax Reform. This included the impact of a \$24.9 million charge for the provisional re-measurement of certain deferred taxes and related amounts and a provisional charge of \$23.0 million to income tax expense for the estimated effects of the transitional tax on the deemed repatriation of foreign earnings. These items negatively impacted the Company's effective tax rate by 68.2% in fiscal 2018.

Net Earnings Attributable to Noncontrolling Interests. Net earnings attributable to noncontrolling interests for fiscal 2019 was \$3.1 million, net of taxes, compared to \$4.0 million, net of taxes, in fiscal 2018.

Net Earnings (Loss) Attributable to Guess?, Inc. Net earnings attributable to Guess?, Inc. was \$14.1 million for fiscal 2019, compared to net loss attributable to Guess?, Inc. of \$7.9 million in fiscal 2018. Diluted earnings per share was \$0.16 for fiscal 2019, compared to diluted loss per share of \$0.11 in fiscal 2018. During fiscal 2019, the Company recognized a fine imposed by the European Commission of €39.8 million (\$45.6 million), asset impairment charges of \$6.9 million, net gains on lease terminations of \$0.5 million, certain professional service and legal fees and related costs of \$6.1 million, CEO severance charges of \$5.2 million and income tax charges totaling \$6.3 million related to the enactment of the Tax Reform (or a combined \$66.3 million after considering the related tax benefit of \$3.4 million), or an unfavorable \$0.82 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$80.4 million and adjusted diluted earnings were \$0.98 per common share for fiscal 2019. We estimate that the favorable impact from currency fluctuations on diluted earnings per common share for fiscal 2019 was approximately \$0.03 per share. During fiscal 2018, the Company recognized asset impairment charges of \$8.5 million, net losses on lease terminations of \$11.4 million, certain professional service and legal fees and related costs of \$0.5 million and additional income tax charges totaling \$47.9 million related to the Tax Reform (or a combined \$66.6 million after considering the related tax benefit of \$1.6 million), or an unfavorable \$0.81 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$58.7 million and adjusted diluted earnings were \$0.70 per common share for fiscal 2018. We estimate that the positive impact from currency fluctuations on diluted loss per common share for fiscal 2018 was approximately \$0.02 per share. References to financial results excluding the impact of these items are non-GAAP measures and are addressed below under "Non-GAAP Measures."

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Information by Business Segment

The following table presents our net revenue and earnings (loss) from operations by segment for the periods indicated (dollars in thousands):

	Fiscal 2019 ¹	Fiscal 2018 ¹	Change	% Change
Net revenue:				
Americas Retail	\$824,674	\$833,077	\$(8,403)	(1.0 %)
Americas Wholesale	170,812	150,366	20,446	13.6 %
Europe	1,142,768	998,657	144,111	14.4 %
Asia	388,246	308,899	79,347	25.7 %
Licensing ²	83,194	72,755	10,439	14.3 %
Total net revenue ²	\$2,609,694	\$2,363,754	\$245,940	10.4 %
Earnings (loss) from operations:				
Americas Retail ^{2,3}	\$27,532	\$(11,096)	\$38,628	348.0%
Americas Wholesale ^{2,3}	29,935	25,845	4,090	15.8 %
Europe ^{3,4}	58,298	94,545	(36,247)	(38.3 %)
Asia ³	12,365	14,809	(2,444)	(16.5 %)
Licensing ^{2,3}	72,986	63,538	9,448	14.9 %
Total segment earnings from operations ^{2,4}	201,116	187,641	13,475	7.2 %
Corporate overhead ⁴	(96,805)	(100,434)	3,629	(3.6 %)
European Commission fine ⁵	(45,637)	—	(45,637)	
Asset impairment charges	(6,939)	(8,479)	1,540	
Net gains (losses) on lease terminations	477	(11,373)	11,850	
Total earnings from operations ^{4,5}	\$52,212	\$67,355	\$(15,143)	(22.5 %)
Operating margins:				
Americas Retail ^{2,3}	3.3	% (1.3	%)	
Americas Wholesale ^{2,3}	17.5	% 17.2	%	
Europe ^{3,4}	5.1	% 9.5	%	
Asia ³	3.2	% 4.8	%	
Licensing ^{2,3}	87.7	% 87.3	%	
Total Company ^{3,4}	2.0	% 2.8	%	

The Company operates on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. The results for fiscal 2018 included the impact of an additional week which occurred during the fourth quarter ended February 3, 2018.

