

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

CAPRI HOLDINGS EQUITY RESEARCH  
*Red Carpet or Mainstream Strategy?*

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20<sup>th</sup> DECEMBER 2023

## Abstract

The goal of this report is to provide an independent recommendation based on a Capri Holdings valuation. The valuation is obtained by combining the discounted cash flow (DCF) methodology with a relative valuation and a scenario analysis based on the DCF. To complement the valuation, a thorough assessment of the company's strategy and industry is also made. The valuation with synergies concludes that Tapestry's offer is above the fair value offer as assessed in this report.

Keywords: valuation, luxury, merger, synergies

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

This report is part of the Capri Holdings Equity Research report, developed by Juliana Costa and Guilherme Bagulho and should be read as an integral part of it.

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# Introduction

On August 10<sup>th</sup>, 2023, Capri Holdings received an all-cash offer of \$57 a share to merge with Tapestry and form an American-centric global luxury conglomerate. On October 25<sup>th</sup>, 2023, in an extraordinary shareholders meeting, the merger agreement was approved.

As the goal of the report is to provide an assessment in terms of the fair stand-alone value of Capri Holdings, and include an assessment of the fair offer price for the deal, this section will provide a complementary analysis prior to the valuation.

This section of the report includes three parts: a Company Overview, where it will provided a description of Capri's business, past and recent financial performance, its long-term strategy and the specific features of the brand portfolio, which includes Michael Kors, Versace, Jimmy Choo and the Corporate segment; an Industry Overview where a general description of the personal luxury goods industry and its segments will be provided, as well as an analysis of the industry trends and a peer analysis of the closest competitors of Capri Holdings; and an introduction to valuation, where it will be explained the methodologies and preparatory steps before proceeding with the estimations and results.

# Company Overview

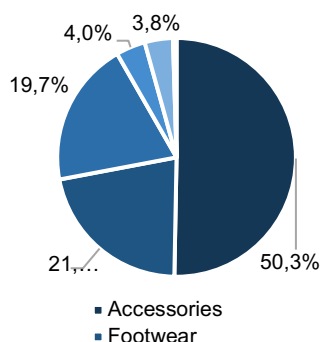
## About Capri Holdings

Capri Holdings Limited (“Capri”, “Capri Holdings”) is a global luxury group operating Michael Kors, Versace, and Jimmy Choo. The firm is headquartered in the United States, and it is listed in the New York Stock Exchange (NYSE) under the ticker CPRI, with a market capitalization of \$5.6 billion.

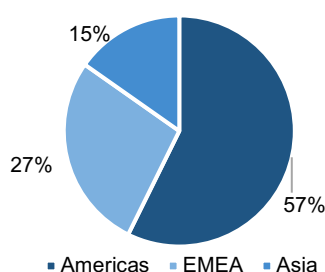
Capri designs, manufactures, and distributes ready-to-wear goods, accessories, footwear, eyewear, watches, jewellery, and fragrances. In FY23, nearly 50% of Capri’s revenue came from accessories, followed by footwear (22%), and apparel (20%) as represented in Exhibit 1. Roughly 78% of the revenue comes from in-store sales, followed by 14% in e-commerce sales and 8% in licensing revenue.

Capri Holdings is present in over 100 countries, and the most relevant market is the Americas with 57% of revenues in FY23, followed by EMEA (27%), and Asia (15%), as showcased by Exhibit 2. The global estimated market share of Capri is 2.3%, according to Bloomberg data on the FY22/23 revenue data of the industry.

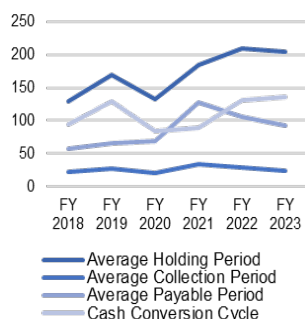
The senior management has an average of 26 years of experience in retail and 19 years within the Group’s brands. Capri’s CEO John Idol recently announced he would leave the company, but no material change in strategy is expected.



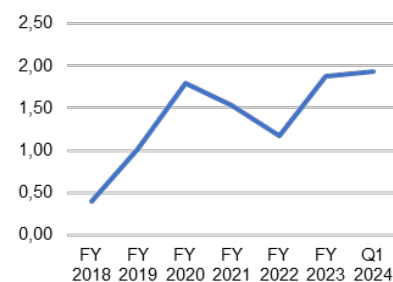
**Exhibit 1** – Revenue per product line FY23. Source: Annual Reports



**Exhibit 2** – Revenue per region FY23. Source: Annual Reports



**Exhibit 3** – Cash Conversion Cycle and Drivers in Days (FY18-23). Source: Based on Annual Reports



**Exhibit 4** – Evolution of the Debt-to-Equity Ratio (FY18-23). Source: Based on Annual reports.

## Historical Financial Performance

### Cashflow Management and Liquidity Analysis

Capri’s cash conversion cycle (CCC) increased from 94 to 136 days (FY18-FY23) mostly due to an increase in the average holding period driven by higher inventories, increasing challenges in generating cash, as observable in Exhibit 3. Thus, the CCC in FY23 is above the median of the peers<sup>1</sup> (121 days).

Capri Holdings maintains the current ratio above the short-term equilibrium of 1, recovering from the impact of the pandemic by improving from 0.95 (FY2021) to 1.29 (FY2023). However, similarly to all other liquidity ratios, the company tends to be well below the median of the industry, for which the current ratio is 2.03.

### Capital Structure Composition

The D/E ratio is 1.88 (FY23) compared to 1.79 (FY20) because of higher debt to finance capital expenditures and acquisition of businesses, as represented in Exhibit 4<sup>2</sup>. Shareholders’ equity has decreased due to stock repurchases. The

<sup>1</sup> To understand the peers and their relative performance to the Capri Holdings, please refer to the Peer Analysis section (Page 10).

<sup>2</sup> The increase in Exhibit 4 (FY20) reflects the implementation of ASU No. 2016-02, which recognised lease obligations as debt.

industry's median for the D/E ratio of 1.31, reflecting a company's preference to finance its store expansion with debt mostly associated with lease liabilities.

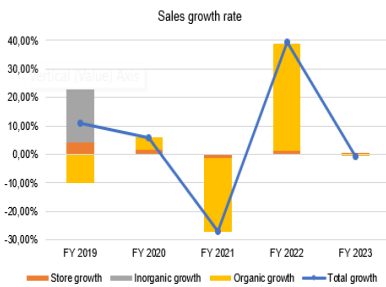
▪ Revenue and Profitability Analysis

Historically, the revenue of Capri Holdings has been growing at a CAGR of 3.55% (FY18-FY23). Exhibit 5 showcases the factors that have traditionally explained the growth in revenue in recent years. As can be observed, in FY19, most of the growth was explained by the acquisition of Jimmy Choo, defined as inorganic growth. Afterwards, as the firm has not been involved in M&A, sales growth was sluggish with like-for-like sales (organic growth) providing a negative contribution for most of the years. Store growth does not have a major effect on most years, except for 2019 as the increase in stores in Asia has been compensated by closing in other regions due to restructuring. For FY21, this was more expressive because of the pandemic effects, recovered in the following fiscal year of FY22.

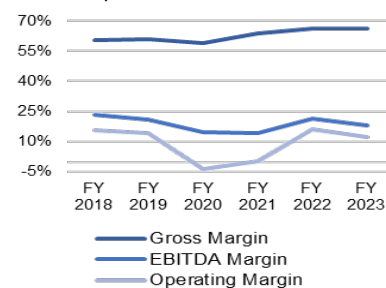
Capri presents a gross margin of 66% (FY23) due to premium pricing strategy of its products, and it is in line with the industry (68%). The FY23 operating margin was 12% (vs high of 16% in FY22) due to impairment and restructuring charges in recent years, affecting earnings as observed in Exhibit 6. This resulted in an underperformance compared to peers in FY23 for instance (15% vs 12%).

The Return on New Invested Capital of -384%, historically negative, therefore below the estimated cost of capital of the firm of around 7%<sup>3</sup>, suggesting that Capri might no longer enjoy attractive investments and should focus on the distributing value to shareholders. This has been noticeable through the acquisitions of businesses which significantly increase the invested capital but do not necessarily generate an increase in returns as expected, that can be attributed to restructuring costs and integration expenses.

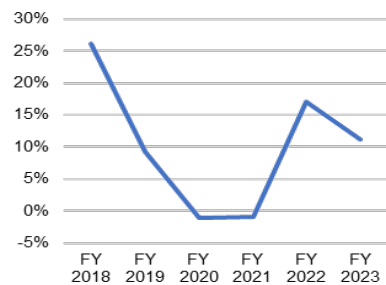
Capri's ROIC of 11% as in Exhibit 7 in FY23 is below peers (20%), which can be mostly explained by the weak performance of the core brand, Michael Kors, as well as an aggressive acquisition strategy that expands invested capital which increases by incorporation and revaluation of assets, without necessarily improving returns. That explains a significant reduction in ROIC since FY19, which has recovered in more recent years related with the rebound effect coming from the pandemic. ROIC was also influenced by the effect of the ASU No. 2016-02, which recognized right-of-use leases.



**Exhibit 5** – Evolution of sales growth rate (FY19-23). Source: Based on Annual reports.



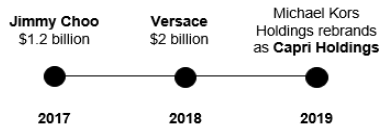
**Exhibit 6** – Evolution of the Key Profitability Ratios (FY18-23). Source: Based on Annual Reports.



**Exhibit 7** – Evolution of the ROIC (FY18-Q1 24). Source: Based on Annual Reports.

<sup>3</sup> For a detailed explanation of the WACC, please refer to the Cost of Capital Estimation segment of the Report (Page 17).

## Long-term Strategy of Capri Holdings

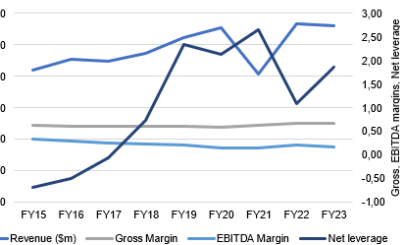


**Exhibit 8 – Capri Holdings Timeline.** Source: Company's Investor Relations website

### Development of the Brand Portfolio

Capri's management has focused on expanding and improving its brand portfolio through acquisitions to gain market share, although it has not proven successful considering that since FY16 its market share has decreased from 2.9% to 2.3%. This is due to limited synergies mostly on corporate functions as brands continue to operate independently. As such, most of the value comes from the stand-alone firm and, considering the valuations in this report, despite the time lag from when the acquisition closed, there is the indication that Capri has significantly overpaid for its targets, resulting in value destruction for its shareholders. This is one of the main reasons why Capri has underperformed compared to peers.

In Exhibit 8, it is shown the timeline of acquisition of Capri Holdings. As Exhibit 9 showcases, while M&A transactions have allowed Capri to grow in terms of sales for most years, they have stagnated after their completion and margins have remained relatively flat. Significantly, the EBITDA margin has had a general tendency to fall, which caused a negative impact in net leverage, since this is explained by a fall in EBITDA and an increase in leverage to finance the acquisitions. Note that the net leverage presented does not account for leases due to changes in accounting rules implemented more recently, it only accounts for financial debt. In Exhibit 10, it can be seen that because of overpayment and a sluggish performance of the company post-acquisitions, the share price has actually fallen since FY15, despite the expansion of the company.



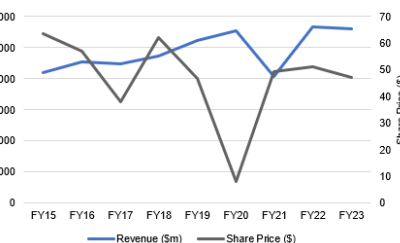
**Exhibit 9 – M&A impact on revenue, profitability, and leverage.** Source: Capri's Annual Reports.

### Reorganisation of the Sales Channels

**Omnichannel Strategy:** Capri Holdings intends to accelerate in e-commerce and omnichannel developments across its brands and internal processes. Despite having one of the fastest growing client databases (+10% in FY23), Capri remains behind the industry in terms of share of online sales (14% vs 21%) barely moving since FY17, since online sales accounted for 15% of the total.

**Wholesale vs Retail Strategy:** Capri has continued its exiting strategy of the wholesale channel to have more brand control, pricing capability and improve the product mix, in line with this industry trend. This is expected to reduce revenues during the transition, as well as increase capex investments in stores in the coming years, pressuring free cash flows. In FY22, 29% of sales came from the wholesale channel, down to 23% (FY24) according to management's forecast.

**Retail Strategy:** Nearly 15% of Capri's revenue comes from Asia (vs 30%-40% of largest peers), leaving the company with limited benefits from one of the fastest growing markets of the industry. Therefore, management seeks to expand its Asia



**Exhibit 10 – M&A impact on the share price.** Sources: Capri's Annual Reports and Bloomberg.

store footprint while optimizing the existing store network with renovations. The company is on track to have 60% of stores renovated by 2024. It is important to note that while the impact on sales coming from renovations is still premature and uncertain, the benefits from an expansion towards Asia are sluggish because of the Chinese lockdowns in recent years.

- **Financial Management Strategy**

Capri's aims to complete of capex investments and return value to the shareholders through a share buyback program worth \$1 billion. Capri seeks to allocate additional cash generated to reduce debt as well. This seems reasonable considering the high D/E ratio compared to peers, but with the higher expected capex expenses that might pressure cashflows and the reduction of equity through stock repurchases make it challenging to obtain material results.

## Brand Portfolio

### Michael Kors

#### Overview

Michael Kors is a fashion design house founded in the United States in 1981. The brand is present in more than 100 countries offering products in 812 retail stores (*Collection, Lifestyle*, and outlet stores) and online. Revenue comes mostly from accessories (64%) and the Americas market (67%) in FY23.

#### Sales Channels

Michael Kors reduced the number of stores from 853 to 812 (FY19-23) to reduce costs and improve profitability, but SG&A increased by 31% during the same period. The plan to expand the Asia footprint has resulted in an increase of 43 stores (FY19-23). During that period, while the firm has sought to increase the sell-through rate and sales via the retail channel, the revenue decreased by 14%.

#### Product Mix

Michael Kors seeks to transform its product mix by diversifying its offering. The brand set a target of 25% of revenue coming from footwear but is still well below at 10-15% in FY23. On the jewellery segment, the brand seeks to continue to benefit from recent growth to compensate from a revenue loss coming from Apple Watch partnership, responsible for 50% of the watch segment revenue. This does not seem to be a good strategy considering that has been the root of the underperformance of the company.

#### Underperformance

Michael Kors has experienced underperformance in recent years mostly related to the inability to create a strong brand image the core customer base. The diversification towards many different product segments has not resonated well among costumers, which continue to prefer the traditional accessories and bags with the brand's logo rather than the rest of the products. However, this generates an issue with the product mix because while the rest of the products such as clothing and footwear are more profitable than bags and accessories on a net profit margin

basis (8% vs 3.1%<sup>4</sup>), the latter remains the core of the firm. In addition, bags and accessories were the only segment that fell in terms of sales for the FY19-22 CAGR (-0.7%<sup>4</sup>) and, by being the core segment of the core brand of Capri, it not only penalized Michael Kors but also the Capri Holdings.

The objective of the plan is to convert Michael Kors from a growth-oriented company into a cash-cow business that would support the growth of Versace and Jimmy Choo. Management's restructuring strategy has sought to cut costs and optimize the store network, but without material success as stagnation continues.

### **Versace**

#### **Overview**

Versace is a fashion design house founded in Milan, Italy in 1978. The brand is present in over 80 countries, selling products through 223 retail stores (boutiques and outlet) and online. Revenue comes mostly from footwear and apparel (35% and 32%, respectively) and the EMEA market (42%) in FY23.

#### **Sales Channels**

The store footprint increased from 188 to 223 (FY19-23), with a long run target of 300. Versace also has a store renovation plan ongoing, with 50% of its physical stores already being renovated at the end of FY22. The brand is also re-platforming its e-commerce sites to reach an online revenue share of 25% (13% in FY22).

#### **Product Mix**

The brand aims at continuing to expand its Asia store footprint (+14% in past 5 years) to expand the customer base to reach the long-term target of 50% revenue share in accessories. The long-term target for revenue for Versace is \$2 billion and for the EBIT margin is 20%. Currently, revenues are at roughly half of this number (\$1.1 billion) while the EBIT margin is 13%.

