



Rating
Buy

North America
United States

Consumer
Apparel, Footwear &
Textiles

Company
**Michael Kors
Holdings Ltd.**

Reuters
KORS.N

Bloomberg
KORS UN

Exchange
NYS

Ticker
KORS

Date
13 June 2018

Company Update

Price at 1 Jun 2018 (USD)	59.84
Price Target	83.00
52-week range	69.06 - 33.05

Takeaways from DB Global Consumer Conference

We hosted Chairman and CEO John Idol, and CFO, COO, and Treasurer Tom Edwards at the DB Global Consumer Conference today. Our management meetings focused on the favorable industry backdrop, product innovation, promotional cadence especially by channel, category expansion opportunities, and capital allocation. We continue to recommend shares of KORS based on: 1) improving quality of sales with lower markdowns, reflecting an accelerated pace of newness; 2) margin expansion opportunity following an expected bottoming in EBIT margins in FY19; 3) the favorable global premium handbag and accessories market; and 4) what still is a compelling valuation coupled with likely beat & raises ahead.

Healthy Handbag Industry in a Favorable Luxury Backdrop

KORS confirmed our view of a healthy luxury industry backdrop, with renewed consumer interest not just for high-end products, but for fashion. Management sees MSD global growth in leather goods, broken down as HSD in Asia, MSD in Europe, and LSD in North America. The company leads a digital first strategy (fastest growing area with full e-commerce capabilities in 25 countries), while investor focus is still weighted toward the wholesale business (40% of the mix, heading to 30% over time; already 30% at Jimmy Choo). Marketplace/consignment expansion, while still a significant factor impacting the competitive industry dynamic, was much less of a popular topic than at last year's conference.

Elevated Product and Category Expansions

Product was a lead topic for management as a key driver of better top-line trends, with the new Blakely and Whitney collections receiving call outs for quickly becoming best sellers. KORS has seen new product penetration in accessories rise to 65% in Spring vs. 20% a year ago, in line with projections as part of the Runway 2020 plan. Meanwhile, the company is focused on building the accessories business at Jimmy Choo, growing the smart watch business while turning around fashion watches (skinny ladies product is resonating), mining the athletic footwear opportunity where Michael Kors has a heritage, and continuing to drive the men's business (\$1B revenue target is intact, and could be split between sportswear and leather). We sense some investor concern around the ability to expand Jimmy Choo beyond footwear especially given challenges at Stuart Weitzman, but management spoke very confidently about the design team, the business leadership, and the strength of the brand which is being bolstered by thoughtful investments – KORS believes the acquisition could have

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-9.9	-5.4	80.9
S&P 500 INDEX	3.0	2.1	12.5

Source: Deutsche Bank

Stock & option liquidity data

Market Cap (USD)	9,136.0
Shares outstanding (m)	152.7
Free float (%)	100
Volume (1 Jun 2018)	1,804,595
Option volume (und. shrs., 1M avg.)	1,477,942

Source: Deutsche Bank



been immediately accretive, but is instead making strategic spending decisions focused on the long-term profitability and growth.

Reduced Promotions Leading to Higher AUR

KORS has achieved higher full price selling at both wholesale and retail, with over \$500M in reduced promotions on an annualized basis. The brand mapping policy in the U.S. has helped drive promotional activity down 65%-70%, in turn taking AUR up HSD-LDD. Moreover, while the strategy means fewer units moving at a higher average price, transaction value is benefitting from a head to toe cross selling effort through Kors Style (2x higher). In Europe, where mapping is not permitted, KORS is reducing inventory levels, which will help reduce promotional activity over time (about halfway through the process).

Strong FCF and Valuation Dislocation Sparking Share Buyback; M&A Not Over

Noting a clean balance sheet with an accelerated pace of debt reduction and robust FCF profile (we forecast \$745M in FY19 and \$865M in FY20), as well as a perceived valuation dislocation at 13.1x our FY20 EPS estimate (vs. TPR at 14.6x), KORS may take advantage of share buybacks with over \$600M left in its authorization. We note that if fully utilized, share buybacks would add an incremental 4% to FY19 EPS. Additionally, management has appetite for at least one more acquisition to further build out the brand portfolio.

