

Capri Holdings (CPRI)

\$25.65 (As of 02/25/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

Summary

Shares of Capri Holdings have slid and underperformed the industry in the past three months. In spite of posting better-than-expected third-quarter fiscal 2020 results, the stock got hurt as management cut fiscal 2020 view due to coronavirus outbreak in China which it believes will significantly hurt financial results. The company expects revenues and earnings per share to be hit by about \$100 million and 40-45 cents, respectively, in both fourth quarter and fiscal 2020. Also, lower revenues from Michael Kors revenue might have been a concern. Michael Kors' revenues is likely to decline in the fourth quarter with operating margin expected to be lower than the year-ago period. We note that while the top line sustained year-over-year increase, the bottom line continued to struggle. Also, adjusted operating margin missed the company's view.

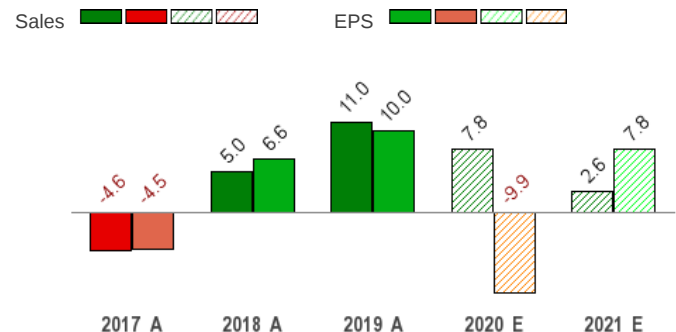
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$50.00 - \$25.00
20 Day Average Volume (sh)	3,281,240
Market Cap	\$3.8 B
YTD Price Change	-32.8%
Beta	0.90
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 32% (82 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.1%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	-8.4%
Expected Report Date	06/03/2020
Earnings ESP	0.0%
P/E TTM	5.8
P/E F1	5.7
PEG F1	0.9
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,370 E	1,483 E	1,614 E	1,378 E	5,792 E
2020	1,346 A	1,442 A	1,571 A	1,290 E	5,646 E
2019	1,203 A	1,254 A	1,438 A	1,344 A	5,238 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.95 E	\$1.27 E	\$1.69 E	\$0.95 E	\$4.83 E
2020	\$0.95 A	\$1.16 A	\$1.66 A	\$0.70 E	\$4.48 E
2019	\$1.32 A	\$1.27 A	\$1.76 A	\$0.63 A	\$4.97 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/25/2020. The reports text is as of 02/26/2020.

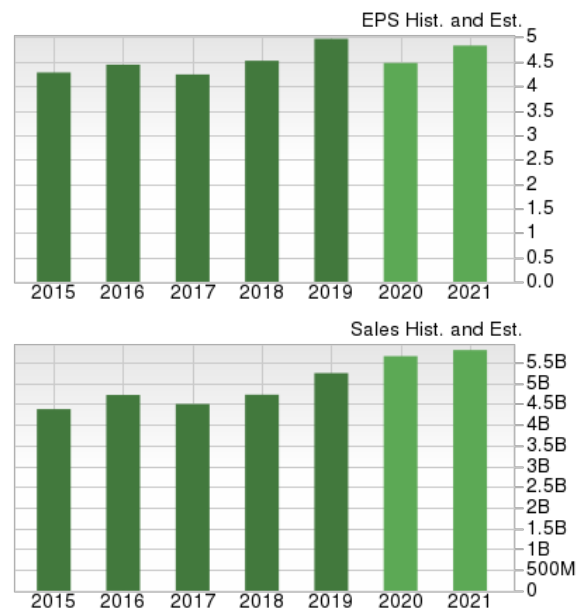
Overview

Capri Holdings Limited is a global fashion luxury company comprising iconic brands and provides women's and men's accessories, footwear and ready-to-wear, as well as wearable technology, watches, jewelry, eyewear and a full line of fragrance products. The company's brand includes:

Versace (3% of total revenue in Fiscal 2019) is one of the leading international fashion design houses and offers ready-to-wear, accessories, footwear and home furnishings. Product categories, such as Versace Jeans, eyewear, fragrances, jewelry and watches are produced under product licensing agreements. As of December 28, 2019, the company operated 208 Versace retail stores.

