

MichaelKorsHoldingsLimited

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Kimberly Greenberger: Okay, good morning, everyone. Before we get started, I have to read all of the important disclosures. Please note that important disclosures including my personal holdings disclosures and Morgan Stanley disclosures all appear as a handout available in the registration area and on the Morgan Stanley public website.

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Okay, wonderful. So with that out of the way, good morning. I'm Kimberly Greenberger, for those of you I haven't had the pleasure to meet yet, I'm Morgan Stanley's Retail/Softlines and Department Store analyst, and we're pleased today to have Michael Kors Holdings CEO, John Idol and CFO Tom Edwards here with us.

John is going to start with a brief introduction, and then we'll proceed to a Fireside Chat question session and then open it up for your questions. So, with that, without further ado, I would like to present John Idol.

John Idol: Thank you, Kimberly. I thought I'd take a few moments out this morning to talk to you about Capri Holdings, which will be the new company name that we will be referred to as in January.

And as you are now aware, the Capri Holdings is a formation of three luxury brands. First is our new acquisition, Versace, which we'll be discussing throughout today's presentation. Second is Jimmy Choo, which was an acquisition we completed just over a year ago and, third, is Michael Kors, which is our flagship and cornerstone brand for the company.

So we're very, very pleased with the fact that we have built a luxury company in a very short period of time, one that represents many different facets of the fashion luxury world. And these three photographs represent the three different images of those companies.

As I said to you before, we have three iconic brands and what's also unique is that they are all founder-led brands. First is Versace, which is led by Donatella Versace. She has been in charge of the design area for the company and, really, its marketing visionary leader for over 22 years. She was with the company before that as well, and has deep roots, as this has been family-run business for over 40 years.

Second is Jimmy Choo led by Sandra Choi, who is the design head for the company since its inception. And it was actually her uncle who was Jimmy Choo, in case any of you didn't know that. So she is also a visionary and leader.

And, of course, we have Michael Kors who started his brand and is still at the helm along with myself and a very senior dedicated management team.

So we're really proud of the fact that we've got the leaders of the businesses from when they started all at the helm and helping us grow those businesses.

We will be starting our next fiscal year a company that is over \$6 billion in revenues. And that you will see from the slide in front of you, Versace, which will have its record year this year in terms of revenues, which will be a double-digit growth increase to approximately \$850 million.

Jimmy Choo will also have its record year at \$585 million, again, double-digit growth. And Michael Kors, which will be \$4.5 billion, which will be approximately flat in revenues.

So, again, a \$6 billion company, and you can see the different areas and how we're penetrated both geographically and through product mix as well. One of the things I might add is that now with the new group in totality, we are more balanced across the globe, which is something that we've really felt was an important initiative for us as a company.

We believe that with the three brands we have the opportunity to grow to \$8 billion. Michael Kors is well on its way to be a \$5 billion business, and we believe strongly that with the growth of Asia, in particular, Michael Kors will achieve that goal. Secondly, Jimmy Choo, which we have said will be a billion-dollar business. We're well on our way. I know that we'll be talking about that in our Fireside Chat to achieving that goal. And then Versace, we believe that this company will, as brand and house, will be a \$2 billion business, and I might add that we have competitors in the Italian luxury space who are, many of them, well north of that number. So we think we've got a very good model in place to achieve that goal and also some good comps for you to look at.

The fame of Versace -- there's not a lot to say except when you look at this picture, what Donatella has built is absolutely extraordinary. And when you look at our following of over 15 million instagram followers and Donatella with over 3.5 million herself, and the growth rate on the instagram is just overwhelming. This brand is led by its fashion. It's led by its Italian luxury heritage, and it's led by Donatella and her voice and how powerful that is.

Under our direction, we believe that we will be able to grow this brand much more quickly than it's been grown in the past, in particular, based on the fact that it was a family business, it didn't really have the resources that it needed to grow this company at the speed at which we will do that. And, additionally, we obviously have a very strong knowledge in the accessories business and footwear business. We'll do about \$1 billion

as a company this year in footwear between Jimmy Choo and Michael Kors. So we're a very, very strong company in the footwear business as well and, as you know, it's an important part of luxury today.