Forecasts and ratios

Year End Mar 31	2018A	2019E	2020E
1Q EPS	0.80	0.95	–
2Q EPS	1.33	1.25	–
3Q EPS	1.77	1.78	–
4Q EPS	0.63	0.81	–
FY EPS (USD)	4.52	4.79	5.20
P/E (x)	10.8	12.5	11.5

Source: Deutsche Bank estimates, company data



A Fierce Walk Down Runway 2020

Compelling Valuation vs. Historicals and Peers

KORS currently trades at 13.1x our FY20 EPS estimate, still below its 5-year average of 14.2x. By comparison, North American brands with a global presence trade at an average of 20.7x forward earnings as follows: NKE at 29.0x, VFC at 23.7x, RL at 20.6x, PVH at 15.6x, and TPR at 14.6x. Moreover, we believe the addition of a more stable luxury brand in Jimmy Choo augments the case for multiple expansion. Furthermore, we point out that during its Transition Plan, TPR was trading at an average multiple of 17.3x with a trough of 13.3x and peak of 21.7x, all above the current multiple for KORS.

Figure 1: KORS Forward P/E Multiple (Past Five Years)



Source: Deutsche Bank, Factset

Progressing Along a Familiar Turnaround Path

Following two years of comp declines, KORS announced its strategic turnaround plan, Runway 2020, concurrent with 4Q17 earnings. Management then offered a detailed overview at the June 2017 Investor Day. The brand "reset" should be familiar to North American handbag sector investors, as several initiatives mirror the Coach transition plan playbook, including a reduction in promotions, pullback in the wholesale channel, and increased pace of product innovation. Additionally, KORS announced the closure of 100-125 underperforming stores over a year and a half period, which we view favorably as the company has in excess of 800 retail stores globally.



Figure 2: Coach Transformation Plan vs. Runway 2020

	Coach Transformation Plan	Michael Kors Runway 2020
Footprint	Optimize store fleet, and renovate all stores to new modern luxury concept	Close 100-125 underperforming stores, and renovate top 100 locations to "Regent Street" concept
Promotions	Significant scale-back of promotional cadence	40% fewer promotional events
Wholesale	Exited ~250 department stores	Lower shipments into the wholesale channel
M&A	Strategic acquisitions to drive growth; acquired Stuart Weitzman in 2015 and Kate Spade in 2017	Strategic acquisitions to drive growth; acquired Jimmy Choo in 2017
Footwear	First acquisition focused on category expansion into shoes (faster growing category)	First acquisition focused on category expansion into shoes (faster growing category)

Source: Deutsche Bank, Company Filings

Figure 3: Runway 2020 Plan Evolution vs. Current DB Estimates

Runway 2020 Plan	FY19 Original Plan	FY19 Guidance	FY19 DB	FY20 Plan	FY20 DB
Revenue Growth		8%	7.5%		3.9%
Ex. Jimmy Choo	+LSD		0.1%	+LSD	2.8%
Comp	Even	Even	0.2%	Positive	2.3%
Constant Currency Comp			(0.6%)		2.3%
Gross Margin	Stable	Higher	61.8%	Improving	62.5%
Operating Expense Percent	Stable	Higher	43.9%	Stable	44.0%
Operating Margin	Stable	17.7%	17.9%	Improving	18.5%
Net Income	In Line with Sales		14.4%	Growing	15.1%
EPS	+LSD-MSD	\$4.65-\$4.75 (3%-5%)	\$4.79	+MSD-HSD	\$5.20

