

OXFORD INDUSTRIES INC  
Form 10-Q  
December 13, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 3, 2018

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: 1-4365

OXFORD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Georgia

58-0831862

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

999 Peachtree Street, N.E., Suite 688, Atlanta, Georgia 30309

(Address of principal executive offices)

(Zip Code)

(404) 659-2424

(Registrant's telephone number, including area code)

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 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 | Emerging growth company  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>  | <input type="checkbox"/> |

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.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Title of each class         | Number of shares outstanding<br>as of November 30, 2018 |
|-----------------------------|---|
| Common Stock, \$1 par value | 16,954,191  |

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For the Third Quarter of Fiscal 2018

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## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

Our SEC filings and public announcements may include forward-looking statements about future events. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which typically are not historical in nature. We intend for all forward-looking statements contained herein, in our press releases or on our website, and all subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf, to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Such statements are subject to a number of risks, uncertainties and assumptions including, without limitation, competitive conditions, which may be impacted by evolving consumer shopping patterns; the impact of economic conditions on consumer demand and spending for apparel and related products; demand for our products; timing of shipments requested by our wholesale customers; expected pricing levels; retention of and disciplined execution by key management; the timing and cost of store openings and of planned capital expenditures; weather; changes in international, federal or state tax, trade and other laws and regulations; costs of products as well as the raw materials used in those products; costs of labor; acquisition and disposition activities, including our ability to timely recognize our expected synergies from any acquisitions we pursue; expected outcomes of pending or potential litigation and regulatory actions; access to capital and/or credit markets; and factors that could affect our consolidated effective tax rate, including the impact of the recently enacted U.S. Tax Reform. Forward-looking statements reflect our expectations at the time such forward looking statements are made, based on information available at such time, and are not guarantees of performance. Although we believe that the expectations reflected in such forward-looking statements are reasonable, these expectations could prove inaccurate as such statements involve risks and uncertainties, many of which are beyond our ability to control or predict. Should one or more of these risks or uncertainties, or other risks or uncertainties not currently known to us or that we currently deem to be immaterial, materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Important factors relating to these risks and uncertainties include, but are not limited to, those described in Part I, Item 1A. Risk Factors contained in our Annual Report on Form 10-K for Fiscal 2017, and those described from time to time in our future reports filed with the SEC. We caution that one should not place undue reliance on forward-looking statements, which speak only as of the date on which they are made. We disclaim any intention, obligation or duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## DEFINITIONS

As used in this report, unless the context requires otherwise, "our," "us" or "we" means Oxford Industries, Inc. and its consolidated subsidiaries; "SG&A" means selling, general and administrative expenses; "SEC" means the United States Securities and Exchange Commission; "FASB" means the Financial Accounting Standards Board; "ASC" means the FASB Accounting Standards Codification; "GAAP" means generally accepted accounting principles in the United States; "discontinued operations" means the assets and operations of our former Ben Sherman operating group which we sold in 2015; "TBBC" means The Beaufort Bonnet Company, which we acquired in December 2017; and "U.S. Tax Reform" means the United States Tax Cuts and Jobs Act as enacted on December 22, 2017. Unless otherwise indicated, all references to assets, liabilities, revenues, expenses or other information in this report reflect continuing operations. Additionally, the terms listed below reflect the respective period noted:

|                            |                                  |
|----------------------------|----------------------------------|
| Fiscal 2019                | 52 weeks ending February 1, 2020 |
| Fiscal 2018                | 52 weeks ending February 2, 2019 |
| Fiscal 2017                | 53 weeks ended February 3, 2018  |
| Fiscal 2016                | 52 weeks ended January 28, 2017  |
| Fourth Quarter Fiscal 2018 | 13 weeks ending February 2, 2019 |
| Third Quarter Fiscal 2018  | 13 weeks ended November 3, 2018  |
| Second Quarter Fiscal 2018 | 13 weeks ended August 4, 2018    |
| First Quarter Fiscal 2018  | 13 weeks ended May 5, 2018       |
| Fourth Quarter Fiscal 2017 | 14 weeks ended February 3, 2018  |

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|                               |                                 |
|-------------------------------|---------------------------------|
| Third Quarter Fiscal 2017     | 13 weeks ended October 28, 2017 |
| Second Quarter Fiscal 2017    | 13 weeks ended July 29, 2017    |
| First Quarter Fiscal 2017     | 13 weeks ended April 29, 2017   |
| First Nine Months Fiscal 2018 | 39 weeks ended November 3, 2018 |
| First Nine Months Fiscal 2017 | 39 weeks ended October 28, 2017 |

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

OXFORD INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par amounts)

(unaudited)

|  | November 3,<br>2018 | February 3,<br>2018 | October 28,<br>2017 |
|--|---------------------|---------------------|---------------------|
| <b>ASSETS</b>                                  |                     |                     |                     |
| Current Assets                                 |                     |                     |                     |
| Cash and cash equivalents                      | \$ 7,413            | \$ 6,343            | \$ 6,077            |
| Receivables, net                               | 69,400              | 67,542              | 73,724              |
| Inventories, net                               | 138,150             | 126,812             | 127,301             |
| Prepaid expenses and other current assets      | 36,937              | 35,421              | 27,619              |
| Total Current Assets                           | \$ 251,900          | \$ 236,118          | \$ 234,721          |
| Property and equipment, net                    | 194,228             | 193,533             | 191,038             |
| Intangible assets, net                         | 176,735             | 178,858             | 175,057             |
| Goodwill                                       | 66,618              | 66,703              | 63,443              |
| Other non-current assets, net                  | 23,272              | 24,729              | 24,250              |
| Total Assets                                   | \$ 712,753          | \$ 699,941          | \$ 688,509          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>    |                     |                     |                     |
| Current Liabilities                            |                     |                     |                     |
| Accounts payable                               | \$ 64,429           | \$ 66,175           | \$ 59,230           |
| Accrued compensation                           | 25,426              | 29,941              | 24,434              |
| Other accrued expenses and liabilities         | 34,984              | 36,802              | 30,542              |
| Liabilities related to discontinued operations | —                   | 2,092               | 3,709               |
| Total Current Liabilities                      | \$ 124,839          | \$ 135,010          | \$ 117,915          |
| Long-term debt                                 | 32,211              | 45,809              | 72,131              |
| Other non-current liabilities                  | 73,434              | 74,029              | 73,487              |
| Deferred taxes                                 | 16,922              | 15,269              | 16,829              |
| Liabilities related to discontinued operations | —                   | —                   | 972                 |
| Commitments and contingencies                  |                     |                     |                     |
| Shareholders' Equity                           |                     |                     |                     |
| Common stock, \$1.00 par value per share       | 16,956              | 16,839              | 16,833              |
| Additional paid-in capital                     | 140,876             | 136,664             | 134,561             |
| Retained earnings                              | 312,604             | 280,395             | 260,809             |
| Accumulated other comprehensive loss           | (5,089)             | (4,074)             | (5,028)             |
| Total Shareholders' Equity                     | \$ 465,347          | \$ 429,824          | \$ 407,175          |
| Total Liabilities and Shareholders' Equity     | \$ 712,753          | \$ 699,941          | \$ 688,509          |

See accompanying notes.

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OXFORD INDUSTRIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands, except per share amounts)  
 (unaudited)

|                                      | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 |
|--------------------------------------|------------------------------------|------------------------------------|---|---|
| Net sales                            | \$233,662                          | \$235,960                          | \$808,931                                 | \$793,032                                 |
| Cost of goods sold                   | 104,383                            | 110,784                            | 336,209                                   | 342,477                                   |
| Gross profit                         | \$129,279                          | \$125,176                          | \$472,722                                 | \$450,555                                 |
| SG&A                                 | 128,687                            | 127,091                            | 414,747                                   | 393,193                                   |
| Royalties and other operating income | 3,113                              | 3,039                              | 10,616                                    | 10,123                                    |
| Operating income                     | \$3,705                            | \$1,124                            | \$68,591                                  | \$67,485                                  |
| Interest expense, net                | 489                                | 683                                | 1,872                                     | 2,355                                     |
| Earnings before income taxes         | \$3,216                            | \$441                              | \$66,719                                  | \$65,130                                  |
| Income taxes                         | 1,355                              | (631 )                             | 17,107                                    | 24,172                                    |
| Net earnings                         | \$1,861                            | \$1,072                            | \$49,612                                  | \$40,958                                  |
| Net earnings per share:              |                                    |                                    |   |   |
| Basic                                | \$0.11                             | \$0.06                             | \$2.98                                    | \$2.47                                    |
| Diluted                              | \$0.11                             | \$0.06                             | \$2.95                                    | \$2.45                                    |
| Weighted average shares outstanding: |                                    |                                    |   |   |
| Basic                                | 16,694                             | 16,618                             | 16,672                                    | 16,591                                    |
| Diluted                              | 16,870                             | 16,735                             | 16,826                                    | 16,710                                    |
| Dividends declared per share         | \$0.34                             | \$0.27                             | \$1.02                                    | \$0.81                                    |

See accompanying notes.

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OXFORD INDUSTRIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands)  
 (unaudited)

|  | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 |
|--|------------------------------------|------------------------------------|---|---|
| Net earnings                                     | \$1,861                            | \$1,072                            | \$49,612                                  | \$40,958                                  |
| Other comprehensive income (loss), net of taxes: |                                    |                                    |   |   |
| Net foreign currency translation (loss) income   | (150 )                             | (617 )                             | (1,015 )                                  | 248                                       |
| Comprehensive income                             | \$1,711                            | \$455                              | \$48,597                                  | \$41,206                                  |

See accompanying notes.



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OXFORD INDUSTRIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands)  
 (unaudited)

|   | First Nine<br>Months<br>Fiscal<br>2018 | First Nine<br>Months<br>Fiscal<br>2017 |
|---|--|--|
| Cash Flows From Operating Activities:   |  |  |
| Net earnings  | \$49,612                               | \$40,958                               |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |  |  |
| Depreciation  | 29,878                                 | 29,779                                 |
| Amortization of intangible assets   | 2,055                                  | 1,733                                  |
| Equity compensation expense   | 5,510                                  | 4,616                                  |
| Amortization of deferred financing costs  | 318                                    | 317                                    |
| Deferred income taxes   | 1,501                                  | 3,376                                  |
| Changes in working capital, net of acquisitions and dispositions:                   |  |  |
| Receivables, net  | (2,286 )                               | (17,227 )                              |
| Inventories, net  | (14,346 )                              | 17,017                                 |
| Prepaid expenses and other current assets   | 943                                    | (2,713 )                               |
| Current liabilities   | (9,244 )                               | (14,217 )                              |
| Other non-current assets, net   | 1,113                                  | (241 )                                 |
| Other non-current liabilities   | (436 )                                 | 1,880                                  |
| Cash provided by operating activities   | \$64,618                               | \$65,278                               |
| Cash Flows From Investing Activities:   |  |  |
| Acquisitions, net of cash acquired  | (354 )                                 | (5,055 )                               |
| Purchases of property and equipment   | (30,914 )                              | (26,356 )                              |
| Cash used in investing activities   | \$(31,268)                             | \$(31,411)                             |
| Cash Flows From Financing Activities:   |  |  |
| Repayment of revolving credit arrangements  | (221,750)                              | (199,765)                              |
| Proceeds from revolving credit arrangements   | 208,152                                | 180,387                                |
| Proceeds from issuance of common stock  | 1,170                                  | 1,071                                  |
| Repurchase of equity awards for employee tax withholding liabilities                | (2,351 )                               | (2,206 )                               |
| Cash dividends declared and paid  | (17,286 )                              | (13,642 )                              |
| Cash used in financing activities   | \$(32,065)                             | \$(34,155)                             |
| Net change in cash and cash equivalents   | \$1,285                                | \$(288 )                               |
| Effect of foreign currency translation on cash and cash equivalents                 | (215 )                                 | 33                                     |
| Cash and cash equivalents at the beginning of year                                  | 6,343                                  | 6,332                                  |
| Cash and cash equivalents at the end of the period                                  | \$7,413                                | \$6,077                                |
| Supplemental disclosure of cash flow information:                                   |  |  |
| Cash paid for interest, net   | \$1,598                                | \$2,098                                |
| Cash paid for income taxes  | \$16,133                               | \$19,536                               |

See accompanying notes.

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OXFORD INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THIRD QUARTER OF FISCAL 2018

**Basis of Presentation:** The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial reporting and the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe the accompanying unaudited condensed consolidated financial statements reflect all normal, recurring adjustments that are necessary for a fair presentation of our financial position and results of operations as of the dates and for the periods presented. Results of operations for the interim periods presented are not necessarily indicative of results to be expected for our full fiscal year. The significant accounting policies applied during the interim periods presented are consistent with the significant accounting policies described in our Annual Report on Form 10-K for Fiscal 2017.

**Recently Issued Accounting Standards Applicable to Future Periods**

In February 2016, the FASB issued revised lease accounting guidance. The guidance requires companies to record substantially all leases as assets and liabilities on the balance sheet. For these leases, we will be required to recognize (1) a right of use asset which will represent our right to use, or control the use of, a specified asset for a lease term and (2) a lease liability equal to our obligation to make lease payments arising from a lease, measured on a discounted basis. Also, the revised guidance requires additional qualitative and quantitative footnote disclosures in our consolidated financial statements. The guidance will be effective in the First Quarter of Fiscal 2019 with early adoption permitted. The guidance requires the use of the modified retrospective transition approach, which includes a number of optional practical expedients that companies may elect to apply. In March 2018, the FASB approved a new, optional transition method that will provide companies the option to use the effective date as the date of initial application on transition.

We continue to make progress in our preparation for the adoption of this new accounting standard, including implementing lease administration and accounting software, assessing the completeness of our lease arrangements, evaluating practical expedients and accounting policy elections, and determining the potential impact of the revised lease accounting guidance on our consolidated balance sheet, statement of operations and statement of cash flows. We have implemented a new third party lease administration software, including validation of the relevant lease information included in the lease administration software for real estate leases, and are currently in process of validating information in the related lease accounting module. We continue to perform reviews of contractual arrangements, including real estate and non-real estate leases, and assess the completeness of our inventory of lease agreements. We currently plan on electing the package of practical expedients which allows us to not reassess our prior conclusions related to lease identification, lease classification and initial direct costs and are evaluating other practical expedients under the guidance. We also plan on electing the practical expedient to use the effective date as of the date of initial application on transition, and as a result will not adjust comparative period financial information or make the lease disclosures of the new guidance for periods prior to the effective date.

Considering the magnitude of our existing real estate leases, which are classified as operating leases, the new lease guidance is expected to have a significant impact on our consolidated balance sheet by requiring the recognition of a significant amount of lease-related right of use assets and lease liabilities. While we are still assessing the potential impact of the revised guidance, we do not anticipate the adoption of the guidance will have a material impact on our consolidated statement of operations and statement of cash flows.

In June 2016, the FASB issued guidance on the measurement of credit losses on financial instruments. This guidance amends the impairment model by requiring that companies use a forward-looking approach based on expected losses to estimate credit losses on certain financial instruments, including trade receivables. This guidance will be effective in Fiscal 2020, which will commence on February 2, 2020, with early adoption permitted. We are currently assessing the impact that adopting this guidance will have on our consolidated financial statements.

Recent accounting pronouncements pending adoption not discussed above or in our Annual Report on Form 10-K for Fiscal 2017 are either not applicable or will not have or are not expected to have a material impact on our consolidated financial statements.

2. Operating Group Information: We identify our operating groups based on the way our management organizes the components of our business for purposes of allocating resources and assessing performance. Our operating group structure reflects a brand-focused management approach, emphasizing operational coordination and resource allocation across each brand's direct to consumer, wholesale and licensing operations, as applicable. Our business is primarily operated through our Tommy Bahama, Lilly Pulitzer, Lanier Apparel and Southern Tide operating groups. Tommy Bahama, Lilly Pulitzer and Southern Tide each design, source, market and distribute apparel and related products bearing their respective trademarks and

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license their trademarks for other product categories, while Lanier Apparel designs, sources and distributes branded and private label men's tailored clothing, sportswear and other products.

Corporate and Other is a reconciling category for reporting purposes and includes our corporate offices, substantially all financing activities, the elimination of inter-segment sales and other items that are not allocated to the operating groups including LIFO accounting adjustments. Because our LIFO inventory pool does not correspond to our operating group definitions, LIFO inventory accounting adjustments are not allocated to the operating groups. Corporate and Other also includes the operations of other businesses which are not included in our operating groups. The operations of TBBC, which we acquired in December 2017, and our Lyons, Georgia distribution center are included in Corporate and Other. For a more extensive description of our operating groups, see Part I, Item 1. Business included in our Annual Report on Form 10-K for Fiscal 2017.

