Iconix Brand Group, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Jeffrey Klinefelter – Piper Jaffray.

Jeffrey Klinefelter – Piper Jaffray

First of all can we focus a little bit on the SG&A expenses and even backing out the non-cash comp expense, SG&G growth is fairly significant year-over-year recognizing that some of the new deals that you signed the second half of last year and the first part of this year are not in there. But, can you talk about on a go forward basis how you see that aligning with organic revenue growth? For example, what else do you need to build out in terms of headcount? Do you see more build out required to manage what would appear to be a rapidly growing Wal-Mart business? Just discuss that dynamic a little bit going in to 09.

Warren Clamen

Jeff, this is a year where we had a lot of time to focus on our organic brands and build the infrastructure and maybe catch up not having acquisitions in this environment. So, we added four new brands and some of them had significant overheads like Rocawear which has a significant advertising that goes with it. So, between the four new brands and the increase, we went from having 50 people to over 100 people this year and we've really built a lot of great processes to work with our licenses around the world. We've got a presence in Europe, we've put together a presence in Asia. But, all that said and done, we also believe that the model can support a 70% EBITDA which is something that we've kept our eye on and we're being very careful with the costs. Another significant something in the numbers is my agreement which I negotiated a new five-year employment agreement and a lot of that is non-cash compensation. So I think a good way to do it is to look at the EBITDA number and we're pretty focused on keeping it above 70%.

Jeffrey Klinefelter - Piper Jaffray

Could you also address the flow of second half guidance? Given how much your royalty revenue composition has changed over the last four quarters, could you give us some direction on how you see the royalty revenue and SG&A flowing through the second half so we can get a Q3 versus Q4 guidepost more or less?

Warren Clamen

I think we need to look at the composition of our licensees and we saw a couple of DTRs versus last year so I definitely looking last year versus this year, this year the revenue flow will be more focused to Q4 since we have more DTR licenses. And as Neil said, the SG&A we're going to keep EBITDA margins in the low 70s, so that's kind of the way the revenue will flow. Last year was a little bit heavier in Q3 than in Q4. I think it's going to be slightly the opposite this year.