### **Jimmy Choo**

#### **Overview**

Jimmy Choo is a fashion design house founded in London, United Kingdom, in 1996. The brand has a worldwide reach, selling products through 237 retail stores and e-commerce sites. Revenue comes mostly from footwear and apparel (35% and 32%, respectively) and the largest market is EMEA (40%) in FY23.

#### **Sales Channels**

The number of stores increased 30% in the past five years, and there is a long-term target of 300 retail stores (vs 237 currently). The company aims at nearly doubling the share of online sales from 15% to 25% in the long-term.

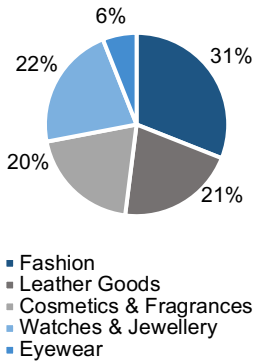
#### **Product Mix**

Jimmy Choo seeks to reach a revenue share in accessories of 50% with an intermediate target of 30% (20% FY23). This is difficult considering that the brand is still developing collections that go beyond the traditional footwear. The long-term revenue target is \$1 billion, currently being at \$633 million as of FY23.

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<sup>4</sup> Global Powers of Luxury Goods 2023: Deloitte Global Report.

## Overview



**Exhibit 11** – Global Revenue per Product Split FY2022, Source: Bain & Co Study

## Corporate Segment

The corporate segment has an administrative role by implementing the transformation program of the Group and consolidating functions with the new Enterprise Resource Program (ERP), to ensure better integration between brands and reduce the costs. With this program, management has successfully eliminated most of the legacy systems of the brands after acquisition.

## Industry Overview

### Overview

The luxury personal goods industry comprises Luxury Fashion, Luxury Leather Goods, Luxury Watches & Jewellery, Prestige Cosmetics & Fragrances and Luxury Eyewear. The market reached €353 billion<sup>5</sup> in retail sales in 2022 and has grown at a CAGR of 6.4% (2010-22). For 2022-30, the CAGR is set at 5-7% (Bain & Co). As a share of global sales, the largest market is the Americas (32%), and the largest segments are fashion luxury goods (31%), followed by watches & jewellery (22%) and leather goods (21%), as Exhibit 11 showcases.

### Luxury Goods Segments

**Leather Goods:** include handbags, suitcases, briefcases, and wallets. It has reached \$66.2 billion in 2022 and is expected to grow at a CAGR of 5.7% until 2028. The largest market is the United States (26%). LVMH and Kering control roughly 50% of the market, followed by Hermès, Tapestry and Capri Holdings with a combined 25%. Most of the sales come from in-store (79%), although the online share of revenue is expected to continue to increase to 26% by 2025.

**Luxury Watches & Jewellery:** it has reached \$67.9 billion in 2022 and is expected to grow at a CAGR of 3.7% until 2028. Lower growth has been observed due to the economic slowdown specially in China, which fuelled sales in the early 2010s. The largest market is China (33.7%). Richemont, Rolex, and Swatch Group control roughly 45% of the market. Nearly 74% of sales are in-store (74%), with the online share being expected to increase to 29.6% by 2025.

**Luxury Fashion:** include apparel and footwear luxury segments. It has reached \$97.2 billion in 2022 and is expected to grow at a CAGR of 5.2% until 2028. The largest market is the United States (25.7%). LVMH, Chanel and PVH control roughly 30% of the market, followed by Kering and Ralph Lauren with a combined share of 10%. Most of the sales come from in-store (79%), although the online share of revenue is expected to continue to increase to 26% by 2025.

<sup>5</sup> "Renaissance in Uncertainty: Luxury Builds on its Rebound" - Bain-Altgamma Luxury Goods Worldwide Market Study, Jan-2023

**Luxury Eyewear:** includes luxury eyewear frames and sunglasses. It has reached \$18.9 billion in 2022 and is expected to grow at a CAGR of 3.6% until 2028. It is among the most affordable luxury good segments. The largest market is the US (42.3%). Essilor Luxottica controls 80% of the market, followed by Marcolin and Safilo with 15%. Nearly 81% of sales are in-store, with the online share of revenue being expected to continue to increase to 25.1% by 2025.

**Prestige Cosmetics & Fragrances:** includes prestige skin care, fragrances, and decorative cosmetics. Skin care comprises of nearly 50% of the market. It has reached \$62.3 billion in 2022 and is expected to grow at a CAGR of 5.7% until 2028. The largest market is the US. Estée Lauder, and L'Oréal control 55% of the market, followed by LVMH, Coty and Shiseido with 20%. Nearly 82% of sales are in-store, with the online share being expected to rise to 23.2% by 2025.

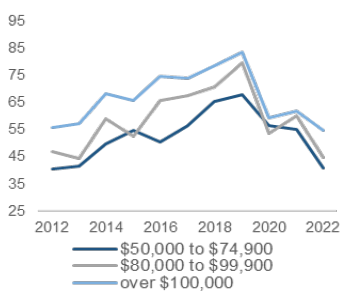
## Industry Trends

The luxury goods market in the **United States** remains somewhat resilient as the industry CAGR 2019-22 was 4 p.p above the industry CAGR 2010-19 (10% vs 6%), due to higher spending post-pandemic with accumulation of savings and government support. Evidence shows that the industry has not been affected by lower sales or growth despite a fall in consumer sentiment affecting all households, regardless of the income bracket they belong to (Exhibit 12).

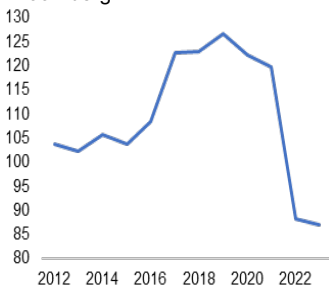
The Chinese consumer accounts for one-third of the world luxury sales and 75% of such purchases occur while travelling. **China** alone accounted for 11.6% of the world travel in 2019. While the end of the zero-covid policy could have improved the outlook of the Chinese consumer spending, the consumer confidence continues to fall (Exhibit 13). This has already been translated into weak performance of sales of key luxury products such as jewellery, clothing, footwear, and accessories as Exhibit 14 showcases. The YoY growth rate has not only slowed down but is has also become negative across most of the main segments.

In **Europe**, the major driver of growth will be once the again the foreign consumer after a reconfiguration of the demand which was attributed to tourists in nearly 60% in 2019 fell to nearly 10% due to the pandemic. The expectation is that domestic demand will increase by 13% whereas the touristic demand will triple in the coming years with the recovery of travelling globally, mostly from China.

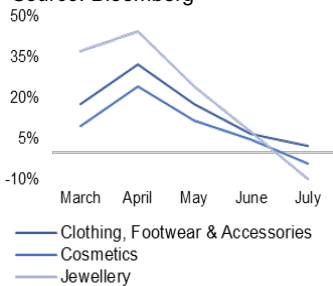
The Federal Reserve monetary tightening has penalized the earnings of US luxury firms with exposure to international markets. For the case of Capri Holdings, considering that nearly 50% of all revenue still comes from the US, the impact on revenue was estimated to round up to -0.7% in FY23, easing at Q1 2024 to -0.6%.



**Exhibit 12 – Consumer Comfort Index by US Household Income Bracket in \$ (2012-2022), Source: Bloomberg**



**Exhibit 13 – Consumer Comfort Index in China (2012-2023), Source: Bloomberg**



**Exhibit 14 – YoY Cumulative sales growth rate in China (2023), Source: Bloomberg**

## Forex Impacts

## Pricing power

Just in FY22, top luxury brands managed to increase prices by 7-10% and maintain gross margins at 60-70% while demand remained mostly intact with volume growing at a rate of 10%. For the period 2019-2022, nearly 60% of the growth of the luxury leather goods was attributed to price hikes.

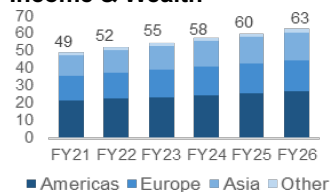
## Travelling

Customers across the world, namely China, are an important client of luxury houses in Europe and the United States considering that nearly 75% of the Chinese luxury purchases occur while travelling. Going forward, the air passenger travel is expected to grow at a CAGR of 5% (2021-2026) and roughly one third of the passengers coming from Asia, which can help drive sales in these locations.

## Customer base

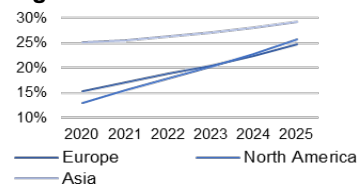
The luxury market's customer base is expected to reach 500 million people by 2030. Customers usually seek a sense of exclusivity and status in the products offered, complemented by good quality and style<sup>6</sup>. Therefore, a significant portion of the market is comprised of high-spending consumer classes.

## Income & Wealth



**Exhibit 15** – HNWI Population (millions), 2021-26 Source: Statista

## Digital Revolution



**Exhibit 16** – Share of online luxury sales per market (2020-2025), Source: Statista

An increase in high-spending consumer classes such as HNWI<sup>7</sup> (High-Net-Worth-Individuals) and HENRY (High-Earners-Not-Rich-Yet) have contributed to the increasing share of top customers (35% to 40% 2021-22). While Europe and North America concentrate of 70% of total consumers, Asia is the region that has grown faster (Exhibit 15), supporting Capri's rationale to move towards Asia.

The luxury goods industry has experienced a digital revolution driven by the rise of e-commerce. Exhibit 16 shows that Asia is the most important in terms of share of online sales. In all markets, online is expected to gain important, being in the range of 25% to 30% by 2025<sup>8</sup>.

Online channels' market share reached 21% of the global luxury goods market in 2022, with monobrand websites accounting for of 45% of total online sales. Digital marketplaces, such as Farfetch and YOOX-Net-a-Porter, serve as multi-brand e-commerce platforms that support high-end boutiques that do not have the resources or scale to launch their own luxury retail website.

## Generational Impact

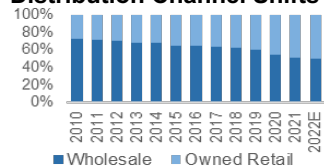
Luxury spending of younger generations (Generation Z, Y and Alpha) is set to increase at a much faster pace than older generations through 2030. According to Bain & Co, all growth from the luxury market last year was attributed to generations Y and Z. In the future, it is expected that nearly 80% of the luxury purchases will be made by generation Y, Z or Alpha.

<sup>6</sup> Statista Global Consumer Survey 2021

<sup>7</sup> High Net Work Individuals are people with investable assets, of which residential property is included, of more than \$1 million.

<sup>8</sup> "E-Commerce Share of Personal Luxury Goods Sales Worldwide from 2017 to 2025" – Statista

### Distribution Channel Shifts



**Exhibit 17** – Global Personal Luxury Goods Market, by Channel, *Source: Bain & Co*  
**M&A Climate**

Luxury houses have broadly shifted from their wholesale channels towards the retail channel to have more control of the sale of products, distribution, and operations. The retail channel has historically generated higher product quality and margins for luxury houses. This change has been well-established since FY10, as Exhibit 17 showcases. Capri Holdings is in line with this tendency.

Luxury houses seek to gain market share through acquisitions, increasing M&A transactions. Examples are the acquisition of a 30% stake in Valentino by Kering for €1.7 billion, Estée Lauder's purchase of Tom Ford, and LVMH acquiring Tiffany in 2021. The American players have attempted to expand to Europe through the acquisition of traditional European luxury houses. Capri Holdings has done so but experienced a 0.6p.p. fall in its global market share after the acquisitions.

Large luxury conglomerates such as LVMH have pursued a M&A strategy to consolidate market share and increase growth while generating synergies. While cost synergies related to corporate function have been the most relevant saving for companies such as Capri, LVMH has managed to decrease raw material costs by 20% due to economies of scale and integration<sup>9</sup>. M&A also facilitated the consolidation of the Asian market for these large conglomerates, which exposed them to one of the fastest growing luxury markets. Small luxury houses can get cheap financing due to easy access to capital provided by the conglomerate<sup>10</sup>.

Considering that the net leverage of the industry remains low at 0.2x, and that EBITDA growth is expected to be nearly 30% in 2023 (vs 2021) according to Bloomberg, it seems that there are still conditions to pursue further consolidation.

<sup>9</sup> Teixeira, D. 2011, "Consolidation in the Luxury Sector: Study of a merger between LVMH and Hermès"

<sup>10</sup> Ernst & Young 2004, *Mergers and Acquisitions*, John Wiley & Sons, London

## Peer Analysis

### Peer Selection Criteria

The market peers of Capri Holdings selected were Tapestry Inc., Ralph Lauren Corporation and Burberry. The main criteria for the selection of the peers were the size, assessed in function of market share, revenue and market capitalisation, and the similarities in terms of business model of the firm. Exhibit 18 below showcases key information about the peers selected.

	Capri Holdings	Tapestry	Ralph Lauren Corp	Burberry*
Number of employees	15 500	18 500	23 300	9 201
Number of stores	1 272	1 429	553	413
Revenues	5 619	6 661	6 444	3 094
Revenue CAGR (2018-23)	3.55%	9.55%	0.8%	2.52%
EBITDA	1 000	1 355	925	752
Net income	619	936	523	492
Gross Margin	66%	71%	65%	71%
EBITDA Margin	18%	20%	12%	24%
ROIC	11%	24%	16%	37%
Assets	7 295	7 117	6 790	3 686
Net Debt	3 355	2 568	1 332	525
Market Capitalization	4 284	9 468	8 599	7 862
Enterprise Value	7 639	12 037	9 931	8 387

**Exhibit 18** – Key information of the Capri Holdings' peer group FY23. All date in USD except non-monetary values (\*For Burberry, monetary values are in GBP). Source: Annual Reports

### Tapestry, Inc.

#### Overview

Tapestry designs, manufactures, and distributes accessories, footwear, leather goods and ready-to wear. Through Coach, Tapestry has acquired Stuart Weitzman and Kate Spade, expanding into women's handbags and luxury women's footwear, lifestyle accessories, and ready-to-wear. Tapestry has recently agreed to acquire Capri, a transaction to be completed by FY26. Tapestry's global market share in the luxury industry as of FY22 is 2.7% (Bloomberg data). Tapestry's current market capitalisation stood at \$7.4 billion.

#### Segmentation

Like Capri Holdings and Michael Kors, Tapestry's core brand Coach accounts for 75% of revenues in FY23, followed by Kate Spade (21%) and Stuart Weitzman (4%). In FY23 the main product segments are women's handbags (49%), other women's accessories (20%), men's accessories (14%), and other products such as jewellery (17%). Tapestry is more exposed to the US compared to Capri (61% vs 53%), followed by China (15%), Japan (9%), and rest of the world (15%). In FY23, Tapestry had \$6.7 billion of net sales, and an EBITDA margin of 20.3%. The group of revenue in recent years because Tapestry was successful not only in implementing an M&A strategy but also in transforming its core brand, Coach, generating also higher growth coming from the organic strategy. This has reflected itself in higher margins compared to Capri Holdings. The ROIC in particular has been higher because Tapestry has preferred a less aggressive opening store

strategy compared to Capri Holdings in recent years, making their stores often smaller and more strategically located. This restricted the number of places Capri could open stores to avoid direct competition and also provide room to be more efficient and thus, more profitable.

### **Ralph Lauren Corporation**

#### **Overview**

Ralph Lauren Corporation designs, manufactures, and sells men and women's ready-to-wear, eyewear, footwear, accessories, fragrances, home, and is in hospitality. Hospitality is a minor branch aiming to extend the "World of Ralph Lauren" through culinary arts in exclusive, concept-based restaurants. The global market share of Ralph Lauren in the luxury industry in FY22 is 2.6% (Bloomberg). Ralph Lauren's market capitalisation is currently stood at \$8.3 billion.