Source: Deutsche Bank, Company Filings

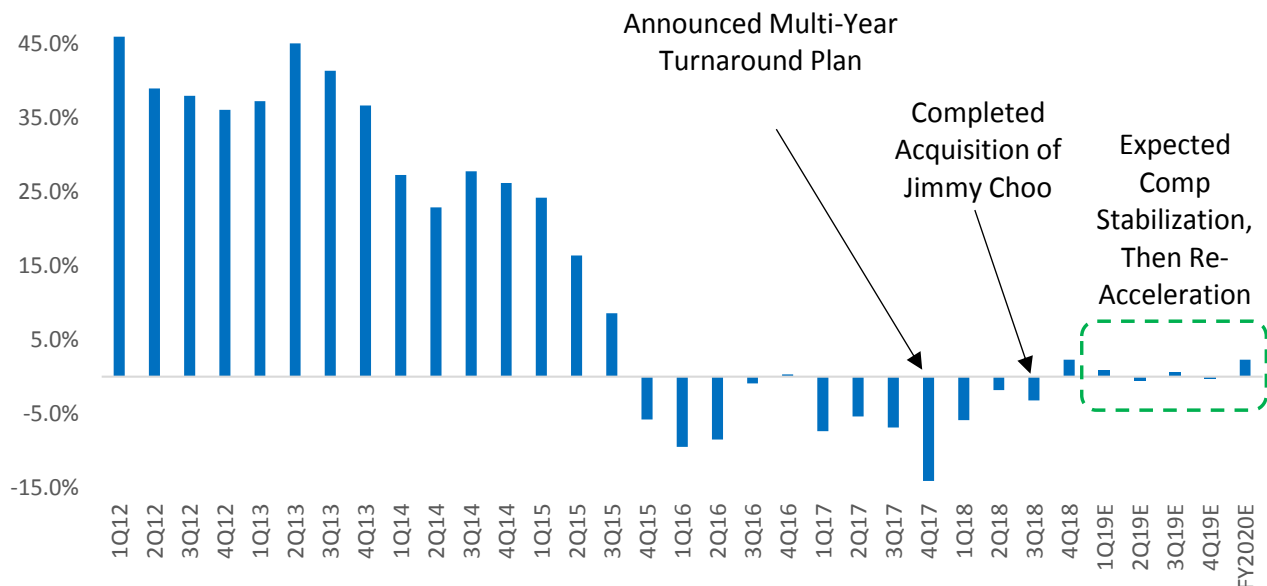
Comp Stabilization in FY19, Leading to Re-Acceleration in FY20

As a result of the strategic steps taken to reinvigorate the business and build a strong foundation for sustainable growth going forward, KORS comps have seen notable sequential improvement since 4Q17, most recently posting a positive 2.3% in 4Q18. While FX has been a positive factor, as comps on a constant currency basis remain negative, we note they were still well ahead of management's initial -HSD guidance, reflecting favorable response to new product launches.

We see opportunity for further progress ahead with: 1) new products gaining traction; 2) healthy growth in the handbag and accessories market; and 3) benefits from KORS VIP and strong customer database growth.



Figure 4: We Expect Comps to Stabilize, Then Re-Accelerate



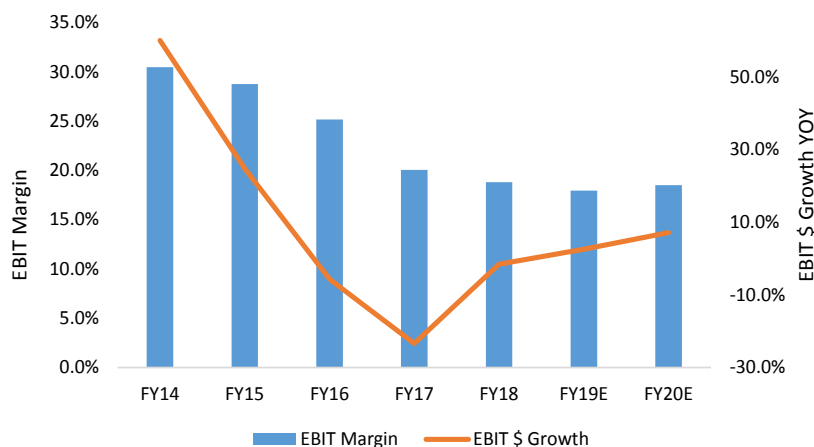
Source: Deutsche Bank, Company Filings

Margin Expansion Opportunity After Transition Year

After we move past FY19 as a transition year (5-10c EPS dilution from Jimmy Choo), we believe KORS has attractive margin catalysts already benefiting the Michael Kors business, including: 1) the continued expansion of retail margins driven by controlled promotional cadence and lower markdowns; 2) anticipated improvement in wholesale margins; and 3) positive geographical mix impact. While we note that some category expansions carry lower margins (e.g. RTW and footwear), we think the healthier macro backdrop along with lower product markdowns and curtailed promotions will drive overall expansion by FY20.