The table below presents certain financial information (in thousands) about our operating groups, as well as Corporate and Other.

|                                     | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | First Nine<br>Months<br>Fiscal<br>2018 | First Nine<br>Months<br>Fiscal<br>2017 |
|-------------------------------------|------------------------------------|------------------------------------|--|--|
| Net sales                           |                                    |                                    |  |  |
| Tommy Bahama                        | \$ 123,130                         | \$ 123,895                         | \$ 482,990                             | \$ 483,971                             |
| Lilly Pulitzer                      | 68,213                             | 59,244                             | 208,463                                | 192,045                                |
| Lanier Apparel                      | 29,037                             | 43,110                             | 72,806                                 | 84,314                                 |
| Southern Tide                       | 9,496                              | 9,217                              | 34,745                                 | 31,254                                 |
| Corporate and Other                 | 3,786                              | 494                                | 9,927                                  | 1,448                                  |
| Total net sales                     | \$ 233,662                         | \$ 235,960                         | \$ 808,931                             | \$ 793,032                             |
| Depreciation and amortization       |                                    |                                    |  |  |
| Tommy Bahama                        | \$ 7,131                           | \$ 8,033                           | \$ 22,457                              | \$ 23,321                              |
| Lilly Pulitzer                      | 2,624                              | 2,303                              | 7,727                                  | 6,377                                  |
| Lanier Apparel                      | 144                                | 145                                | 424                                    | 443                                    |
| Southern Tide                       | 133                                | 108                                | 394                                    | 317                                    |
| Corporate and Other                 | 304                                | 355                                | 931                                    | 1,054                                  |
| Total depreciation and amortization | \$ 10,336                          | \$ 10,944                          | \$ 31,933                              | \$ 31,512                              |
| Operating income (loss)             |                                    |                                    |  |  |
| Tommy Bahama                        | \$(5,141)                          | \$(5,872)                          | \$ 29,783                              | \$ 32,082                              |
| Lilly Pulitzer                      | 9,576                              | 4,952                              | 43,823                                 | 43,621                                 |
| Lanier Apparel                      | 2,261                              | 5,615                              | 3,448                                  | 6,668                                  |
| Southern Tide                       | 492                                | 1,016                              | 4,399                                  | 3,765                                  |
| Corporate and Other                 | (3,483)                            | (4,587)                            | (12,862)                               | (18,651)                               |
| Total operating income              | \$ 3,705                           | \$ 1,124                           | \$ 68,591                              | \$ 67,485                              |
| Interest expense, net               | 489                                | 683                                | 1,872                                  | 2,355                                  |
| Earnings before income taxes        | \$ 3,216                           | \$ 441                             | \$ 66,719                              | \$ 65,130                              |

3. Shareholders' Equity: The following tables detail the changes (in thousands) in our common stock, additional paid-in capital ("APIC"), retained earnings and accumulated other comprehensive (loss) income ("AOCI"), for each period presented.



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|   | Third Quarter Fiscal 2018     |           |                      |           |           |
|---|-------------------------------|-----------|----------------------|-----------|-----------|
|   | Common<br>Stock               | APIC      | Retained<br>Earnings | AOCI      | Total     |
| August 4, 2018                                      | \$16,951                      | \$138,613 | \$316,507            | \$(4,939) | \$467,132 |
| Net earnings and other comprehensive income         | —                             | —         | 1,861                | (150)     | 1,711     |
| Shares issued under equity plans                    | 5                             | 351       | —                    | —         | 356       |
| Compensation expense for equity awards              | —                             | 1,912     | —                    | —         | 1,912     |
| Repurchase of shares                                | —                             | —         | —                    | —         | —         |
| Cash dividends declared and paid                    | —                             | —         | (5,764)              | —         | (5,764)   |
| Cumulative effect of change in accounting standards | —                             | —         | —                    | —         | —         |
| November 3, 2018                                    | \$16,956                      | \$140,876 | \$312,604            | \$(5,089) | \$465,347 |
|   | Third Quarter Fiscal 2017     |           |                      |           |           |
|   | Common<br>Stock               | APIC      | Retained<br>Earnings | AOCI      | Total     |
| July 29, 2017                                       | \$16,827                      | \$132,668 | \$264,282            | \$(4,411) | \$409,366 |
| Net earnings and other comprehensive income         | —                             | —         | 1,072                | (617)     | 455       |
| Shares issued under equity plans                    | 6                             | 352       | —                    | —         | 358       |
| Compensation expense for equity awards              | —                             | 1,541     | —                    | —         | 1,541     |
| Repurchase of shares                                | —                             | —         | —                    | —         | —         |
| Cash dividends declared and paid                    | —                             | —         | (4,545)              | —         | (4,545)   |
| Cumulative effect of change in accounting standards | —                             | —         | —                    | —         | —         |
| October 28, 2017                                    | \$16,833                      | \$134,561 | \$260,809            | \$(5,028) | \$407,175 |
|   | First Nine Months Fiscal 2018 |           |                      |           |           |
|   | Common<br>Stock               | APIC      | Retained<br>Earnings | AOCI      | Total     |
| February 3, 2018                                    | \$16,839                      | \$136,664 | \$280,395            | \$(4,074) | \$429,824 |
| Net earnings and other comprehensive income         | —                             | —         | 49,612               | (1,015)   | 48,597    |
| Shares issued under equity plans                    | 147                           | 1,023     | —                    | —         | 1,170     |
| Compensation expense for equity awards              | —                             | 5,510     | —                    | —         | 5,510     |
| Repurchase of shares                                | (30)                          | (2,321)   | —                    | —         | (2,351)   |
| Cash dividends declared and paid                    | —                             | —         | (17,286)             | —         | (17,286)  |
| Cumulative effect of change in accounting standards | —                             | —         | (117)                | —         | (117)     |
| November 3, 2018                                    | \$16,956                      | \$140,876 | \$312,604            | \$(5,089) | \$465,347 |
|   | First Nine Months Fiscal 2017 |           |                      |           |           |
|   | Common<br>Stock               | APIC      | Retained<br>Earnings | AOCI      | Total     |
| January 28, 2017                                    | \$16,769                      | \$131,144 | \$233,493            | \$(5,276) | \$376,130 |
| Net earnings and other comprehensive income         | —                             | —         | 40,958               | 248       | 41,206    |
| Shares issued under equity plans                    | 104                           | 967       | —                    | —         | 1,071     |
| Compensation expense for equity awards              | —                             | 4,616     | —                    | —         | 4,616     |
| Repurchase of shares                                | (40)                          | (2,166)   | —                    | —         | (2,206)   |
| Cash dividends declared and paid                    | —                             | —         | (13,642)             | —         | (13,642)  |
| Cumulative effect of change in accounting standards | —                             | —         | —                    | —         | —         |
| October 28, 2017                                    | \$16,833                      | \$134,561 | \$260,809            | \$(5,028) | \$407,175 |

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Substantially all amounts included in AOCI in our consolidated balance sheets, as well as any related changes, for each period presented, reflect the net foreign currency translation adjustment related to our Tommy Bahama operations in Canada, Australia and Japan.

4. Income Taxes: U.S. Tax Reform, as enacted on December 22, 2017, made significant changes in the taxation of our domestic and foreign earnings. The federal corporate tax rate was lowered from 35% to 21% effective January 1, 2018, resulting in a blended federal rate applicable to our fiscal year ended February 3, 2018 to reflect the weighted average of the rate applicable to the period prior to the effective date and the period on and after the effective date. The change in the federal corporate tax rate also required revaluation of our deferred tax assets and liabilities to reflect the enacted rate at which we expect those differences to reverse. U.S. Tax Reform moved the U.S. to a territorial taxation system under which the earnings of foreign subsidiaries will generally not be subject to U.S. federal income tax upon distribution and imposed a one-time transition tax on the amount of previously untaxed earnings of those foreign subsidiaries measured as of November 2, 2017 or December 31, 2017, whichever resulted in the greater taxable amount. Additional changes included the increase in bonus depreciation available for certain assets acquired after September 27, 2017 and limitations on the deduction for certain expenses, including executive compensation and interest incurred in taxable years beginning on or after January 1, 2018. New taxes were imposed related to foreign income including, for years beginning after December 31, 2017, a tax on global intangible low-taxed income (“GILTI”), disallowance of deductions for certain payments (the base erosion anti-abuse tax, or “BEAT”) and new deductions enacted for certain foreign-derived intangible income (“FDII”).

The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides us with up to one year to finalize accounting for the impacts of U.S. Tax Reform. Since our initial accounting for U.S. Tax Reform impact is incomplete, we may include provisional amounts when reasonable estimates can be made or continue to apply the prior tax law if a reasonable estimate cannot be made. In accordance with SAB 118, as of November 3, 2018 and February 3, 2018, we estimated provisional tax amounts related to our deferred income tax assets and liabilities, including the impacts of the change in the federal corporate tax rate, deductions for executive compensation, our indefinite reinvestment assertion, the transition tax, GILTI, BEAT and FDII. Also, as of November 3, 2018 and February 3, 2018, we have not yet elected an accounting policy related to how we will account for GILTI and therefore have not included any deferred tax impacts of GILTI in our consolidated financial statements. Further, as of November 3, 2018 and February 3, 2018, we continue to assert, on a provisional basis, that substantially all of our investments in foreign subsidiaries and related earnings are permanently reinvested outside of the United States, or that there is no tax payable for any subsidiaries in which we are not permanently reinvested. Therefore, we have not recorded any deferred tax liabilities related to these investments and earnings.

As a result of the provisional revaluation impact on our deferred taxes and certain other items related to U.S. Tax Reform, we recognized a reduction in tax expense of \$12 million in our Fiscal 2017 statement of operations. During the First Nine Months of Fiscal 2018, we did not recognize any measurement period adjustments to the provisional amounts recognized during Fiscal 2017. We are still finalizing our calculations related to the impact of U.S. Tax Reform.

The effective tax rate for the Third Quarter of Fiscal 2018, Third Quarter of Fiscal 2017, First Nine Months of Fiscal 2018 and First Nine Months of Fiscal 2017 were 42.1%, (143.1)%, 25.6% and 37.1%, respectively. The net impact of discrete or other items often results in a more significant or unusual impact on the effective tax rate in our third quarter given the significantly lower operating results during the third quarter as compared to the other quarters of the fiscal year. Thus, the effective tax rate for the third quarter is not indicative of the effective tax rate anticipated for the full year. The effective tax rate for the First Nine Months of Fiscal 2018 decreased from the First Nine Months of Fiscal 2017, primarily due to the lower federal corporate tax rate resulting from U.S. Tax Reform. Our effective tax rate for the full year of Fiscal 2018 is expected to be approximately 26%, which includes the U.S. federal statutory rate of 21% and state income taxes, net of the related federal income tax benefit; the rate differential related to foreign operations; valuation allowances against operating losses and other carryforwards; the excess tax benefit related to

restricted stock vesting; and various other items impacting the effective tax rate. The effective rate for Fiscal 2018 may vary from 26% as a result of adjustments to the provisional amounts recognized for U.S. Tax Reform as discussed above as well as any discrete items recognized during Fiscal 2018. The final impact of U.S. Tax Reform may differ from our provisional amounts recognized in Fiscal 2017 due to, among other things, additional regulatory guidance that may be issued, us obtaining additional information to refine our estimated tax amounts and changes in interpretations and assumptions.

5. Accounting Standards Adopted in Fiscal 2018:

Revenue Recognition for Contracts with Customers

In May 2014, the FASB issued guidance, as revised through supplemental guidance, which provided a single, comprehensive accounting model for revenue arising from contracts with customers. This new revenue recognition guidance superseded most of the prior revenue recognition guidance, which specified that revenue should be recognized when risks and rewards transfer



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to a customer. Under the new guidance, revenue is recognized at an amount that reflects the consideration expected to be received for those goods and services pursuant to a five-step approach: (1) identify the contracts with the customer; (2) identify the separate performance obligations in the contracts; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenue when, or as, each performance obligation is satisfied. The new guidance also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flow arising from customer contracts, including significant judgments and changes in judgments.

We adopted the revised revenue recognition guidance as of the first day of Fiscal 2018 using the modified retrospective method, applying the guidance only to contracts that were not completed prior to Fiscal 2018. There was no adjustment to retained earnings for the cumulative effect of applying the guidance upon adoption as there was no change in the timing of revenue recognition for any of our revenue streams. We have changed our accounting policies and practices and designed and implemented specific controls over our evaluation of the impact of the new guidance, including disclosure requirements and the collection of relevant data for the reporting process.

Our revenue streams consist of direct to consumer sales, including our retail store, e-commerce and restaurant operations, and wholesale sales, as well as royalty income, which is included in royalties and other income in our consolidated statements of operations. The tables below quantify, for each operating group and in total, the amount of net sales by distribution channel (in thousands) and as a percentage of net sales for each period presented.

## Third Quarter of Fiscal 2018

|                     | Net Sales | Retail | E-commerce | Restaurant | Wholesale | Other |
|---------------------|-----------|--------|------------|------------|-----------|-------|
| Tommy Bahama        | \$123,130 | 46%    | 14%        | 13%        | 27%       | —%    |
| Lilly Pulitzer      | 68,213    | 35%    | 53%        | —%         | 12%       | —%    |
| Lanier Apparel      | 29,037    | —%     | —%         | —%         | 100%      | —%    |
| Southern Tide       | 9,496     | —%     | 16%        | —%         | 84%       | —%    |
| Corporate and Other | 3,786     | —%     | 50%        | —%         | 34%       | 16%   |
| Total               | \$233,662 | 35%    | 24%        | 7%         | 34%       | —%    |

## Third Quarter of Fiscal 2017

|                     | Net Sales | Retail | E-commerce | Restaurant | Wholesale | Other |
|---------------------|-----------|--------|------------|------------|-----------|-------|
| Tommy Bahama        | \$123,895 | 47%    | 11%        | 13%        | 29%       | —%    |
| Lilly Pulitzer      | 59,244    | 35%    | 53%        | —%         | 12%       | —%    |
| Lanier Apparel      | 43,110    | —%     | —%         | —%         | 100%      | —%    |
| Southern Tide       | 9,217     | —%     | 16%        | —%         | 84%       | —%    |
| Corporate and Other | 494       | —%     | —%         | —%         | —%        | 100%  |
| Total               | \$235,960 | 33%    | 20%        | 7%         | 40%       | —%    |

## First Nine Months of Fiscal 2018

|                     | Net Sales | Retail | E-commerce | Restaurant | Wholesale | Other |
|---------------------|-----------|--------|------------|------------|-----------|-------|
| Tommy Bahama        | \$482,990 | 48%    | 17%        | 13%        | 22%       | —%    |
| Lilly Pulitzer      | 208,463   | 44%    | 35%        | —%         | 21%       | —%    |
| Lanier Apparel      | 72,806    | —%     | —%         | —%         | 100%      | —%    |
| Southern Tide       | 34,745    | —%     | 16%        | —%         | 84%       | —%    |
| Corporate and Other | 9,927     | —%     | 54%        | —%         | 27%       | 19%   |
| Total               | \$808,931 | 40%    | 20%        | 8%         | 32%       | —%    |

## First Nine Months of Fiscal 2017

|                     | Net Sales | Retail | E-commerce | Restaurant | Wholesale | Other |
|---------------------|-----------|--------|------------|------------|-----------|-------|
| Tommy Bahama        | \$483,971 | 49%    | 14%        | 13%        | 24%       | —%    |
| Lilly Pulitzer      | 192,045   | 38%    | 33%        | —%         | 29%       | —%    |
| Lanier Apparel      | 84,314    | —%     | —%         | —%         | 100%      | —%    |
| Southern Tide       | 31,254    | —%     | 17%        | —%         | 83%       | —%    |
| Corporate and Other | 1,448     | —%     | —%         | —%         | —%        | 100%  |

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Total \$793,032 39% 17% 8% 36% —%

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Revenue is recognized when performance obligations under the terms of the contracts with our customers are satisfied. Our performance obligations generally consist of delivering our products to our direct to consumer and wholesale customers. Control of the product is generally transferred upon providing the product to consumers in our bricks and mortar retail stores and restaurants, upon physical delivery of the products to consumers in our e-commerce operations and upon shipment from the distribution center to customers in our wholesale operations. Once control is transferred to the customer, we have completed our performance obligations related to the contract and have an unconditional right to consideration as outlined in the contract. Our receivables resulting from contracts with customers in our direct to consumer operations are generally collected within a few days, upon settlement of the credit card transaction. Our receivables resulting from contracts with our customers in our wholesale operations are generally collected within one quarter, in accordance with established credit terms. All of our performance obligations under the terms of our contracts with customers in our direct to consumer and wholesale operations have an expected original duration of one year or less. Our revenue, including any freight income, is recognized net of applicable taxes in our consolidated statements of operations.

In our direct to consumer operations, consumers have certain rights to return product within a specified period and are eligible for certain point of sale discounts, thus retail store, e-commerce and restaurant revenues are recorded net of estimated returns and discounts, as applicable. The sales return allowance is recognized on a gross basis, with the recognition of a return liability for the amount of sales estimated to be returned and a return asset for the right to recover the product estimated to be returned by the customer, measured at the previous carrying amounts of the product. The value of inventory associated with a right to recover the goods returned are included in prepaid expenses and other current assets in our consolidated balance sheet as of November 3, 2018, whereas prior to Fiscal 2018 those amounts were included in inventories. The changes in the return liability are recognized in net sales in our consolidated statements of operations and the changes in the return asset are recognized in cost of goods sold in our consolidated statements of operations for all periods presented.