During the first quarter of fiscal 2019, the Company adopted a comprehensive new revenue recognition standard using a modified retrospective method that does not restate prior periods to be comparable to the current period presentation. The adoption of this guidance primarily impacted the presentation of advertising contributions received from the Company's licensees and the related advertising expenditures incurred by the Company. The adoption of this guidance resulted in an increase in net royalty revenue within the Company's Licensing segment of \$10.7 million, as well as an increase in SG&A expenses in our Americas Retail, Americas Wholesale and Licensing segments as well as corporate overhead of \$3.9 million, \$1.7 million, \$1.1 million and \$3.0 million, respectively, during the fiscal year ended February 2, 2019 compared to the prior year. The net favorable impact on earnings from operations was approximately \$1.0 million during the fiscal year ended February 2, 2019 compared to the prior year.

During fiscal 2019, the Company changed the segment accountability for funds received from licensees on the Company's purchases of its licensed products. These amounts were treated as a reduction of cost of product sales within the Licensing segment but now are considered in the results of the segments that control the respective purchases for purposes of segment

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performance evaluation. Accordingly, segment results for fiscal 2018 have been adjusted to conform to the current period presentation.

During fiscal 2019, the Company adopted new authoritative guidance which requires that the non-service components of net periodic defined benefit pension cost be presented outside of earnings (loss) from operations. Accordingly, earnings from operations and segment results for fiscal 2018 have been adjusted to conform to the current period presentation.

During fiscal 2019, the Company incurred charges of €39.8 million (\$45.6 million) for a fine imposed by the European Commission related to alleged violations of European Union competition rules by the Company. The Company paid the full amount of the fine during the first quarter of fiscal 2020.

Americas Retail

Net revenue from our Americas Retail segment decreased by \$8.4 million, or 1.0%, to \$824.7 million for fiscal 2019, from \$833.1 million in fiscal 2018. In constant currency, net revenue decreased by 0.5% compared to the prior year, driven primarily by store closures and the impact of the 53rd week in the prior year, partially offset by positive comparable store sales. The store base for the U.S. and Canada decreased by an average of 41 net stores in fiscal 2019 compared to the prior year, resulting in an 8.1% net decrease in average square footage. Comparable store sales (including e-commerce) increased 4% in U.S. dollars and constant currency. The inclusion of our e-commerce sales increased the comparable sales percentage by 1% in U.S. dollars and constant currency. Currency translation fluctuations relating to our non-U.S. retail stores and e-commerce sites unfavorably impacted net revenue by \$3.9 million.

Operating margin improved 460 basis points to 3.3% for fiscal 2019, compared to negative 1.3% in fiscal 2018. This improvement was driven primarily by higher product margins due primarily to lower markdowns and lower occupancy costs due mainly to negotiated rent reductions.

Earnings from operations from our Americas Retail segment was \$27.5 million in fiscal 2019, compared to loss from operations of \$11.1 million in fiscal 2018. The improvement reflects the favorable impact on earnings from higher gross margins.

Americas Wholesale

Net revenue from our Americas Wholesale segment increased by \$20.4 million, or 13.6%, to \$170.8 million for fiscal 2019, compared to \$150.4 million in fiscal 2018. In constant currency, net revenue increased by 15.0% compared to the prior year, driven primarily by higher shipments in our U.S. wholesale business and, to a lesser extent, our Mexican wholesale business. Currency translation fluctuations relating to our non-U.S. wholesale businesses unfavorably impacted net revenue by \$2.1 million.

Operating margin improved 30 basis points to 17.5% for fiscal 2019, compared to 17.2% in fiscal 2018, due to a lower SG&A rate driven primarily by overall leveraging of expenses, partially offset by lower gross margins due primarily to the liquidation of aged inventory.

Earnings from operations from our Americas Wholesale segment increased by \$4.1 million, or 15.8%, to \$29.9 million for fiscal 2019, compared to \$25.8 million in fiscal 2018. The increase was driven primarily by the favorable impact on earnings from higher revenue.

Europe

Net revenue from our Europe segment increased by \$144.1 million, or 14.4%, to \$1.14 billion for fiscal 2019, compared to \$998.7 million in fiscal 2018. In constant currency, net revenue increased by 14.4% compared to the prior year, driven primarily by the favorable impact from retail expansion and, to a lesser extent, higher shipments in our European wholesale business and positive comparable sales. As of February 2, 2019, we directly operated 490 stores in Europe compared to 400 stores at February 3, 2018, excluding concessions, which represents a 22.5% increase over the prior year. Comparable sales (including e-commerce) increased 5% in U.S. dollars and constant currency compared to the prior year. The inclusion of our e-commerce sales increased the comparable sales percentage by 4% in U.S. dollars and constant currency. Currency translation fluctuations relating to our European operations unfavorably impacted net revenue by \$0.2 million.