#### **Segmentation**

Like Tapestry and Capri Holdings, in FY23 Ralph Lauren was mostly exposed to the US (47%), Europe (29%), Asia (22%) and non-reportable segments (2%). In FY23, Ralph Lauren had \$6.4 billion of net sales, and an EBITDA margin of 14.4%. Unlike Capri Holdings and Tapestry, Ralph Lauren does not operate a retail portfolio of luxury houses, focusing on developing a single core brand. This is why Ralph Lauren tends to present a smaller growth, compared to Capri (0.8% vs 3.55%), because it is mostly organic, but a much higher ROIC (16% vs 11%), as it prefers an asset light model where it does not own or lease the stores, in contrast to Capri. This occurs even though major profitability ratios such as EBITDA margin are lower than Capri's (12% vs 18%) since the Ralph Lauren has a much heavier cost structure, particularly showcased by a high number of employees (23.33 thousand vs 15.5 thousand). This means 50% more people hired, when revenue compared to Capri's is only higher by 15%.

### **Burberry**

#### **Overview**

Burberry was founded in London in 1851 as a trench coat producer, since then expanding its British heritage to accessories, ready-to-wear, jewellery, fragrances, beauty cosmetics, handbags, footwear, and children's clothing. The firm's global market share in the luxury goods industry in FY22 is 1.5% (Bloomberg data). Burberry's market capitalisation is currently at £5.4 billion.

#### **Segmentation**

In FY23 Burberry's largest geography is APAC (43%), followed by EMEA (33%), and the Americas (24%). In 2023, Burberry had £3.1 billion of net sales, with an EBITDA margin of 24.3%. Similarly to Ralph Lauren, and unlike Capri Holdings and Tapestry, Burberry does not operate a retail portfolio of luxury houses, instead the firm focuses on growing its product segments. Due to its asset light model, Burberry manages to have higher returns compared to Capri, especially on the EBITDA margin (24% vs 18%) and on the ROIC (37% vs 11%), meaning that the Burberry also benefits from a lower cost structure resulting from its business model.

# Valuation Discussion and Mechanics

## Methodology and Preparation to the Valuation

- Methodology

The baseline model for the valuation used was the Discounted Cashflow Model (“DCF”). The DCF model relies on expected future cashflows to determine the intrinsic value of a firm. This valuation model was chosen due to the debt profile of Capri Holdings. The company has been presenting a debt to enterprise value (“D/V”) of approximately 0.44, which is expected to remain relatively stable during the period of the projected cashflows, until 2034. As the level of debt is dependent on the enterprise value of the firm, the opportunity cost of the tax shields (“R<sub>txa</sub>”) will be the same as the unlevered cost of capital (“R<sub>u</sub>”). As a consequence, applying the DCF model or the adjusted present value model (“APV”), will lead in the same valuation result.

To test the reliability of the valuation, a sensitivity analysis and a scenario analysis were performed, and were also complemented with a multiples valuation according to the P/E and EV/EBITDA ratios.

- Preparatory Steps to the Valuation

To value Capri Holdings, the company was segmented according to four businesses: Versace, Jimmy Choo, Michael Kors, and Corporate. In our understanding, the subsidiaries are independent from one another, and, to our knowledge, there is not publicly information available for the individual brands.

Additionally, each business line was separated according to core, non-core and financial segments, and for the specific case of revenue, a breakdown by geography, product offering, and sales channel was made. Due to lack of information to perform the segmentation, the following assumptions were made:

- ⇒ The core operating items are those directly associated with Capri’s core business. In the balance sheet, they include working capital items; PP&E; leased assets; intangible assets; accrued payroll; accrued expenses and others. The minimum operating cash was set at 2% of sales<sup>11</sup>. In the income statement, they include revenues; COGS; SG&A; among others.
- ⇒ The non-core operating items relate to the items not strictly related to the operations of the firm. In the balance sheet, they include hedging instruments; other accounts receivable; and other non-core items. In the income statement, they include restructuring charges, and other non-core.

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<sup>11</sup> McKinsey on Finance, Number 39, Spring 2011

- ⇒ The financing items relate with the way Capri finances its activities. In the balance sheet, they include borrowings, lease liabilities and excess operating cash. In the income statement, they include interest income and expenses, as well as non-controlling interest-related assets.
- ⇒ The provision for income taxes is distributed among core, non-core and financial segments in function of the tax rate applicable for the result before taxes of each.
- ⇒ The cashflow statement was also reformulated by considering operating (core and non-core) cashflows and financing cashflows. Any non-cash changes in the income statement and balance sheet were incorporated.

Within the segmentation per luxury house, the following assumptions were made:

- ⇒ In the income statement, the revenue is modelled by brand, geography, product, and sales channel. COGS were assumed in function of the Capri's gross margin. Restructuring, other charges and other income were considered part of the corporate segment. The rest was distributed according to the information available.
- ⇒ In the balance sheet, working capital items, excess of operating cash, and other assets and liabilities were distributed according to brand's revenue. Goodwill was distributed according to the depreciation and amortization of each business and accrued payroll, deferred rent and accrued expenses were distributed according to the brand's SG&A. The lease liabilities were distributed in function of the operating lease right-of-use assets of the brands.
- ⇒ In the cash flow statement, the statements reflect the cash movements of the balance sheet and income statement adjusted as explained earlier. Equity movements are used to balance each individual brand' cash flow statement.

# CAPRI HOLDINGS

LUXURY GOODS

JULIANA COSTA

# COMPANY REPORT

20TH DECEMBER 2023

43094@novasbe.pt

## Equity Research - Capri Holdings

*A luxurious merger with an out-of-style valuation?*

- Capri Holdings is currently trading at \$48.44 a share and has faced stagnation in the past couple of years, with revenue barely moving between FY22 and FY23 because of the underperformance of the core brand – Michael Kors.
- The company faced a takeover bid by Tapestry to merge and create an American-centric luxury conglomerate that would diversify away the operations towards Asia and Europe, as well as focus on improving the performance of the existing portfolio.
- The offer consists of an all-cash offer of \$57, and it is expected to generate synergies estimated at \$200 million three years after the completion of the merger, mostly deriving from cost savings associated with corporate functions.
- An extraordinary shareholder meeting on the 25<sup>th</sup> of October 2023 took place to discuss the merger agreement, which was accepted by the shareholders, clearing the way for the merger to proceed.
- This report concludes that the offer price is well above the stand-alone value of the company with synergies and accounting for the FY24 dividend. Therefore, the decision of the shareholders to accept the merger is perceived as the correct one.

### Company description

Capri Holdings Limited is an American global luxury group operating three luxury houses: Michael Kors, Versace, and Jimmy Choo. The firm is headquartered in the United States, and it is listed on the New York Stock Exchange (NYSE) under the ticker CPRI, with a market capitalization of \$5.6 billion.

**Recommendation:** **SELL**

*Vs Analysts' Consensus* **HOLD**

**Price Target FY24\*:** **47.49 \$**

*Vs Analysts' Consensus* 53.72 \$

**Price (as of 19-Dec-23)** **48.44 \$**

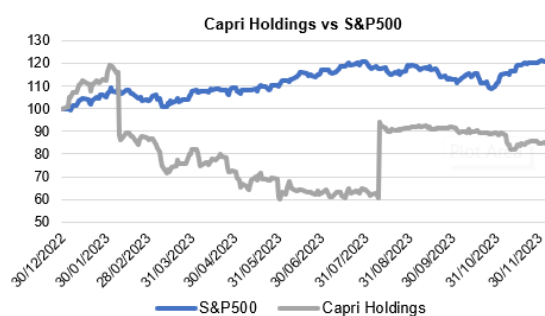
\*Includes dividend for the year

52-week range (\$) 34.17-69.25

Market Cap (\$m) 5 622

Outstanding Shares (m) 116.07

Source: Bloomberg



Source: Bloomberg

(Values in \$ millions)	2022	2023	2024F
Revenues	5 654	5 619	6 216
Gross Profit	3 744	3 724	4 080
EBITDA	1 211	1 016	835
Net Profit	822	616	437
EPS	7.09	5.31	3.77
Gross Margin	66%	66%	66%
EBITDA Margin	21%	18%	13%
Net Profit Margin	15%	11%	7%
ROA	11%	8%	6%
ROIC	17%	11%	9%
D/E	1.17	1.88	1.93
Net leverage	2.46	3.41	4.43

Source: Capri Holdings Annual Reports. Years in line with the company's fiscal years

**THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY JULIANA COSTA, A MASTER IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)**

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# Company Overview

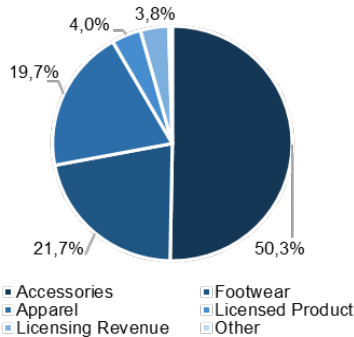
## About Capri Holdings

Capri Holdings Limited (“Capri”, “Capri Holdings”) is a global luxury group operating Michael Kors, Versace, and Jimmy Choo. The firm is headquartered in the United States, and it is listed in the New York Stock Exchange (NYSE) under the ticker CPRI, with a market capitalization of \$5.6 billion.

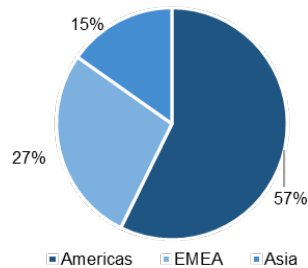
Capri designs, manufactures, and distributes ready-to-wear goods, accessories, footwear, eyewear, watches, jewellery, and fragrances. In FY23, nearly 50% of Capri’s revenue came from accessories, followed by footwear (22%), and apparel (20%) as represented in Exhibit 1. Roughly 78% of the revenue comes from in-store sales, followed by 14% in e-commerce sales and 8% in licensing revenue.

Capri Holdings is present in over 100 countries, and the most relevant market is the Americas with 57% of revenues in FY23, followed by EMEA (27%), and Asia (15%), as showcased by Exhibit 2. The global estimated market share of Capri is 2.3%, according to Bloomberg data on the FY22/23 revenue data of the industry.

The senior management has an average of 26 years of experience in retail and 19 years within the Group’s brands. Capri’s CEO John Idol recently announced he would leave the company, but no material change in strategy is expected.



**Exhibit 1 – Revenue per product line FY23.** Source: Annual Reports



**Exhibit 2 – Revenue per region FY23.** Source: Annual Reports

## Historical Financial Performance

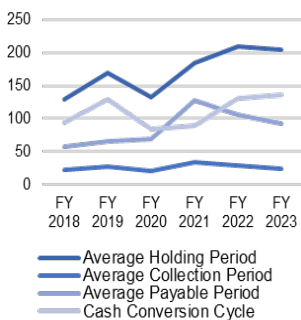
### Cashflow Management and Liquidity Analysis

Capri’s cash conversion cycle (CCC) increased from 94 to 136 days (FY18-FY23) mostly due to an increase in the average holding period driven by higher inventories, increasing challenges in generating cash, as observable in Exhibit 3. Thus, the CCC in FY23 is above the median of the peers<sup>1</sup> (121 days).

Capri Holdings maintains the current ratio above the short-term equilibrium of 1, recovering from the impact of the pandemic by improving from 0.95 (FY21) to 1.29 (FY23). However, similarly to all other liquidity ratios, the company tends to be well below the median of the industry, for which the current ratio is 2.03.

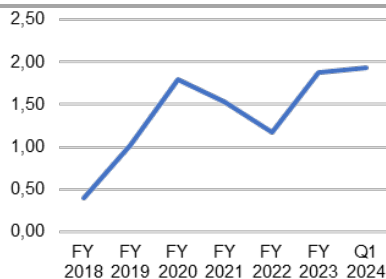
### Capital Structure Composition

The D/E ratio is 1.88 (FY23) compared to 1.79 (FY20) because of higher debt to finance capital expenditures and acquisition of businesses, as represented in

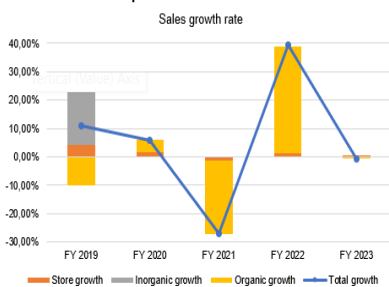


**Exhibit 3 – Cash Conversion Cycle and Drivers in Days (FY18-23).** Source: Based on Annual Reports

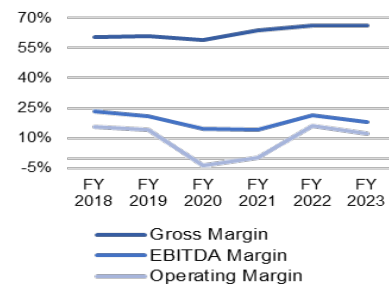
<sup>1</sup> To understand the peers and their relative performance to the Capri Holdings, please refer to the Peer Analysis section (Page 10).



**Exhibit 4 – Evolution of the Debt-to-Equity Ratio (FY18-23).** Source: Based on Annual reports.



**Exhibit 5 – Evolution of sales growth rate (FY19-23).** Source: Based on Annual reports.



**Exhibit 6 – Evolution of the Key Profitability Ratios (FY18-23).** Source: Based on Annual Reports.



**Exhibit 7 – Evolution of the ROIC (FY18-Q1 24).** Source: Based on Annual Reports.

Exhibit 4<sup>2</sup>. Shareholders' equity has decreased due to stock repurchases. The industry's median for the D/E ratio of 1.31, reflecting a company's preference to finance its store expansion with debt mostly associated with lease liabilities.

▪ **Revenue and Profitability Analysis**

Historically, the revenue of Capri Holdings has been growing at a CAGR of 3.55% (FY18-FY23). Exhibit 5 showcases the factors that have traditionally explained the growth in revenue in recent years. As can be observed, in FY19, most of the growth was explained by the acquisition of Jimmy Choo, defined as inorganic growth. Afterwards, as the firm has not been involved in M&A, sales growth was sluggish with like-for-like sales (organic growth) providing a negative contribution for most of the years. Store growth does not have a major effect on most years, except for 2019 as the increase in stores in Asia has been compensated by closing in other regions due to restructuring. For FY21, this was more expressive because of the pandemic effects, recovered in the following fiscal year of FY22.

Capri presents a gross margin of 66% (FY23) due to premium pricing strategy of its products, and it is in line with the industry (68%). The FY23 operating margin was 12% (vs high of 16% in FY22) due to impairment and restructuring charges in recent years, affecting earnings as observed in Exhibit 6. This resulted in an underperformance compared to peers in FY23 for instance (15% vs 12%).

The Return on New Invested Capital of -384%, historically negative, therefore below the estimated cost of capital of the firm of around 7%<sup>3</sup>, suggesting that Capri might no longer enjoy attractive investments and should focus on the distributing value to shareholders. This has been noticeable through the acquisitions of businesses which significantly increase the invested capital but do not necessarily generate an increase in returns as expected, that can be attributed to restructuring costs and integration expenses.

Capri's ROIC of 11% as in Exhibit 7 in FY23 is below peers (20%), which can be mostly explained by the weak performance of the core brand, Michael Kors, as well as an aggressive acquisition strategy that expands invested capital which increases by incorporation and revaluation of assets, without necessarily improving returns. That explains a significant reduction in ROIC since FY19, which has recovered in more recent years related with the rebound effect coming from the pandemic. ROIC was also influenced by the effect of the ASU No. 2016-02, which recognized right-of-use leases.

<sup>2</sup> The increase in Exhibit 4 (FY20) reflects the implementation of ASU No. 2016-02, which recognised lease obligations as debt.

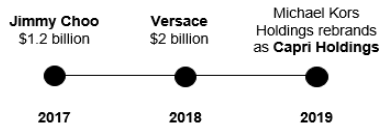
<sup>3</sup> For a detailed explanation of the WACC, please refer to the Cost of Capital Estimation segment of this report (Page 17).

## Long-term Strategy of Capri Holdings

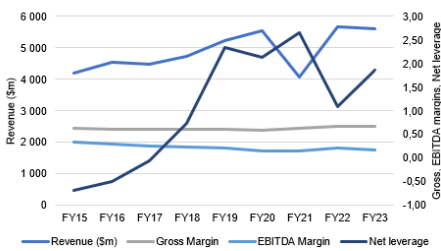
- Development of the Brand Portfolio

Capri's management has focused on expanding and improving its brand portfolio through acquisitions to gain market share, although it has not proven successful considering that since FY16 its market share has decreased from 2.9% to 2.3%. This is due to limited synergies mostly on corporate functions as brands continue to operate independently. As such, most of the value comes from the stand-alone firm and, considering the valuations in this report, despite the time lag from when the acquisition closed, there is the indication that Capri has significantly overpaid for its targets, resulting in value destruction for its shareholders. This is one of the main reasons why Capri has underperformed compared to peers.