In the ordinary course of our wholesale operations, we offer discounts, allowances and cooperative advertising support to some of our wholesale customers for certain products. Some of these arrangements are written agreements, while others may be implied by customary practices or expectations in the industry. Wholesale sales are recorded net of such discounts, allowances and cooperative advertising support for our customers, operational chargebacks and provisions for estimated wholesale returns. As certain allowances, other deductions and returns are not finalized until the end of a season, program or other event which may not have occurred yet, we estimate such discounts, allowances and returns on an ongoing basis to estimate the consideration from the customer that we expect to ultimately receive. In accordance with the new revenue recognition guidance, we only recognize revenue to the extent that it is probable that we will not have a significant reversal of revenue in a future period. Significant considerations in determining our estimates for discounts, allowances, operational chargebacks and returns for wholesale customers may include historical and current trends, agreements with customers, projected seasonal results, an evaluation of current economic conditions, specific program or product expectations and retailer performance. We record the discounts, returns and allowances as a reduction to net sales in our consolidated statements of operations and as a reduction to receivables, net in our consolidated balance sheets, with the estimated value of inventory expected to be returned in prepaid expenses and other current assets in our consolidated balance sheets as of November 3, 2018. As of November 3, 2018, February 3, 2018 and October 28, 2017, reserve balances recorded as a reduction to receivables related to these items were \$8 million, \$7 million and \$9 million, respectively.

In addition to trade and other receivables, an income tax receivable of \$4 million and \$5 million is included in receivables, net in our consolidated balance sheet as of November 3, 2018 and February 3, 2018, respectively, with no material income tax receivable as of October 28, 2017. Substantially all other amounts recognized in receivables, net as of those dates represent receivables related to contracts with customers. As of November 3, 2018, prepaid expenses and other current assets includes \$2 million representing the estimated value of inventory for wholesale and direct to consumer sales returns, which was recognized in inventories in prior years pursuant to the previous guidance. An estimated sales return liability of \$2 million for expected direct to consumer returns is classified in other accrued expenses and liabilities in our consolidated balance sheet as of November 3, 2018. We do not have any significant contract assets related to contracts with customers, other than receivables and the value of inventory associated with

reserves for expected sales returns, as of November 3, 2018, February 3, 2018 or October 28, 2017.

In addition to our estimated return amounts, our contract liabilities related to contracts with customers include gift cards and merchandise credits issued by us, which do not have an expiration date, but are redeemable on demand by the holder of the card. Historically, substantially all gift cards and merchandise credits are redeemed within one year of issuance. Gift cards and merchandise credits are recorded as a liability until our performance obligation is satisfied, which occurs when redeemed by the consumer, at which point revenue is recognized. However, we recognize breakage income for certain gift cards and merchandise credits using the redemption recognition method, subject to applicable laws in certain states. Contract liabilities for gift cards purchased by consumers and merchandise credits received by customers but not yet redeemed, less any breakage income recognized to date, is included in other accrued expenses and liabilities in our consolidated balance sheets and totaled \$10 million, \$10 million and \$9 million as of November 3, 2018, February 3, 2018, and October 28, 2017, respectively. Gift

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card breakage, which was not material in any period presented, is included in net sales in our consolidated statements of operations.

Royalties from the license of our owned brands, which are generally based on the greater of a percentage of the licensee's actual net sales or a contractually determined minimum royalty amount, are recognized over time based upon the guaranteed minimum royalty obligations and adjusted as sales data, or estimates thereof, is received from licensees. Royalty income represents substantially all of the amounts included in royalties and other operating income in our consolidated statements of operations.

We have made the following accounting policy elections and practical expedients related to the new revenue recognition guidance: (1) we exclude any taxes collected from customers that are remitted to taxing authorities from net sales; (2) we deem charges incurred by us before and after the customer obtains control of goods, as applicable, as fulfillment costs; (3) as customer payment terms are less than one year from the transfer of goods, we do not adjust receivable amounts for the effects of time value of money; and (4) we utilize the portfolio approach when multiple contracts or performance obligations are involved in the determination of revenue recognition. We do not believe the use of any practical expedients utilized by us had a material impact on our financial statements upon our adoption of the revised guidance.

Deferred income taxes for intra-entity asset transfers

In October 2016, the FASB issued guidance on the recognition of current and deferred income taxes for intra-entity asset transfers. The revised guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs. We adopted this guidance in the First Quarter of Fiscal 2018, resulting in a \$0.1 million reduction to retained earnings as of February 4, 2018 and no impact on net earnings for any period presented.

6. Tommy Bahama Japan Charges: During the Second Quarter of Fiscal 2018, we incurred certain charges related to the restructure and downsizing of our Tommy Bahama Japan operations, including the closure and early lease termination of the Tommy Bahama Ginza flagship retail-restaurant location, for which the lease was previously scheduled to expire in 2022. These charges, which are an estimate of the charges that will actually be incurred, totaled \$4 million in the Second Quarter of Fiscal 2018, consisting of \$2 million of lease termination and premises reinstatement charges, \$1 million of non-cash asset impairment charges and \$1 million of other charges including inventory markdowns and employee severance. These charges were recognized in SG&A, except for the inventory markdowns of \$0.5 million which were recognized in cost of goods sold. No additional charges were recognized in the Third Quarter of Fiscal 2018. Amounts outstanding as of November 3, 2018, which are included in current liabilities in our consolidated balance sheet, total \$2 million. These amounts are expected to be paid in the Fourth Quarter of Fiscal 2018 or the First Quarter of Fiscal 2019.

We closed the Tommy Bahama Ginza restaurant in the Third Quarter of Fiscal 2018 and plan to close the Tommy Bahama Ginza retail store in the Fourth Quarter of Fiscal 2018. Following the closure of the Ginza retail store, we will retain a very limited presence in Japan, which will allow us to continue to review various alternatives for the Tommy Bahama brand in Japan.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto contained in this report and the consolidated financial statements, notes to consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for Fiscal 2017.

OVERVIEW

We are a global apparel company that designs, sources, markets and distributes products bearing the trademarks of our Tommy Bahama, Lilly Pulitzer and Southern Tide lifestyle brands and other owned and licensed brands as well as private label apparel products. During Fiscal 2017, 92% of our net sales were from products bearing brands that we own, and 66% of our net sales were through our direct to consumer channels of distribution. In Fiscal 2017, 97% of our consolidated net sales were to customers located in the United States, with the sales outside the United States consisting primarily of our Tommy Bahama sales in Canada and the Asia-Pacific region.

Our business strategy is to develop and market compelling lifestyle brands and products that evoke a strong emotional response from our target consumers. We consider lifestyle brands to be those brands that have a clearly defined and targeted point of view inspired by an appealing lifestyle or attitude. Furthermore, we believe lifestyle brands that create an emotional connection, like Tommy Bahama, Lilly Pulitzer and Southern Tide, can command greater loyalty and higher price points at retail and create licensing opportunities, which may drive higher earnings. We believe the attraction of a lifestyle brand depends on creating compelling product, effectively communicating the respective lifestyle brand message and distributing products to consumers where and when they want them.

Our ability to compete successfully in styling and marketing is directly related to our proficiency in foreseeing changes and trends in fashion and consumer preference and presenting appealing products for consumers. Our design-led, commercially informed lifestyle brand operations strive to provide exciting, differentiated products each season.

To further strengthen each lifestyle brand's connections with consumers, we directly communicate with consumers through digital and print media on a regular basis. We believe our ability to effectively communicate the images, lifestyle and products of our brands and create an emotional connection with consumers is critical to the success of our brands. Our advertising for our brands often attempts to convey the lifestyle of the brand as well as a specific product. We distribute our owned lifestyle branded products primarily through our direct to consumer channels, consisting of our Tommy Bahama and Lilly Pulitzer retail stores and our e-commerce sites for Tommy Bahama, Lilly Pulitzer and Southern Tide, and through our wholesale distribution channels. Our direct to consumer operations provide us with the opportunity to interact directly with our customers, present to them a broad assortment of our current season products and immerse them in the theme of the lifestyle brand. We believe that presenting our products in a setting specifically designed to showcase the lifestyle on which the brands are based enhances the image of our brands. Our Tommy Bahama and Lilly Pulitzer full-price retail stores provide high visibility for our brands and products and allow us to stay close to the preferences of our consumers, while also providing a platform for long-term growth for the brands. In Tommy Bahama, we also operate a limited number of restaurants, including Marlin Bars, generally adjacent to a Tommy Bahama full-price retail store location, which we believe further enhance the brand's image with consumers. Our e-commerce websites, which represented 19% of our consolidated net sales in Fiscal 2017, provide the opportunity to increase revenues by reaching a larger population of consumers and at the same time allow our brands to provide a broader range of products.

The wholesale operations of our lifestyle brands complement our direct to consumer operations and provide access to a larger group of consumers. As we seek to maintain the integrity of our lifestyle brands by limiting promotional activity in our full-price retail stores and e-commerce websites, we generally target wholesale customers that follow this same approach in their stores. Our wholesale customers for our Tommy Bahama, Lilly Pulitzer and Southern Tide brands generally include various specialty stores, including Signature Stores for Lilly Pulitzer and Southern Tide, better department stores and multi-branded e-commerce retailers.

Within our Lanier Apparel operating group, we sell tailored clothing and sportswear products under licensed, private label and owned brands. Lanier Apparel's customers include department stores, discount and off-price retailers, warehouse clubs, national chains, specialty stores and multi-branded e-commerce retailers.

The disposal of discontinued, end of season or excess inventory is an ongoing part of any apparel business, and our operating groups have historically utilized a variety of methods to sell such inventory, including outlet stores in Tommy

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Bahama, e-commerce flash sales, and off-price retailers. Our focus in disposing of the excess inventory for our lifestyle brands is to do so in a brand appropriate setting and achieve an acceptable margin.

All of our operating groups operate in highly competitive apparel markets in which numerous U.S. and foreign-based apparel firms compete. No single apparel firm or small group of apparel firms dominates the apparel industry, and our direct competitors vary by operating group and distribution channel. We believe the principal competitive factors in the apparel industry are reputation, value, and image of brand names; design; consumer preference; price; quality; marketing; product fulfillment capabilities; and customer service.

The apparel industry is cyclical and very dependent upon the overall level and focus of discretionary consumer spending, which changes as consumer preferences and regional, domestic and international economic conditions change. Increasingly, consumers are choosing to spend less of their discretionary spending on certain product categories, including apparel, while spending more on services and other product categories. Further, negative economic conditions often have a longer and more severe impact on the apparel industry than on other industries. We believe the changes in consumer preferences for discretionary spending, the current global economic conditions and economic uncertainty continue to impact the business of each of our operating groups and the apparel industry as a whole.

We believe the retail apparel market is evolving very rapidly and in ways that are having a disruptive impact on traditional fashion retailing. The application of technology, including the internet and mobile devices, to fashion retail provides consumers increasing access to multiple, responsive distribution platforms and an unprecedented ability to communicate directly with brands and retailers. As a result, consumers have more information and greater control over information they receive as well as broader, faster and cheaper access to goods than ever before. This, along with the coming of age of the “millennial” generation, is revolutionizing the way that consumers shop for fashion and other goods. The evidence of the evolution is apparent with weakness and store closures for certain department stores and mall-based retailers, decreased consumer retail traffic, a more promotional retail environment, expansion of off-price and discount retailers, and a shift from bricks and mortar to internet purchasing. These changes may require that brands and retailers approach their operations, including marketing and advertising, differently than historical practices.

While this evolution in the fashion retail industry presents significant risks, especially for traditional retailers who fail or are unable to adapt, we believe it also presents a tremendous opportunity for brands and retailers to capitalize on the changing consumer environment. We believe our brands have true competitive advantages in this new retailing paradigm, and we are leveraging technology to serve our consumers when and where they want to be served. We continue to believe that our lifestyle brands, with their strong emotional connections with consumers, are well suited to succeed and thrive in the long term while managing the various challenges facing our industry.

Specifically, we believe our lifestyle brands have opportunities for long-term growth in our direct to consumer businesses. We anticipate increased sales in our e-commerce operations, which are expected to grow at a faster rate than bricks and mortar comparable store sales. We also believe growth can be achieved through prudent expansion of bricks and mortar full-price retail store operations and modest comparable full-price retail store sales increases. Despite the changes in the retail environment, we expect there will continue to be desirable locations for additional stores.

We believe our lifestyle brands have an opportunity for modest sales increases in their wholesale businesses in the long term. However, we must be diligent in our effort to avoid compromising the integrity of our brands by maintaining or growing sales with wholesale customers that may not be aligned with our long-term strategy. This is particularly important with the challenges in the department store channel, which represented approximately 14% of our consolidated net sales in Fiscal 2017, compared to approximately 16% in Fiscal 2016. The management of



wholesale distribution for our lifestyle brands resulted in a decrease in wholesale sales in the First Nine Months of Fiscal 2018 and could result in additional reductions in wholesale sales in future periods, as we may decrease the amount of sales to certain wholesale accounts by reducing the number of doors that carry our product, reducing the volume sold for a particular door or exiting the account altogether. We anticipate that sales increases in our wholesale businesses in the long term will stem primarily from current customers adding within their existing door count and increasing their online business; increased sales to online retailers; and our selective addition of new wholesale customers who generally present and merchandise our products in a way that is consistent with our full-price, direct to consumer distribution strategy. We also believe that there are opportunities for modest sales growth for Lanier Apparel in the future through new product programs and licenses.

We believe we must continue to invest in our lifestyle brands to take advantage of their long-term growth opportunities. Investments include capital expenditures primarily related to the direct to consumer operations, such as technology enhancements, e-commerce initiatives and retail store and restaurant build-out for new, relocated or remodeled locations, as well as distribution center and administrative office expansion initiatives. Additionally, we anticipate increased advertising,

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employment and other costs to support ongoing business operations and fuel future sales growth. Advertising expense in the First Nine Months of Fiscal 2018 increased relative to the First Nine Months of Fiscal 2017 for each of our brands with an advertising spend focusing on new consumer acquisition as well as consumer retention and engagement.

In the midst of the changes in our industry, an important initiative for us in Fiscal 2017 was to increase the profitability of the Tommy Bahama business. These initiatives generally focused on increasing gross margin and operating margin through efforts such as: product cost reductions; selective price increases; reducing inventory purchases; redefining our approach to inventory clearance; effectively managing controllable and discretionary operating expenses; taking a more conservative approach to retail store openings and lease renewals; and continuing our efforts to reduce Asia-Pacific operating losses. Progress was made on these initiatives in Fiscal 2017. In addition, in the First Nine Months of Fiscal 2018, we made additional progress, including the reduction of Asia-Pacific losses with the restructuring of the Tommy Bahama Japan operations as discussed in Note 6.

We continue to believe it is important to maintain a strong balance sheet and liquidity. We believe positive cash flow from operations, coupled with the strength of our balance sheet and liquidity, will provide us with sufficient resources to fund future investments in our owned lifestyle brands. While we believe we have significant opportunities to appropriately deploy our capital and resources in our existing lifestyle brands, our strong cash flows from operations provide us the ability to continue to evaluate opportunities to add additional lifestyle brands to our portfolio in the future if we identify appropriate targets that meet our investment criteria. With the evolving fashion retail environment, our interest in acquiring smaller brands and earlier stage companies is evolving, particularly where we may have the opportunity to more fully integrate the brand into our existing infrastructure and shared services functions.

Important factors relating to certain risks, many of which are beyond our ability to control or predict, which could impact our business are described in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for Fiscal 2017.

The following table sets forth our consolidated operating results from continuing operations (in thousands, except per share amounts) for the First Nine Months of Fiscal 2018 compared to the First Nine Months of Fiscal 2017:

|                                | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 |
|--------------------------------|---|---|
| Net sales                      | \$808,931                                 | \$793,032                                 |
| Operating income               | \$68,591                                  | \$67,485                                  |
| Net earnings                   | \$49,612                                  | \$40,958                                  |
| Net earnings per diluted share | \$2.95                                    | \$2.45                                    |

The higher net earnings per diluted share in the First Nine Months of Fiscal 2018 was due to (1) the lower effective tax rate resulting from U.S. Tax Reform as discussed in Note 4, (2) the improved operating results in Corporate and Other, primarily due to the favorable impact of LIFO accounting and the operations of TBBC, (3) increased operating income in Southern Tide primarily due to higher net sales, (4) lower interest expense and (5) improved operating income in Lilly Pulitzer. These items were partially offset by (1) lower operating income in Lanier Apparel, primarily due to lower sales, and (2) lower operating income in Tommy Bahama, primarily due to increased advertising expense and Tommy Bahama Japan restructuring charges as discussed in Note 6. Changes in operating results by group are discussed below.