Jimmy Choo (11% of total revenue in Fiscal 2019) is a leading global luxury accessories brand, whose core product offerings are women's luxury shoes, complemented by accessories, including handbags, smaller leather goods, scarves and belts, as well as a growing men's luxury shoes and accessories business. Product categories, such as Jimmy Choo fragrances and eyewear are produced under product licensing agreements. As of December 28, 2019, the company operated 223 Jimmy Choo stores.

Michael Kors (86% of total revenue in Fiscal 2019) has three main collections that offer accessories, footwear and apparel: Michael Kors Collection, MICHAEL Michael Kors and Michael Kors Mens. The three primary collections and licensed products are offered through Michael Kors retail stores and e-commerce businesses, in department stores around the world and by exclusive licensees to wholesale customers in addition to select retailers. Product categories, including watches, jewelry, eyewear, and fragrance and beauty are produced under product licensing agreements. As of December 28, 2019, the company operated 846 Michael Kors stores.



Reasons To Sell:

▼ **Trimmed Fiscal 2020 View Hurt the Stock:** Shares of Capri Holdings have declined 31.6% and underperformed the industry that lost 7.8% in the past three months. In spite of better-than-expected third-quarter fiscal 2020 results, the stock came under pressure as management trimmed fiscal 2020 projection on account of coronavirus outbreak in China which the company believes will significantly hurt its financial results. Capri Holdings informed that roughly 150 out of 225 stores in mainland China are closed as of Feb 5, 2020. Moreover, quite a number of outlets are operating with reduced hours and witnessing lower footfall. Given the current scenario in China, the company expects revenues and earnings per share to be hit by approximately \$100 million and 40-45 cents a share, respectively, in both fourth quarter and fiscal 2020.

Capri Holdings cut fiscal 2020 view due to coronavirus outbreak in China which the company believes will hurt its financial results. Quite a number of outlets are operating with reduced hours and witnessing lower footfall.

For fiscal 2020, management now projects total revenues to be approximately \$5.65 billion, down prior estimate of roughly \$5.8 billion. Management now envision earnings between \$4.45 and \$4.50 per share compared with the prior projection of \$4.95 per share. The guided range also indicates a decline from earnings of \$4.97 reported in fiscal 2019.

▼ **Bottom Line Continued to Decline:** Capri Holdings' bottom line has been declining for quite sometime now, thanks to rise in cost of goods sold and increased operating expenses. While cost of goods sold increased 13.1%, adjusted operating expenses rose 20.1% during the third quarter of fiscal 2020. Consequently, this had a direct bearing on the company's profitability. We note that earnings of \$1.66 per share fell 5.7% from the year-ago period. In the second and first quarter, the company witnessed a decline of 8.7% and 28%, respectively, in the bottom line.

▼ **Soft Michael Kors Revenues:** Michael Kors, which accounts for a major portion of the company's revenues, has been struggling for a while a now. During the third quarter of fiscal 2020, revenue contribution from Michael Kors brand fell 5.1% on a reported and 4.7% on a constant currency basis. We note that comparable store sales declined in the low single digits, reflecting low single digit growth in Asia, flat results in Europe and a low single digit decline in the Americas, where stores were hurt by lower-than-expected traffic during the month of December 2019. Also, headwind from watches was approximately 200 basis points during the quarter. Management expects the watch category to remain challenging. This is likely to hurt North American retail comparable store sales as well as future licensing income.