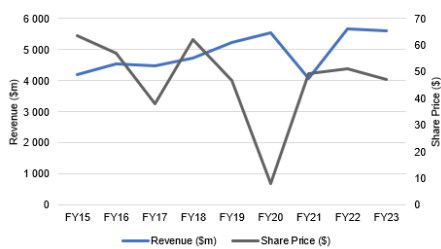
In Exhibit 8, it is shown the timeline of acquisition of Capri Holdings. As Exhibit 9 showcases, while M&A transactions have allowed Capri to grow in terms of sales for most years, they have stagnated after their completion and margins have remained relatively flat. Significantly, the EBITDA margin has had a general tendency to fall, which caused a negative impact in net leverage, since this is explained by a fall in EBITDA and an increase in leverage to finance the acquisitions. Note that the net leverage presented does not account for leases due to changes in accounting rules implemented more recently, it only accounts for financial debt. In Exhibit 10, it can be seen that because of overpayment and a sluggish performance of the company post-acquisitions, the share price has actually fallen since FY15, despite the expansion of the company.



**Exhibit 8 – Capri Holdings Timeline.**  
Source: Company's Investor Relations website



**Exhibit 9 – M&A impact on revenue, profitability, and leverage.** Source: Capri's Annual Reports.



**Exhibit 10 – M&A impact on the share price.** Sources: Capri's Annual Reports and Bloomberg.

- Reorganisation of the Sales Channels

**Omnichannel Strategy:** Capri Holdings intends to accelerate in e-commerce and omnichannel developments across its brands and internal processes. Despite having one of the fastest growing client databases (+10% in FY23), Capri remains behind the industry in terms of share of online sales (14% vs 21%) barely moving since FY17, since online sales accounted for 15% of the total.

**Wholesale vs Retail Strategy:** Capri has continued its exiting strategy of the wholesale channel to have more brand control, pricing capability and improve the product mix, in line with this industry trend. This is expected to reduce revenues during the transition, as well as increase capex investments in stores in the coming years, pressuring free cash flows. In FY22, 29% of sales came from the wholesale channel, down to 23% (FY24) according to management's forecast.

**Retail Strategy:** Nearly 15% of Capri's revenue comes from Asia (vs 30%-40% of largest peers), leaving the company with limited benefits from one of the

fastest growing markets of the industry. Therefore, management seeks to expand its Asia store footprint while optimizing the existing store network with renovations. The company is on track to have 60% of stores renovated by 2024. It is important to note that while the impact on sales coming from renovations is still premature and uncertain, the benefits from an expansion towards Asia are sluggish because of the Chinese lockdowns in recent years.

- **Financial Management Strategy**

Capri's aims to complete of capex investments and return value to the shareholders through a share buyback program worth \$1 billion. Capri seeks to allocate additional cash generated to reduce debt as well. This seems reasonable considering the high D/E ratio compared to peers, but with the higher expected capex expenses that might pressure cashflows and the reduction of equity through stock repurchases make it challenging to obtain material results.

## Brand Portfolio

### Michael Kors

#### Overview

Michael Kors is a fashion design house founded in the United States in 1981. The brand is present in more than 100 countries offering products in 812 retail stores (*Collection*, *Lifestyle*, and outlet stores) and online. Revenue comes mostly from accessories (64%) and the Americas market (67%) in FY23.

#### Sales Channels

Michael Kors reduced the number of stores from 853 to 812 (FY19-23) to reduce costs and improve profitability, but SG&A increased by 31% during the same period. The plan to expand the Asia footprint has resulted in an increase of 43 stores (FY19-23). During that period, while the firm has sought to increase the sell-through rate and sales via the retail channel, the revenue decreased by 14%.

#### Product Mix

Michael Kors seeks to transform its product mix by diversifying its offering. The brand set a target of 25% of revenue coming from footwear but is still well below at 10-15% in FY23. On the jewellery segment, the brand seeks to continue to benefit from recent growth to compensate from a revenue loss coming from Apple Watch partnership, responsible for 50% of the watch segment revenue. This does not seem to be a good strategy considering that has been the root of the underperformance of the company.

#### Underperformance

Michael Kors has experienced underperformance in recent years mostly related to the inability to create a strong brand image the core customer base. The diversification towards many different product segments has not resonated well among costumers, which continue to prefer the traditional accessories and bags with the brand's logo rather than the rest of the products. However, this

generates an issue with the product mix because while the rest of the products such as clothing and footwear are more profitable than bags and accessories on a net profit margin basis (8% vs 3.1%<sup>4</sup>), the latter remains the core of the firm. In addition, bags and accessories were the only segment that fell in terms of sales for the FY19-22 CAGR (-0.7%<sup>4</sup>) and, by being the core segment of the core brand of Capri, it not only penalized Michael Kors but also the Capri Holdings.

#### Restructuring plan

The objective of the plan is to convert Michael Kors from a growth-oriented company into a cash-cow business that would support the growth of Versace and Jimmy Choo. Management's restructuring strategy has sought to cut costs and optimize the store network, but without material success as stagnation continues.

#### Versace

#### Overview

Versace is a fashion design house founded in Milan, Italy in 1978. The brand is present in over 80 countries, selling products through 223 retail stores (boutiques and outlet) and online. Revenue comes mostly from footwear and apparel (35% and 32%, respectively) and the EMEA market (42%) in FY23.

#### Sales Channels

The store footprint increased from 188 to 223 (FY19-23), with a long run target of 300. Versace also has a store renovation plan ongoing, with 50% of its physical stores already being renovated at the end of FY22. The brand is also re-platforming its e-commerce sites to reach an online revenue share of 25% (13% in FY22).

#### Product Mix

The brand aims at continuing to expand its Asia store footprint (+14% in past 5 years) to expand the customer base to reach the long-term target of 50% revenue share in accessories. The long-term target for revenue for Versace is \$2 billion and for the EBIT margin is 20%. Currently, revenues are at roughly half of this number (\$1.1 billion) while the EBIT margin is 13%.

#### Jimmy Choo

#### Overview

Jimmy Choo is a fashion design house founded in London, United Kingdom, in 1996. The brand has a worldwide reach, selling products through 237 retail stores and e-commerce sites. Revenue comes mostly from footwear and apparel (35% and 32%, respectively) and the largest market is EMEA (40%) in FY23.

#### Sales Channels

The number of stores increased 30% in the past five years, and there is a long-term target of 300 retail stores (vs 237 currently). The company aims at nearly doubling the share of online sales from 15% to 25% in the long-term.

#### Product Mix

Jimmy Choo seeks to reach a revenue share in accessories of 50% with an intermediate target of 30% (20% FY23). This is difficult considering that the brand

<sup>4</sup> Global Powers of Luxury Goods 2023: Deloitte Global Report.

is still developing collections that go beyond the traditional footwear. The long-term revenue target is \$1 billion, currently being at \$633 million as of FY23.

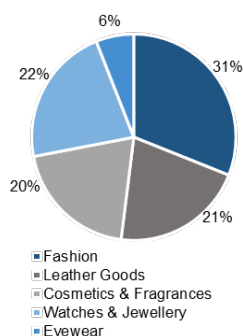
**Corporate Segment**

The corporate segment has an administrative role by implementing the transformation program of the Group and consolidating functions with the new Enterprise Resource Program (ERP), to ensure better integration between brands and reduce the costs. With this program, management has successfully eliminated most of the legacy systems of the brands after acquisition.

**Industry Overview**

**Overview**

The luxury personal goods industry comprises Luxury Fashion, Luxury Leather Goods, Luxury Watches & Jewellery, Prestige Cosmetics & Fragrances and Luxury Eyewear. The market reached €353 billion<sup>5</sup> in retail sales in 2022 and has grown at a CAGR of 6.4% (2010-22). For 2022-30, the CAGR is set at 5-7% (Bain & Co). As a share of global sales, the largest market is the Americas (32%), and the largest segments are fashion luxury goods (31%), followed by watches & jewellery (22%) and leather goods (21%), as Exhibit 11 showcases.



**Exhibit 11** – Global Revenue per Product Split FY2022, *Source:* Bain & Co Study

**Luxury Goods Segments**

**Leather Goods:** include handbags, suitcases, briefcases, and wallets. It has reached \$66.2 billion in 2022 and is expected to grow at a CAGR of 5.7% until 2028. The largest market is the United States (26%). LVMH and Kering control roughly 50% of the market, followed by Hermès, Tapestry and Capri Holdings with a combined 25%. Most of the sales come from in-store (79%), although the online share of revenue is expected to continue to increase to 26% by 2025.

**Luxury Watches & Jewellery:** it has reached \$67.9 billion in 2022 and is expected to grow at a CAGR of 3.7% until 2028. Lower growth has been observed due to the economic slowdown specially in China, which fuelled sales in the early 2010s. The largest market is China (33.7%). Richemont, Rolex, and Swatch Group control roughly 45% of the market. Nearly 74% of sales are in-store (74%), with the online share being expected to increase to 29.6% by 2025.

**Luxury Fashion:** include apparel and footwear luxury segments. It has reached \$97.2 billion in 2022 and is expected to grow at a CAGR of 5.2% until 2028. The largest market is the United States (25.7%). LVMH, Chanel and PVH control

<sup>5</sup> "Renaissance in Uncertainty: Luxury Builds on its Rebound" - Bain-Altgamma Luxury Goods Worldwide Market Study, Jan-2023

roughly 30% of the market, followed by Kering and Ralph Lauren with a combined share of 10%. Most of the sales come from in-store (79%), although the online share of revenue is expected to continue to increase to 26% by 2025.

**Luxury Eyewear:** includes luxury eyewear frames and sunglasses. It has reached \$18.9 billion in 2022 and is expected to grow at a CAGR of 3.6% until 2028. It is among the most affordable luxury good segments. The largest market is the US (42.3%). Essilor Luxottica controls 80% of the market, followed by Marcolin and Safilo with 15%. Nearly 81% of sales are in-store, with the online share of revenue being expected to continue to increase to 25.1% by 2025.

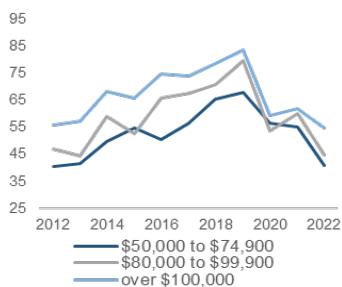
**Prestige Cosmetics & Fragrances:** includes prestige skin care, fragrances, and decorative cosmetics. Skin care comprises of nearly 50% of the market. It has reached \$62.3 billion in 2022 and is expected to grow at a CAGR of 5.7% until 2028. The largest market is the US. Estée Lauder, and L’Oréal control 55% of the market, followed by LVMH, Coty and Shiseido with 20%. Nearly 82% of sales are in-store, with the online share being expected to rise to 23.2% by 2025.

### Industry Trends

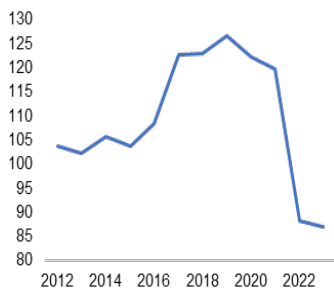
The luxury goods market in the **United States** remains somewhat resilient as the industry CAGR 2019-22 was 4 p.p above the industry CAGR 2010-19 (10% vs 6%), due to higher spending post-pandemic with accumulation of savings and government support. Evidence shows that the industry has not been affected by lower sales or growth despite a fall in consumer sentiment affecting all households, regardless of the income bracket they belong to (Exhibit 12).

The Chinese consumer accounts for one-third of the world luxury sales and 75% of such purchases occur while travelling. **China** alone accounted for 11.6% of the world travel in 2019. While the end of the zero-covid policy could have improved the outlook of the Chinese consumer spending, the consumer confidence continues to fall (Exhibit 13). This has already been translated into weak performance of sales of key luxury products such as jewellery, clothing, footwear, and accessories as Exhibit 14 showcases. The YoY growth rate has not only slowed down but is has also become negative across most of the main segments.

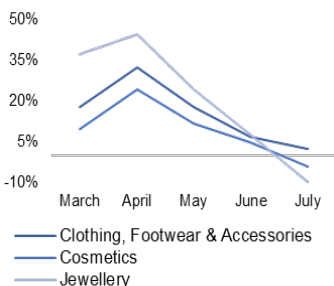
In **Europe**, the major driver of growth will be once the again the foreign consumer after a reconfiguration of the demand which was attributed to tourists in nearly 60% in 2019 fell to nearly 10% due to the pandemic. The expectation is that domestic demand will increase by 13% whereas the touristic demand will triple in the coming years with the recovery of travelling globally, mostly from China.



**Exhibit 12 – Consumer Comfort Index by US Household Income Bracket in \$ (2012-2022), Source: Bloomberg**



**Exhibit 13 – Consumer Comfort Index in China (2012-2023), Source: Bloomberg**



**Exhibit 14 – YoY Cumulative sales growth rate in China (2023), Source: Bloomberg**

**Forex Impacts**

The Federal Reserve monetary tightening has penalized the earnings of US luxury firms with exposure to international markets. For the case of Capri Holdings, considering that nearly 50% of all revenue still comes from the US, the impact on revenue was estimated to round up to -0.7% in FY23, easing at Q1 2024 to -0.6%.

**Pricing power**

Just in FY22, top luxury brands managed to increase prices by 7-10% and maintain gross margins at 60-70% while demand remained mostly intact with volume growing at a rate of 10%. For the period 2019-2022, nearly 60% of the growth of the luxury leather goods was attributed to price hikes.

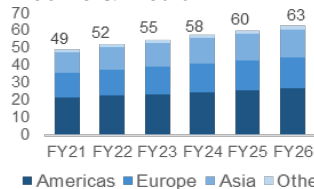
**Travelling**

Customers across the world, namely China, are an important client of luxury houses in Europe and the United States considering that nearly 75% of the Chinese luxury purchases occur while travelling. Going forward, the air passenger travel is expected to grow at a CAGR of 5% (2021-2026) and roughly one third of the passengers coming from Asia, which can help drive sales in these locations.

**Customer base**

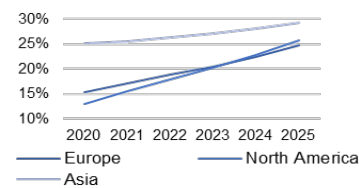
The luxury market’s customer base is expected to reach 500 million people by 2030. Customers usually seek a sense of exclusivity and status in the products offered, complemented by good quality and style<sup>6</sup>. Therefore, a significant portion of the market is comprised of high-spending consumer classes.

**Income & Wealth**



**Exhibit 15 – HNWI Population (millions), 2021-26** Source: Statista

**Digital Revolution**



**Exhibit 16 – Share of online luxury sales per market (2020-2025),** Source: Statista

An increase in high-spending consumer classes such as HNWI<sup>7</sup> (High-Net-Worth-Individuals) and HENRY (High-Earners-Not-Rich-Yet) have contributed to the increasing share of top customers (35% to 40% 2021-22). While Europe and North America concentrate of 70% of total consumers, Asia is the region that has grown faster (Exhibit 15), supporting Capri’s rationale to move towards Asia.

The luxury goods industry has experienced a digital revolution driven by the rise of e-commerce. Exhibit 16 shows that Asia is the most important in terms of share of online sales. In all markets, online is expected to gain important, being in the range of 25% to 30% by 2025<sup>8</sup>.

Online channels’ market share reached 21% of the global luxury goods market in 2022, with monobrand websites accounting for of 45% of total online sales. Digital marketplaces, such as Farfetch and YOOX-Net-a-Porter, serve as multi-brand e-commerce platforms that support high-end boutiques that do not have the resources or scale to launch their own luxury retail website.

<sup>6</sup> Statista Global Consumer Survey 2021

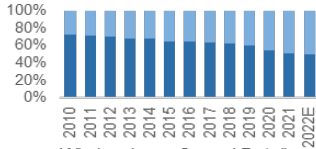
<sup>7</sup> High Net Work Individuals are people with investable assets, of which residential property is included, of more than \$1 million.

<sup>8</sup> “E-Commerce Share of Personal Luxury Goods Sales Worldwide from 2017 to 2025” – Statista

## Generational Impact

Luxury spending of younger generations (Generation Z, Y and Alpha) is set to increase at a much faster pace than older generations through 2030. According to Bain & Co, all growth from the luxury market last year was attributed to generations Y and Z. In the future, it is expected that nearly 80% of the luxury purchases will be made by generation Y, Z or Alpha.