## COMPARABLE STORE SALES

We often disclose comparable store sales in order to provide additional information regarding changes in our results of operations between periods. Our disclosures of comparable store sales include net sales from full-price retail stores and our e-commerce sites, excluding sales associated with e-commerce flash clearance sales. We believe that the inclusion of both our full-price retail stores and e-commerce sites in the comparable store sales disclosures is a more meaningful way of reporting our comparable store sales results, given similar inventory planning, allocation and return policies, as well as our cross-channel marketing and other initiatives for the direct to consumer channel. For our comparable store sales disclosures, we exclude (1) outlet store sales, warehouse sales and e-commerce flash clearance sales, as those clearance sales are used primarily to liquidate end of season inventory, which may vary significantly depending on the level of end of season inventory on hand and generally occur at lower gross margins than our non-clearance direct to consumer sales, and (2) restaurant sales, as we do not currently believe that the inclusion of restaurant sales in our comparable store sales disclosures is meaningful in assessing our consolidated results of operations. Comparable store sales information reflects net sales, including shipping and handling revenues, if any, associated with product sales.

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For purposes of our disclosures, we consider a comparable store to be, in addition to our e-commerce sites, a physical full-price retail store that was owned and open as of the beginning of the prior fiscal year and which did not have during the relevant periods, and is not within the current fiscal year scheduled to have, (1) a remodel or other event resulting in the store being closed for an extended period of time (which we define as a period of two weeks or longer), (2) a greater than 15% change in the size of the retail space due to expansion, reduction or relocation to a new retail space, (3) a relocation to a new space that was significantly different from the prior retail space, or (4) a closing or opening of a Tommy Bahama restaurant adjacent to the full-price retail store. For those stores which are excluded from comparable stores based on the preceding sentence, the stores continue to be excluded from comparable store sales until the criteria for a new store is met subsequent to the remodel, relocation, restaurant closing or opening, or other event. A store that is remodeled will generally continue to be included in our comparable store sales metrics as a store is not typically closed for longer than a two-week period during a remodel; however, a store that is relocated generally will not be included in our comparable store sales metrics until that store has been open in the relocated space for the entirety of the prior fiscal year because the size or other characteristics of the store typically change significantly from the prior location. Any stores that were closed during the prior fiscal year or current fiscal year, or which we expect to close or vacate in the current fiscal year, are excluded from the definition of comparable store sales.

Because Fiscal 2017 had 53 weeks, each fiscal quarter in Fiscal 2018 starts and ends one calendar week later than in Fiscal 2017 (e.g., the Third Quarter of Fiscal 2018 is the period from August 5, 2018 to November 3, 2018, inclusive, while the Third Quarter of Fiscal 2017 is the period from July 30, 2017 to October 28, 2017, inclusive). Due to the significant seasonality of our direct to consumer sales, particularly during the first and second fiscal quarters each year, as well as the timing of our merchandising and marketing initiatives, the one-week shift between Fiscal 2017 and Fiscal 2018 may significantly impact our comparable store sales if presented on a fiscal period basis. To provide a more accurate assessment of our Fiscal 2018 comparable store productivity, we are presenting our Fiscal 2018 comparable store sales on a calendar-adjusted basis by comparing the Fiscal 2018 period to the comparable calendar period in the preceding year, rather than the comparable fiscal period in the preceding year. By way of example, our Third Quarter of Fiscal 2018 comparable store sales presentation compares the Third Quarter of Fiscal 2018 to the 13-week period ended November 4, 2017. Except as otherwise specified, all references to comparable store sales during Fiscal 2018 contained in this report refer to the calendar-adjusted comparable store sales as opposed to the fiscal period comparable store sales.

Definitions and calculations of comparable store sales differ among retail companies, and therefore comparable store sales metrics disclosed by us may not be comparable to the metrics disclosed by other companies.

**STORE COUNT**

The table below provides store count information for Tommy Bahama and Lilly Pulitzer as of the dates specified.

|   | November 3, 2018 | February 3, 2018 | October 28, 2017 | January 28, 2017 |
|---|------------------|------------------|------------------|------------------|
| Tommy Bahama Full-Price Retail Stores (1) | 113              | 110              | 111              | 111              |
| Tommy Bahama Retail-Restaurant Locations  | 17               | 18               | 18               | 17               |
| Tommy Bahama Outlet Stores                | 38               | 38               | 38               | 40               |
| Total Tommy Bahama Retail Locations       | 168              | 166              | 167              | 168              |
| Lilly Pulitzer Full-Price Retail Stores   | 60               | 57               | 57               | 40               |
| Total Oxford Retail Locations             | 228              | 223              | 224              | 208              |

(1) Tommy Bahama Full-Price Retail Stores, as of November 3, 2018, includes the Tommy Bahama Ginza location. This location was included in Tommy Bahama Retail-Restaurant Locations in the previous reported periods, prior to the closure of of the restaurant portion of the location in the Third Quarter of Fiscal 2018. The retail portion of the

Ginza location is scheduled to close in the Fourth Quarter of Fiscal 2018.

## RESULTS OF OPERATIONS

### THIRD QUARTER OF FISCAL 2018 COMPARED TO THIRD QUARTER OF FISCAL 2017

The following table sets forth the specified line items in our unaudited condensed consolidated statements of operations both in dollars (in thousands) and as a percentage of net sales. The table also sets forth the dollar change and the percentage

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change of the data as compared to the same period of the prior year. We have calculated all percentages based on actual data, and percentage columns may not add due to rounding.

|                                      | Third Quarter |             | Third Quarter |             | \$        | %       |
|--------------------------------------|---------------|-------------|---------------|-------------|-----------|---------|
|                                      | Fiscal 2018   | Fiscal 2017 | Fiscal 2018   | Fiscal 2017 | Change    | Change  |
| Net sales                            | \$233,662     | 100.0%      | \$235,960     | 100.0%      | \$(2,298) | (1.0)%  |
| Cost of goods sold                   | 104,383       | 44.7%       | 110,784       | 47.0%       | (6,401)   | (5.8)%  |
| Gross profit                         | \$129,279     | 55.3%       | \$125,176     | 53.0%       | \$4,103   | 3.3%    |
| SG&A                                 | 128,687       | 55.1%       | 127,091       | 53.9%       | 1,596     | 1.3%    |
| Royalties and other operating income | 3,113         | 1.3%        | 3,039         | 1.3%        | 74        | 2.4%    |
| Operating income                     | \$3,705       | 1.6%        | \$1,124       | 0.5%        | \$2,581   | 229.6%  |
| Interest expense, net                | 489           | 0.2%        | 683           | 0.3%        | (194)     | (28.4)% |
| Earnings before income taxes         | \$3,216       | 1.4%        | \$441         | 0.2%        | \$2,775   | 629.3%  |
| Income taxes                         | 1,355         | 0.6%        | (631)         | (0.3)%      | 1,986     | NM      |
| Net earnings                         | \$1,861       | 0.8%        | \$1,072       | 0.5%        | \$789     | 73.6%   |

The discussion and tables below compare certain line items included in our statements of operations for the Third Quarter of Fiscal 2018 to the Third Quarter of Fiscal 2017. Each dollar and percentage change provided reflects the change between these fiscal periods unless indicated otherwise. Each dollar and share amount included in the tables is in thousands except for per share amounts. Individual line items of our consolidated statements of operations may not be directly comparable to those of our competitors, as classification of certain expenses may vary by company. Unless otherwise indicated, all references to assets, liabilities, revenues, expenses or other information in this report reflect continuing operations.

## Net Sales

|                     | Third     | Third     | \$        | %       |
|---------------------|-----------|-----------|-----------|---------|
|                     | Quarter   | Quarter   | Change    | Change  |
|                     | Fiscal    | Fiscal    |           |         |
|                     | 2018      | 2017      |           |         |
| Tommy Bahama        | \$123,130 | \$123,895 | \$(765)   | (0.6)%  |
| Lilly Pulitzer      | 68,213    | 59,244    | 8,969     | 15.1%   |
| Lanier Apparel      | 29,037    | 43,110    | (14,073)  | (32.6)% |
| Southern Tide       | 9,496     | 9,217     | 279       | 3.0%    |
| Corporate and Other | 3,786     | 494       | 3,292     | NM      |
| Total net sales     | \$233,662 | \$235,960 | \$(2,298) | (1.0)%  |

Consolidated net sales decreased \$2 million, or 1%, in the Third Quarter of Fiscal 2018. The decrease in consolidated net sales was primarily driven by (1) a \$16 million net decrease in wholesale sales, driven by a decrease in Lanier Apparel, and (2) a \$1 million decrease in direct to consumer sales at comparable stores resulting from the calendar shift between Fiscal 2017 and Fiscal 2018. These decreases were partially offset by (1) a \$5 million, or 7%, calendar-adjusted comparable store sales increase from \$73 million in the 13-week period ended November 4, 2017 to \$79 million in the Third Quarter of Fiscal 2018, reflecting strong comparable store sales in both Tommy Bahama and Lilly Pulitzer, (2) a \$4 million increase in our off-price direct to consumer clearance channels, including an increase in the Lilly Pulitzer e-commerce flash clearance sales partially offset by slightly lower outlet store sales in Tommy Bahama, (3) \$3 million of e-commerce and wholesale sales for TBBC, which we acquired in the Fourth Quarter of Fiscal 2017 and (4) an incremental net sales increase of \$2 million associated with the operation of non-comp full-price retail stores, primarily in Lilly Pulitzer. By way of comparison, on a fiscal period basis, consolidated comparable store sales increased 6% in the Third Quarter of Fiscal 2018 relative to the Third Quarter of Fiscal 2017. The changes in net sales by operating group are discussed below.

The following table presents the proportion of our consolidated net sales by distribution channel for each period presented:

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|                                      | Third<br>Quarter<br>Fiscal<br>2018 |   | Third<br>Quarter<br>Fiscal<br>2017 |   |
|--------------------------------------|------------------------------------|---|------------------------------------|---|
| Full-price retail stores and outlets | 35                                 | % | 33                                 | % |
| E-commerce                           | 24                                 | % | 20                                 | % |
| Restaurant                           | 7                                  | % | 7                                  | % |
| Wholesale                            | 34                                 | % | 40                                 | % |
| Total                                | 100                                | % | 100                                | % |

## Tommy Bahama:

The Tommy Bahama net sales decrease of \$1 million, or 1%, was primarily driven by (1) a \$2 million decrease in wholesale sales, including reductions in off-price wholesale sales, (2) a \$1 million decrease in non-comp full-price retail stores, reflecting the net sales change for stores that were opened, closed or remodeled during Fiscal 2017 or Fiscal 2018 and (3) modestly lower sales in Tommy Bahama's off-price direct to consumer channels and restaurants. These decreases were partially offset by (1) a \$3 million, or 5%, increase in calendar-adjusted comparable store sales from \$54 million in the 13-week period ended November 4, 2017 to \$56 million in the Third Quarter of Fiscal 2018, driven by strong growth in e-commerce sales, and (2) a \$1 million increase in direct to consumer sales at comparable stores resulting from the calendar shift between Fiscal 2017 and Fiscal 2018. By way of comparison, on a fiscal period basis, Tommy Bahama comparable store sales increased 6% in the Third Quarter of Fiscal 2018 relative to the Third Quarter of Fiscal 2017. The following table presents the proportion of net sales by distribution channel for Tommy Bahama for each period presented:

|                                      | Third<br>Quarter<br>Fiscal<br>2018 |   | Third<br>Quarter<br>Fiscal<br>2017 |   |
|--------------------------------------|------------------------------------|---|------------------------------------|---|
| Full-price retail stores and outlets | 46                                 | % | 47                                 | % |
| E-commerce                           | 14                                 | % | 11                                 | % |
| Restaurant                           | 13                                 | % | 13                                 | % |
| Wholesale                            | 27                                 | % | 29                                 | % |
| Total                                | 100                                | % | 100                                | % |

## Lilly Pulitzer:

The Lilly Pulitzer net sales increase of \$9 million, or 15%, was primarily a result of (1) a \$5 million increase in e-commerce flash clearance sales, with the September 2018 sale generating \$29 million of net sales, (2) a \$3 million, or 15%, increase in calendar-adjusted comparable store sales from \$18 million in the 13-week period ended November 4, 2017 to \$21 million in the Third Quarter of Fiscal 2018, with increases in both e-commerce and retail store comparable store sales, (3) an incremental net sales increase of \$3 million associated with the operation of non-comp full-price retail stores, including stores opened by Lilly Pulitzer and the Signature Stores acquired in Fiscal 2017, and (4) a \$1 million increase in wholesale sales as increased sales to Signature Stores and specialty stores offset the decrease in sales to department stores. These increases were partially offset by a \$2 million decrease in direct to consumer sales at comparable stores resulting from the calendar shift between Fiscal 2017 and Fiscal 2018. By way of comparison, on a fiscal period basis, Lilly Pulitzer comparable store sales increased 5% in the Third Quarter of Fiscal 2018 relative to the Third Quarter of Fiscal 2017. The following table presents the proportion of net sales by distribution channel for Lilly Pulitzer for each period presented:

| Third<br>Quarter | Third<br>Quarter |
|------------------|------------------|
|------------------|------------------|



|                          | Fiscal |   | Fiscal |   |
|--------------------------|--------|---|--------|---|
|                          | 2018   |   | 2017   |   |
| Full-price retail stores | 35     | % | 35     | % |
| E-commerce               | 53     | % | 53     | % |
| Wholesale                | 12     | % | 12     | % |
| Total                    | 100    | % | 100    | % |

Lanier Apparel:

The Lanier Apparel net sales decrease of \$14 million, or 33%, was primarily due to (1) lower volume in various programs, including the impact of softness in the replenishment of certain programs, (2) the exit from certain programs, including the impact of customers who filed for bankruptcy in Fiscal 2018, (3) a shift in timing from the third quarter to the second and

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fourth quarter for certain shipments, including significant warehouse club shipments that occurred in the Third Quarter of Fiscal 2017, and (4) the prior year including initial shipments in certain private label and branded programs. These decreases were partially offset by increased volume in other programs, including shipments of Cole Haan licensed tailored clothing. The timing of Lanier Apparel programs, including warehouse club shipments, can vary significantly from year to year. For the full year, we expect net sales at Lanier Apparel in Fiscal 2018 to be modestly lower than Fiscal 2017 net sales.

## Southern Tide:

The Southern Tide net sales increase of 3% was due to increased sales in both the wholesale and e-commerce channels of distribution. The increased wholesale sales reflect increased sales to (1) Signature Stores, including those opened in the last year, (2) department stores and (3) off-price retailers. The following table presents the proportion of net sales by distribution channel for Southern Tide for each period presented:

|            | Third<br>Quarter<br>Fiscal<br>2018 |   | Third<br>Quarter<br>Fiscal<br>2017 |   |
|------------|------------------------------------|---|------------------------------------|---|
| E-commerce | 16                                 | % | 16                                 | % |
| Wholesale  | 84                                 | % | 84                                 | % |
| Total      | 100                                | % | 100                                | % |

## Corporate and Other:

Corporate and Other net sales primarily consist of the net sales of TBBC, which include e-commerce and wholesale operations, and our Lyons, Georgia distribution center operations. The increase in net sales was primarily due to the December 2017 acquisition of TBBC.

## Gross Profit

The tables below present gross profit by operating group and in total for the Third Quarter of Fiscal 2018 and the Third Quarter of Fiscal 2017, as well as the change between those two periods and gross margin by operating group and in total for the Third Quarter of Fiscal 2018 and the Third Quarter of Fiscal 2017. Our gross profit and gross margin, which is calculated as gross profit divided by net sales, may not be directly comparable to those of our competitors, as the statement of operations classification of certain expenses may vary by company.

|  | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|--|------------------------------------|------------------------------------|--------------|-------------|
| Tommy Bahama   | \$75,738                           | \$74,279                           | \$1,459      | 2.0 %       |
| Lilly Pulitzer                                       | 38,290                             | 32,891                             | 5,399        | 16.4 %      |
| Lanier Apparel                                       | 8,580                              | 13,191                             | (4,611)      | (35.0)%     |
| Southern Tide  | 4,475                              | 4,884                              | (409)        | (8.4)%      |
| Corporate and Other                                  | 2,196                              | (69)                               | 2,265        | NM          |
| Total gross profit                                   | \$129,279                          | \$125,176                          | \$4,103      | 3.3 %       |
| LIFO charge included in Corporate and Other          | \$(57)                             | )\$476                             |              |             |
| Inventory step-up charges included in Lilly Pulitzer | \$—                                | \$1,086                            |              |             |

Third  
Quarter  
Fiscal

Third  
Quarter  
Fiscal

|                           | 2018   | 2017   |
|---------------------------|--------|--------|
| Tommy Bahama              | 61.5 % | 60.0 % |
| Lilly Pulitzer            | 56.1 % | 55.5 % |
| Lanier Apparel            | 29.5 % | 30.6 % |
| Southern Tide             | 47.1 % | 53.0 % |
| Corporate and Other       | NM     | NM     |
| Consolidated gross margin | 55.3 % | 53.0 % |

The increase in consolidated gross profit, on lower net sales, in the Third Quarter of Fiscal 2018 was due to a higher gross margin. The improved consolidated gross margin was primarily due to (1) a change in sales mix as Lilly Pulitzer represented a

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greater proportion, and Lanier Apparel represented a lower proportion, of net sales in the Third Quarter of Fiscal 2018, (2) improved gross margins in Tommy Bahama, (3) the Third Quarter of Fiscal 2017 including inventory step-up charges in Lilly Pulitzer, with no such charges in the Third Quarter of Fiscal 2018, and (4) the Third Quarter of Fiscal 2017 including a LIFO accounting charge, with a small LIFO accounting credit in the Third Quarter of Fiscal 2018. These favorable items that impacted consolidated gross margin were partially offset by (1) lower gross margins in Southern Tide and Lanier Apparel and (2) a change in sales mix within Lilly Pulitzer as e-commerce flash clearance sales represented a greater proportion of Lilly Pulitzer net sales.