Operating margin decreased 440 basis points to 5.1% for fiscal 2019, compared to 9.5% in fiscal 2018, due to lower gross margins and, to a lesser extent, a higher SG&A rate. The lower gross margins were due primarily to

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higher distribution costs related to the relocation of the Company's European distribution center, partially offset by higher initial mark-ups. The higher SG&A rate was driven primarily by higher distribution costs related to the relocation of the Company's European distribution center, partially offset by overall leveraging of expenses resulting from higher wholesale revenues.

Earnings from operations from our Europe segment decreased by \$36.2 million, or 38.3%, to \$58.3 million for fiscal 2019, compared to \$94.5 million in fiscal 2018. The decrease was driven primarily by higher distribution costs related to the relocation of the Company's European distribution center, partially offset by the favorable impact on earnings from higher revenue. Currency translation fluctuations relating to our European operations unfavorably impacted earnings from operations by \$6.8 million.

Asia

Net revenue from our Asia segment increased by \$79.3 million, or 25.7%, to \$388.2 million for fiscal 2019, compared to \$308.9 million in fiscal 2018. In constant currency, net revenue increased by 25.4% compared to the prior year, driven primarily by retail expansion and, to a lesser extent, positive comparable sales. As of February 2, 2019, we and our partners operated 536 stores and 358 concessions in Asia, compared to 494 stores and 368 concessions at February 3, 2018. As of February 2, 2019, we directly operated 227 stores and 174 concessions, compared to 157 directly operated stores and 177 concessions at February 3, 2018. Comparable sales (including e-commerce) increased 15% in U.S. dollars and 14% in constant currency compared to the prior year. The inclusion of our e-commerce sales increased the comparable sales percentage by 5% in U.S. dollars and constant currency. Currency translation fluctuations relating to our Asian operations favorably impacted net revenue by \$1.0 million.

Operating margin decreased 160 basis points to 3.2% for fiscal 2019, from 4.8% in fiscal 2018. The decrease in operating margin was due to a higher SG&A rate, partially offset by higher gross margins. The higher SG&A rate was driven by higher expenses due primarily to unfavorable business mix within the region. The higher gross margins were driven primarily by overall leveraging of occupancy costs, partially offset by lower product margins due primarily to the liquidation of aged inventory.

Earnings from operations from our Asia segment decreased by \$2.4 million, or 16.5%, to \$12.4 million for fiscal 2019, compared to \$14.8 million in fiscal 2018. The decrease in earnings from operations was driven by higher SG&A expenses, partially offset by the favorable impact on earnings from higher revenue.

Licensing

Net royalty revenue from our Licensing segment increased by \$10.4 million, or 14.3%, to \$83.2 million for fiscal 2019, compared to \$72.8 million in fiscal 2018. This increase was driven primarily by the impact from the adoption of new accounting guidance for revenue recognition which increased net royalty revenue by \$10.7 million, or 14.7%, during fiscal 2019 compared to the prior year.

Earnings from operations from our Licensing segment increased by \$9.4 million, or 14.9%, to \$73.0 million for fiscal 2019, from \$63.5 million in fiscal 2018. The increase was driven by the favorable impact to earnings from higher revenue.

Corporate Overhead

Unallocated corporate overhead decreased by \$3.6 million to \$96.8 million for fiscal 2019, compared to \$100.4 million in fiscal 2018. The decrease was driven primarily by lower performance-based compensation costs, partially offset by higher expenses of \$5.6 million relating to certain professional service and legal fees and related costs, which the Company otherwise would not have incurred as part of its business operations, and \$5.2 million in severance-related charges related to the departure of our former CEO. These charges are comprised of \$2.4 million in cash related future severance payments and \$2.8 million in non-cash stock-based compensation expenses representing the accelerated vesting of previously granted stock awards.

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Fiscal 2018 Compared to Fiscal 2017

Consolidated Results

Net Revenue. Net revenue increased by \$173.3 million, or 7.9%, to \$2.36 billion for fiscal 2018, compared to \$2.19 billion in fiscal 2017. In constant currency, net revenue increased by 5.3% as currency translation fluctuations relating to our foreign operations favorably impacted net revenue by \$58.3 million compared to the prior year. The increase was driven primarily by retail expansion and positive comparable sales in our international markets and, to a lesser extent, from higher European wholesale shipments and the favorable impact on revenue from the additional week in the current year, partially offset by negative comparable sales in Americas Retail.