### Distribution Channel Shifts



**Exhibit 17 – Global Personal Luxury Goods Market, by Channel, Source: Bain & Co**

### M&A Climate

Luxury houses have broadly shifted from their wholesale channels towards the retail channel to have more control of the sale of products, distribution, and operations. The retail channel has historically generated higher product quality and margins for luxury houses. This change has been well-established since FY10, as Exhibit 17 showcases. Capri Holdings is in line with this tendency.

Luxury houses seek to gain market share through acquisitions, increasing M&A transactions. Examples are the acquisition of a 30% stake in Valentino by Kering for €1.7 billion, Estée Lauder's purchase of Tom Ford, and LVMH acquiring Tiffany in 2021. The American players have attempted to expand to Europe through the acquisition of traditional European luxury houses. Capri Holdings has done so but experienced a 0.6p.p. fall in its global market share after the acquisitions.

Large luxury conglomerates such as LVMH have pursued a M&A strategy to consolidate market share and increase growth while generating synergies. While cost synergies related to corporate function have been the most relevant saving for companies such as Capri, LVMH has managed to decrease raw material costs by 20% due to economies of scale and integration<sup>9</sup>. M&A also facilitated the consolidation of the Asian market for these large conglomerates, which exposed them to one of the fastest growing luxury markets. Small luxury houses can get cheap financing due to easy access to capital provided by the conglomerate<sup>10</sup>.

Considering that the net leverage of the industry remains low at 0.2x, and that EBITDA growth is expected to be nearly 30% in 2023 (vs 2021) according to Bloomberg, it seems that there are still conditions to pursue further consolidation.

## Peer Analysis

### Peer Selection Criteria

The market peers of Capri Holdings selected were Tapestry Inc., Ralph Lauren Corporation and Burberry. The main criteria for the selection of the peers were the size, assessed in function of market share, revenue and market capitalisation, and

<sup>9</sup> Teixeira, D. 2011, "Consolidation in the Luxury Sector: Study of a merger between LVMH and Hermès"

<sup>10</sup> Ernst & Young 2004, *Mergers and Acquisitions*, John Wiley & Sons, London

the similarities in terms of business model of the firm. Exhibit 18 below showcases key information about the peers selected.

	Capri Holdings	Tapestry	Ralph Lauren Corp	Burberry*
Number of employees	15 500	18 500	23 300	9 201
Number of stores	1 272	1 429	553	413
Revenues	5 619	6 661	6 444	3 094
Revenue CAGR (2018-23)	3.55%	9.55%	0.8%	2.52%
EBITDA	1 000	1 355	925	752
Net income	619	936	523	492
Gross Margin	66%	71%	65%	71%
EBITDA Margin	18%	20%	12%	24%
ROIC	11%	24%	16%	37%
Assets	7 295	7 117	6 790	3 686
Net Debt	3 355	2 568	1 332	525
Market Capitalization	4 284	9 468	8 599	7 862
<b>Enterprise Value</b>	<b>7 639</b>	<b>12 037</b>	<b>9 931</b>	<b>8 387</b>

**Exhibit 18** – Key information of the Capri Holdings' peer group FY23. All date in USD except non-monetary values (\*For Burberry, monetary values are in GBP). Source: Annual Reports

### Tapestry, Inc.

#### Overview

Tapestry designs, manufactures, and distributes accessories, footwear, leather goods and ready-to wear. Through Coach, Tapestry has acquired Stuart Weitzman and Kate Spade, expanding into women's handbags and luxury women's footwear, lifestyle accessories, and ready-to-wear. Tapestry has recently agreed to acquire Capri, a transaction to be completed by FY26. Tapestry's global market share in the luxury industry as of FY22 is 2.7% (Bloomberg data). Tapestry's current market capitalisation stood at \$7.4 billion.

#### Segmentation

Like Capri Holdings and Michael Kors, Tapestry's core brand Coach accounts for 75% of revenues in FY23, followed by Kate Spade (21%) and Stuart Weitzman (4%). In FY23 the main product segments are women's handbags (49%), other women's accessories (20%), men's accessories (14%), and other products such as jewellery (17%). Tapestry is more exposed to the US compared to Capri (61% vs 53%), followed by China (15%), Japan (9%), and rest of the world (15%). In FY23, Tapestry had \$6.7 billion of net sales, and an EBITDA margin of 20.3%. The group of revenue in recent years because Tapestry was successful not only in implementing an M&A strategy but also in transforming its core brand, Coach, generating also higher growth coming from the organic strategy. This has reflected itself in higher margins compared to Capri Holdings. The ROIC in particular has been higher because Tapestry has preferred a less aggressive opening store strategy compared to Capri Holdings in recent years, making their stores often smaller and more strategically located. This restricted the number of places Capri could open stores to avoid direct competition and also provide room to be more efficient and thus, more profitable.

### Ralph Lauren Corporation

#### Overview

Ralph Lauren Corporation designs, manufactures, and sells men and women's ready-to-wear, eyewear, footwear, accessories, fragrances, home, and is in hospitality. Hospitality is a minor branch aiming to extend the "World of Ralph Lauren" through culinary arts in exclusive, concept-based restaurants. The global market share of Ralph Lauren in the luxury industry in FY22 is 2.6% (Bloomberg). Ralph Lauren's market capitalisation is currently stood at \$8.3 billion.

#### Segmentation

Like Tapestry and Capri Holdings, in FY23 Ralph Lauren was mostly exposed to the US (47%), Europe (29%), Asia (22%) and non-reportable segments (2%). In FY23, Ralph Lauren had \$6.4 billion of net sales, and an EBITDA margin of 14.4%. Unlike Capri Holdings and Tapestry, Ralph Lauren does not operate a retail portfolio of luxury houses, focusing on developing a single core brand. This is why Ralph Lauren tends to present a smaller growth, compared to Capri (0.8% vs 3.55%), because it is mostly organic, but a much higher ROIC (16% vs 11%), as it prefers an asset light model where it does not own or lease the stores, in contrast to Capri. This occurs even though major profitability ratios such as EBITDA margin are lower than Capri's (12% vs 18%) since the Ralph Lauren has a much heavier cost structure, particularly showcased by a high number of employees (23.33 thousand vs 15.5 thousand). This means 50% more people hired, when revenue compared to Capri's is only higher by 15%.

### Burberry

#### Overview

Burberry was founded in London in 1851 as a trench coat producer, since then expanding its British heritage to accessories, ready-to-wear, jewellery, fragrances, beauty cosmetics, handbags, footwear, and children's clothing. The firm's global market share in the luxury goods industry in FY22 is 1.5% (Bloomberg data). Burberry's market capitalisation is currently at £5.4 billion.

#### Segmentation

In FY23 Burberry's largest geography is APAC (43%), followed by EMEIA (33%), and the Americas (24%). In 2023, Burberry had £3.1 billion of net sales, with an EBITDA margin of 24.3%. Similarly to Ralph Lauren, and unlike Capri Holdings and Tapestry, Burberry does not operate a retail portfolio of luxury houses, instead the firm focuses on growing its product segments. Due to its asset light model, Burberry manages to have higher returns compared to Capri, especially on the EBITDA margin (24% vs 18%) and on the ROIC (37% vs 11%), meaning that the Burberry also benefits from a lower cost structure resulting from its business model.

## Valuation Discussion and Mechanics

### Methodology and Preparation to the Valuation

- Methodology

The baseline model for the valuation used was the Discounted Cashflow Model (“DCF”). The DCF model relies on expected future cashflows to determine the intrinsic value of a firm. This valuation model was chosen due to the debt profile of Capri Holdings. The company has been presenting a debt to enterprise value (“D/V”) of approximately 0.44, which is expected to remain relatively stable during the period of the projected cashflows, until 2034. As the level of debt is dependent on the enterprise value of the firm, the opportunity cost of the tax shields (“R<sub>txa</sub>”) will be the same as the unlevered cost of capital (“R<sub>u</sub>”). As a consequence, applying the DCF model or the adjusted present value model (“APV”), will lead in the same valuation result.

To test the reliability of the valuation, a sensitivity analysis and a scenario analysis were performed, and were also complemented with a multiples valuation according to the P/E and EV/EBITDA ratios.

- Preparatory Steps to the Valuation

To value Capri Holdings, the company was segmented according to four businesses: Versace, Jimmy Choo, Michael Kors, and Corporate. In our understanding, the subsidiaries are independent from one another, and, to our knowledge, there is not publicly information available for the individual brands.

Additionally, each business line was separated according to core, non-core and financial segments, and for the specific case of revenue, a breakdown by geography, product offering, and sales channel was made. Due to lack of information to perform the segmentation, the following assumptions were made:

- ⇒ The core operating items are those directly associated with Capri’s core business. In the balance sheet, they include working capital items; PP&E; leased assets; intangible assets; accrued payroll; accrued expenses and others. The minimum operating cash was set at 2% of sales<sup>11</sup>. In the income statement, they include revenues; COGS; SG&A; among others.
- ⇒ The non-core operating items relate to the items not strictly related to the operations of the firm. In the balance sheet, they include hedging instruments; other accounts receivable; and other non-core items. In the

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<sup>11</sup> McKinsey on Finance, Number 39, Spring 2011

income statement, they include restructuring charges, and other non-core.

- ⇒ The financing items relate with the way Capri finances its activities. In the balance sheet, they include borrowings, lease liabilities and excess operating cash. In the income statement, they include interest income and expenses, as well as non-controlling interest-related assets.
- ⇒ The provision for income taxes is distributed among core, non-core and financial segments in function of the tax rate applicable for the result before taxes of each.
- ⇒ The cashflow statement was also reformulated by considering operating (core and non-core) cashflows and financing cashflows. Any non-cash changes in the income statement and balance sheet were incorporated.

Within the segmentation per luxury house, the following assumptions were made:

- ⇒ In the income statement, the revenue is modelled by brand, geography, product, and sales channel. COGS were assumed in function of the Capri's gross margin. Restructuring, other charges and other income were considered part of the corporate segment. The rest was distributed according to the information available.
- ⇒ In the balance sheet, working capital items, excess of operating cash, and other assets and liabilities were distributed according to brand's revenue. Goodwill was distributed according to the depreciation and amortization of each business and accrued payroll, deferred rent and accrued expenses were distributed according to the brand's SG&A. The lease liabilities were distributed in function of the operating lease right-of-use assets of the brands.
- ⇒ In the cash flow statement, the statements reflect the cash movements of the balance sheet and income statement adjusted as explained earlier. Equity movements are used to balance each individual brand' cash flow statement.

## Estimation of Inputs for the Valuation

### ▪ Value Drivers and Forecast Assumptions

#### **Revenue Value Drivers:**

The revenue estimation was obtained by determining growth rates for the retail segment by product and geography and the online segment by geography only, due to lack of information. The growth rates account for the value drivers that reflect the past performance of the luxury goods market online and in-store.

The following value drivers for revenue estimation were considered:

- ⇒ Air traffic passengers – as explained in the industry section, travelling is a relevant driver of growth, namely in Europe, therefore it was included.
- ⇒ GDP per capita – a higher level of income per capita can determine the scope of client base of the industry, thus being considered in the estimation.
- ⇒ Population – is it an indicator of the potential size of the market, and therefore it was included in the estimation by incorporating geographical specificities.
- ⇒ Influencer marketing market size – as most of the market growth is attributed to generations Y and Z, often affected by influencer choices, it was included.

### Revenue Estimation:

A regression analysis was performed where it was used as parameters the revenue value drivers mentioned to project the market size of the online and retail luxury goods markets by geography and per product line in the retail store case. The regression used the historical information for the period FY16-FY22.

Since the statistical significance of each parameter depended on the regression, the  $R^2$  and the adjusted  $R^2$  were used as general indicators to understand the proportion of variation in the market size that would be explained by the relevant value drivers. This value ranges 90.2% and 100% for the case  $R^2$  and 70.7% and 100% for the adjusted  $R^2$ , thus the value drivers are considered good predictors. While the regressions are sensible to the number of observations and do not account for the omitted variable bias, these indicators signal some robustness.

The linear regressions obtained used the predictions from reputable sources such as the IMF and IATA to value the predictors until 2028 and, as a result, obtain the market value of the online and retail luxury industry for that period. For FY29-34, it was assumed that the product lines growth rate will converge to the long-term rate of the respective region (Americas, EMEA or Asia) according to the IMF data of the GDP per capita growth adjusted for US inflation based on the CAGR 2012-2022 per region and the average inflation for the same period. The forecasted long-term growth rates are presented in Exhibit 19.

Licensing revenue and licensed product segments are forecasted by maintaining constant the percentage of total revenue that this segment accounts for. For the other revenue segment, it was simply assumed constant.

Overall, Capri Holdings' revenue is expected to grow at a CAGR of 4.26% a year (FY23-34), which is higher than its historical value of 3.55% (FY18-23) but in line with the competitors average CAGR of 4.11% of the peer group and below the average CAGR of the industry of 6.4% (FY10-22).

#### CAGR 2012-2022

Europe	1,95%
Asia	3,28%
Americas	2,64%

**Exhibit 19** – Long-term nominal growth rates of GDP per capita, applied in the valuation, *Source:* International Monetary Fund and OECD databases

The revenue growth rate is projected in line with the industry growth rate of each of the market but is applicable for the specific brands features (market exposure, product offering, sale channel), which generates a growth rate in line with Capri Holdings specific characteristics.

It is considered that the market will be mostly the driver of revenue, as we disregard the management targets since they are often biased or too optimistic. It is also not considered the growth in the number of stores as the driver of revenue growth but rather the value drivers described earlier as it is the market growth expectations that generates the incentives for the firm to expand the number of stores and not necessarily the contrary. In any event, considering that we assume a constant value of revenue per store going forward as will be explained later, the number of stores will inevitably grow in function of in-store revenue.

#### **Cost Structure Drivers and Estimation:**

The estimation of the cost structure accounts for whether the costs are variable or fixed. Cost of goods sold comprises mostly of manufacturing costs, and shipping and handling costs, all considered variable costs as they related directly with quantity of products sold. Thus, COGS was set as a percentage of revenue, according to historical data available.

SG&A include marketing and advertising costs, shipping and handling costs, lease costs and other SG&A costs. Marketing and advertising, and shipping and handling costs were considered variable costs in function of revenue as advertising might contribute to the conversion to actual sales and shipping and handling relate with the quantity of product sold. Lease costs were defined as a percentage of the operating lease right-of-use assets, as they are directly connected with the lease agreements. All other SG&A costs were estimated in function of other SG&A expenses per retail store as they relate to administrative.

Depreciation and amortization, and impairment of assets were set as a percentage of previous year's tangible and intangible. Impairment of assets are expected to continue considering Capri's restructuring plans and implementation.

The statutory tax rate is assumed to be 19% going forward, and all adjustments for tax purposes will be zero since they are considered non-recurring.

As a result of these assumptions, the gross margin of Capri Holdings will be around 66%, in line with recent years (FY22 and FY23), and still lower than the peer group's average of 68% (FY23). Regarding the EBITDA margin, it is expected to be 14%, lower than the company's average of 19% (FY18-23) and lower than the peers average of 19% (FY23).

**Balance Sheet Drivers and Estimation:**

The operating cash was set at 2% of revenues<sup>12</sup>. Regarding accounts receivable, inventories and accounts payable were estimated according to the average collection period, average holding period and average payable period, respectively. Prepaid expenses and other current assets were estimated as a percentage of sales, while accrued payroll, payroll related expenses, accrued expenses and other liabilities were estimated as a percentage of SG&A.

Property and equipment include headquarters, warehouses, and production facilities, as since Q1-2024, all Capri Holdings stores are leased. Therefore, PPE is expected to remain constant and the same applies to intangibles and goodwill. Consequently, the investments in tangible and intangible assets will be equal to depreciations, amortizations, and respective impairments.

Operating lease right-of-use assets include all company stores as of Q1-2024. All new stores were projected in function of the past revenue per store - per brand and per geography and considering the respective projected revenues. Assuming that both the revenue per store and the value of each leased store will remain constant, the value of the operating lease right-of-use assets is the product of the leased value per store and the number of stores of the group projected in line with in-store revenue growth. Lease liabilities were assumed to grow at the same rate as the operating lease right-of-use assets, with the borrowings and excess of operating cash items used to balance the balance sheets.