Management forecasts fourth-quarter fiscal 2020 revenues from Michael Kors to be approximately \$950 million, which indicates a decline from \$1,068 million reported in the year-ago period. Operating margin is expected to be lower than the year-ago period on account of the current situation in China. This is partly offset by cost containment efforts in relation with the fleet optimization program. Michael Kors' operating margin of 23.8% contracted 130 basis points during the quarter on account of lower gross margin.

▼ **Margins May Remain Under Pressure:** Costs associated with investments in e-commerce expansion, technological advancements and global infrastructure (including new store openings, refurbishment and international expansions) remain a threat to margins. We noted that adjusted operating expenses rose 20.1% during the third quarter of fiscal 2020, while as a percentage of total revenue the same increased 380 basis points to 42.6% primarily due to the acquisition of Versace business. Adjusted operating income declined 16.5% to \$264 million, while adjusted operating margin shrunk 520 basis points to 16.8%. We note that adjusted operating margin came below the company's forecast of 17.5%. Jimmy Choo's operating margin shrunk 380 basis points to 5.5%, while Michael Kors' operating margin shrank 130 basis points to 23.8%. The company now expects fourth-quarter and fiscal 2020 operating margins to be about 9% and 13.7%, respectively, which reflects a decline of 30 and 330 basis points from the prior periods.

▼ **Prone to Currency Fluctuations:** Capri Holdings generates a portion of net sales outside the U.S. Due to exposure to international markets the company remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the U.S. An increase in price may have an adverse impact on the demand for the products.

▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability.

Risks

- **Decent Q3 Results:** Capri Holdings reported better-than-expected third-quarter fiscal 2020 results. The company reported a positive earnings surprise in the quarter under review, following a miss in the preceding. Revenues also surpassed the Zacks Consensus Estimate, after falling short of the same in the previous two quarters. Also, both revenues and earnings exceed management's expectations. Notably, the top line gained from the addition of Versace and higher revenues from Jimmy Choo. Adjusted quarterly earnings of \$1.66 per share came ahead of the Zacks Consensus Estimate of \$1.58 as well as management's projection of \$1.55-\$1.60. Total revenues of \$1,571 million increased 9.2% from the prior-year period and surpassed the Zacks Consensus Estimate of \$1,533.7 million. On a constant currency basis, total revenues were up 9.6%.
- **Strategic Endeavors:** The company has been constantly deploying resources to expand product offerings and upgrade distribution infrastructure. This along with cost containment efforts, focus on e-commerce platform and accretive buyouts bode well. Certainly, the company has been firming its position in the luxury fashion space, as evident from the acquisitions of Jimmy Choo and Versace brands. These brands along with Michael Kors will help augment revenues to \$8 billion in the long term. Notably, the company is expanding its product mix beyond handbags, into men's, footwear and women's ready to wear categories. The company is focused on enhancing business from the men's category either through standalone stores or by adding offerings in existing lifestyle outlets in North America, Europe and Asia. Also, the company has been progressing well on its transformation initiatives. Management anticipates approximately \$100 million in synergies and cost savings in fiscal 2021.
- **Accretive Buyouts:** Capri Holdings has been steadily firming its position in the luxury fashion space, as evident from the acquisition of Jimmy Choo that has provided the company additional avenues for international growth and a strong base in the luxury footwear category. The company also acquired the iconic Italian fashion brand, Versace, for an enterprise value of \$2.12 billion. These brands along with Michael Kors will help augment the company's revenues to \$8 billion in the long term. Management intends to raise Versace's revenues to \$2 billion, while it plans to augment revenues Michael Kors to \$5 billion in the long term. Additionally, it plans to increase the store count to 300 and enhance e-commerce and omni-channel capabilities. It also aims to increase the contribution from men's and women's accessories and footwear to 60% of Versace's revenues.

With respect to Jimmy Choo, management sees opportunity to boost sales to \$1 billion with an operating margin in the low-teens in the long term and target to expand retail footprint to 300 stores globally, with more emphasis in Asia. Jimmy Choo has a strong presence in Europe, the Middle East, the Americas and Asia. The company's goal is to increase the contribution from accessories to approximately 50% of Jimmy Choo's revenue overtime.