Tommy Bahama:

The increase in gross margin for Tommy Bahama was driven by (1) improved gross margins in both the direct to consumer and wholesale businesses, reflecting progress in our initiatives to improve initial gross margins, including selective price increases as well as product cost reductions, and improved gross margins on off-price sales, and (2) a change in sales mix as e-commerce sales represented a greater proportion of Tommy Bahama sales in the Third Quarter of Fiscal 2018.

Lilly Pulitzer:

The increase in gross margin for Lilly Pulitzer was driven by the Third Quarter of Fiscal 2017 including inventory step-up charges associated with the acquisition of 12 Lilly Pulitzer Signature Stores during Fiscal 2017 with no such charges in the Third Quarter of Fiscal 2018. Excluding the impact of the inventory step-up charges, Lilly Pulitzer gross margins decreased primarily as a result of (1) a change in sales mix as the e-commerce flash clearance sale represented a larger proportion of Lilly Pulitzer sales in the Third Quarter of Fiscal 2018 and (2) lower gross margins on the e-commerce flash clearance sale, which still generated gross margin in excess of 40%, and in the wholesale business due to more off-price sales.

Lanier Apparel:

The decrease in gross margin for Lanier Apparel was primarily due to (1) the Third Quarter of Fiscal 2018 including more significant charges for certain customer allowance, cooperative advertising and other amounts related to certain replenishment and other programs and (2) the Third Quarter of Fiscal 2018 continuing to face gross margin pressures.

Southern Tide:

The decrease in gross margin for Southern Tide was primarily due to (1) higher inventory markdowns, (2) increased wholesale customer discounts and allowances, including allowances for co-op advertising and fixtures, (3) a change in mix as Signature Stores, department stores and off-price wholesale sales represented a greater proportion of sales in the Third Quarter of Fiscal 2018 and (4) lower gross margins on off-price sales.

Corporate and Other:

The gross profit in Corporate and Other primarily reflects (1) the gross profit of TBBC, (2) the gross profit of our Lyons, Georgia distribution center and (3) the impact of LIFO accounting adjustments. The primary driver for the improved gross profit was (1) the Third Quarter of Fiscal 2018 including the gross profit of TBBC and (2) the net favorable impact of LIFO accounting in the Third Quarter of Fiscal 2018 compared to the Third Quarter of Fiscal 2017. The LIFO accounting impact in Corporate and Other in each period primarily reflects the sale of inventory that had been marked down to the estimated net realizable value in prior periods in an operating group, but generally reversed in Corporate and Other as part of LIFO accounting.

SG&A

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|   | Third<br>Quarter<br>Fiscal 2018 | Third<br>Quarter<br>Fiscal 2017 | \$<br>Change | %<br>Change |
|---|---------------------------------|---------------------------------|--------------|-------------|
| SG&A  | \$128,687                       | \$127,091                       | \$1,596      | 1.3 %       |
| SG&A as % of net sales  | 55.1                            | %53.9                           | %            |             |
| Amortization of Tommy Bahama Canadian intangible assets                                   | \$378                           | \$391                           |              |             |
| Amortization of Lilly Pulitzer Signature Store intangible assets                          | \$93                            | \$90                            |              |             |
| Transaction/integration costs associated with Lilly Pulitzer Signature Store acquisitions | \$—                             | \$563                           |              |             |
| Amortization of Southern Tide intangible assets   | \$72                            | \$72                            |              |             |

The increase in SG&A in the Third Quarter of Fiscal 2018 was primarily due to (1) \$1 million of incremental SG&A associated with TBBC and (2) increased salaries and wages, occupancy and other operating expenses in our ongoing direct to consumer and wholesale operations. These increases in SG&A were partially offset by \$1 million of lower incentive compensation amounts.

## Royalties and other operating income

|                                      | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|--------------------------------------|------------------------------------|------------------------------------|--------------|-------------|
| Royalties and other operating income | \$3,113                            | \$3,039                            | \$74         | 2.4 %       |

Royalties and other operating income primarily reflects income received from third parties from the licensing of our Tommy Bahama, Lilly Pulitzer and Southern Tide brands.

## Operating income (loss)

|   | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|---|------------------------------------|------------------------------------|--------------|-------------|
| Tommy Bahama  | \$(5,141)                          | \$(5,872)                          | \$731        | 12.4 %      |
| Lilly Pulitzer  | 9,576                              | 4,952                              | 4,624        | 93.4 %      |
| Lanier Apparel  | 2,261                              | 5,615                              | (3,354)      | (59.7)%     |
| Southern Tide   | 492                                | 1,016                              | (524)        | (51.6)%     |
| Corporate and Other   | (3,483)                            | (4,587)                            | 1,104        | 24.1 %      |
| Total operating income  | \$3,705                            | \$1,124                            | \$2,581      | 229.6 %     |
| LIFO charge included in Corporate and Other   | \$(57)                             | )\$476                             |              |             |
| Inventory step-up charges included in Lilly Pulitzer                                      | \$—                                | \$1,086                            |              |             |
| Amortization of Tommy Bahama Canadian intangible assets                                   | \$378                              | \$391                              |              |             |
| Amortization of Lilly Pulitzer Signature Store intangible assets                          | \$93                               | \$90                               |              |             |
| Transaction/integration costs associated with Lilly Pulitzer Signature Store acquisitions | \$—                                | \$563                              |              |             |
| Amortization of Southern Tide intangible assets   | \$72                               | \$72                               |              |             |

The higher operating income in the Third Quarter of Fiscal 2018 and the Third Quarter of Fiscal 2017 was primarily due to improved operating results in Lilly Pulitzer, Corporate and Other and Tommy Bahama, partially offset by lower operating income in Lanier Apparel and Southern Tide. Changes in operating income (loss) by operating group are discussed below.

Tommy Bahama:

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|   | Third<br>Quarter<br>Fiscal 2018 | Third<br>Quarter<br>Fiscal 2017 | \$<br>Change | %<br>Change |
|---|---------------------------------|---------------------------------|--------------|-------------|
| Net sales   | \$123,130                       | \$123,895                       | \$ (765 )    | (0.6 )%     |
| Gross margin  | 61.5                            | % 60.0                          | %            |             |
| Operating income  | \$(5,141 )                      | \$(5,872 )                      | \$ 731       | 12.4 %      |
| Operating income as % of net sales                      | (4.2 )%                         | (4.7 )%                         |              |             |
| Amortization of Tommy Bahama Canadian intangible assets | \$378                           | \$391                           |              |             |

The improved operating results for Tommy Bahama were primarily due to improved gross margin, partially offset by a modest increase in SG&A and lower net sales. The increased SG&A primarily reflects increased salaries and wages, occupancy and other operating expenses in our ongoing direct to consumer and wholesale operations partially offset by lower SG&A in non-comp direct to consumer retail locations.

## Lilly Pulitzer:

|   | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|---|------------------------------------|------------------------------------|--------------|-------------|
| Net sales   | \$68,213                           | \$59,244                           | \$ 8,969     | 15.1 %      |
| Gross margin  | 56.1                               | % 55.5                             | %            |             |
| Operating income  | \$9,576                            | \$4,952                            | \$ 4,624     | 93.4 %      |
| Operating income as % of net sales  | 14.0                               | % 8.4                              | %            |             |
| Inventory step-up charges included in Lilly Pulitzer                                      | \$—                                | \$1,086                            |              |             |
| Amortization of Lilly Pulitzer Signature Store intangible assets                          | \$93                               | \$90                               |              |             |
| Transaction/integration costs associated with Lilly Pulitzer Signature Store acquisitions | \$—                                | \$563                              |              |             |

The higher operating income in Lilly Pulitzer was primarily due to higher sales and improved gross margin, which were partially offset by higher SG&A. The higher SG&A was primarily due to \$1 million of incremental SG&A associated with the cost of operating additional retail stores, as well as increases in employment costs, which were partially offset by the Third Quarter of Fiscal 2017 including transaction and integration costs associated with Lilly Pulitzer Signature Store acquisitions. The Third Quarter of Fiscal 2017 included \$2 million of inventory step-up charges, transaction and integration costs and amortization associated with the acquisition of 12 Signature Stores in Fiscal 2017, with no such amounts in the Third Quarter of Fiscal 2018.

## Lanier Apparel:

|                                    | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|------------------------------------|------------------------------------|------------------------------------|--------------|-------------|
| Net sales                          | \$29,037                           | \$43,110                           | \$(14,073)   | (32.6)%     |
| Gross margin                       | 29.5                               | % 30.6                             | %            |             |
| Operating income                   | \$2,261                            | \$5,615                            | \$(3,354 )   | (59.7)%     |
| Operating income as % of net sales | 7.8                                | % 13.0                             | %            |             |

The lower operating income for Lanier Apparel was primarily due to the lower sales and gross margin, partially offset by reduced SG&A. The reduced SG&A was primarily due to lower incentive compensation amounts and lower sales-related variable expenses, including royalties, shipping and advertising.



Southern Tide:

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|   | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|---|------------------------------------|------------------------------------|--------------|-------------|
| Net sales                                       | \$9,496                            | \$9,217                            | \$ 279       | 3.0 %       |
| Gross margin                                    | 47.1                               | % 53.0                             | %            |             |
| Operating income                                | \$492                              | \$1,016                            | \$(524 )     | (51.6)%     |
| Operating income as % of net sales              | 5.2                                | % 11.0                             | %            |             |
| Amortization of Southern Tide intangible assets | \$72                               | \$72                               |              |             |

The lower operating income for Southern Tide was primarily due to lower gross margin, as discussed above, partially offset by higher sales.

## Corporate and Other:

|   | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|---|------------------------------------|------------------------------------|--------------|-------------|
| Net sales                                   | \$3,786                            | \$494                              | \$ 3,292     | NM          |
| Operating loss                              | \$(3,483)                          | \$(4,587)                          | \$ 1,104     | 24.1 %      |
| LIFO charge included in Corporate and Other | \$(57 )                            | \$476                              |              |             |

The improved operating results in Corporate and Other were primarily due to (1) the impact of LIFO accounting and (2) the operating income of TBBC.

## Interest expense, net

|                       | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|-----------------------|------------------------------------|------------------------------------|--------------|-------------|
| Interest expense, net | \$ 489                             | \$ 683                             | \$(194 )     | (28.4)%     |

Interest expense decreased in the Third Quarter of Fiscal 2018 primarily due to lower average debt outstanding during the Third Quarter of Fiscal 2018 partially offset by higher interest rates and higher unused line fees in the Third Quarter of Fiscal 2018.

## Income taxes

|                    | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|--------------------|------------------------------------|------------------------------------|--------------|-------------|
| Income taxes       | \$1,355                            | \$(631)                            | \$ 1,986     | NM          |
| Effective tax rate | 42.1                               | % (143.1)%                         |              |             |

The net impact of discrete or other items often results in a more significant or unusual impact on the effective tax rate in the third quarter given the significantly lower operating results during the third quarter as compared to the other quarters of the fiscal year. Thus, the effective tax rate for the third quarter is not indicative of the effective tax rate anticipated for the full year. Tax expense and the effective tax rate for the Third Quarter of Fiscal 2017 included the \$1 million net favorable impact of discrete items, primarily related to the impact of certain prior year tax items, with

no such discrete items in the Third Quarter of Fiscal 2018.

Our effective tax rate for the full year of Fiscal 2018 is expected to be approximately 26%, which includes the U.S. federal statutory rate of 21% and state income taxes, net of the related federal income tax benefit; the rate differential related to foreign operations; valuation allowances against operating losses and other carryforwards; the excess tax benefit related to restricted stock vesting; and various other items impacting the effective tax rate.

Net earnings

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|   | Third<br>Quarter<br>Fiscal<br>2018 | Third<br>Quarter<br>Fiscal<br>2017 |
|---|------------------------------------|------------------------------------|
| Net sales                                     | \$233,662                          | \$235,960                          |
| Operating income                              | \$3,705                            | \$1,124                            |
| Net earnings                                  | \$1,861                            | \$1,072                            |
| Net earnings per diluted share                | \$0.11                             | \$0.06                             |
| Weighted average shares outstanding - diluted | 16,870                             | 16,735                             |

The higher net earnings per diluted share in the Third Quarter of Fiscal 2018 was primarily due to improved operating results in Lilly Pulitzer, Corporate and Other and Tommy Bahama, partially offset by lower operating income in Lanier Apparel and Southern Tide as well as less favorable income taxes for the quarter, each as discussed above. Due to the seasonality of our business operations, our third quarter has historically been our smallest net sales, operating income and net earnings quarter in each fiscal year.

## FIRST NINE MONTHS OF FISCAL 2018 COMPARED TO FIRST NINE MONTHS OF FISCAL 2017

The following table sets forth the specified line items in our unaudited condensed consolidated statements of operations both in dollars (in thousands) and as a percentage of net sales. The table also sets forth the dollar change and the percentage change of the data as compared to the same period of the prior year. We have calculated all percentages based on actual data, and percentage columns may not add due to rounding.

|                                      | First Nine<br>Months Fiscal<br>2018 | First Nine<br>Months Fiscal<br>2017 | \$ Change | %<br>Change |
|--------------------------------------|-------------------------------------|-------------------------------------|-----------|-------------|
| Net sales                            | \$808,931 100.0%                    | \$793,032 100.0%                    | \$15,899  | 2.0 %       |
| Cost of goods sold                   | 336,209 41.6 %                      | 342,477 43.2 %                      | (6,268)   | (1.8) %     |
| Gross profit                         | \$472,722 58.4 %                    | \$450,555 56.8 %                    | \$22,167  | 4.9 %       |
| SG&A                                 | 414,747 51.3 %                      | 393,193 49.6 %                      | 21,554    | 5.5 %       |
| Royalties and other operating income | 10,616 1.3 %                        | 10,123 1.3 %                        | 493       | 4.9 %       |
| Operating income                     | \$68,591 8.5 %                      | \$67,485 8.5 %                      | \$1,106   | 1.6 %       |
| Interest expense, net                | 1,872 0.2 %                         | 2,355 0.3 %                         | (483)     | (20.5) %    |
| Earnings before income taxes         | \$66,719 8.2 %                      | \$65,130 8.2 %                      | \$1,589   | 2.4 %       |
| Income taxes                         | 17,107 2.1 %                        | 24,172 3.0 %                        | (7,065)   | (29.2) %    |
| Net earnings                         | \$49,612 6.1 %                      | \$40,958 5.2 %                      | \$8,654   | 21.1 %      |

The discussion and tables below compare certain line items included in our statements of operations for the First Nine Months of Fiscal 2018 to the First Nine Months of Fiscal 2017. Each dollar and percentage change provided reflects the change between these fiscal periods unless indicated otherwise. Each dollar and share amount included in the tables is in thousands except for per share amounts. Individual line items of our consolidated statements of operations may not be directly comparable to those of our competitors, as classification of certain expenses may vary by company. Unless otherwise indicated, all references to assets, liabilities, revenues, expenses or other information in this report reflect continuing operations.

