Michael Kors and Coach

Comprehensive Case Analysis

Payam Darian, David Frankel, Wilson Guo, Ping Ning, Michael Schwartzberg, Yaron Talmor, Kevin Zobre
History - Michael Kors

- Michael Kors Holdings Limited was started by Michael Kors in May 1981
  - Michael Kors is currently the company’s chief designer
- Started as a high-end luxury brand
- First sold at Bergdorf Goodman and Saks Fifth Avenue
- CompanyFiled for Bankruptcy in 1990, but it rebounded
- Michael Kors later created several new fashion lines
  - MICHAEL Michael Kors - Accessible Luxury Fashion Line
- First retail store in 2006
- IPO in 2011
- Michael Kors was featured in Time Magazine’s 100 most influential people in the world
Currently Sells:
- Accessories, Footwear, Watches, Jewelry, Men’s and Women’s ready-to-wear, eyewear, and a full line of fragrance products.

Two Primary Collections:
- Michael Kors Luxury Collection
- MICHAEL Michael Kors Accessible Luxury Collection

Three Business Segments:
- Retail - 48.8% of its total revenues
- Wholesale - 47.3% of total revenues
- Licensing - 3.9% of total revenues
History - Coach

- Founded in 1941 in Manhattan as a family-run business
- Originally crafted leather belts and wallets
- Coach’s popularity grew because of the quality of its leather products
- Because Coach had excellent leather artisans, the company decided to create leather bags, which began very popular
- Coach hired designers for the new leather bags
- Coach grew tremendously and was eventually bought out by the Sarah Lee Corporation.
- Current CEO Lew Frankfort joins Coach as the vice-president of business development
- Coach expanded its product line that were branded with the Coach name:
  - Updated classics line
- Expanded distribution channels
- Opened new boutiques in major department stores
- Opened new stores throughout the United States
- In 1987, Coach opened a store on Madison Avenue.
- IPO in 2000
History - Coach (Continued)

- Coach’s product offerings include modern luxury accessories and lifestyle collections.
- Two Segments:
  - North America Segment - approximately 65% of total net sales
  - International Segment - approximately 34% of total net sales
Global Apparel Retail Industry Overview

- Made up of Clothing, Textiles, Footwear, and Luxury goods
- Three General Markets:
  - Men's wear
  - Women's wear
  - Children's wear
- Clothing- always will be an essential item
  - Consumers will continually purchase clothing due to ever changing fashion trends, marketing, and desire to signal social success
- Industry characterized by short product life cycles, vast product differentiation, and fast demand
- Moderate risk level of investment
- Low barriers to entry and low requirements for capital
- High likelihood of competition in the industry
Global Apparel Retail Industry Analysis

● 2010-2014 - Global Apparel Retail Industry Experienced Moderate growth - Overall compound growth rate of 3.8%
● 2014- Total Revenues of $1.3 Trillion
● Women’s Wear Market- Most profitable with total revenues of $650.7 Billion 49.4% of total industry revenues
● Men’s Wear Market- $438 Billion 33.2% of total industry revenues
Global Apparel Retail Industry Analysis

Table 1: Global apparel retail industry value: $ billion, 2010–14

<table>
<thead>
<tr>
<th>Year</th>
<th>$ billion</th>
<th>€ billion</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,132.9</td>
<td>852.5</td>
<td></td>
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<tr>
<td>2011</td>
<td>1,163.2</td>
<td>890.3</td>
<td>4.4%</td>
</tr>
<tr>
<td>2012</td>
<td>1,232.5</td>
<td>927.4</td>
<td>4.2%</td>
</tr>
<tr>
<td>2013</td>
<td>1,279.4</td>
<td>962.7</td>
<td>3.8%</td>
</tr>
<tr>
<td>2014</td>
<td>1,317.3</td>
<td>991.2</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

CAGR: 2010–14: 3.8%

Figure 1: Global apparel retail industry value: $ billion, 2010–14
Global Apparel Retail Industry Forecast