**Cashflow Estimations:**

The cashflows result from the adjustments from the core and non-core results based on all non-cash items, and accounting also, for changes in net working capital ("NWC") and capex. The non-cash item changes are generally related to reversions of depreciation, amortization and impairment of assets. The changes in NWC, refer to all the changes in accounts receivable, inventories, pre-paid expenses and other current assets, accounts payable, accrued payroll and payroll related expenses, and accrued expenses and other liabilities. Capex includes the changes in PPE, operating lease right-of-use assets, intangible assets, and goodwill, adjusted for depreciation and amortization.

- **Perpetual Growth Rate Estimation**

The perpetual growth rate was calculated by computing the weighted average of the nominal long-term growth rates of the three regions (namely, Americas, Asia, and EMEA), weighted on the share of revenue each geography has by 2034. According to the data on Exhibit 19, the perpetual growth rate found was 2.60%.

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<sup>12</sup> McKinsey on Finance #39 Spring 2011

▪ Cost of Capital Estimation.

**Cost of Debt Estimation**

The estimation of the cost of debt can be obtained according to the following formula:

$$R_d = \text{Yield to Maturity} - \text{Probability of Default} \times \text{Loss Given Default}$$

Considering that Capri Holdings does not have any listed bonds, it was chosen the bond of a competitor with a relatively similar financial health profile, to assess the implied yield of that bond. The bond used was Burberry Group PLC listed in Frankfurt 1.125% 20/25, and the bond yield adjusted for US inflation is 5.47%.

The probability of default was estimated in function of the credit rating of Baa3 from Moody's and adjusted for the annual probability of default, obtaining 0.36%.<sup>13</sup>

The loss given default ("LGD") was established as a weighted average of the LGD applicable to secured and unsecured debt in the US, according to Renaul and Sacillet (2004). This was 44% for LGD senior secured debt, and 53% for LGD senior unsecured debt, resulting in an estimated LGD of 47.61%. Thus, from all previous inputs, the estimated cost of debt was found to be 5.44%.

**Cost of Equity Estimation:**

The cost of equity was found according to the traditional CAPM formula:

$$R_e = R_f + \beta_e * (MRP)$$

The risk-free rate ("Rf") was set to be the current 10-year US government treasury bond yield, 4.23%. The market risk premium ("MRP") was assumed to be 5.5%, according to historical data on S&P500 returns, where the equity premium to treasury bills was considered.

	Levered Betas	Unlevered Betas
Capri Holdings	1,332	0,824
Tapestry	1,225	0,965
Ralph Lauren	1,058	0,848
Burberry	0,780	0,691

**Exhibit 20** – Betas of Capri and Peers

The equity beta was calculated by considering the coefficient of the linear regression relating the excess market returns to the excess stock returns of Capri Holdings. The equity beta was then unlevered according to the capital structure of each of the firms and an average of the unlevered betas was set to be the unlevered beta of Capri Holdings of 0.828 (Exhibit 20). Afterwards, the unlevered beta was adjusted to Capri's Debt-to-Equity ratio of 0.841, obtaining an equity beta of 1.328 and, by application of the CAPM formula, a cost of equity of 11.56%.

<sup>13</sup> Moody's Investors Service, "Annual Default Study: Corporate Default and Recovery Rates, 1920-2017"

	Inputs
Rf	4,23%
MRP	5,50%
Rd	5,44%
Re	11,56%
D/V	45,69%
Tax rate	19,00%
WACC	8,29%

Exhibit 21 – WACC Input Summary

### Cost of Capital Estimation:

The cost of capital represented by the Weighted Average Cost of Capital can be determined by using the following formula:

$$WACC = Re * \frac{Equity}{Enterprise\ Value} + Rd * \frac{Debt}{Enterprise\ Value} * (1 - Tax\ Rate)$$

Considering all the inputs in Exhibit 21, the WACC obtained was 8.20%.

### Valuation Output

#### ▪ DCF Valuation Output

The DCF valuation incorporates the estimates of the perpetual growth rate of 2.60%, the WACC of 8.29%, and the cashflows as described earlier in this report.

Brand	Equity Value (\$ mn)	Value per Share (\$)
Versace	1 090	9,39
Jimmy Choo	185	1,60
Michael Kors	10 608	91,40
Corporate Segment	-6 591	-56,78
Capri Holdings	5 292	45,60

Exhibit 22 – DCF Model Output Summary

After obtaining the enterprise value of Capri Holdings as of the end of 2024, it was then subtracted the net debt, non-controlling interests, and added back the non-core business capital of each brand. Under this methodology, Capri Holdings is valued at \$5.3 billion or \$45.60 a share. Exhibit 22 showcases a detailed valuation per brand.

Regarding the brands that add equity value to Capri Holdings, roughly 89% of the is attributed to Michael Kors, followed by Versace (9%) and Jimmy Choo (2%).

The corporate segment has a negative value of equity, as seen in Exhibit 22, which is shown to demonstrate that as a sum of the parts, the valuation is coherent. An interpretation of this result is that its contribution mainly relates to non-profit activities such as management and administration.

For the final share price recommendation, the DCF model valuation of \$45.60 per share has a weight of 70% as it is the base case of the model.

#### ▪ Relative Valuation Output

The multiples used for this method were the Price-to-Earnings ratio and the Enterprise Value-to-EBITDA. The former is frequently used to determine to which extent a company might be undervalued/overvalued compared with the industry, whereas the latter is commonly used for valuation purposes.

The methodology applied for the valuation followed several steps: **(i)** a peer group was chosen based on business model and size (revenue, market share and market capitalisation); **(ii)** the median of the value of the multiples of the group, including Capri, was taken, as showcased in Exhibit 18; **(iii)** the valuation of Capri Holdings was obtained. Note that the P/E valuation directly generates the equity value, whereas the EV/EBITDA valuation requires adjustments related to net debt, minority interests and non-core business capital.

Company	P/E	EV/EBITDA
Capri Holdings	6.9x	7.6x
Tapestry	10.1x	8.9x
Ralph Lauren	16.5x	10.7x
Burberry	16.0x	11.2x
<b>Median</b>	<b>13.0x</b>	<b>9.8x</b>

**Exhibit 23** – Peers and the Respective Ratios for Relative Valuation

As Exhibit 23 shows, Tapestry and Capri Holdings have significantly different ratios to the rest of the group. There are several reasons why this could be the case: **(i)** Capri Holdings and Tapestry have more exposure to the Americas and Europe (vs Asia). As Asia has been an important growth driver for the luxury market in recent years, it generates better growth expectations that are already accounted by the market. **(ii)** Ralph Lauren and Burberry have an asset light model due to not operating owned stores, whereas Tapestry and Capri do. This pressures the cost structure of Capri's business, decreasing earnings and implying a discount in the price due to this competitive disadvantage. **(iii)** This does not impact the EV/EBITDA ratio by increasing in comparison to Ralph Lauren and Burberry because these firms also have lower debt and a higher market capitalisation, leading to a higher EV/EBITDA ratio compared to Capri Holdings and Tapestry. **(iv)** The stagnation of its core brand and the consistent overpayment for its targets might have depressed the market capitalization of Capri. Versace was acquired by \$2 billion (vs \$1.1 billion in the DCF) and Jimmy Choo was acquired by \$1 billion (vs \$185 million).

According to the P/E ratio valuation, Capri Holdings is valued at \$8.1 billion in equity value or \$69.59 a share whereas under the EV/EBITDA valuation, Capri is valued at \$6 billion in equity value or \$51.69 a share.

Several disadvantages may arise from the application of relative valuation, namely through the P/E. These include: **(i)** the necessity to adjust for non-recurring and non-operating items when they exist; **(ii)** the possibility of the expected growth rates of cashflows differing for the selected firms, generating differences that go beyond the ongoing performance of the businesses; **(iii)** the significance of the impact of the chosen peer group on the valuation; **(iv)** the impact of leverage in a firm is not reflected. To overcome point (iv), the EV/EBITDA ratio was decided as a complement to the analysis, aiming to show the impact of different capital structures despite similarities amongst the group.

Considering the numerous limitations of this approach, the multiple techniques were shown purely to test for robustness of the DCF valuation, but they are not going to be used to determine the final share price of Capri Holdings.

## Valuation Analysis

### ▪ DCF Valuation Metric Analysis

According to the analysis performed, the expected Return on Invested Capital (ROIC) will increase from 9% (FY24) to 12% (FY34), because of the improvement in the non-financial result of Capri Holdings, derived mostly from revenue growth. In contrast, the Return on New Investment Capital (RONIC) will

decrease, from 47% (FY24) to 18% (FY34). This can be explained by an exhaustion of highly profitable projects in the short-run, leading to less profitable options for management later when the economy stabilizes in its long-run equilibrium. This might also be explained by a lag coming from investment returns that take time to take an effect, namely on new stores openings and renovations. As for the reinvestment rate, it will decrease as well, from 35% (FY24) to 11% (FY34), as since management has less profitable project options, lower value creation compared to previous years can be expected.

Increases in invested capital are mostly attributable to changes in net working capital to support the operations and increases in operating lease right-of-use assets, which include all Capri Holdings' leased stores. This additional investment in stores will focus in Asia (despite also including other regions), in line with market trends of increasing exposure to Asia. Thus, additional investments in invested capital relate directly with the business operations, which is the source of growth of Capri Holdings in the period estimated. This is also the case even when referring to investments in intangible assets in licenses for websites and brands, for instance, that support sales growth in the online channel.

▪ Sensitivity Analysis

A sensitivity analysis on the cash flows and valuation was used to test the robustness of the DCF model. Variables included were the perpetual growth rate and Rf rate, subsequently influencing the Re, Rd, and ultimately, the WACC.

For the perpetual growth rate, the interval used was 0%-3.28%, testing the extent of the effect of either global economic growth stagnation, represented by a 0% growth rate or the maximum growth rate the company could experience, if it had full exposure to Asia, growing at the long-term growth rate of 3.28%

For the risk-free rate, the interval was defined based on the future projections of interest rate policy of the Federal Reserve as assessed by the market. In 2024, the interval is expected to be between 4%-5%. The 5.5% is the upper bound of the late Federal Reserve decision on the key interest rates.

As Exhibit 24 shows, the implied stock prices range from \$23.77 to \$55.04, while for a smaller interval the range would be \$34.55 to \$48.43, meaning that the DCF valuation of \$45.60 is closer to the upper bound of the range, mostly because the perpetual growth of 2.60% is closer to the upper bound compared with the lower bound imposed of 1.23% (vs 3.08%) and because the risk-free rate is also closer to its lower bound of 4% (vs upper bound of 5.5%).

Perpetual Growth Rate	Risk-free Rate			
	4.00%	4.23%	5.00%	5.50%
0.00%	32.15	30.72	26.33	23.77
1.95%	42.82	40.75	34.55	31.03
2.60%	48.03	45.60	38.41	34.39
2.64%	48.43	45.97	38.70	34.64
3.28%	55.04	52.09	43.47	38.74

Exhibit 24 – Sensitivity Analysis

## ■ Scenario Analysis

As a supplement to the sensitivity analysis performed, it was decided to also present a scenario analysis that focuses mostly on two main scenarios.

### Scenario 1 – Global Economic Slowdown

Considering the weak macroeconomic data in recent quarters, the possibility of a global recession, and a material slowdown in Asia, a structural change was implemented in the long-term growth profile of each considered region.

For Asia, the long-term growth rate of GDP per capita was assumed to be 2%, compared with the 3.28% assumed previously. In the Americas, the long-term growth rate of GDP per capita was also set at 2%, compared with 2.64% initially stated. For Europe, a stagnation scenario was assumed with 0% growth, which contrasts with the 1.96% growth rate included in the initial valuation.

Brand	Equity Value (\$ mn)	Value per Share (\$)
Versace	857	7,39
Jimmy Choo	141	1,21
Michael Kors	9 442	81,35
Corporate Segment	-5 924	-51,04
Capri Holdings	4 516	38,91

**Exhibit 25** – Scenario 1 Valuation Output Summary

As Exhibit 25 showcases and similarly to the other valuation outputs, Michael Kors remains the most valuable brand with \$9.4 billion in equity, followed by Versace (\$857 million) and Jimmy Choo (\$141 million).

The total equity value of Capri Holdings is \$4.6 billion, or \$38.91 a share, below the initial valuation of \$45.60. Considering that this scenario is likely in the short term, it was decided to attribute it a weight of 20% in the final share price.

### Scenario 2 – Inefficient Capex Expansion

As explained earlier, management is expected to face lower return investment opportunities by FY34 compared to FY24. As of now, there are plans to refurbish stores to improve productivity and sales and expand to Asia to diversify away from the Americas and Europe and align with other large luxury players.

As this strategy involves risks, a scenario where productivity of stores measured by revenue per store would be decreasing was developed. This would result in an excessive increase in the number of stores with no material gain in revenues. It was assumed that productivity would decrease by 1 p.a. for the first three years of the projected cashflows, remaining constant afterwards.

Brand	Equity Value (\$ mn)	Value per Share (\$)
Versace	994	8,56
Jimmy Choo	119	1,03
Michael Kors	10 363	89,28
Corporate Segment	-6 754	-58,19
Capri Holdings	4 722	40,68

**Exhibit 26** – Scenario 2 Valuation Output Summary

As Exhibit 26 shows and similarly to the other valuation outputs, Michael Kors remains the most valuable brand with \$10.4 billion in equity, followed by Versace (\$1 billion) and Jimmy Choo (\$119 million). The combined equity value of Capri Holdings is, therefore, \$4.7 billion, or \$40.68 a share, below the initial valuation of \$45.60.

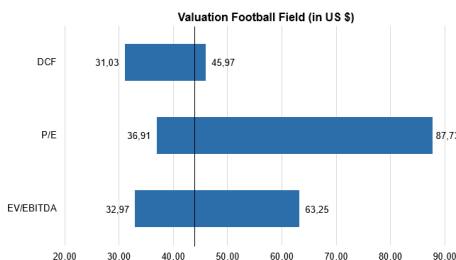
Considering that this scenario is less likely compared to Scenario 1, it was attributed a weight of 10% in the final share price.

## Final Standalone Share Price

\$ mn, except share prices	DCF (70%)	Scenario 1 (20%)	Scenario 2 (10%)	Equity Value	Final Share Price (\$)
Capri Holdings	5 292	4 516	4 722	5 080	43,77
Versace	1 090	857	994	1 034	8,91
Jimmy Choo	185	141	119	170	1,46
Michael Kors	10 608	9 442	10 363	10 350	89,17
Corporate	-6 591	-5 924	-6 754	-6 474	-55,77

By taking into account the DCF, relative valuations, and the respective sensitivity and scenario analyses, it was decided that to determine the final share price of Capri Holdings, a weighted average of all share prices found was appropriate.

**Exhibit 27 – Final Standalone Share Price Analysis**



The final share price for the standalone valuation of Capri Holdings is \$43.77 (Exhibit 27). The most valuable brand is Michael Kors, valued at \$10.4 billion, followed by Versace (\$1 billion) and Jimmy Choo (\$170 million). Therefore, Capri Holdings has an equity value of \$5.1 billion, as of the end of 2024.

To complement the analysis, Exhibit 28 provides an overview of a price range for each methodology used, in comparison with the final price of \$43.77. The final price stands closer to the upper bound of the DCF and aligned towards the lower bound of the P/E and EV/EBITDA methodology.

**Exhibit 28 – Football Field of Capri Holdings Valuation**

## Capri Holdings x Tapestry Deal

### Capri Holdings vs Tapestry

To better understand the implications of the merger deal and its rationale, it is presented an analysis of the two parties involved in the transaction as a complement to the information provided at an earlier stage in this report.

#### Market Share

Capri Holdings presented revenues of \$5.6 billion in FY22, below the total revenue of Tapestry of \$6.7 billion for the same period. This represents a market share, respectively, of 2.3% and 2.7% for Capri Holdings and Tapestry, indicating they have a similar size in the market.

#### Groups' Structure

The luxury groups include three brands each. Capri Holdings is the owner of Jimmy Choo, Michael Kors, and Versace, being Michael Kors the largest brand in the group, accounting for 69% of the revenue. Tapestry is the owner of Coach, Kate Spade, and Stuart Weitzman, being Coach the largest brand of the group, accounting for 73% of the group's revenue. Both groups operate around a larger brand and set of smaller luxury houses that result from acquisitions.