## Net Sales

| First<br>Nine<br>Months<br>Fiscal | First<br>Nine<br>Months<br>Fiscal | \$ Change | %<br>Change |
|-----------------------------------|-----------------------------------|-----------|-------------|
|-----------------------------------|-----------------------------------|-----------|-------------|

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|                     | 2018      | 2017      |          |         |
|---------------------|-----------|-----------|----------|---------|
| Tommy Bahama        | \$482,990 | \$483,971 | \$(981)  | (0.2)%  |
| Lilly Pulitzer      | 208,463   | 192,045   | 16,418   | 8.5%    |
| Lanier Apparel      | 72,806    | 84,314    | (11,508) | (13.6)% |
| Southern Tide       | 34,745    | 31,254    | 3,491    | 11.2%   |
| Corporate and Other | 9,927     | 1,448     | 8,479    | NM      |
| Total net sales     | \$808,931 | \$793,032 | \$15,899 | 2.0%    |

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Consolidated net sales increased \$16 million, or 2%, in the First Nine Months of Fiscal 2018. The increase in consolidated net sales was primarily driven by (1) a \$17 million, or 5%, calendar-adjusted comparable store sales increase from \$335 million in the 39-week period ended November 4, 2017 to \$353 million in the First Nine Months of Fiscal 2018, driven by strong comparable store sales in both Tommy Bahama and Lilly Pulitzer, (2) an incremental net sales increase of \$15 million associated with the operation of non-comp full-price retail stores, primarily in Lilly Pulitzer, (3) \$8 million of e-commerce and wholesale sales for TBBC, which we acquired in the Fourth Quarter of Fiscal 2017, (4) a \$3 million increase in restaurant sales in Tommy Bahama, and (5) a \$2 million increase in net sales through our off-price direct to consumer channels reflecting an increase in Lilly Pulitzer e-commerce flash clearance sales partially offset by lower sales at Tommy Bahama outlets. These increases in consolidated net sales were partially offset by a \$31 million net decrease in wholesale sales, consisting of decreases in Lilly Pulitzer, Lanier Apparel and Tommy Bahama partially offset by increases in Southern Tide. By way of comparison, on a fiscal period basis, consolidated comparable store sales also increased 5% in the First Nine Months of Fiscal 2018 relative to the First Nine Months of Fiscal 2017. The changes in net sales by operating group are discussed below.

The following table presents the proportion of our consolidated net sales by distribution channel for each period presented:

|                                      | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 |   |   |
|--------------------------------------|---|---|---|---|
| Full-price retail stores and outlets | 40  | 39  | % | % |
| E-commerce                           | 20  | 17  | % | % |
| Restaurant                           | 8   | 8   | % | % |
| Wholesale                            | 32  | 36  | % | % |
| Total                                | 100                                       | 100                                       | % | % |

## Tommy Bahama:

The Tommy Bahama net sales decrease of \$1 million in the First Nine Months of Fiscal 2018 compared to the First Nine Months of Fiscal 2017 was primarily due to (1) an \$11 million decrease in wholesale sales, including lower full-price wholesale sales, as Tommy Bahama continues to manage its exposure to department stores by reducing department store door count, and lower off-price wholesale sales, as Tommy Bahama disposed of a more significant amount of aged inventory in the First Nine Months of Fiscal 2017, (2) a \$2 million decrease in outlet store sales, reflecting lower sales at existing outlets and the impact of Fiscal 2017 outlet closures, and (3) a \$1 million decrease in non-comp full-price retail store sales, reflecting the net sales change for stores that were opened, closed or remodeled since the beginning of Fiscal 2017. These decreases were partially offset by (1) a \$10 million, or 4%, increase in calendar-adjusted comparable store sales from \$240 million in the 39 week period ended November 4, 2017 to \$249 million in the First Nine Months of Fiscal 2018, driven by strong growth in e-commerce sales, (2) a \$3 million increase in restaurant sales resulting from increased sales at existing restaurants and the net impact of new restaurants opened, closed or remodeled since the beginning of Fiscal 2017 and (3) a \$1 million increase in direct to consumer sales at comparable stores resulting from the calendar shift between Fiscal 2017 and Fiscal 2018. By way of comparison, on a fiscal period basis, Tommy Bahama comparable store sales also increased 4% in the First Nine Months of Fiscal 2018 relative to the First Nine Months of Fiscal 2017. The following table presents the proportion of net sales by distribution channel for Tommy Bahama for each period presented:

|  | First<br>Nine<br>Months | First<br>Nine<br>Months |
|--|-------------------------|-------------------------|
|--|-------------------------|-------------------------|

|                                      | Fiscal |   | Fiscal |   |
|--------------------------------------|--------|---|--------|---|
|                                      | 2018   |   | 2017   |   |
| Full-price retail stores and outlets | 48     | % | 49     | % |
| E-commerce                           | 17     | % | 14     | % |
| Restaurant                           | 13     | % | 13     | % |
| Wholesale                            | 22     | % | 24     | % |
| Total                                | 100    | % | 100    | % |

Lilly Pulitzer:

The Lilly Pulitzer net sales increase of \$16 million, or 9%, was primarily the result of (1) an incremental net sales increase of \$16 million associated with the operation of non-comp full-price retail stores, including stores opened by Lilly Pulitzer and the 12 Signature Stores acquired in Fiscal 2017, (2) an \$8 million, or 9%, increase in calendar-adjusted comparable store sales from \$91 million in the 39-week period ended November 4, 2017 to \$98 million in the First Nine Months of Fiscal 2018, with

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increases in both e-commerce and retail store comparable store sales, and (3) a \$5 million increase in e-commerce flash clearance sales. These increases were partially offset by (1) a \$12 million decrease in wholesale sales, reflecting Lilly Pulitzer's efforts to manage its exposure to department stores and Fiscal 2018 not including any wholesale sales to the Signature Stores acquired in Fiscal 2017 and (2) a \$1 million decrease in direct to consumer sales at comparable stores resulting from the calendar shift between Fiscal 2017 and Fiscal 2018. By way of comparison, on a fiscal period basis, Lilly Pulitzer comparable store sales increased 8% in the First Nine Months of Fiscal 2018 relative to the First Nine Months of Fiscal 2017. The following table presents the proportion of net sales by distribution channel for Lilly Pulitzer for each period presented:

|                          | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 |   |   |
|--------------------------|---|---|---|---|
| Full-price retail stores | 44  | 38  | % | % |
| E-commerce               | 35  | 33  | % | % |
| Wholesale                | 21  | 29  | % | % |
| Total                    | 100                                       | 100                                       | % | % |

## Lanier Apparel:

The decrease in net sales for Lanier Apparel of \$12 million, or 14%, was primarily due to (1) lower volume in various programs, including the impact of softness in the replenishment of certain programs, (2) the exit from certain programs, including the impact of customers who filed for bankruptcy in Fiscal 2018, (3) a shift in timing from the third quarter to the fourth quarter for certain shipments, including significant warehouse club shipments that occurred in the Third Quarter of Fiscal 2017, and (4) the prior year including initial shipments in certain private label and branded programs. These decreases were partially offset by increased volume in other programs, including initial shipments of Cole Haan licensed tailored clothing. The timing of Lanier Apparel programs, including warehouse club shipments, can vary significantly from year to year. For the full year, we expect net sales at Lanier Apparel in Fiscal 2018 to be modestly lower than Fiscal 2017 net sales.

## Southern Tide:

The increase in net sales for Southern Tide of \$3 million, or 11%, was due to increased sales in both the wholesale and e-commerce channels of distribution. The increased wholesale sales reflect increased sales to (1) Signature Stores, including those opened in the last year, (2) off-price retailers and (3) department stores. The following table presents the proportion of net sales by distribution channel for Southern Tide for each period presented:

|            | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 |   |   |
|------------|---|---|---|---|
| E-commerce | 16  | 17  | % | % |
| Wholesale  | 84  | 83  | % | % |
| Total      | 100                                       | 100                                       | % | % |

## Corporate and Other:

Corporate and Other net sales primarily consist of the net sales of TBBC, which include e-commerce and wholesale operations, and our Lyons, Georgia distribution center operations. The increase in net sales was primarily due to the



December 2017 acquisition of TBBC.

#### Gross Profit

The tables below present gross profit by operating group and in total for the First Nine Months of Fiscal 2018 and the First Nine Months of Fiscal 2017, as well as the change between those two periods and gross margin by operating group and in total for the First Nine Months of Fiscal 2018 and the First Nine Months of Fiscal 2017. Our gross profit and gross margin, which is calculated as gross profit divided by net sales, may not be directly comparable to those of our competitors, as the statement of operations classification of certain expenses may vary by company.

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|   | First<br>Nine<br>Months<br>Fiscal<br>2018 | First Nine<br>Months<br>Fiscal<br>2017    | \$ Change | %<br>Change |   |
|---|---|---|-----------|-------------|---|
| Tommy Bahama  | \$295,982                                 | \$289,428                                 | \$6,554   | 2.3         | % |
| Lilly Pulitzer  | 132,877                                   | 121,657                                   | 11,220    | 9.2         | % |
| Lanier Apparel  | 20,893                                    | 26,354                                    | (5,461)   | (20.7)      | % |
| Southern Tide   | 17,307                                    | 15,849                                    | 1,458     | 9.2         | % |
| Corporate and Other   | 5,663                                     | (2,733)                                   | 8,396     | NM          |   |
| Total gross profit  | \$472,722                                 | \$450,555                                 | \$22,167  | 4.9         | % |
| LIFO charge included in Corporate and Other                         | \$109                                     | \$3,748                                   |           |             |   |
| Tommy Bahama Japan inventory markdown charges in cost of goods sold | \$461                                     | \$—                                       |           |             |   |
| Inventory step-up charges included in Lilly Pulitzer                | \$—                                       | \$1,086                                   |           |             |   |
| Inventory step-up charges for TBBC included in Corporate and Other  | \$157                                     | \$—                                       |           |             |   |
|   | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 |           |             |   |
| Tommy Bahama  | 61.3 %                                    | 59.8 %                                    |           |             |   |
| Lilly Pulitzer  | 63.7 %                                    | 63.3 %                                    |           |             |   |
| Lanier Apparel  | 28.7 %                                    | 31.3 %                                    |           |             |   |
| Southern Tide   | 49.8 %                                    | 50.7 %                                    |           |             |   |
| Corporate and Other   | NM  | NM  |           |             |   |
| Consolidated gross margin   | 58.4 %                                    | 56.8 %                                    |           |             |   |

The increase in consolidated gross profit in the First Nine Months of Fiscal 2018 was due to increased sales and gross margin. The improved consolidated gross margin was primarily due to (1) a change in sales mix resulting from higher net sales in Lilly Pulitzer, Corporate and Other and Southern Tide and lower net sales in Lanier Apparel, (2) improved gross margins in Tommy Bahama, (3) the First Nine Months of Fiscal 2018 including a small LIFO accounting charge compared to the First Nine Months of Fiscal 2017 including a LIFO accounting charge of \$4 million, and (4) the First Nine Months of Fiscal 2017 including inventory step-up charges in Lilly Pulitzer of \$1 million, with only a small charge in the First Nine Months of Fiscal 2018. These favorable items that impacted consolidated gross margin were partially offset by (1) lower gross margins in Lanier Apparel and Southern Tide and (2) the First Nine Months of Fiscal 2018 including certain Tommy Bahama Japan inventory markdown charges and inventory step-up charges for TBBC.

## Tommy Bahama:

The increase in gross margin for Tommy Bahama was driven by (1) improved gross margins in both the direct to consumer and wholesale businesses, reflecting progress in our initiatives to improve initial gross margins, including selective price increases as well as product cost reductions, and improved gross margins on off-price sales, and (2) a change in sales mix as full-price direct to consumer sales represented a greater proportion of sales, while off-price wholesale and off-price direct to consumer sales represented a lower proportion of sales in the First Nine Months of Fiscal 2018. These favorable changes were partially offset by the impact of the Tommy Bahama Japan inventory markdown charges.

## Lilly Pulitzer:

The increase in gross margin for Lilly Pulitzer was primarily due to (1) the First Nine Months of Fiscal 2017 including inventory step-up charges of \$1 million, with no such charges in the First Nine Months of Fiscal 2018, and (2) a change in sales mix as direct to consumer sales represent a larger proportion of Lilly Pulitzer net sales in the First Nine Months of Fiscal 2018. These items were partially offset by lower gross margins in both the direct to consumer and the wholesale channels of distribution.

Lanier Apparel:

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The decrease in gross margin for Lanier Apparel was primarily due to (1) the First Nine Months of Fiscal 2018 including more significant charges for certain customer allowance, cooperative advertising and other amounts related to certain replenishment and other programs, with the First Nine Months of Fiscal 2017 including certain favorable customer allowance items, and (2) the First Nine Months of Fiscal 2018 facing gross margin pressures.

## Southern Tide:

The decrease in gross margin for Southern Tide was primarily due to (1) higher inventory markdowns, (2) increased wholesale customer discounts and allowances, including allowances for co-op advertising and fixtures and (3) a change in sales mix as Signature Stores, department stores and off-price wholesale sales represented a greater proportion of sales in the First Nine Months of Fiscal 2018. These unfavorable items were partially offset by an insurance recovery on certain inventory in Fiscal 2018.

## Corporate and Other:

The gross profit in Corporate and Other primarily reflects (1) the gross profit of TBBC, (2) the gross profit of our Lyons, Georgia distribution center and (3) the impact of LIFO accounting adjustments. The primary driver for the improved gross profit was (1) the First Nine Months of Fiscal 2018 including the gross profit of TBBC and (2) the net favorable impact of LIFO accounting in the First Nine Months of Fiscal 2018 compared to the First Nine Months of Fiscal 2017. The LIFO accounting impact in Corporate and Other in each period primarily reflects the sale of inventory that had been marked down to the estimated net realizable value in prior periods in an operating group but generally reversed in Corporate and Other as part of LIFO accounting.

## SG&amp;A

|   | First Nine<br>Months<br>Fiscal 2018 | First Nine<br>Months<br>Fiscal 2017 | \$<br>Change | %<br>Change |
|---|-------------------------------------|-------------------------------------|--------------|-------------|
| SG&A  | \$414,747                           | \$393,193                           | \$21,554     | 5.5 %       |
| SG&A as % of net sales  | 51.3                                | 49.6                                |              | %           |
| Tommy Bahama Japan restructuring charges in SG&A  | \$3,206                             | \$—                                 |              |             |
| Amortization of Tommy Bahama Canadian intangible assets                                   | \$1,141                             | \$1,134                             |              |             |
| Amortization of Lilly Pulitzer Signature Store intangible assets                          | \$281                               | \$90                                |              |             |
| Transaction/integration costs associated with Lilly Pulitzer Signature Store acquisitions | \$—                                 | \$563                               |              |             |
| Amortization of Southern Tide intangible assets   | \$216                               | \$216                               |              |             |

The increase in SG&A in the First Nine Months of Fiscal 2018 was primarily due to (1) increased advertising expense of \$8 million, with much of the increased spending focused on consumer acquisition initiatives in the First Half of Fiscal 2018, (2) \$5 million of incremental costs in the First Nine Months of Fiscal 2018 associated with additional retail stores and restaurants, (3) \$3 million of Tommy Bahama Japan restructuring charges, including lease termination fees, premises reinstatement costs, non-cash impairment charges and severance amounts, as discussed in Note 6, (4) \$3 million of incremental SG&A associated with TBBC and (5) other increases in SG&A to support the businesses including increased salaries and wages, occupancy and other operating expenses in our ongoing direct to consumer and wholesale operations. These increases in SG&A were partially offset by \$3 million of lower incentive compensation amounts.

## Royalties and other operating income

|  | First<br>Nine | First<br>Nine | \$<br>Change | %<br>Change |
|--|---------------|---------------|--------------|-------------|
|--|---------------|---------------|--------------|-------------|

|  | Months | Months |  |  |  |
|--|--------|--------|--|--|--|
|  | Fiscal | Fiscal |  |  |  |
|  | 2018   | 2017   |  |  |  |

|                                      |           |           |        |     |   |
|--------------------------------------|-----------|-----------|--------|-----|---|
| Royalties and other operating income | \$ 10,616 | \$ 10,123 | \$ 493 | 4.9 | % |
|--------------------------------------|-----------|-----------|--------|-----|---|

Royalties and other operating income primarily reflects income received from third parties from the licensing of our Tommy Bahama, Lilly Pulitzer and Southern Tide brands. The increase in royalties and other income in the First Nine Months of Fiscal 2018 primarily reflects increased royalty income in Lilly Pulitzer.

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## Operating income (loss)

|   | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|---|---|---|--------------|-------------|
| Tommy Bahama  | \$29,783                                  | \$32,082                                  | \$(2,299)    | (7.2)%      |
| Lilly Pulitzer  | 43,823                                    | 43,621                                    | 202          | 0.5%        |
| Lanier Apparel  | 3,448                                     | 6,668                                     | (3,220)      | (48.3)%     |
| Southern Tide   | 4,399                                     | 3,765                                     | 634          | 16.8%       |
| Corporate and Other   | (12,862)                                  | (18,651)                                  | 5,789        | 31.0%       |
| Total operating income  | \$68,591                                  | \$67,485                                  | \$1,106      | 1.6%        |
| LIFO charge included in Corporate and Other   | \$109                                     | \$3,748                                   |              |             |
| Tommy Bahama Japan inventory markdown charges in cost of goods sold                       | \$461                                     | \$—                                       |              |             |
| Inventory step-up charges included in Lilly Pulitzer                                      | \$—                                       | \$1,086                                   |              |             |
| Inventory step-up charges for TBBC included in Corporate and Other                        | \$157                                     | \$—                                       |              |             |
| Tommy Bahama Japan restructuring charges in SG&A  | \$3,206                                   | \$—                                       |              |             |
| Amortization of Tommy Bahama Canadian intangible assets                                   | \$1,141                                   | \$1,134                                   |              |             |
| Amortization of Lilly Pulitzer Signature Store intangible assets                          | \$281                                     | \$90                                      |              |             |
| Transaction/integration costs associated with Lilly Pulitzer Signature Store acquisitions | \$—                                       | \$563                                     |              |             |
| Amortization of Southern Tide intangible assets   | \$216                                     | \$216                                     |              |             |

The increase in operating income in the First Nine Months of Fiscal 2018 was primarily due to higher sales and gross margins partially offset by higher SG&A, including increased advertising spend and Tommy Bahama Japan restructuring charges as discussed in Note 6. On an operating group basis, the increase in operating income was primarily due to improved operating results in Corporate and Other, partially offset by lower operating income in Lanier Apparel and Tommy Bahama. Changes in operating income (loss) by operating group are discussed below.