Iconic, there is Donatella leading this brand, and we think it's very, very exciting. And, again, this is something you can look at on the website later, but we've broken out the different geographic and product revenues for the Versace business, but it's a very balance company. And the last thing I'll just add is that this has given us a great exposure to the men's luxury market, as well, as the Versace business is approximately 40%-plus menswear, and we think that's another fast-growing market in luxury.

So, again, we have an opportunity to build the Versace business to \$2 billion, and we'll go through a bit of how we're going to do that in our presentation in our discussions with Kimberly today. And you can see the revenue growth, and Tom will speak to that later. We also believe that Versace will be in the mid-teens in terms of EBITDA by fiscal 2022, and we think that it will be in the high teens beyond. And, again, our comparables in the luxury industry, this actually is in, I'd say, the bottom third in terms of performance, so we even have room to do better than this. But we think we've got very realistic goals, and we think we've got a very realistic plan that we can achieve those targets.

Jimmy Choo, again, as I said, we're well on the way to achieve \$1 billion in revenue in this brand, and you will start to see the operating margins of this brand start to expand starting next year, as this was really our investment year for the brand.

And then Michael Kors, as I discussed, we're in the midst of our runway 2020 program, which we feel very strongly has taken a very strong hold, and we're seeing excellent results, and we're slightly ahead of where we had planned to be at this point in time in terms of the development of Runway 2020 for Michael Kors.

And at that, I'll start with Kimberly.

Kimberly Greenberger: Okay, great. Wonderful. John, I'm wondering if we can just start with the idea of establishing a holding company. Can you talk about the strategy behind creating a holding company versus operating, let's say, as a mono-brand retailer?

John Idol: So, Kimberly, we started -- well, first off, thank you for inviting us here today. We started looking at our long-term goals as a company a few years ago, and we knew that Michael Kors would grow, but it wasn't going to grow indefinitely, and that we needed to look at other opportunities for growth for our company.

And we had, really, two options. We generate a considerable amount of free cash flow, so we could have done a significant share of buybacks. We've bought back, I think, about \$2.4 billion over the last few years in shares, and we could have carried on with that and been more aggressive, but we didn't think that was going to create the kind of shareholder value over the long term by using that same cash and acquiring brands. And when we looked at the consumer and retail landscape across the globe, we felt that the fastest-growing area in fashion was the luxury business.

And, in particular, we see that consumers, globally, the wealthy are getting wealthier, and we thought that the luxury arena was an excellent place for us to invest in the future. We were very fortunate when we arrived at that strategy. About 30 days later, Jimmy Choo became available for sale. It's something we had been actually pursuing for quite some

time, but the owners were not interested in selling it and then it became available so we moved very quickly.

And when Versace was never really brought to the market on any kind of a public way, Donatella and I met each other very, very quietly in June and within a very short period of time we knew that this would be a terrific opportunity for the Versace House, as well as for Capri Holdings and what we were going to form for the future.

And so we think that the ability to create shareholder value through luxury has certainly been proven. There are some very large groups across the globe that have been quite successful. We don't have the aspirations to quite emulate that, but we think that we have acquired two very, very important luxury brands with long histories and heritage. And, actually, very sustainable growth rates in all these companies. And we think that they're both underdeveloped, so we think we bought them right, and we've bought them at a point in time in their trajectory where we can really help accelerate them.

Kimberly Greenberger: Fantastic. Maybe we can turn to Versace specifically. What was it that attracted you to that brand and company?

John Idol: Well, the following. First, the Versace name in terms of brand awareness, it's one of the highest brand awareness luxury brands in the world. And when you look at the revenues versus the brand awareness, they're really not in sync.