Recently, Capri Holdings entered into a deal to acquire Alberto Gozzi S.r.l., an Italian atelier and shoe manufacturer in Pistoia, Tuscany. The transaction is likely to be concluded in the fourth quarter of fiscal 2020. In the near future, the factory will develop and produce shoes for Jimmy Choo and Versace. Later, it will add production of Michael Kors Collection shoes. We believe that the company may pursue other such strategic buyouts in the future.

- **E-commerce Doing Well:** E-commerce business continues to witness sturdy performance. The company unveiled its domestic online portal in September 2014. With this full-fledged functional site, management has seen a rise in net sales. In April 2015, the company launched its site in Canada. Prior to this, the company's online business was managed by third party Neiman Marcus, through a partnership deal inked in 2007. With increasing number of shoppers shifting to online, it was high time that the company lay emphasis on its own e-commerce platform. Capri Holdings will invest heavily in upgrading the company's e-commerce platform. In the first, second, third and fourth quarter of fiscal 2019, e-commerce benefited Michael Kors comparable sales by 250, 190, 290 and 350 basis points, respectively. In the first, second and third quarters of fiscal 2020, e-commerce benefited Michael Kors comparable store sales by 130, 220 and 180 basis points, respectively. The company has also rolled out Kors Connect tool in the U.S. and Europe, which allows its associates to better engage with customers.

Last Earnings Report

Capri Holdings Beats on Q3 Earnings but Trims FY20 View

Capri Holdings Limited reported a positive earnings surprise in the third quarter of fiscal 2020, following a miss in the preceding. Revenues also surpassed the Zacks Consensus Estimate, after falling short of the same in the previous two quarters. While the top line sustained year-over-year improvement, bottom line continued to decline.

Notably, the top line gained from the addition of Versace and higher revenues from Jimmy Choo. However, the bottom-line number was hurt by higher operating expenses. Also, adjusted operating margin missed the company's projection. Nonetheless, both revenues and earnings exceed management's expectations.

In spite of better-than-expected results, management trimmed its fiscal 2020 projection on account of coronavirus outbreak in China which the company believes will significantly hurt its financial results.

Capri Holdings informed that roughly 150 out of 225 stores in mainland China are closed as of Feb 5, 2020. Moreover, quite a number of outlets are operating with reduced hours and witnessing lower footfall. Given the current scenario in China, the company expects revenues and earnings per share to be hit by approximately \$100 million and 40-45 cents a share, respectively, in both fourth quarter and fiscal 2020.

Let's Delve Deep

This designer, marketer, distributor and retailer of branded apparel and accessories delivered adjusted quarterly earnings of \$1.66 per share that came ahead of the Zacks Consensus Estimate of \$1.58 as well as management's projection of \$1.55-\$1.60. However, earnings fell sharply from \$1.76 reported in the year-ago period. Rise in cost of goods sold and increased operating expenses acted as deterrents to the bottom line.

Total revenues of \$1,571 million increased 9.2% from the prior-year period and surpassed the Zacks Consensus Estimate of \$1,533.7 million. On a constant currency basis, total revenues were up 9.6%.

Adjusted gross profit increased 6.9% to \$934 million, however, adjusted gross margin contracted 130 basis points to 59.5%. Adjusted operating income declined 16.5% to \$264 million, while adjusted operating margin shrunk 520 basis points to 16.8%. We note that adjusted operating margin came below the company's forecast of 17.5%. The company now expects fourth-quarter fiscal 2020 operating margin to be about 9%.

Brand Wise Performance

Capri Holdings has been steadily firming its position in the luxury fashion space with the buyouts of Jimmy Choo and Versace. These brands along with Michael Kors will help augment revenues in the long term.

Top line includes revenues contribution of \$1,211 million from Michael Kors, down 5.1% and \$165 million from Jimmy Choo, up 1.9% year over year. Revenue from Versace came in at \$195 million.