#### Geographical Reach

While both Tapestry and Capri have a significant exposure to the North American market (66% and 58% of their respective total revenues), Tapestry has a greater exposure to Asia compared to Capri (24% vs 15.3%), while having lower exposure to Europe compared to Capri (15% vs 27.4%).

#### Strategy

Capri Holdings maintains all stores under lease agreements, whereas Tapestry opts for directly owning the stores it operates. Tapestry engages in a more aggressive marketing strategy, investing \$571 million in FY2023, nearly 1.5x the

level of investment of Capri Holdings. As a percentage of sales, this corresponds to 8.5% in the case of Tapestry and 5.6% in the case of Capri Holdings.

## Overview of the Transaction

### ▪ Transaction Description

On August 10th, 2023, Capri announced an agreement with Tapestry Inc. to merge in a deal valued at \$8.5 billion, with an all-cash offer of \$57 per share. The offer price was considered by analysts as attractive due to the premium of 64.7% compared with the previous close of \$34.61 (August 9th, 2023).

The acquisition would create a luxury conglomerate, combining six luxury houses, with \$12 billion in revenue, an estimated market share of 5.1%, and roughly \$2 billion in adjusted operating profit according to FY22 data. Management expects that the deal will generate up to \$200 million in synergies three years after the completion of the integration of the business units.

To complete the transaction, Tapestry secured an \$8 billion bridge loan. The financing structure is expected to involve a combination of senior notes, term loans and excess cash including to pay down a portion of Capri's debt as well.

On October 25th, 2023, the transaction was approved by Capri' shareholders in the extraordinary shareholder meeting organized to discuss the merger agreement.

### ▪ Transaction Rationale

With the merger, the new luxury house will count with six luxury houses, increasing market share to 5.1%, the same as Hermès, and higher than industry numbers usually around 2-3% in total market. This puts the conglomerate in a better position to compete with large luxury conglomerates such as LVMH and Kering. The merger also concentrates the market share in the Americas, creating a US-centric rival, rather than European-centric.

The merger also supports Capri Holding' plan to diversify towards Asia as 24% of Tapestry's revenue come from that segment alone. As a complement, Capri Holdings will help Tapestry diversify its revenues towards Europe since 27.4% come from this geographic region, compared to 15% in the case of Tapestry.

The transaction is expected to generate synergies of roughly \$200 million three years after the integration of the businesses. While all brands will continue to operate individually, Capri Holdings and Tapestry state that there is room for simplification of traditional corporate functions within human resources, information technology, finance, and legal departments.

- **Changes in Strategy**

Tapestry's management has experience in turning around Coach, an aspirational luxury brand focused on a younger customer base. Therefore, there is the possibility of leveraging this expertise to revamp Michael Kors, namely through online sales, reducing the wholesale channel weight, increasing direct to consumer sales, and enhancing investments in marketing.

Tapestry's board of directors is committed to increase its quarterly dividend per share by 17%, while suspending its share repurchase program to prioritize deleveraging by reducing debt and committing to a long-term leverage target of 2.5x debt to EBITDA within 24 months post close.

- **Risks of the Transaction**

With the merger, regulatory issues might arise considering the level of concentration of the North American market, as LVMH and Kering alone already control respectively 19% and 17% of the American luxury leather segment. Nevertheless, as this is the combination of two American brands represents 24% of the market, and they are going to directly compete with a European rival, there are reasonable chances that the merger will get approved.

Moreover, there are issues with the realization of synergies as they are limited and relate mostly to the corporate functions. The ability to leverage capabilities to improve individual brand performance is also ambiguous, as the luxury houses continue to operate independently and they face exposure to different geographies, customer bases, and sometimes product segments.

## Assessment of the Fair Offer Price

- **Methodology**

One way of determining the fair offer price is by using a DCF valuation including the stand-alone valuation of Capri and the value of synergies to be generated in the merger that are attributable to Capri's shareholders. The other possibility is to value the merger in line with transaction multiples used in recent luxury goods industry acquisitions and use them as a reference to value Capri Holdings.

- **DCF Methodology**

Additionally, to the stand-alone value of Capri already determined, the DCF valuation requires the determination of synergies to be attributed to Capri's shareholders.

**Determination of Synergies:** The merger agreement states that it is a possible that synergies will be realized over the next three years, to be sustained in the

long-run, and that they mostly relate to cost savings associated with simplification of corporate functions associated to human resources, IT, finance and legal departments. The independent assessment of such synergies allowed the authors of this report to reach a similar conclusion for several reasons. Firstly, the merger agreement contemplates that the luxury houses will continue to operate independently, therefore it is unlikely that revenue synergies will occur from the interaction between brands. Secondly, the only scope for duplication is indeed within the corporate functions level, where some simplification might be obtained, although the concrete details are not clear. Thirdly, the potential management transformation of the brands through expertise is still not clear either since the management of the brands is also expected to remain independent, even if the brands are now supervised by a new board.

It is also not clear to which extent such synergies derived from “expertise and combined capabilities” will indeed result in additional and quantifiable value added to the overall group. In fact, if there is any value that comes from it, it is derived more in the form of control of the new management team of Capri’s luxury houses rather than in the form of synergies.

Moreover, considering that the deal does not relate necessarily with the goal of increasing access to financing since there is, in fact, a long-term deleveraging strategy and brands continue to operate independently, it does not seem to be the case that financial synergies will result from the merger.

Therefore, it was concluded that the only real synergy is cost synergies that arise from the duplication of functions. These are operating synergies that have the potential of increasing operating income by reducing administrative costs (SG&A) and, therefore, increase the value of the firm as a whole. After determining the synergies, it is also important to analyse to which extent they are plausible, the timing of implementation and the risk associated with the implementation.

The cost synergies are plausible because they are directly associated with the corporate functions of the firm, which are under the control and supervision of the board of the new luxury conglomerate. As a result, as it is more under management’s scope, it is more likely to be executed. In particular, it seems reasonable to assume that the length of 3 years after the completion of the merger, to be closed next year, is also a fair time frame for the implementation of the synergies, which are expected to be permanent thereafter. Finally, the risk of synergy should be represented by a discount rate equivalent to the WACC considering that the room for synergies is indeed limited, even if one does not anticipate the execution to the challenging.

**Quantification of Synergies:** The parties involved in the merger have assessed the synergies to be valued at roughly \$200 million by the end of the third year after the completion of the merger.

To determine the value of the synergies, an analysis of the selling, general, and administrative costs (SG&A) that relate to the corporate functions of both Tapestry and Capri Holdings was completed. The portion of SG&A costs considered part of the corporate segment relate to those that were reported as unallocated expenses not attributable to any of the luxury houses of both groups.

While there is no information about the respective costs associated with these functions, an assumption was made that both functions will overlap perfectly to the extent of the minimum of corporate SG&A of the two companies. This would mean that, in the limit, if synergies are properly valued, all functions from the company with the lowest corporate SG&A costs would be completely irrelevant and perfectly substitutable by the other.

This assumption is somewhat realistic since most of the functions do not vary significantly between companies. There might be some issues regarding the integration of information systems but, apart from that, functions related to finance, legal or human resources are not expected to be significantly different among firms. Therefore, considering that Tapestry had corporate SG&A costs estimated in \$465.8 million and that Capri Holdings had corporate SG&A costs estimated in \$221 million, the total cost synergies from the transaction are valued at a total of \$221 million.

While the \$221 million in cost synergies represent the expected total synergies from the transaction, they cannot be fully attributed to Capri shareholders, as a part of the cost savings also come from the integration with Tapestry. The ratio of distribution was set in function of the contribution of each firm to the total corporate SG&A costs. Altogether, they would sum up to \$686.8 million, of which 32.2% are the share of total attributed to Capri Holdings. Therefore, the share of synergies to Capri Holdings shareholders is the portion of total synergies associated with the contribution to total, that is, \$71.1 million a year by FY28 when the synergies are expected to be fully realized.

For the process of valuation of synergies, it was assumed a gradual and linear incorporation of synergies in the company, being \$17.8 million in FY25, \$35.6 million in FY26, \$53.3 million in FY27 and finally \$71.1 million from FY28 onwards. The long-term growth rate of synergies was assumed to be 0% as synergies are expected to remain the same in the future and the discount rate will be the same as the WACC, 8.29%.

As a result, the estimated present value of synergies is, therefore, \$764.3 million or \$6.58 a share.

**Fair Offer Price according to DCF Methodology:** Considering that the fair offer price should account for not only the stand-alone valuation of Capri Holdings of \$43.77 a share but also the present value of synergies estimated to be \$6.58, the resulting fair offer price according to the DCF methodology should be \$50.35 a share, lower than the \$57 a share offer under the deal. This price will have a weight of 70% in the final fair offer price.

- **Transaction Multiples Methodology**

The transaction multiples methodology consists in using the multiples associated with the respective offer prices to value a transaction. The criteria used for a deal to be applicable was that it should be no older than a decade, have a minimum value of \$250 million, should be related to the luxury goods industry, and should have at least the EV/EBITDA or EV/Revenue multiple available for analysis.

Target name	Deal value (€M)	EV/EBITDA	EV/Revenue	Announced date
JONES GROUP INC., THE	1 601	10,83	0,58	19/12/2013
ROBERTO CAVALLI SPA	350	26,54	2,12	30/04/2015
STROILI ORO SPA	270	8,00	1,03	15/07/2016
DONNA KARAN INTERNATIONAL INC.	613	n.a.	1,31	25/07/2016
CORTEFIEL SA	366	n.a.	1,30	21/07/2017
GIANNI VERSACE SPA	1 830	n.a.	4,22	25/09/2018
TIFFANY & COMPANY	13 230	16,44	3,69	29/10/2020
TOM FORD INTERNATIONAL LLC	25 768	n.a.	32,48	15/11/2022

**Exhibit 24** – Selected M&A Deals and Respective Transaction Multiples

After choosing the deals that would be part of the sample, the median value of each of the transaction multiples was used to calculate the fair offer value of Capri Holdings. For the case of the EV/EBITDA multiple, the median ratio value was 13.6x, the implied equity value was \$9 822 million or \$84.63 a share. Considering the lack of the data, it was decided that this method should only weight 10% in the final offer share price. The implied median EV/Revenue ratio was 1.7x, the implied equity valuation was \$5 825 million or \$50.18 a share. This approach would have a weight of 20% in the final offer share price.

- **Final Fair Offer Share Price**

Considering all the approaches used, namely the DCF method and the transaction multiples method, with the respective weights, the fair offer price was found to be \$53.75 a share, below the \$57 a share all-cash offer made by Tapestry to Capri's shareholders.

	DCF (70%)	EV/EBITDA (10%)	EV/Revenue (20%)	Equity Value (\$M)	Final Share Price (\$)
Capri Holdings	5 844	9 822	5 825	6 238	53,75

**Exhibit 25** – Fair Offer Price Valuation Output Summary (in \$)

## Final Price and Recommendation

This report determined the stand-alone fair price of Capri Holdings and the fair offer price for the company. The stand-alone price of Capri Holdings was found to be \$43.77 a share. This represents a potential loss -1.95%, which accounts not only for the capital gain in comparison with the current share price but also the assumed dividend of \$3.72 a share, which is usually reflected in the form of share buybacks instead. As a result, the recommendation would be a "Sell".

However, considering that the company has received a takeover bid of \$57 a share, in cash, it was also assessed a fair offer price. The fair offer price for Capri Holdings should be \$53.75, representing a premium of 18.69% compared to the current share price of \$48.44. This premium includes the capital gain compared with the current share price and the assumed \$3.72 a share dividend to be paid before closing the transaction.

Considering that the fair price found of \$53.75 is lower than the \$57 a share price offered, this report concludes that Capri' shareholders have made the right decision in accepting the offer under the merger agreement.

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## Appendix

Balance sheet (\$ millions)	FY18	F19	FY20	FY21	FY22	FY23	E24	E25	E26	E27	E28	E29	E30	E31	E32	E33	E34
Operating Cash	94	105	111	81	113	112	124	130	135	141	146	152	158	163	168	173	178
Accounts receivable	290	383	308	373	434	369	415	434	452	470	489	508	526	545	562	579	593
Inventories	661	953	827	736	1 096	1 057	1 173	1 226	1 278	1 329	1 382	1 435	1 489	1 540	1 590	1 636	1 678
Prepaid expenses and other current assets	111	158	143	157	118	137	152	163	170	177	184	191	198	205	211	217	223
Property and equipment	583	615	561	485	476	552	552	552	552	552	552	552	552	552	552	552	552
Operating lease right-of-use assets	0	0	1 625	1 504	1 358	1 330	1 461	1 521	1 581	1 644	1 705	1 768	1 831	1 893	1 954	2 014	2 071
Intangible assets	1 236	2 293	1 986	1 992	1 847	1 728	1 728	1 728	1 728	1 728	1 728	1 728	1 728	1 728	1 728	1 728	1 728
Goodwill	848	1 659	1 488	1 498	1 418	1 293	1 293	1 293	1 293	1 293	1 293	1 293	1 293	1 293	1 293	1 293	1 293
Tax assets (liabilities), net	-208	-360	-282	-245	-244	-285	-285	-285	-285	-285	-285	-285	-285	-285	-285	-285	-285
Accounts payable	-294	-371	-428	-512	-555	-475	-535	-559	-583	-606	-630	-655	-679	-703	-725	-746	-766
Accrued payroll and payroll related expenses	-93	-133	-93	-116	-165	-154	-188	-196	-204	-212	-219	-228	-236	-244	-252	-259	-266
Deferred rent	-128	-132	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accrued expenses and other liabilities	-236	-279	-157	-183	-263	-233	-286	-298	-311	-322	-335	-347	-359	-372	-384	-395	-406
<b>Core Business Invested Capital</b>	<b>2 864</b>	<b>4 891</b>	<b>6 089</b>	<b>5 770</b>	<b>5 633</b>	<b>5 431</b>	<b>5 603</b>	<b>5 708</b>	<b>5 807</b>	<b>5 907</b>	<b>6 009</b>	<b>6 112</b>	<b>6 215</b>	<b>6 316</b>	<b>6 413</b>	<b>6 506</b>	<b>6 593</b>
Other assets	111	305	191	226	324	284	284	284	284	284	284	284	284	284	284	284	284
Other liabilities	-147	-261	-226	-544	-414	-399	-399	-399	-399	-399	-399	-399	-399	-399	-399	-399	-399
<b>Non-Core Business Invested Capital</b>	<b>-36</b>	<b>44</b>	<b>-35</b>	<b>-318</b>	<b>-90</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>	<b>-115</b>
<b>Total Invested Capital</b>	<b>2 828</b>	<b>4 935</b>	<b>6 054</b>	<b>5 452</b>	<b>5 543</b>	<b>5 316</b>	<b>5 488</b>	<b>5 593</b>	<b>5 692</b>	<b>5 792</b>	<b>5 894</b>	<b>5 997</b>	<b>6 100</b>	<b>6 201</b>	<b>6 298</b>	<b>6 391</b>	<b>6 478</b>
Excess of Operating Cash	69	67	481	151	56	137	148	161	176	193	210	228	250	274	301	331	365
Lease liabilities	0	0	-2 188	-2 104	-1 881	-1 777	-1 951	-2 032	-2 113	-2 196	-2 278	-2 362	-2 446	-2 529	-2 611	-2 690	-2 766
Borrowings	-875	-2 566	-2 179	-1 342	-1 160	-1 827	-1 814	-1 826	-1 834	-1 841	-1 848	-1 855	-1 862	-1 870	-1 877	-1 884	-1 892
<b>Net Financial Assets</b>	<b>-806</b>	<b>-2 499</b>	<b>-3 886</b>	<b>-3 295</b>	<b>-2 985</b>	<b>-3 467</b>	<b>-3 618</b>	<b>-3 698</b>	<b>-3 772</b>	<b>-3 844</b>	<b>-3 916</b>	<b>-3 988</b>	<b>-4 059</b>	<b>-4 125</b>	<b>-4 187</b>	<b>-4 244</b>	<b>-4 293</b>
Treasury shares	-3 016	-3 223	-3 325	-3 326	-3 987	-5 351	-5 351	-5 351	-5 351	-5 351	-5 351	-5 351	-5 351	-5 351	-5 351	-5 351	-5 351
Additional paid-in capital	831	1 011	1 085	1 158	1 260	1 344	1 344	1 344	1 344	1 344	1 344	1 344	1 344	1 344	1 344	1 344	1 344
Accumulated other comprehensive income	51	-64	-160	175	449	-198	-198	-198	-198	-198	-198	-197	-197	-197	-197	-197	-197
Retained earnings	4 152	4 705	4 567	4 151	4 837	6 053	6 075	6 100	6 125	6 153	6 182	6 213	6 246	6 280	6 315	6 352	6 389
Non-controlling interests	4	7	1	-1	-1	1	0	0	0	0	0	0	0	0	0	0	0
<b>Shareholders' equity</b>	<b>2 022</b>	<b>2 436</b>	<b>2 168</b>	<b>2 157</b>	<b>2 558</b>	<b>1 849</b>	<b>1 871</b>	<b>1 895</b>	<b>1 921</b>	<b>1 948</b>	<b>1 978</b>	<b>2 009</b>	<b>2 041</b>	<b>2 075</b>	<b>2 111</b>	<b>2 147</b>	<b>2 184</b>