Figure 5: We Expect EBIT Margins to Bottom in FY19, While Dollar Growth Is Already on the Rise



Source: Deutsche Bank, Company Filings

Additional Beat & Raises Likely Ahead

KORS management has a tendency to guide conservatively, with each of the last five quarters exceeding the high-end of guidance by 25c, on average. We also see upside through Jimmy Choo (guided to 5-10c dilution this year, and accretion by FY20), which is posting double-digit revenue growth. While Jimmy Choo carries higher gross margins, the acquisition has been EBIT dilutive given the company's higher SG&A profile.

Figure 6: Beat & Raise History

Quarter	Date Reported	Actual	Guidance	Actual vs. High End of Guidance	Accumulated Annual EPS Beat	DB	Street	Delta vs. Street	Result vs. Street
1Q15	8/22/2014	\$0.91	\$0.78-\$0.80	\$0.11	\$0.11	NA	\$0.81	\$0.10	Beat
2Q15	11/21/2014	\$1.00	\$0.85-\$0.87	\$0.13	\$0.24	NA	\$0.89	\$0.11	Beat
3Q15	3/6/2015	\$1.48	\$1.31-\$1.34	\$0.14	\$0.38	NA	\$1.33	\$0.15	Beat
4Q15	5/22/2015	\$0.90	\$0.89-\$0.92	(\$0.02)	\$0.36	NA	\$0.91	(\$0.01)	Missed
1Q16	8/21/2015	\$0.87	\$0.74-\$0.78	\$0.09	\$0.09	NA	\$0.75	\$0.12	Beat
2Q16	11/20/2015	\$1.01	\$0.86-\$0.90	\$0.11	\$0.20	NA	\$0.90	\$0.11	Beat
3Q16	2/26/2016	\$1.59	\$1.44-\$1.48	\$0.11	\$0.31	NA	\$1.46	\$0.13	Beat
4Q16	5/20/2016	\$1.02	\$0.93-\$0.97	\$0.05	\$0.36	NA	\$0.97	\$0.05	Met
1Q17	8/19/2016	\$0.88	\$0.70-\$0.74	\$0.14	\$0.14	NA	\$0.74	\$0.14	Beat
2Q17	11/18/2016	\$0.95	\$0.84-\$0.88	\$0.07	\$0.21	NA	\$0.88	\$0.07	Beat
3Q17	2/24/2017	\$1.64	\$1.61-\$1.65	(\$0.01)	\$0.20	NA	\$1.63	\$0.01	Beat
4Q17	5/31/2017	\$0.73	\$0.68-\$0.72	\$0.01	\$0.21	\$0.69	\$0.70	\$0.03	Beat
1Q18	8/8/2017	\$0.80	\$0.60-\$0.64	\$0.16	\$0.16	\$0.61	\$0.62	\$0.18	Beat
2Q18	11/6/2017	\$1.33	\$0.80-\$0.84	\$0.49	\$0.65	\$0.83	\$0.83	\$0.50	Beat
3Q18	2/7/2018	\$1.77	\$1.22-\$1.27	\$0.50	\$1.15	\$1.30	\$1.29	\$0.48	Beat
4Q18	5/30/2018	\$0.63	\$0.50-\$0.55	\$0.08	\$1.23	\$0.62	\$0.60	\$0.03	Beat
1Q19E			\$0.90-\$0.95			\$0.95	\$0.94		

Source: Deutsche Bank, FactSet, Company Filings



Figure 7: Condensed Income Statement (\$M except per share data)