So when we looked at that brand, and we saw immediately that the accessories business, which is in men's and women's approximately 35% of the revenues, we knew that that was under-developed and really could be closer to 60% given where many of the other Italian luxury brands are today. And we knew with our knowledge and background in that world, and now with the added additional knowledge that we have with Jimmy Choo, in particular, in terms of Italian manufacturing, because that's becoming a very big and important part of our future, we thought that we had the capabilities to really develop that.

And, also, you know, today Versace, especially after Donatella did the anniversary tribute collection for Gianni's passing, the brand has just been on an absolute tear. And we thought that, you know, what a better time to be with one of the most famous, storied Italian luxury companies that really has not been developed on a global basis in terms of accessories and has such a powerful leader behind it who is really still as engaged as you can possibly imagine. So we thought all those things together were the perfect match for us.

Kimberly Greenberger: Great. You've laid out a \$2 billion long-term revenue target for Versace. What are the, sort of, building blocks that get you from, I guess, \$850 million current year to that \$2 billion target?

John Idol: So we have five key pillars that we've discussed. And, first and foremost, is our runway collections. We've talked about the fact that Versace is truly a luxury company, and we're going to put even more emphasis on the luxury portion of Versace. And so the runway is where it all starts, and Donatella, really, her collections are looked at as some of the most important in the world and, certainly, in Milan.

And we're very excited to let you all know here today, on December the 2nd you'll be able to watch livestream. Kimberly will be there with me -- the first Versace fashion show in New York. It will be held at the American Stock Exchange, which is an

amazing, beautiful, beautiful building here in New York. And so Donatella is coming here to really celebrate Capri Holdings and to celebrate her resort runway fashion show. So we're very excited about that.

The second thing that we'll be doing is, as we did with Jimmy Choo, we'll be accelerating the marketing initiatives in the company. You know, with both Jimmy Choo and Versace, we could be much more profitable much more quickly if we didn't invest. And we think that's the wrong thing to do. We bought Jimmy Choo, we actually took the operating margins of the company down. And we showed a three-year step-up because we're investing in advertising, we're investing in people, we're investing in factories.

So we're going to do these things because we want to build a luxury company, you have to really do it for the long term. So one of our initial pillars will be we will invest even more significantly than what the company is doing today in its marketing initiatives. And, in particular, to build brand awareness in the United States and some of the additional international markets, Japan, in particular, where the company is very under-represented.

Third, we will re-platform the company in terms of its eCommerce capabilities. Today it is not omni-capable. It really does not have a robust eCommerce operation inside the organization. We will bring that up to speed very, very quickly. And we think we're reap the benefits of that.

The fourth thing is the company today has about 200 stores, and that is, in the luxury world, actually under-developed. The normal area is around between 300 and 400 stores on a global basis. So we have a plan to open an additional 100 stores. And, as you saw from Jimmy Choo, we've moved very, very quickly since we've acquired that company, and we'll do the same with Versace. We'll open 30 next year and then the balance will come pretty quickly behind that.

And then, lastly, and most importantly, we're going to take accessories from 35% to 60% of the company. And, remember, Versace has a very powerful men's business. So when we talk about accessories, this is not just women's accessories, this is men's accessories. And, as you know, when you look at the larger luxury competitors out of France and out of Italy, they have sizable men's luxury businesses. And so that is a place that we intend on playing very, very seriously.

I'll let Tom talk about the revenues.

Tom Edwards:

Sure. And I'd start with how Versace is performing this year. They're growing revenues double digits. EBITDA is expected to grow over 50%. So we're looking at a business that's performing extremely well. And after the investments, we see a clear path to grow the business in fiscal 2022 to \$1.2 billion and ultimately to the \$2 billion mark. At the same time, we'll see margins increase. So in fiscal 2022, expect to see a mid-teens EBITDA margin going to high teens.

As a result, we're giving some guidance on the accretion dilution of Versace, and after a very short period of time expect it to be accretive in our year two after the initial acquisition. So we're really excited about the opportunity Versace has to contribute to our long-term EPS growth.

Kimberly Greenberger:

Great. Turning to the Jimmy Choo acquisition, it's a year post-acquisition. Can you just talk about some of the key learnings with that acquisition? And then I think you set out a

\$1 billion revenue target there? What are the, sort of, key pieces of the build from \$600 million to \$1 billion?