On a constant currency basis, comparable store sales declined in the low single digits at Michael Kors. The metric remained flat at Jimmy Choo. Comparable store sales at Versace increased in the mid-single-digits on a constant currency basis. Versace continued to register double digit growth in the Americas and EMEA.

Other Details

Capri Holdings ended the quarter with cash and cash equivalents of \$237 million, long-term debt of \$1,085 million and shareholders' equity of \$2,609 million, excluding non-controlling interest of \$2 million. During the quarter, the company lowered its debt burden by approximately \$300 million. Notably, year to date the company has already paid down \$500 million.

During the quarter, the company bought back approximately 2.7 million shares for roughly \$100 million. As of Dec 28, 2019, the remaining availability under the share repurchase program was \$400 million.

As of Dec 28, 2019, there were 1,277 stores — 846 Michael Kors stores, 223 Jimmy Choo stores and 208 Versace stores.

Guidance

Management now envisions fourth-quarter revenues to be approximately \$1.3 billion. The company now forecasts earnings in the range of 68-73 cents a share.

Management forecasts fourth-quarter fiscal 2020 revenues from Michael Kors to be approximately \$950 million. Operating margin is expected to be lower than the year-ago period on account of the current situation in China. This is partly offset by cost containment efforts in relation with the fleet optimization program.

Revenues from Versace are estimated to be about \$210 million with operating margin likely to be positive in the fourth quarter. Jimmy Choo revenues are envisioned to be approximately \$130 million and operating margin are expected to improve due to expense leverage.

For fiscal 2020, management now projects total revenues to be approximately \$5.65 billion, reflecting \$840 million from Versace, \$580 million from Jimmy Choo and \$4.2 billion from Michael Kors.

Operating margin is expected to come in at 13.7%. Management now envision earnings between \$4.45 and \$4.50 per share. The company had earlier guided total revenues of approximately \$5.8 billion with operating margin of 15% and earnings per share of \$4.95.

Quarter Ending 12/2019

Report Date	Feb 05, 2020
Sales Surprise	2.43%
EPS Surprise	5.06%
Quarterly EPS	1.66
Annual EPS (TTM)	4.40

Recent News

Capri Holdings Focuses on Luxury Fashion, to Buy Alberto Gozzi - Dec 16, 2019

Capri Holdings plans to acquire Alberto Gozzi S.r.L., an Italian atelier and shoe manufacturer in Pistoia, Tuscany. The transaction is likely to be concluded in the fourth quarter of fiscal 2020.

Valuation

Capri Holdings shares are down 32.8% in the year-to-date period and 43.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 9.8% and 0.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 34.9% but the sector is up 10.1%.

The S&P 500 index is down 3% in the year-to-date period and 11.3% in the past year.

The stock is currently trading at 5.35X forward 12-month earnings, which compares to 11.06X for the Zacks sub-industry, 24.48X for the Zacks sector and 17.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.83X and as low as 5.04X, with a 5-year median of 9.93X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$22 price target reflects 4.59X forward 12-month earnings.

The table below shows summary valuation data for CPRI

Valuation Multiples - CPRI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.35	11.06	24.48	17.88
	5-Year High	16.83	18.38	26.2	19.34
	5-Year Low	5.04	10.23	19.07	15.18
	5-Year Median	9.93	14.24	23	17.47
P/S F12M	Current	0.66	0.55	1.02	3.29
	5-Year High	2.94	1.34	1.11	3.43
	5-Year Low	0.65	0.54	0.8	2.54
	5-Year Median	1.62	0.81	0.92	3
EV/EBITDA TTM	Current	7.28	8.69	15.1	12
	5-Year High	10.83	8.9	15.28	12.87
	5-Year Low	4.3	4.71	10.79	8.48
	5-Year Median	6.64	6.74	12.41	10.77

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Top 32% (82 out of 255)