P&L	2016	2017	1Q18	2Q18	3Q18	4Q18	2018	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E
Michael Kors	\$4,539	\$4,348	\$924	\$1,109	\$1,277	\$1,042	\$4,351	\$977	\$1,107	\$1,252	\$1,032	\$4,368	\$4,493
Jimmy Choo					\$115	\$108	\$223	\$145	\$135	\$167	\$123	\$570	\$638
Net sales	\$4,539	\$4,348	\$924	\$1,109	\$1,392	\$1,150	\$4,574	\$1,122	\$1,242	\$1,419	\$1,155	\$4,938	\$5,131
Licensing revenue	\$173	\$146	\$29	\$38	\$48	\$30	\$145	\$27	\$35	\$44	\$28	\$135	\$137
Total revenue	\$4,712	\$4,494	\$952	\$1,147	\$1,440	\$1,180	\$4,719	\$1,150	\$1,277	\$1,463	\$1,183	\$5,072	\$5,269
Cost of goods sold	\$1,915	\$1,832	\$378	\$456	\$556	\$470	\$1,859	\$440	\$494	\$548	\$455	\$1,937	\$1,976
Gross profit	\$2,797	\$2,661	\$575	\$691	\$884	\$710	\$2,859	\$709	\$783	\$915	\$727	\$3,135	\$3,293
Operating expenses	\$1,622	\$1,972	\$425	\$492	\$571	\$623	\$2,110	\$530	\$552	\$574	\$568	\$2,225	\$2,319
Operating income	\$1,175	\$689	\$149	\$199	\$314	\$87	\$749	\$179	\$231	\$341	\$159	\$910	\$974
Other expense, net	(\$4)	(\$5)	(\$1)	(\$0)	(\$0)	(\$1)	(\$2)	(\$1)	(\$1)	(\$1)	(\$1)	(\$3)	(\$3)
Interest expense, net	\$2	\$4	\$1	\$1	\$8	\$12	\$22	\$10	\$9	\$8	\$8	\$34	\$25
Foreign currency losses/(gains)	\$5	\$3	(\$1)	(\$41)	\$27	\$1	(\$13)	\$1	\$0	\$0	(\$0)	\$1	\$0
Income before taxes	\$1,172	\$689	\$150	\$239	\$278	\$74	\$742	\$169	\$222	\$334	\$152	\$878	\$952
Tax expense	\$335	\$137	\$25	\$36	\$59	\$30	\$150	\$24	\$31	\$62	\$28	\$145	\$157
Net income	\$838	\$552	\$126	\$203	\$219	\$45	\$592	\$145	\$191	\$272	\$124	\$733	\$795
Non-controlling interest	(\$2)	(\$1)	\$0	(\$0)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2	\$2
Net income attributable to MKHL	\$839	\$553	\$126	\$203	\$219	\$44	\$592	\$145	\$191	\$272	\$124	\$731	\$793
Reported EPS	\$4.44	\$3.29	\$0.80	\$1.32	\$1.42	\$0.29	\$3.82	\$0.95	\$1.25	\$1.78	\$0.81	\$4.79	\$5.20
Adjustments to EPS	\$0.04	\$0.95	\$0.00	\$0.01	\$0.35	\$0.34	\$0.70	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Operating EPS (Non-GAAP)	\$4.48	\$4.24	\$0.80	\$1.33	\$1.77	\$0.63	\$4.52	\$0.95	\$1.25	\$1.78	\$0.81	\$4.79	\$5.20
Diluted shares outstanding	189.1	168.1	156.9	154.2	154.6	154.3	154.8	152.7	152.7	152.7	152.7	152.7	152.7
Growth Analysis	2016	2017	1Q18	2Q18	3Q18	4Q18	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2018E	2019E
Total SSS (reported)	(4.2%)	(8.3%)	(5.9%)	(1.8%)	(3.2%)	2.3%	(2.2%)	0.9%	(0.5%)	0.6%	(0.2%)	0.2%	2.3%
Total SSS (cFX)	(0.9%)	(8.1%)	(4.9%)	(2.5%)	(5.2%)	(1.7%)	(3.6%)	(0.4%)	(0.5%)	0.6%	0.5%	(0.6%)	2.3%
Total sales (reported)	7.8%	(4.6%)	(3.6%)	5.4%	6.5%	10.8%	5.0%	20.7%	11.4%	1.6%	0.3%	7.5%	3.9%
Total sales (cFX)	11.7%	(4.4%)	(2.6%)	4.4%	4.3%	6.4%	3.5%	19.4%	11.4%	1.6%	1.0%	6.7%	3.9%
Op. Ex. \$s (non-GAAP)	16.6%	8.6%	8.2%	11.5%	16.4%	32.9%	19.8%	24.7%	21.9%	6.4%	(8.8%)	9.0%	4.2%
EBIT \$s (non-GAAP)	(6.5%)	(23.4%)	(24.6%)	(2.3%)	(8.3%)	(42.4%)	(16.8%)	19.6%	16.0%	8.7%	82.9%	21.4%	7.1%
Operating EPS	4.7%	(5.4%)	(9.4%)	39.2%	7.7%	(14.8%)	6.7%	18.6%	(5.8%)	0.6%	29.7%	5.9%	8.5%
Margin Analysis													
GPM	59.4%	59.2%	60.3%	60.2%	61.5%	60.4%	60.7%	61.7%	61.3%	62.5%	61.5%	61.8%	62.5%
YOY change in bps	(120)	(14)	49	100	194	219	146	135	110	105	110	112	70
Op. Ex. as % of sales (non-GAAP)	34.4%	39.2%	44.7%	39.5%	37.5%	47.3%	41.9%	46.1%	43.3%	39.3%	48.0%	43.9%	44.0%
YOY change in bps	261	476	486	(98)	321	332	270	149	372	176	71	198	14
EBIT (non-GAAP)	25.2%	20.0%	15.7%	20.7%	24.0%	13.1%	18.8%	15.5%	18.1%	23.3%	13.5%	17.9%	18.5%
YOY change in bps	(359)	(513)	(438)	199	(127)	(113)	(125)	(14)	(262)	(71)	39	(86)	56
Michael Kors Standalone EBIT	24.9%	19.9%	15.7%	20.7%	24.9%	15.8%	19.7%	16.8%	20.4%	25.0%	16.4%	20.0%	20.7%
YOY change in bps	(382)	(502)	(438)	199	(38)	165	(20)	108	(27)	9	52	25	77
Jimmy Choo EBIT					13.7%	(14.5%)	0.0%	7.1%	(1.9%)	10.2%	(11.5%)	1.9%	2.2%