John Idol:

Jimmy Choo, we're extremely excited about that acquisition for the company. You know, one of the key learnings is how loyal the customer is to the brand. As a matter of fact, Kimberly, on the way in here was telling me she's got her Jimmy Choo handbag from 15 years ago that she was on a six-month waiting list to get. We hope to have those waiting lists for our upcoming handbag collection.

So Jimmy Choo has a long and storied history of being a part of many women's wardrobes. And then from a luxury standpoint, we have one of the largest share of luxury -- of her closet in luxury footwear. So we knew that the consumer and the brand loyalty was there. And, again, the company was being run a little bit tighter than we thought was appropriate to really grow the brand.

So we have done the following -- we have either acquired or opened approximately 50 stores since we bought the company, so we've been moving very, very quickly. We think that that brand, again, can get up to about 250 stores from where it is today. And what we've seen is, is that by us helping to fuel the excitement around the company, we've grown the instagram followers. Last quarter alone we went from 8 million to 9 million. The database is growing very rapidly.

And so when we look at all that, and then we look at the first key pillar, which is to continue to grow our very loyal consumer on footwear. We've had two quarters of double-digit growth in our footwear business, which is excellent. And that, by the way, is without the second pillar, which is, as you know, in the luxury footwear business today, sneakers are very, very important. They can account for certain luxury goods companies as much as 40% to 50% of their total revenues are coming from sneakers.

We are not near that, and we're working very hard to broaden that assortment and to bring that classification as a highlight to the Jimmy Choo business, and you'll see some of that product that's arriving in the stores for the holiday. We have a particular trainer that's \$4,500. That could be right up your alley, Kimberly.

And then the last part of that, of the pillar, so -- is to expand our handbag collection. We're very excited that we'll be announcing at the end of this quarter one of the most famous fashion models and well-known celebrities in the world will be the face of the Jimmy Choo campaign. We can't tell you who that is yet, I apologize. But it is a very, very big move for the company. And she will be behind the handbag launch, which will start in February.

So some of the new collections are really arriving. We believe that Jimmy Choo accessories will ultimately account for 50% of our volume. And what's most interesting is we're going to be able to do that without enlarging the store sizes. So we've been able to re-look at our stores and how we can handle accessories and the addition of the active footwear and our existing categories of footwear and be able to make that all work with inside the same store size. And that's very key to us because productivity for Jimmy Choo is very, very high right now, and we want to actually grow that productivity, which will be a key to profitability.

So grow the footwear business as it is today. Add with the sneaker business, take the accessories business to 50% and ultimately grow our store base to approximately 250

stores, which is still very tight for a luxury company. And we believe that those components will get us to the billion dollars.

Kimberly Greenberger: Okay, fantastic. Thinking about Capri Holdings, how do you see revenue and EPS growth prospects, sort of, looking out to fiscal 2020 and beyond?

John Idol: Well, I first might start out by saying that Michael Kors, as you know it today, which will change in January, has high single-digit revenue growth for this year, and we will have double-digit earnings per share growth. So we think we're going to have a very good year for Michael Kors as a total company.

As we look at 2020, we will have double-digit revenue growth and then a fair amount of that is driven by the acquisition of Versace. But we will still have very solid mid single-digit and above revenue growth for the combined Jimmy Choo and Michael Kors company. And we think that will lead us to a continued earnings-per-share growth excluding the dilution from Jimmy Choo.

So we really believe that once we get past -- I'm sorry, the dilution from Versace -- we really believe that once we get past, as Tom mentioned before, the first-year dilution of Versace, you will see the company really have both strong top line and earnings-per-share growth fueled by our acquisitions and fueled by the transformation process that we're going through with Runway 2020 for Michael Kors.

Tom, I don't know if you have anything to add to that.

Tom Edwards: I'd say, as part of that, with the three brands now in the portfolio, we also have opportunities to bring together some of the back office and create some synergies to also support long-term accelerated earnings growth.