Gross Margin. Gross margin increased 110 basis points to 35.1% for fiscal 2018, compared to 34.0% in fiscal 2017, of which 80 basis points was due to a lower occupancy rate and 30 basis points was due to higher overall product margins. The lower occupancy rate was due primarily to cost reductions due primarily to store closures and negotiated rent reductions in Americas Retail and, to a lesser extent, overall leveraging of expenses, partially offset by the negative impact on the fixed cost structure resulting from negative comparable store sales in Americas Retail. The higher overall product margins were driven primarily by higher overall initial markups.

Gross Profit. Gross profit increased by \$83.8 million, or 11.2%, to \$828.8 million for fiscal 2018, compared to \$745.0 million in fiscal 2017. The increase in gross profit, which included the favorable impact of currency translation, was due primarily to the favorable impact on gross profit from higher revenue. Currency translation fluctuations relating to our foreign operations favorably impacted gross profit by \$22.5 million.

SG&A Rate. The Company's SG&A rate increased 50 basis points to 31.5% for fiscal 2018, compared to 31.0% in fiscal 2017, driven primarily by higher performance-based compensation costs, partially offset by overall leveraging of expenses.

SG&A Expenses. SG&A expenses increased by \$61.1 million, or 9.0%, to \$741.6 million for fiscal 2018, compared to \$680.5 million in fiscal 2017. The increase, which included the unfavorable impact of currency translation, was driven primarily by higher performance-based compensation costs and, to a lesser extent, higher distribution costs resulting from the relocation of the Company's European distribution center. Currency translation fluctuations relating to our foreign operations unfavorably impacted SG&A expenses by \$14.0 million.

Asset Impairment Charges. During fiscal 2018, the Company recognized asset impairment charges of \$8.5 million, compared to \$34.4 million in the prior year. The higher asset impairment charges during fiscal 2017 related primarily to the impairment of certain retail locations in North America resulting from under-performance and expected store closures.

Net Gains (Losses) on Lease Terminations. During fiscal 2018, the Company recognized net losses on lease terminations of \$11.4 million, compared to net gains on lease terminations of \$0.7 million in the prior year. The net losses on lease terminations during fiscal 2018 related primarily to the modification of certain lease agreements held with a common landlord in North America. Currency translation fluctuations relating to our foreign operations unfavorably impacted net losses on lease terminations by \$0.3 million.

Restructuring Charges. There were no restructuring charges incurred during fiscal 2018. During fiscal 2017, the Company incurred restructuring charges of \$6.1 million.

Operating Margin. Operating margin increased 170 basis points to 2.8% for fiscal 2018, compared to 1.1% in fiscal 2017. Lower asset impairment charges recorded during fiscal 2018 favorably impacted operating margin by 130 basis points compared to the prior year. Higher net losses on lease terminations recorded during 2018 negatively impacted operating margin by 50 basis points compared to the prior year. Restructuring charges incurred during the prior year negatively impacted operating margin by 30 basis points in fiscal 2017. Certain professional service and legal fees and related costs recorded during 2018 negatively impacted operating margin by 10 basis points. Excluding the impact of these items, operating margin increased by 70 basis points compared to the prior year. Currency exchange rate fluctuations favorably impacted operating margin by approximately 30 basis points.

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Earnings from Operations. Earnings from operations increased by \$42.6 million, or 172.0%, to \$67.4 million for fiscal 2018, compared to \$24.8 million in fiscal 2017. Currency translation fluctuations relating to our foreign operations favorably impacted earnings from operations by \$8.1 million.

Interest Income (Expense), Net. Interest income, net, was \$1.7 million for fiscal 2018, compared to minimal interest expense, net, in fiscal 2017 and includes the impact of hedge ineffectiveness of foreign exchange currency contracts designated as cash flow hedges.

Other Income, Net. Other income, net was \$1.2 million for fiscal 2018, compared to \$28.9 million in fiscal 2017. Other income, net in fiscal 2018 consisted primarily of unrealized gains on non-operating assets and net unrealized mark-to-market revaluation gains on foreign currency balances, partially offset by net realized and unrealized mark-to-market revaluation losses on foreign exchange currency contracts. Other income, net in fiscal 2017 consisted primarily of a realized gain of \$22.3 million from the sale of a minority interest investment.