Source: Deutsche Bank, Company Filings



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Michael Kors Holdings Ltd.	KORS.N	68.13 (USD) 12 Jun 2018	6, 9

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Paul Trussell



Historical recommendations and target price. Michael Kors Holdings Ltd. (KORS.N)

(as of 06/01/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	08/04/2015	Buy, Target Price Change USD 50.00 David Weiner**	7.	08/10/2017	Hold, Target Price Change USD 46.00 Paul Trussell
2.	02/03/2016	Buy, Target Price Change USD 56.00 David Weiner**	8.	11/08/2017	Hold, Target Price Change USD 56.00 Paul Trussell
3.	02/06/2017	Buy, Target Price Change USD 50.00 David Weiner**	9.	02/07/2018	Hold, Target Price Change USD 71.00 Paul Trussell
4.	04/25/2017	Buy, Target Price Change USD 47.00 Vincent Chao, CFA	10.	04/23/2018	Upgraded to Buy, Target Price Change USD 86.00 Paul Trussell
5.	05/15/2017	Downgraded to Hold, Target Price Change USD 40.00 Paul Trussell	11.	05/30/2018	Buy, Target Price Change USD 83.00 Paul Trussell
6.	06/02/2017	Hold, Target Price Change USD 36.00 Paul Trussell			

Equity Rating Key

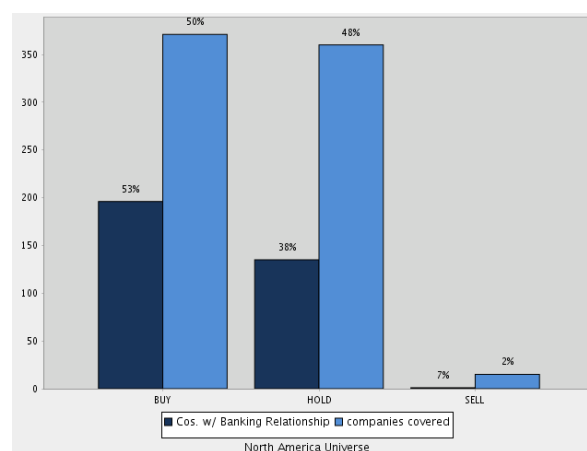
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships





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