Kimberly Greenberger: Okay, great. Transitioning a little bit -- we've been getting a lot of incoming questions on Chinese consumer spending, and I wanted to hear how you think about Michael Kors' position vis-a-vis let's say, luxury peers in China and if there's anything more broadly that you're seeing with regard to changes in Chinese consumer spending that might be helpful.

John Idol: Well, I'm going to talk about all three brands, since we know the numbers on all three. I'll start with Versace. Versace, as a company, I think you've heard us report before, is having double-digit comp store growth this year -- that's globally. And inside of China is having double-digit comp store growth. So at least from what we see at that level, it's still quite strong.

In Jimmy Choo, where we've had single-digit comp store growth last quarter, and it's really actually higher than that once you take the exchange rate. In China we saw double-digit comp store growth for Jimmy Choo. And then Michael Kors, in Mainland China, we saw double-digit comp store growth. So we still see the consumer quite strong in terms of the Chinese consumer. And there's one other data point for Michael Kors. Michael Kors runs in the high single-digit, low double-digits for consumers worldwide that we can identify as a Chinese consumer.

And we have also been seeing very, very strong influx in airports with that consumer traveling. And as we've said on our conference calls, that actually happens to be one of our businesses in the company is our international airport business.

So what you have to look at is, is obviously the government has made some interesting moves around trying to get more shopping at home. So that might affect people in some of the markets in Japan or Korea, or something like that where some of the outbound traveling and some spending is done. I think the overall consumption we still see as strong, it may move a little bit. It may be a little more in China, a little bit less outside of China. But we don't see anything yet that gives us pause for that consumer's desire for luxury products.

Kimberly Greenberger: Great, okay, wonderful. Turning to the Michael Kors brand, can you just reflect back on the second fiscal quarter, the September quarter that you just reported, and talk about the financial results a little bit and do you think that the second quarter performance is, sort of, a short-term blip or are there any other challenges or issues that you're seeing at all in the business?

John Idol: So second quarter for us from a financial standpoint, we thought was a very good quarter for us. We saw most of the metrics all in a very positive positioning. We did end up with inventories that were as planned but, in reflecting, were lower than they should have been. So we ended down, I think, approximately 11% on a year-on-year basis on inventories. And that was really driven by our desire to improve full-price sell throughs.

You know, we wanted to shrink supply and increase demand. We absolutely did not estimate appropriately the amount of logo product that we needed. And, as I'm sure you're seeing, whether it's from our French competitors, our Italian competitors, our American competitors, the logo business is very, very strong. And we just didn't plan to have enough inventory around that.

And, secondly, we've had these very popular capsule drops. One was Graffiti that happened in August/September, and the other one that is called Bold is on the floor right now. They both sit under the umbrella of MKGO, and both of those collections, we had such strong sell-throughs that we have run out of product in both of those categories. So while I wish we had that product in place, the good news is, is we have consumer demand.

And the other thing that I might add, when we talk about the quarter and the results, on a constant currency basis, I think comps globally were down 1%, 1.3% or something. So, you know, again, I wish we were at flat. I think that would be more comfortable for all of us, but we weren't that far off, and a lot of that was driven by inventory. And when you look at our database grew 25% again. So we've had, I think, three quarters in a row that our database has grown by 25%.

We started Kors VIP where we had a dream that we would be at half a million customers by the end of the year as the VIP program that we have people sign up they can have benefits for. We're at 1 million customers, so we're 50% ahead of where we thought we'd be at this point in time.

So the level engagement of the customer is still quite strong. Our social media grew by 13%. So we've got to get it right in terms of how we're balancing the inventories. We will be in a better inventory position by the end of Q3. Unfortunately, we had to react quickly. We're getting it here. It's going to come in the end of the quarter not in the beginning of the quarter, so we'll be in a better place. And I think you'll start to see some of that improvement really happening in our Q4.

And, again, we think that Runway 2020 is showing very strong results. Operating margins for the company are still very, very strong, and I'll let Tom speak to that.