Top Peers

G-III Apparel Group, LTD. (GIII)	Outperform
Ralph Lauren Corporation (RL)	Outperform
Carters, Inc. (CRI)	Neutral
Hanesbrands Inc. (HBI)	Neutral
Under Armour, Inc. (UAA)	Neutral
Columbia Sportswear Company (COLM)	Underperform
Delta Apparel, Inc. (DLA)	Underperform
Canada Goose Holdings Inc. (GOOS)	Underperform

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	CPRI Underperform	X Industry	S&P 500	COLM Underperform	GIII Outperform	LEVI Neutral
VGM Score	A	-	-	B	D	B
Market Cap	3.83 B	761.96 M	22.56 B	5.72 B	1.13 B	7.41 B
# of Analysts	9	3	13	6	6	3
Dividend Yield	0.00%	0.00%	1.88%	1.13%	0.00%	1.70%
Value Score	A	-	-	B	B	B
Cash/Price	0.06	0.13	0.04	0.11	0.05	0.13
EV/EBITDA	7.07	7.19	13.36	12.89	7.55	10.91
PEG Ratio	0.86	1.16	1.94	2.35	0.67	2.18
Price/Book (P/B)	1.49	1.56	3.09	3.09	0.90	4.71
Price/Cash Flow (P/CF)	3.85	5.50	12.57	12.86	6.42	13.99
P/E (F1)	5.63	11.28	17.93	17.54	7.70	15.70
Price/Sales (P/S)	0.67	0.46	2.51	1.88	0.36	1.28
Earnings Yield	17.47%	8.50%	5.55%	5.70%	13.02%	6.39%
Debt/Equity	1.09	1.04	0.70	0.20	0.74	0.64
Cash Flow (\$/share)	6.66	1.51	7.02	6.59	3.70	1.34
Growth Score	C	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	2.44%	-0.69%	10.85%	19.86%	3.67%	NA
Proj. EPS Growth (F1/F0)	-9.95%	8.10%	6.86%	-0.07%	-1.33%	23.37%
Curr. Cash Flow Growth	6.03%	9.92%	6.53%	30.70%	55.48%	29.04%
Hist. Cash Flow Growth (3-5 yrs)	6.04%	-0.29%	8.38%	17.53%	14.76%	NA
Current Ratio	0.77	1.50	1.22	2.97	2.36	2.46
Debt/Capital	52.06%	51.30%	42.37%	16.73%	42.58%	39.05%
Net Margin	6.08%	2.74%	11.57%	10.86%	4.50%	6.86%
Return on Equity	27.42%	10.96%	16.80%	18.53%	12.27%	33.12%
Sales/Assets	0.72	1.33	0.54	1.11	1.23	1.44
Proj. Sales Growth (F1/F0)	7.78%	2.46%	4.03%	5.50%	4.99%	5.84%
Momentum Score	B	-	-	C	D	D
Daily Price Chg	-3.35%	-2.72%	-3.36%	-3.82%	-5.15%	-1.73%
1 Week Price Chg	-3.35%	-0.13%	-0.94%	-0.59%	-4.61%	-2.47%
4 Week Price Chg	-21.54%	-8.98%	-5.65%	-9.82%	-16.94%	-4.62%
12 Week Price Chg	-26.40%	-6.85%	-1.04%	-4.14%	-16.73%	11.25%
52 Week Price Chg	-43.76%	-20.81%	8.00%	-19.53%	-32.81%	NA
20 Day Average Volume	3,281,240	260,904	2,073,853	497,229	500,005	1,350,723
(F1) EPS Est 1 week change	0.01%	0.00%	0.00%	0.00%	0.00%	0.28%
(F1) EPS Est 4 week change	-8.41%	0.00%	-0.06%	-5.67%	0.87%	3.16%
(F1) EPS Est 12 week change	-8.41%	0.00%	-0.19%	-5.99%	-0.74%	3.46%
(Q1) EPS Est Mthly Chg	-41.69%	-1.49%	-0.61%	-20.16%	0.00%	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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