Cash Flow Statement (\$ millions)	FY18	FY19	FY20	FY21	FY22	FY23	E24	E25	E26	E27	E28	E29	E30	E31	E32	E33	E34
<b>Core EBIT</b>	<b>864</b>	<b>779</b>	<b>-161</b>	<b>71</b>	<b>937</b>	<b>685</b>	<b>605</b>	<b>644</b>	<b>685</b>	<b>724</b>	<b>768</b>	<b>812</b>	<b>853</b>	<b>891</b>	<b>924</b>	<b>952</b>	<b>973</b>
Taxes	-174	-99	-8	-71	-95	-31	-115	-122	-130	-138	-146	-154	-162	-169	-176	-181	-185
NOPLAT	689	680	-169	0	842	654	490	521	555	587	622	658	691	722	749	771	788
Depreciation and amortization	208	225	249	212	193	179	186	192	195	197	199	202	204	206	209	211	213
Core non-cash item adjustments	40	27	28	-20	27	-1	51	51	51	52	52	53	53	53	54	54	55
Gross Core Cash Flow	938	932	109	192	1 062	833	727	765	801	836	874	912	948	982	1 012	1 037	1 056
Changes in Net Working Capital	141	-207	145	265	-351	-54	-29	-38	-34	-32	-35	-35	-34	-33	-31	-28	-25
Capex	-123	-184	-223	-111	-131	-226	-351	-287	-290	-295	-297	-301	-304	-306	-308	-308	-309
<b>Operating Cash Flows</b>	<b>956</b>	<b>541</b>	<b>31</b>	<b>346</b>	<b>580</b>	<b>553</b>	<b>347</b>	<b>439</b>	<b>477</b>	<b>509</b>	<b>543</b>	<b>577</b>	<b>610</b>	<b>643</b>	<b>673</b>	<b>700</b>	<b>722</b>
<b>Non-Core EBIT</b>	<b>-100</b>	<b>-120</b>	<b>-36</b>	<b>-25</b>	<b>-40</b>	<b>-13</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>
Taxes	20	15	-2	-3	4	1	5	5	5	5	5	5	5	5	5	5	5
Non-Core Result	-80	-105	-38	-28	-36	-12	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21
Non-Core non-cash item adjustments	61	53	699	319	95	151	1	1	1	1	1	1	1	1	1	1	1
Gross Non-Core Cash Flow	-19	-52	661	291	60	139	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21
Cash changes in other long-term assets and liabilities	8	42	-13	13	60	-28	0	0	0	0	0	0	0	0	0	0	0
Cash paid for asset/business acquisitions, net of cash acquired	-1 415	-1 875	-13	-13	0	0	0	0	0	0	0	0	0	0	0	0	0
Other cash charges (gains)	20	-77	294	12	165	315	-11	-6	-6	-5	-6	-6	-6	-5	-5	-5	-4
<b>Non-Operating Cash Flows</b>	<b>-1 406</b>	<b>-1 962</b>	<b>929</b>	<b>303</b>	<b>285</b>	<b>426</b>	<b>-32</b>	<b>-27</b>	<b>-27</b>	<b>-26</b>	<b>-27</b>	<b>-27</b>	<b>-26</b>	<b>-26</b>	<b>-26</b>	<b>-26</b>	<b>-25</b>
<b>Financial Result before taxes</b>	<b>-22</b>	<b>-38</b>	<b>-18</b>	<b>-43</b>	<b>18</b>	<b>-24</b>	<b>-38</b>	<b>-39</b>	<b>-40</b>	<b>-41</b>	<b>-41</b>	<b>-42</b>	<b>-43</b>	<b>-44</b>	<b>-45</b>	<b>-45</b>	<b>-46</b>
Taxes	4	5	-1	9	-2	1	7	7	8	8	8	8	8	8	8	9	9
<b>Financial Result</b>	<b>-18</b>	<b>-33</b>	<b>-19</b>	<b>-35</b>	<b>16</b>	<b>-23</b>	<b>-31</b>	<b>-32</b>	<b>-32</b>	<b>-33</b>	<b>-34</b>	<b>-34</b>	<b>-35</b>	<b>-36</b>	<b>-36</b>	<b>-37</b>	<b>-37</b>
Changes in net debt	803	1 635	-869	-622	-267	404	150	80	74	72	72	72	70	67	62	56	50
Financial non-cash item adjustments	26	-3	30	5	30	-1	-1	0	0	0	0	0	0	0	0	0	0
Cash Flow from Financial Debt	811	1 599	-858	-651	-221	380	118	48	42	40	39	38	35	31	26	19	12
Other equity cash changes	-361	-178	-102	2	-644	-1 358	-433	-461	-492	-522	-555	-588	-619	-648	-673	-693	-709
<b>Financing Cash Flows</b>	<b>450</b>	<b>1 421</b>	<b>-960</b>	<b>-649</b>	<b>-865</b>	<b>-978</b>	<b>-315</b>	<b>-413</b>	<b>-451</b>	<b>-482</b>	<b>-516</b>	<b>-550</b>	<b>-584</b>	<b>-616</b>	<b>-647</b>	<b>-674</b>	<b>-696</b>

Income statement (\$ millions)	FY18	FY19	FY20	FY21	FY22	FY23	E24	E25	E26	E27	E28	E29	E30	E31	E32	E33	E34
<b>Total revenue</b>	<b>4 719</b>	<b>5 238</b>	<b>5 551</b>	<b>4 060</b>	<b>5 654</b>	<b>5 619</b>	<b>6 216</b>	<b>6 494</b>	<b>6 771</b>	<b>7 038</b>	<b>7 319</b>	<b>7 604</b>	<b>7 886</b>	<b>8 160</b>	<b>8 421</b>	<b>8 666</b>	<b>8 890</b>
Americas	3 182	3 193	3 115	2 172	3 210	3 220	3 557	3 727	3 901	4 072	4 272	4 469	4 660	4 842	5 012	5 166	5 302
Accessories	2 045	2 054	1 859	1 298	1 816	1 792	1 943	2 000	2 061	2 117	2 178	2 242	2 308	2 375	2 442	2 509	2 576
In-store sales	1 741	1 714	1 552	1 101	1 534	1 495	1 581	1 609	1 637	1 657	1 676	1 699	1 727	1 760	1 798	1 841	1 890
E-commerce	304	341	307	197	283	296	362	392	424	461	503	543	581	615	644	668	686
Footwear	448	569	520	362	616	625	716	770	826	884	954	1 021	1 084	1 141	1 191	1 233	1 265
In-store sales	385	477	440	312	530	533	604	649	695	742	799	853	904	951	992	1 027	1 054
E-commerce	64	92	80	50	86	91	112	121	131	142	155	167	179	190	199	206	212
Apparel	415	356	519	326	511	566	637	682	727	772	825	877	925	970	1 010	1 044	1 071
In-store sales	356	300	438	281	440	483	536	573	609	643	685	725	763	798	830	857	880
E-commerce	59	57	81	45	70	83	101	109	118	128	140	151	162	172	180	186	191
Licensed Product	168	128	109	90	127	115	127	133	140	146	154	161	168	175	181	187	192
Licensing Revenue	104	84	97	71	104	110	122	128	134	140	148	155	162	168	174	180	184
Other	2	1	11	25	37	13	13	13	13	13	13	13	13	13	13	13	13
EMEA	1 390	1 240	1 523	1 029	1 489	1 542	1 693	1 750	1 798	1 829	1 841	1 860	1 885	1 914	1 947	1 983	2 022
Accessories	734	660	664	486	671	668	735	756	770	771	763	761	763	769	779	792	807
In-store sales	628	555	562	416	572	564	610	620	622	611	588	572	562	558	558	564	575
E-commerce	105	105	102	70	99	103	126	136	148	160	175	188	201	212	221	228	232
Footwear	271	274	367	230	359	382	423	441	458	473	485	498	510	522	533	545	555
In-store sales	238	236	322	203	316	335	366	379	391	400	406	412	418	425	433	441	449
E-commerce	33	38	45	27	44	47	57	62	67	73	80	86	92	97	101	104	106
Apparel	249	202	347	208	311	346	375	389	402	413	420	427	435	443	452	461	470
In-store sales	218	176	304	184	274	304	324	333	341	347	347	349	352	356	361	367	374
E-commerce	30	26	43	25	37	43	52	56	61	66	72	78	83	87	91	94	96
Licensed Product	77	57	71	50	70	70	77	79	82	83	84	85	86	87	89	90	92
Licensing Revenue	56	44	66	43	62	67	73	76	78	80	80	81	82	84	85	87	88
Other	4	3	9	11	16	9	9	9	9	9	9	9	9	9	9	9	9
Asia	767	770	913	859	955	857	966	1 017	1 072	1 138	1 207	1 274	1 340	1 403	1 462	1 517	1 566
Accessories	403	411	406	379	410	367	416	446	477	506	543	578	612	644	673	700	723
In-store sales	345	345	343	325	351	310	348	373	399	422	452	481	509	535	559	581	600
E-commerce	58	66	63	54	60	57	68	72	78	84	91	97	103	109	114	119	123
Footwear	151	170	216	205	239	214	242	251	262	279	294	309	324	338	351	364	376
In-store sales	132	147	190	181	211	188	210	218	226	240	252	264	276	287	298	309	319
E-commerce	18	23	27	24	28	26	31	34	36	39	42	45	48	51	53	55	57
Apparel	138	125	205	185	208	194	217	224	232	246	258	269	281	292	303	314	324
In-store sales	121	109	179	164	184	170	188	193	199	210	219	228	237	246	255	264	272
E-commerce	17	16	26	21	24	24	28	30	33	35	38	41	43	46	48	50	52
Licensed Product	43	35	42	43	46	39	44	46	49	52	55	58	61	63	66	68	71
Licensing Revenue	31	27	39	38	41	38	42	44	47	49	52	55	58	61	63	66	68
Other	2	2	5	9	10	5	5	5	5	5	5	5	5	5	5	5	5
Cost of goods sold	-1 860	-2 058	-2 280	-1 463	-1 910	-1 895	-2 136	-2 232	-2 327	-2 419	-2 516	-2 613	-2 710	-2 804	-2 894	-2 978	-3 055
Selling, general and administrative expenses	-1 767	-2 075	-2 464	-2 018	-2 533	-2 708	-3 245	-3 382	-3 520	-3 654	-3 791	-3 932	-4 072	-4 212	-4 347	-4 477	-4 601
Depreciation and amortization	-208	-225	-249	-212	-193	-179	-186	-192	-195	-197	-199	-202	-204	-206	-209	-211	-213
Impairment of assets	-33	-21	-708	-316	-73	-142	-34	-35	-35	-35	-36	-36	-37	-37	-38	-38	-38
Foreign currency gain (loss)	13	-80	-11	20	-8	-10	-9	-9	-9	-9	-9	-9	-9	-9	-9	-9	-9
<b>Core Result Before Taxes</b>	<b>864</b>	<b>779</b>	<b>-161</b>	<b>71</b>	<b>937</b>	<b>685</b>	<b>605</b>	<b>644</b>	<b>685</b>	<b>724</b>	<b>768</b>	<b>812</b>	<b>853</b>	<b>891</b>	<b>924</b>	<b>952</b>	<b>973</b>
Statutory Taxes	-164	-148	31	-13	-178	-130	-115	-122	-130	-138	-146	-154	-162	-169	-176	-181	-185
Adjustments on core taxes	-10	49	-38	-58	83	99	0	0	0	0	0	0	0	0	0	0	0
Foreign currency translation adjustments	148	-134	145	-15	127	-41	16	16	16	16	16	16	16	16	16	16	16
<b>Core Result</b>	<b>837</b>	<b>546</b>	<b>-24</b>	<b>-15</b>	<b>969</b>	<b>613</b>	<b>507</b>	<b>538</b>	<b>571</b>	<b>603</b>	<b>639</b>	<b>674</b>	<b>708</b>	<b>738</b>	<b>765</b>	<b>787</b>	<b>804</b>
Restructuring and other charges	-102	-124	-42	-32	-42	-16	-29	-29	-29	-29	-29	-29	-29	-29	-29	-29	-29
Other income (expense), net	2	4	6	7	2	3	3	3	3	3	3	3	3	3	3	3	3
<b>Non-Core Result Before Taxes</b>	<b>-100</b>	<b>-120</b>	<b>-36</b>	<b>-25</b>	<b>-40</b>	<b>-13</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>	<b>-27</b>
Statutory Taxes	19	23	7	5	8	2	5	5	5	5	5	5	5	5	5	5	5
Adjustments on non-core taxes	1	-8	-9	-8	-4	-2	0	0	0	0	0	0	0	0	0	0	0
Net (loss) gain on derivatives	-16	17	-4	-4	10	-6	2	2	2	2	2	2	2	2	2	2	2
<b>Non-Core Result</b>	<b>-96</b>	<b>-88</b>	<b>-42</b>	<b>-32</b>	<b>-26</b>	<b>-18</b>	<b>-19</b>	<b>-19</b>	<b>-19</b>	<b>-19</b>	<b>-19</b>	<b>-19</b>	<b>-19</b>	<b>-19</b>	<b>-19</b>	<b>-19</b>	<b>-19</b>
<b>Total Non-Financial Result</b>	<b>742</b>	<b>458</b>	<b>-65</b>	<b>-48</b>	<b>943</b>	<b>595</b>	<b>487</b>	<b>518</b>	<b>552</b>	<b>584</b>	<b>619</b>	<b>655</b>	<b>688</b>	<b>719</b>	<b>746</b>	<b>768</b>	<b>785</b>
Interest income (expense), net	-22	-38	-18	-43	18	-24	-38	-39	-40	-41	-41	-42	-43	-44	-45	-45	-46
<b>Financial Result Before Taxes</b>	<b>-22</b>	<b>-38</b>	<b>-18</b>	<b>-43</b>	<b>18</b>	<b>-24</b>	<b>-38</b>	<b>-39</b>	<b>-40</b>	<b>-41</b>	<b>-41</b>	<b>-42</b>	<b>-43</b>	<b>-44</b>	<b>-45</b>	<b>-45</b>	<b>-46</b>
Statutory Taxes	4	7	3	8	-3	5	7	7	8	8	8	8	8	8	8	9	9
Adjustments on financial taxes	0	-2	-4	1	2	-3	0	0	0	0	0	0	0	0	0	0	0
Net income to non-controlling interests	0	1	2	1	-1	-3	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
<b>Financial Result</b>	<b>-18</b>	<b>-32</b>	<b>-17</b>	<b>-34</b>	<b>16</b>	<b>-26</b>	<b>-32</b>	<b>-33</b>	<b>-34</b>	<b>-34</b>	<b>-35</b>	<b>-36</b>	<b>-36</b>	<b>-37</b>	<b>-38</b>	<b>-38</b>	<b>-39</b>
<b>Total Comprehensive Income</b>	<b>724</b>	<b>426</b>	<b>-82</b>	<b>-81</b>	<b>960</b>	<b>569</b>	<b>455</b>	<b>485</b>	<b>518</b>	<b>549</b>	<b>584</b>	<b>619</b>	<b>652</b>	<b>682</b>	<b>708</b>	<b>730</b>	<b>746</b>

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<b>Buy</b>	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
<b>Hold</b>	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
<b>Sell</b>	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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