Tom Edwards: That and, overall, coming into the year, we were running 400 basis points ahead on operating margin for the Michael Kors business, which we've actually increased our operating margin guidance in both Q1 and Q2 for a total of 50 basis points for the year. And we're looking forward to holding that and delivering it across both the back half and the first half of the year for the business.

John Idol: So gross margins and operating margins for the year are going to be, roughly, flat or slightly up to where we were last year, and still industry standard-wise, we're still very, very powerful numbers.

So I think that talks to the health of the company, the health of the brand. And, again, we're going to be cautious, and we're going to do the right things for the brand on a long-term basis. And, you know, we came off of this repositioning of reducing the amount of sale activity that we had in North America. That's basically behind us. And I think that's been a much healthier place for us to be for the brand. And we've done that and still maintained profitability.

Kimberly Greenberger: Okay, great. Your next fiscal year starts in April, which is just around the corner. Maybe talk about the bridge back to positive comps, and do you think that there's an opportunity to get back into positive comp territory in fiscal 2020?

John Idol: So the first thing that I'm excited about is that we have a very, very powerful new marketing campaign that will start for Michael Kors in February. Once again, I apologize, I can't tell you who the person is that we have that's part of this campaign. That will all be coming to public here shortly. But, again, it's one of the most important faces in fashion and social media who will be behind the Michael Kors campaign, and it's really groundbreaking.

And we also have a new fragrance launching next year with another person who I can't tell you the name. I apologize, but it will all come to light here shortly. So we've really made some incredible investments in the marketing campaigns to continue to position Michael Kors as a fashion leader and really continue to deepen how we are resonating and engaging with our consumer.

Along with that, you will see a very significant logo campaign that's being developed for the Michael Kors brand that we'll be launching in February. So we'll be in stock position, we'll have the marketing and advertising behind it, and will be led by one of the most important faces in fashion and social media. So I think we feel really good about our ability to get our accessories business, because that's really the issue at the moment, back into positive comp territory for next year.

You know that our footwear business has been running double-digit comps, and our women's ready-to-wear business has been running high single comps. So all that's in a good place for us.

We still think the watch business will be a drag. We can only hope that that trend will change, but we have to kind of put that aside and stay focused on the accessories business. And we think we're doing the right things to get that.

I might also add that in Jimmy Choo, I'd mentioned to you about this very important person who will be leading that campaign, but for the fall season of next year, Jimmy Choo will also be introducing a new logo and a new icon for the brand. It's something Jimmy Choo has never had in its history. So we're really excited about that. And to compete in the luxury goods business you need those things.

So we're moving very rapidly, and so I think that will really help drive comp for Jimmy Choo, also, because we want to be focused on comp for Michael Kors, Jimmy Choo and, next year, Versace as well.

Kimberly Greenberger: Okay, great. We are nearly out of time, but I want to at least take one question from the audience, if we could. If anybody has a question.

Unidentified Audience Member: Thanks. If your inventories were not sufficient, and how, then, why then, and so you obviously sold more than you expected of those products. Why, then, is the guidance for comps lower than you had previously thought? Was there some inventory that you didn't sell that you thought you were going to sell that offset the inventory that you did sell that you didn't have enough of?

John Idol: Yes, so -- a very good question. So, again, we planned the inventories to be down about where we ended up. And so it wasn't a planning issue of the inventory. What it was is we did not have enough logo products, so we had much, much stronger sell throughs in the logo product than we had anticipated. And so, yes, there was some inventory that we cleared at the end of the spring season, and we talked about that as part of our retail gross margins were down slightly on a year-on-year basis.

And part of the reason why the comps aren't going to return positive for this year, and we talked about that in our earnings release is we believe there will be over 100 points -- basis points of currency headwind alone and we can only hope that it stays at that as the US dollar continues to strengthen, you know, that is one of the negatives about having an international business when you're US-denominated from that standpoint. So thank you.

Kimberly Greenberger: Wonderful. Okay, well, that is all the time we've got for today. Thank you both so much for coming and thank you everyone.