## Tommy Bahama:

|   | First Nine<br>Months<br>Fiscal 2018 | First Nine<br>Months<br>Fiscal 2017 | \$<br>Change | %<br>Change |
|---|-------------------------------------|-------------------------------------|--------------|-------------|
| Net sales   | \$482,990                           | \$483,971                           | \$(981)      | (0.2)%      |
| Gross margin  | 61.3%                               | 59.8%                               |              |             |
| Operating income  | \$29,783                            | \$32,082                            | \$(2,299)    | (7.2)%      |
| Operating income as % of net sales                                  | 6.2%                                | 6.6%                                |              |             |
| Tommy Bahama Japan inventory markdown charges in cost of goods sold | \$461                               | \$—                                 |              |             |
| Tommy Bahama Japan restructuring charges in SG&A                    | \$3,206                             | \$—                                 |              |             |
| Amortization of Tommy Bahama Canadian intangible assets             | \$1,141                             | \$1,134                             |              |             |

The lower operating income for Tommy Bahama was primarily due to higher SG&A which offset the favorable impact of higher gross margin. The increased SG&A included (1) \$6 million of increased advertising expense, with much of the increased advertising spend focused on consumer acquisition initiatives, (2) \$3 million of Tommy Bahama Japan restructuring charges as discussed in Note 6 and (3) increased salaries and wages, occupancy and other operating expenses in our ongoing direct to consumer and wholesale operations. These increases in SG&A were partially offset by \$4 million of lower incentive compensation amounts in the First Nine Months of Fiscal 2018.

## Lilly Pulitzer:



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|   | First Nine<br>Months<br>Fiscal 2018 | First Nine<br>Months<br>Fiscal 2017 | \$<br>Change | %<br>Change |
|---|-------------------------------------|-------------------------------------|--------------|-------------|
| Net sales   | \$208,463                           | \$192,045                           | \$16,418     | 8.5 %       |
| Gross margin  | 63.7                                | %63.3                               | %            |             |
| Operating income  | \$43,823                            | \$43,621                            | \$202        | 0.5 %       |
| Operating income as % of net sales  | 21.0                                | %22.7                               | %            |             |
| Inventory step-up charges included in Lilly Pulitzer                                      | \$—                                 | \$1,086                             |              |             |
| Amortization of Lilly Pulitzer Signature Store intangible assets                          | \$281                               | \$90                                |              |             |
| Transaction/integration costs associated with Lilly Pulitzer Signature Store acquisitions | \$—                                 | \$563                               |              |             |

The higher operating income in Lilly Pulitzer reflects higher sales and gross margin, partially offset by higher SG&A. The higher SG&A for the First Nine Months of Fiscal 2018 includes (1) \$5 million of incremental SG&A associated with the cost of operating additional retail stores, including the 12 Signature Stores acquired in Fiscal 2017, (2) \$3 million of increased advertising expense and (3) SG&A increases to support the planned growth of the business, including additional employment cost.

## Lanier Apparel:

|                                    | First Nine<br>Months<br>Fiscal<br>2018 | First Nine<br>Months<br>Fiscal<br>2017 | \$ Change  | %<br>Change |
|------------------------------------|--|--|------------|-------------|
| Net sales                          | \$72,806                               | \$84,314                               | \$(11,508) | (13.6)%     |
| Gross margin                       | 28.7                                   | %31.3                                  | %          |             |
| Operating income                   | \$3,448                                | \$6,668                                | \$(3,220)  | (48.3)%     |
| Operating income as % of net sales | 4.7                                    | %7.9                                   | %          |             |

The lower operating income for Lanier Apparel was primarily due to the lower sales and lower gross margin, partially offset by reduced SG&A. The reduced SG&A was primarily due to lower sales-related variable expenses, including royalties, shipping and advertising, as well as lower incentive compensation amounts.

## Southern Tide:

|   | First Nine<br>Months<br>Fiscal<br>2018 | First Nine<br>Months<br>Fiscal<br>2017 | \$<br>Change | %<br>Change |
|---|--|--|--------------|-------------|
| Net sales                                       | \$34,745                               | \$31,254                               | \$3,491      | 11.2 %      |
| Gross margin                                    | 49.8                                   | %50.7                                  | %            |             |
| Operating income                                | \$4,399                                | \$3,765                                | \$634        | 16.8 %      |
| Operating income as % of net sales              | 12.7                                   | %12.0                                  | %            |             |
| Amortization of Southern Tide intangible assets | \$216                                  | \$216                                  |              |             |

The higher operating income for Southern Tide was primarily due to the higher sales, partially offset by higher SG&A and lower gross margin. The higher SG&A included increased incentive compensation and variable expenses associated with the higher sales.

## Corporate and Other:

\$ Change                      % Change



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|   | First Nine Months Fiscal<br>2018 | First Nine Months Fiscal<br>2017 |          |      |   |
|---|----------------------------------|----------------------------------|----------|------|---|
| Net sales   | \$ 9,927                         | \$ 1,448                         | \$ 8,479 | NM   |   |
| Operating loss  | \$ (12,862 )                     | \$ (18,651 )                     | \$ 5,789 | 31.0 | % |
| LIFO charge<br>included in<br>Corporate and<br>Other                              | \$ 109                           | \$ 3,748                         |          |      |   |
| Inventory<br>step-up charges<br>for TBBC<br>included in<br>Corporate and<br>Other | \$ 157                           | \$ —                             |          |      |   |

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The improved operating results in Corporate and Other were primarily due to (1) the \$4 million net favorable impact of LIFO accounting, (2) the operating income of TBBC, (3) a lower operating loss in our corporate operations, due in part to certain life insurance proceeds in the First Nine Months of Fiscal 2018, and (4) improved operating results in our Lyons, Georgia distribution center operations.

## Interest expense, net

|                       | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 | \$      | %       |
|-----------------------|---|---|---------|---------|
|                       |   |   | Change  | Change  |
| Interest expense, net | \$ 1,872                                  | \$ 2,355                                  | \$(483) | (20.5)% |

Interest expense decreased in the First Nine Months of Fiscal 2018 primarily due to lower average debt outstanding during the First Nine Months of Fiscal 2018 partially offset by higher interest rates and higher unused line fees in the First Nine Months of Fiscal 2018.

## Income taxes

|                    | First Nine<br>Months<br>Fiscal<br>2018 | First Nine<br>Months<br>Fiscal<br>2017 | \$        | %       |
|--------------------|--|--|-----------|---------|
|                    |  |  | Change    | Change  |
| Income taxes       | \$ 17,107                              | \$ 24,172                              | \$(7,065) | (29.2)% |
| Effective tax rate | 25.6%                                  | 37.1%                                  |           |         |

Income taxes and the effective tax rate decreased in the First Nine Months of Fiscal 2018 primarily due to the impact of U.S. Tax Reform. The impact of U.S. Tax Reform results in the income tax amounts and effective tax rates for Fiscal 2018 and Fiscal 2017 not being comparable. Additionally, income tax expense for the First Nine Months of Fiscal 2018 includes the favorable impact of certain stock awards that vested during the period and other discrete items, while in the First Nine Months of Fiscal 2017 the various discrete items related to certain stock awards that vested and other discrete items generally offset in the aggregate.

Our effective tax rate for the full year of Fiscal 2018 is expected to be approximately 26%. In addition to the typical items that may result in an effective tax rate that differs from our expectations, the effective rate for Fiscal 2018 may vary from 26% as a result of adjustments to the provisional amounts recognized for U.S. Tax Reform. The final impact of U.S. Tax Reform may differ from our provisional amounts recognized in Fiscal 2017 due to additional regulatory guidance that may be issued, us obtaining additional information to refine our estimated tax amounts and changes in current interpretations and assumptions. Refer to Note 4 for additional information about income taxes and U.S. Tax Reform.

## Net earnings

|                  | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 |
|------------------|---|---|
| Net sales        | \$ 808,931                                | \$ 793,032                                |
| Operating income | \$ 68,591                                 | \$ 67,485                                 |

|   |          |          |
|---|----------|----------|
| Net earnings                                  | \$49,612 | \$40,958 |
| Net earnings per diluted share                | \$2.95   | \$2.45   |
| Weighted average shares outstanding - diluted | 16,826   | 16,710   |

The higher net earnings per diluted share in the First Nine Months of Fiscal 2018 was due to (1) the lower effective tax rate resulting from U.S. Tax Reform as discussed in Note 4, (2) the improved operating results in Corporate and Other, primarily due to the favorable impact of LIFO accounting and the operations of TBBC, (3) increased operating income in Southern Tide primarily due to higher net sales, (4) lower interest expense and (5) improved operating income in Lilly Pulitzer. These items were partially offset by (1) lower operating income in Lanier Apparel, primarily due to lower sales, and (2) lower operating income in Tommy Bahama, primarily due to increased advertising expense and Tommy Bahama Japan restructuring charges as discussed in Note 6.

#### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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Our primary source of revenue and cash flow is through our design, sourcing, marketing and distribution of branded apparel products bearing the trademarks of our Tommy Bahama, Lilly Pulitzer and Southern Tide lifestyle brands, other owned and licensed brands, and private label apparel products. Our primary uses of cash flow include the purchase of products in the operation of our business from third party contract manufacturers outside of the United States, as well as operating expenses, including employee compensation and benefits, occupancy-related costs, marketing and advertising costs, distribution costs, other general and administrative expenses and the payment of periodic interest payments related to our financing arrangements.

Additionally, we use cash for the funding of capital expenditures, dividends and repayment of indebtedness. In the ordinary course of business, we maintain certain levels of inventory, extend credit to our wholesale customers and pay our operating expenses. Thus, we require a certain amount of working capital to operate our business. If cash inflows are less than cash outflows, we have access to amounts under our U.S. Revolving Credit Agreement, subject to its terms, which is described below. We may seek to finance our future cash requirements through various methods, including cash flow from operations, borrowings under our current or additional credit facilities, sales of debt or equity securities, and cash on hand.

As of November 3, 2018, we had \$7 million of cash and cash equivalents on hand, with \$32 million of borrowings outstanding and \$225 million of availability under our U.S. Revolving Credit Agreement. We believe our balance sheet and anticipated future positive cash flow from operating activities provide sufficient cash flow to satisfy our ongoing cash requirements as well as ample opportunity to continue to invest in our brands and our direct to consumer initiatives.

## Key Liquidity Measures

| (\$ in thousands)           | November 3, 2018 | February 3, 2018 | October 28, 2017 | January 28, 2017 |   |
|-----------------------------|------------------|------------------|------------------|------------------|---|
| Total current assets        | \$ 251,900       | \$ 236,118       | \$ 234,721       | \$ 231,628       |   |
| Total current liabilities   | \$ 124,839       | \$ 135,010       | \$ 117,915       | \$ 131,396       |   |
| Working capital             | \$ 127,061       | \$ 101,108       | \$ 116,806       | \$ 100,232       |   |
| Working capital ratio       | 2.02             | 1.75             | 1.99             | 1.76             |   |
| Debt to total capital ratio | 6                | % 10             | % 15             | % 20             | % |

Our working capital ratio is calculated by dividing total current assets by total current liabilities, each including any assets or liabilities related to discontinued operations. Current assets increased from October 28, 2017 to November 3, 2018 primarily due to increases in inventories and prepaid expenses partially offset by lower receivables. Current liabilities increased primarily due to higher accounts payable and other accrued expenses and liabilities at November 3, 2018 compared to October 28, 2017, partially offset by lower liabilities related to discontinued operations. Changes in current assets and current liabilities are discussed below.

For the ratio of debt to total capital, debt is defined as short-term and long-term debt, and total capital is defined as debt plus shareholders' equity. Debt was \$32 million at November 3, 2018 and \$72 million at October 28, 2017, while shareholders' equity was \$465 million at November 3, 2018 and \$407 million at October 28, 2017. The decrease in debt since October 28, 2017 was primarily due to \$118 million of cash flow from operations which was partially offset by \$43 million of capital expenditures, the payment of \$22 million of dividends and payments related to various acquisitions of \$11 million. Shareholders' equity increased from October 28, 2017, primarily as a result of net earnings less dividends paid. Our debt levels and ratio of debt to total capital in future periods may not be comparable to historical amounts as we continue to assess, and possibly make changes to, our capital structure. Changes in our capital structure in the future, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

## Balance Sheet

The following tables set forth certain information included in our consolidated balance sheets (in thousands). Below each table are explanations for any significant changes in the balances from October 28, 2017 to November 3, 2018.

Current Assets:

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|   | November 3,<br>2018 | February 3,<br>2018 | October 28,<br>2017 | January 28,<br>2017 |
|---|---------------------|---------------------|---------------------|---------------------|
| Cash and cash equivalents                 | \$ 7,413            | \$ 6,343            | \$ 6,077            | \$ 6,332            |
| Receivables, net                          | 69,400              | 67,542              | 73,724              | 58,279              |
| Inventories, net                          | 138,150             | 126,812             | 127,301             | 142,175             |
| Prepaid expenses and other current assets | 36,937              | 35,421              | 27,619              | 24,842              |
| Total current assets                      | \$ 251,900          | \$ 236,118          | \$ 234,721          | \$ 231,628          |

Cash and cash equivalents as of November 3, 2018 and October 28, 2017 represent typical cash amounts maintained on an ongoing basis in our operations, which generally ranges from \$5 million to \$10 million at any given time. Any excess cash is generally used to repay amounts outstanding under our U.S. Revolving Credit Agreement. The decrease in receivables, net as of November 3, 2018 was primarily due to lower wholesale trade receivables primarily resulting from lower wholesale sales in Lanier Apparel in the Third Quarter of Fiscal 2018, partially offset by a \$4 million income tax receivable as of November 3, 2018 with no meaningful income tax receivable as of October 28, 2017.

Inventories, net as of November 3, 2018 increased primarily as a result of higher inventory levels in Lanier Apparel, Lilly Pulitzer and Southern Tide, partially offset by lower inventory levels in Tommy Bahama and Corporate and Other. The higher inventories in Lanier Apparel, Lilly Pulitzer and Southern Tide reflect planned increases in sales in the Fourth Quarter of Fiscal 2018 as well as Lanier Apparel having lower than optimal inventory levels in Fiscal 2017. Inventories in Tommy Bahama decreased primarily due to continuing initiatives to focus on closely managing inventory purchases, reducing on-hand inventory levels and clearing prior season inventory more quickly. The decrease in Corporate and Other was primarily due to the impact of LIFO accounting, partially offset by the inventory of TBBC. We believe that inventory levels in each operating group are appropriate to support anticipated sales for the Fourth Quarter of Fiscal 2018.

Prepaid expenses and other current assets as of November 3, 2018 increased as a result of (1) higher prepaid rent due to the timing of payment of monthly rent amounts as November 2018 rent payments were made prior to November 3, 2018, but certain November 2017 rent payments had not been paid prior to October 28, 2017, (2) the reclassification of certain amounts from inventory to prepaid expenses and other current assets related to estimated inventory returns, in accordance with the new revenue recognition guidance using the modified retrospective method of transition, (3) increased advertising associated with our 2018 advertising campaigns and the timing of certain advertising payments, (4) higher prepaid income taxes, and (5) higher information technology related prepaid operating expenses including software as a service, license, subscription and maintenance arrangements.

## Non-current Assets:

|                               | November 3,<br>2018 | February 3,<br>2018 | October 28,<br>2017 | January 28,<br>2017 |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| Property and equipment, net   | \$ 194,228          | \$ 193,533          | \$ 191,038          | \$ 193,931          |
| Intangible assets, net        | 176,735             | 178,858             | 175,057             | 175,245             |
| Goodwill                      | 66,618              | 66,703              | 63,443              | 60,015              |
| Other non-current assets, net | 23,272              | 24,729              | 24,250              | 24,340              |
| Total non-current assets      | \$ 460,853          | \$ 463,823          | \$ 453,788          | \$ 453,531          |

Property and equipment, net as of November 3, 2018 increased primarily as a result of capital expenditures in the twelve months ended November 3, 2018, partially offset by depreciation expense during the same period. The increases in intangible assets, net and goodwill at November 3, 2018 were primarily due to the acquisition of TBBC during December 2017, as disclosed in Note 12 to our consolidated financial statements contained in our Annual Report on Form 10-K for Fiscal 2017, partially offset by the amortization of intangible assets in the twelve months ended November 3, 2018.