Income Tax Expense. Income tax expense for fiscal 2018 was \$74.2 million, or a 105.6% effective tax rate, compared to \$28.2 million, or a 52.6% effective tax rate, in fiscal 2017. The increase in the effective income tax rate was primarily due to income tax adjustments made during fiscal 2018 as a result of the enactment of the Tax Reform. These adjustments included a \$24.9 million charge for the provisional re-measurement of certain deferred taxes and related amounts and a provisional charge of \$23.0 million to income tax expense for the estimated effects of the transitional tax on the deemed repatriation of foreign earnings. These items negatively impacted the Company's effective tax rate by 68.2% in fiscal 2018. The Company's effective tax rate for fiscal 2017 included the impact of a valuation allowance established on certain deferred tax assets of \$6.8 million, a portion of which was generated from asset impairment charges recorded during fiscal 2017, and an estimated exit tax charge of \$1.9 million related to the Company's reorganization in Europe as a result of the global cost reduction and restructuring plan. These items negatively impacted the Company's effective tax rate by 16.3% in fiscal 2017.

Net Earnings Attributable to Noncontrolling Interests. Net earnings attributable to noncontrolling interests for fiscal 2018 was \$4.0 million, net of taxes, compared to \$2.6 million, net of taxes, in fiscal 2017.

Net Earnings (Loss) Attributable to Guess?, Inc. Net loss attributable to Guess?, Inc. was \$7.9 million for fiscal 2018, compared to net earnings attributable to Guess?, Inc. of \$22.8 million in fiscal 2017. Diluted loss per share was \$0.11 for fiscal 2018, compared to diluted earnings per share of \$0.27 in fiscal 2017. During fiscal 2018, the Company recognized asset impairment charges of \$8.5 million, net losses on lease terminations of \$11.4 million, certain professional service and legal fees and related costs of \$0.5 million and additional income tax charges totaling \$47.9 million related to the Tax Reform (or a combined \$66.6 million after considering the related tax benefit of \$1.6 million), or an unfavorable \$0.81 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$58.7 million and adjusted diluted earnings were \$0.70 per common share for fiscal 2018. We estimate that the positive impact from currency fluctuations on diluted loss per common share for fiscal 2018 was approximately \$0.02 per share. During fiscal 2017, the Company recognized asset impairment charges of \$34.4 million, restructuring charges of \$6.1 million, a restructuring related estimated exit tax charge of \$1.9 million and a valuation allowance established on certain deferred tax assets of \$6.8 million, partially offset by a gain from the sale of a minority interest investment of \$22.3 million and net gains on lease terminations of \$0.7 million (or a combined \$16.0 million after considering the net \$10.2 million tax benefit resulting from the asset impairment charges, restructuring charges, the sale of the minority interest investment and net gains on lease terminations), or an unfavorable \$0.19 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$38.8 million and adjusted diluted earnings were \$0.46 per common share for fiscal 2017. References to financial results excluding the impact of these items are non-GAAP measures and are addressed below under "Non-GAAP Measures."

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Information by Business Segment

The following table presents our net revenue and earnings (loss) from operations by segment for the periods indicated (dollars in thousands):

	Fiscal 2018 ¹	Fiscal 2017 ¹	Change	% Change	
Net revenue:					
Americas Retail	\$833,077	\$935,479	\$(102,402)	(10.9	%)
Americas Wholesale ²	150,366	146,260	4,106	2.8	%
Europe ²	998,657	788,194	210,463	26.7	%
Asia ²	308,899	248,601	60,298	24.3	%
Licensing ³	72,755	71,919	836	1.2	%
Total net revenue ³	\$2,363,754	\$2,190,453	\$173,301	7.9	%
Earnings (loss) from operations:					
Americas Retail ^{2,3,4}	\$(11,096)	\$(13,752)	\$2,656	19.3	%
Americas Wholesale ^{2,3,4}	25,845	25,007	838	3.4	%
Europe ^{2,3,4,5}	94,545	65,068	29,477	45.3	%
Asia ^{2,3,4}	14,809	(1,392)	16,201	1,163.9	%
Licensing ^{2,4}	63,538	61,472	2,066	3.4	%
Total segment earnings from operations ^{2,5}	187,641	136,403	51,238	37.6	%
Corporate overhead ^{2,5}	(100,434)	(71,867)	(28,567)	(39.7	%)
Asset impairment charges ²	(8,479)	(34,385)	25,906		
Net gains (losses) on lease terminations ²	(11,373)	695	(12,068)		
Restructuring charges	—	(6,083)	6,083		
Total earnings from operations ⁵	\$67,355	\$24,763	\$42,592	172.0	%
Operating margins:					
Americas Retail ^{2,3,4}	(1.3	%)	(1.5	%)	
Americas Wholesale ^{2,3,4}	17.2	%	17.1	%	
Europe ^{2,3,4,5}	9.5	%	8.3	%	
Asia ^{2,3,4}	4.8	%	(0.6	%)	
Licensing ^{2,3,4}	87.3	%	85.5	%	
Total Company					