Liabilities:

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|  | November 3,<br>2018 | February 3,<br>2018 | October 28,<br>2017 | January 28,<br>2017 |
|--|---------------------|---------------------|---------------------|---------------------|
| Total current liabilities                                  | \$ 124,839          | \$ 135,010          | \$ 117,915          | \$ 131,396          |
| Long-term debt   | 32,211              | 45,809              | 72,131              | 91,509              |
| Other non-current liabilities                              | 73,434              | 74,029              | 73,487              | 70,002              |
| Deferred taxes   | 16,922              | 15,269              | 16,829              | 13,578              |
| Non-current liabilities related to discontinued operations | —                   | —                   | 972                 | 2,544               |
| Total liabilities  | \$ 247,406          | \$ 270,117          | \$ 281,334          | \$ 309,029          |

Current liabilities as of November 3, 2018 increased primarily due to (1) higher accounts payable primarily due to the timing of payment of certain payable amounts, (2) higher other accrued expenses and liabilities resulting from higher deferred rent amounts, duties payable, sales tax payable and gift card liabilities and (3) higher accrued compensation amounts resulting from the timing of payment of bi-weekly employee salaries at quarter end due to the 53 week Fiscal 2017 shifting the relationship between pay periods and fiscal periods partially offset by lower incentive compensation amounts. These increases were partially offset by the payment of all liabilities related to discontinued operations. The decrease in debt as of November 3, 2018 was primarily due to cash flows during the twelve months ended November 3, 2018, including \$118 million of cash flow from operations which was partially offset by cash payments of \$43 million for capital expenditures, \$22 million for dividends and \$11 million for various acquisitions.

Deferred taxes were comparable as of November 3, 2018 and October 28, 2017 primarily due to the \$12 million impact on depreciation expense timing differences resulting from a cost segregation analysis completed in Fiscal 2017, which was offset by the \$12 million impact of the revaluation of deferred tax amounts resulting from U.S. Tax Reform in Fiscal 2017. There were no current or non-current liabilities related to discontinued operations as of November 3, 2018 as a result of negotiated lease terminations in Fiscal 2017 for the remaining lease agreements, with the final satisfaction of the liability associated with the lease obligations completed in February 2018. We do not anticipate cash flows or earnings related to the discontinued operations in future periods as we have satisfied all obligations related to these lease agreements.

## Statement of Cash Flows

The following table sets forth the net cash flows, including continuing and discontinued operations, for the First Nine Months of Fiscal 2018 and First Nine Months of Fiscal 2017 (in thousands):

|   | First<br>Nine<br>Months<br>Fiscal<br>2018 | First<br>Nine<br>Months<br>Fiscal<br>2017 |
|---|---|---|
| Cash provided by operating activities   | \$64,618                                  | \$65,278                                  |
| Cash used in investing activities       | (31,268)                                  | (31,411)                                  |
| Cash used in financing activities       | (32,065)                                  | (34,155)                                  |
| Net change in cash and cash equivalents | \$1,285                                   | \$(288)                                   |

Cash and cash equivalents on hand were \$7 million and \$6 million at November 3, 2018 and October 28, 2017, respectively. Changes in cash flows in the First Nine Months of Fiscal 2018 and the First Nine Months of Fiscal 2017 related to operating activities, investing activities and financing activities are discussed below.

## Operating Activities:



In both the First Nine Months of Fiscal 2018 and the First Nine Months of Fiscal 2017, operating activities provided \$65 million of cash. The cash flow from operating activities for each period was primarily the result of net earnings for the relevant period adjusted, as applicable, for non-cash activities including depreciation, amortization and equity-based compensation as well as the net impact of changes in deferred taxes and our working capital accounts. In both the First Nine Months of Fiscal 2018 and the First Nine Months of Fiscal 2017, working capital account changes had an unfavorable impact on cash flow from operations, but the unfavorable impact was more significant in the First Nine Months of Fiscal 2018. In the First Nine Months of Fiscal 2018, the more significant changes in working capital were an increase in inventories and a decrease in current liabilities, which reduced cash flow from operations. In the First Nine Months of Fiscal 2017, the more significant changes in working capital accounts were an increase in receivables and a decrease in current liabilities, which reduced cash flow from operations, partially offset by a reduction in inventories, which increased cash flow from operations.

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### Investing Activities:

In both the First Nine Months of Fiscal 2018 and the First Nine Months of Fiscal 2017, investing activities used \$31 million of cash. Our cash flow used in investing activities on an ongoing basis typically consists of our capital expenditure investments in our existing brands and acquisitions of new businesses. Our capital expenditures primarily consist of costs associated with information technology initiatives, including e-commerce capabilities; opening, relocating and remodeling full-price retail stores and restaurants; and facilities enhancements for distribution centers and offices. In the First Nine Months of Fiscal 2018, we paid \$31 million for capital expenditures compared to \$26 million in the First Nine Months of Fiscal 2017. In the First Nine Months of Fiscal 2017 we paid \$5 million for acquisitions consisting of the acquisition of certain Lilly Pulitzer Signature Stores as well as working capital settlements related to other recent acquisitions, while in the First Nine Months of Fiscal 2018, we paid certain small amounts consisting of working capital and other related settlements associated with recent acquisitions.

### Financing Activities:

In the First Nine Months of Fiscal 2018 and the First Nine Months of Fiscal 2017, financing activities used \$32 million and \$34 million, respectively, of cash. During the First Nine Months of Fiscal 2018 and the First Nine Months of Fiscal 2017, we decreased debt as our cash flow from operations exceeded our capital expenditure and dividend payments. During the First Nine Months of Fiscal 2018 and the First Nine Months of Fiscal 2017, we paid \$17 million and \$14 million, respectively, of dividends.

We anticipate that cash flow provided by or used in financing activities in the future will be dependent upon whether our cash flow from operating activities exceeds our capital expenditures, dividend payments, acquisitions and any other investing or financing activities. Generally, we anticipate that excess cash, if any, will be used to repay debt on our U.S. Revolving Credit Agreement.

### Liquidity and Capital Resources

We had \$32 million outstanding as of November 3, 2018 under our \$325 million Fourth Amended and Restated Credit Agreement ("U.S. Revolving Credit Agreement") compared to \$72 million of borrowings outstanding as of October 28, 2017. The U.S. Revolving Credit Agreement generally (1) is limited to a borrowing base consisting of specified percentages of eligible categories of assets, (2) accrues variable-rate interest (weighted average borrowing rate of 3.9% as of November 3, 2018), unused line fees and letter of credit fees based upon average unused availability or utilization, (3) requires periodic interest payments with principal due at maturity (May 2021) and (4) is secured by a first priority security interest in substantially all of the assets of Oxford Industries, Inc. and its domestic subsidiaries, including accounts receivable, books and records, chattel paper, deposit accounts, equipment, certain general intangibles, inventory, investment property (including the equity interests of certain subsidiaries), negotiable collateral, life insurance policies, supporting obligations, commercial tort claims, cash and cash equivalents, eligible trademarks, proceeds and other personal property.

To the extent cash flow needs exceed cash flow provided by our operations, we will have access, subject to its terms, to our U.S. Revolving Credit Agreement to provide funding for operating activities, capital expenditures and acquisitions, if any. Our U.S. Revolving Credit Agreement is also used to establish collateral for certain insurance programs and leases and to finance trade letters of credit for product purchases, which reduce the amounts available under our line of credit when issued. As of November 3, 2018, \$5 million of letters of credit were outstanding against our U.S. Revolving Credit Agreement. After considering these limitations and the amount of eligible assets in our borrowing base, as applicable, as of November 3, 2018, we had \$225 million in unused availability under the U.S. Revolving Credit Agreement, subject to certain limitations on borrowings.

Covenants and Other Restrictions:

The U.S. Revolving Credit Agreement is subject to a number of affirmative covenants regarding the delivery of financial information, compliance with law, maintenance of property, insurance requirements and conduct of business. Also, the U.S. Revolving Credit Agreement is subject to certain negative covenants or other restrictions including, among other things, limitations on our ability to (1) incur debt, (2) guaranty certain obligations, (3) incur liens, (4) pay dividends to shareholders, (5) repurchase shares of our common stock, (6) make investments, (7) sell assets or stock of subsidiaries, (8) acquire assets or businesses, (9) merge or consolidate with other companies or (10) prepay, retire, repurchase or redeem debt.

Additionally, the U.S. Revolving Credit Agreement contains a financial covenant that applies if excess availability under the agreement for three consecutive days is less than the greater of (i) \$23.5 million or (ii) 10% of availability. In such case, our

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fixed charge coverage ratio as defined in the U.S. Revolving Credit Agreement must not be less than 1.0 to 1.0 for the immediately preceding 12 fiscal months for which financial statements have been delivered. This financial covenant continues to apply until we have maintained excess availability under the U.S. Revolving Credit Agreement of more than the greater of (i) \$23.5 million or (ii) 10% of availability for 30 consecutive days.

We believe that the affirmative covenants, negative covenants, financial covenants and other restrictions under the U.S. Revolving Credit Agreement are customary for those included in similar facilities entered into at the time we entered into the U.S. Revolving Credit Agreement. During the First Nine Months of Fiscal 2018 and as of November 3, 2018, no financial covenant testing was required pursuant to our U.S. Revolving Credit Agreement as the minimum availability threshold was met at all times. As of November 3, 2018, we were compliant with all covenants related to the U.S. Revolving Credit Agreement.

### Other Liquidity Items:

We anticipate that we will be able to satisfy our ongoing cash requirements, which generally consist of working capital and other operating activity needs, capital expenditures, interest payments on our debt and dividends, if any, primarily from positive cash flow from operations supplemented by borrowings under our U.S. Revolving Credit Agreement. Our need for working capital is typically seasonal with the greatest requirements generally in the fall and spring of each year. Our capital needs will depend on many factors including our growth rate, the need to finance inventory levels and the success of our various products. We anticipate that at the maturity of the U.S. Revolving Credit Agreement or as otherwise deemed appropriate, we will be able to refinance the facility or obtain other financing on terms available in the market at that time. The terms of any future financing arrangements may not be as favorable as the terms of the current agreement or current market terms.

Although we have paid dividends in each quarter since we became a public company in July 1960, we may discontinue or modify dividend payments at any time if we determine that other uses of our capital, including payment of outstanding debt, funding of acquisitions, funding of capital expenditures or repurchases of outstanding shares, may be in our best interest; if our expectations of future cash flows and future cash needs outweigh the ability to pay a dividend; or if the terms of our credit facility, other debt instruments or applicable law limit our ability to pay dividends. We may borrow to fund dividends in the short term based on our expectation of operating cash flows in future periods subject to the terms and conditions of our credit facility, other debt instruments and applicable law. All cash flow from operations will not be paid out as dividends in all periods. For details about limitations on our ability to pay dividends, see the discussion of the U.S. Revolving Credit Agreement above.

Our contractual obligations as of November 3, 2018 have not changed materially from the contractual obligations outstanding at February 3, 2018, as disclosed in our Annual Report on Form 10-K for Fiscal 2017 filed with the SEC, other than changes in amounts outstanding under our U.S. Revolving Credit Agreement, as discussed above.

Our anticipated capital expenditures for Fiscal 2018, including the \$31 million incurred in the First Nine Months of Fiscal 2018, are expected to be approximately \$45 million compared to \$39 million in Fiscal 2017. These expenditures are expected to consist primarily of costs associated with information technology initiatives, including e-commerce capabilities; opening, relocating and remodeling full-price retail stores and restaurants; and facilities enhancements. Our capital expenditure amounts in future years may increase or decrease from the amounts incurred in prior years depending on the information technology initiatives, full-price retail store and restaurant openings, relocations and remodels and other infrastructure requirements deemed appropriate for that year to support future expansion of our businesses.

### Off Balance Sheet Arrangements

We have not entered into agreements which meet the SEC's definition of an off balance sheet financing arrangement, other than operating leases, and have made no financial commitments to or guarantees with respect to any unconsolidated subsidiaries or special purpose entities.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires the selection and application of accounting policies. Further, the application of GAAP requires us to make estimates and judgments about future events that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience, current trends and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

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Actual results may differ from these estimates under different assumptions or conditions. We believe it is possible that other professionals, applying reasonable judgment to the same set of facts and circumstances, could develop and support a range of alternative estimated amounts. We believe that we have appropriately applied our critical accounting policies. However, in the event that inappropriate assumptions or methods were used relating to the critical accounting policies, our consolidated statements of operations could be misstated.

Our critical accounting policies and estimates are discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for Fiscal 2017. There have not been any significant changes to the application of our critical accounting policies and estimates during the First Nine Months of Fiscal 2018, except for changes in our revenue recognition policy as disclosed in Note 5. A detailed summary of significant accounting policies is included in Note 1 to our consolidated financial statements contained in our Annual Report on Form 10-K for Fiscal 2017.

**SEASONAL ASPECTS OF OUR BUSINESS**

Each of our operating groups is impacted by seasonality as the demand by specific product or style, as well as by distribution channel, may vary significantly depending on the time of year. For details of the impact of seasonality on each of our operating groups, see the business discussion for each operating group in Part I, Item 1, Business in our Annual Report on Form 10-K for Fiscal 2017.

As the timing of certain unusual or non-recurring items, economic conditions, wholesale product shipments, weather or other factors affecting our operations may vary from one year to the next, we do not believe that net sales or operating income for any particular quarter or the distribution of net sales and operating income for Fiscal 2017 are necessarily indicative of anticipated results for Fiscal 2018 or expected distribution in future years. Our third quarter has historically been our smallest net sales and operating income quarter and that result is expected to continue. The following table presents our percentage of net sales and operating results by quarter for Fiscal 2017:

|                  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|------------------|------------------|-------------------|------------------|-------------------|
| Net sales        | 25 %             | 26 %              | 22 %             | 27 %              |
| Operating income | 35 %             | 42 %              | 1 %              | 22 %              |

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to certain interest rate, foreign currency, commodity and inflation risks as discussed in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for Fiscal 2017. There have not been any significant changes in our exposure to these risks during the First Nine Months of Fiscal 2018.

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

Our company, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and our principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal control over financial reporting during the Third Quarter of Fiscal 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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From time to time, we are a party to litigation and regulatory actions arising in the ordinary course of business. These actions may relate to trademarks and other intellectual property, licensing arrangements, real estate, importing or exporting regulations, taxation, employee relations matters or other topics. We are not currently a party to any litigation or regulatory action or aware of any proceedings contemplated by governmental authorities, that we believe could reasonably be expected to have a material impact on our financial position, results of operations or cash flows. However, our assessment of any litigation or other legal claims could potentially change in light of the discovery of additional factors not presently known or determinations by judges, juries, or others which are not consistent with our evaluation of the possible liability or outcome of such litigation or claims.

ITEM 1A. RISK FACTORS

Our business is subject to numerous risks. Investors should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for Fiscal 2017, which could materially affect our business, financial condition or operating results. We operate in a competitive and rapidly changing business environment, and additional risks and uncertainties not presently known to us or that we currently consider immaterial may also adversely affect our business. The risks described in our Annual Report on Form 10-K for Fiscal 2017 are not the only risks facing our company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) During the Third Quarter of Fiscal 2018, we did not make any unregistered sales of our equity securities.
- (c) We have certain stock incentive plans as described in Note 7 to our consolidated financial statements included in our Annual Report on Form 10-K for Fiscal 2017, all of which are publicly announced plans. Under the plans, we can repurchase shares from employees to cover employee tax liabilities related to the vesting of shares of our stock. During the Third Quarter of Fiscal 2018, no shares were repurchased pursuant to these plans.

In March 2017, our Board of Directors authorized us to spend up to \$50 million to repurchase shares of our stock. This authorization superseded and replaced all previous authorizations to repurchase shares of our stock and has no automatic expiration. As of November 3, 2018, no shares of our stock had been repurchased pursuant to this authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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|         |   |
|---------|---|
| 3.1     | <u>Restated Articles of Incorporation of Oxford Industries, Inc.</u> (filed as Exhibit 3.1 to the Company's Form 10-Q for the fiscal quarter ended July 29, 2017) |
| 3.2     | <u>Bylaws of Oxford Industries, Inc., as amended.</u> (filed as Exhibit 3.2 to the Company's Form 10-K for Fiscal 2017)   |
| 31.1    | <u>Section 302 Certification by Principal Executive Officer.*</u>   |
| 31.2    | <u>Section 302 Certification by Principal Financial Officer.*</u>   |
| 32      | <u>Section 906 Certification by Principal Executive Officer and Principal Financial Officer.*</u>   |
| 101.INS | XBRL Instance Document*   |
| 101.SCH | XBRL Taxonomy Extension Schema Document*  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document*  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document*   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document*  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document*   |

\* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

December 13, 2018 OXFORD INDUSTRIES, INC.

(Registrant)

/s/ K. Scott Grassmyer

K. Scott Grassmyer

Executive Vice President - Finance, Chief Financial Officer and Controller

(Authorized Signatory)