- Global apparel retail industry is projected to grow with an anticipated growth rate of 4.6% from 2014-2019
- Projected Industry value of $1.7 Trillion by end of 2019
- Expected to grow by 4.6% during years 2015 to 2017 and 4.7% during years 2018 to 2019
Global Apparel Retail Industry Forecast

Table 5: Global apparel retail industry value forecast: $ billion, 2014–19

<table>
<thead>
<tr>
<th>Year</th>
<th>$ billion</th>
<th>€ billion</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,317.3</td>
<td>991.2</td>
<td>3.0%</td>
</tr>
<tr>
<td>2015</td>
<td>1,377.5</td>
<td>1,036.5</td>
<td>4.6%</td>
</tr>
<tr>
<td>2016</td>
<td>1,440.4</td>
<td>1,083.6</td>
<td>4.6%</td>
</tr>
<tr>
<td>2017</td>
<td>1,507.2</td>
<td>1,134.1</td>
<td>4.6%</td>
</tr>
<tr>
<td>2018</td>
<td>1,577.3</td>
<td>1,186.9</td>
<td>4.7%</td>
</tr>
<tr>
<td>2019</td>
<td>1,651.6</td>
<td>1,242.7</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

CAGR: 2014–19 4.6%

Figure 5: Global apparel retail industry value forecast: $ billion, 2014–19

Source: Marketline
Michael Kors’s success attributed to unique marketing strategy
  ○ targeted a growing social class that other companies had not thought to target
  ○ Established brand attractive to HENRY’s - Higher Earners not Rich Yet (socio economic class that earns $100,000 to $250,000) annually
  ○ HENRY’s - rapidly growing socio economic class while ultra affluent is getting smaller

■ Have increased spending on luxury products since 2009
■ 21.3 Million Henry Households or nearly 10 Henry household for every ultra affluent household
Business Strategy Analysis & Comparison- Michael Kors

● Rapid success may be at risk despite strategic marketing strategy to capture business of HENRY’s.
● Overly Rapid expansion can erode brand value
● Continuation of lowering price and leveraging heavy discounts give consumers the wrong perception and may affect its marketing strategy as premium luxury brand.
Business Strategy Analysis & Comparison- Coach

- Business strategy different from Michael Kors due to having been in existence for a lot longer time
- Considered a pioneer in the luxury industry and has established major markets in North America, China, Japan, Europe unlike its rivals such as Michael Kors
  - Established huge sales presence in 35 countries worldwide through directly owned stores, wholesale agreement with other retailers, department stores, and distributors
Business Strategy Analysis & Comparison- Coach

- Main Advantage over Michael Kors- Established brand presence in China.
  - Coach ranked 22 out of 50 top most sought out luxury brands
  - China- Forecasted to be 2nd largest luxury market by 2019
  - Chinese Consumers- biggest consumers on luxury goods worldwide
  - Coach to open up 20 more stores in China bringing total number of stores to 175
Business Strategy Analysis & Comparison- Coach

- Despite established brand presence, Coach still losing its market share due to competition from Michael Kors and Kate Spade.
- Coach undergoing a market strategy transformation
  - Executive changes made in management and design teams
  - Coach to push newer and pricier handbags
  - Ended the practice of too many flash sales from three per week to one per month
  - Expansion out of handbag and accessory market and move towards complete lifestyle brand
  - Improve appearance of existing stores
  - Align inventory with customer demand requirements at retail stores and factory outlets
Major Companies--Handbag, Luggage and Accessory Stores

- Other: 60%
- Coach Inc.: 18%
- Michael Kors: 11%
- Claire’s Stores Inc.: 6%
- Genesco Inc.: 6%
- Other: 59.8%

Major players (Market share):
- Genesco Inc.: 6.0%
- Claire’s Stores Inc.: 6.0%
- Michael Kors: 10.6%
- Coach Inc.: 17.6%

Source: www.ibisworld.com
Industry Considerations

- Apparel market is growing and is expected to keep growing
- Women’s wear is largest segment of apparel retail industry (makes up 50.4%)
- Chinese economy slowing down
- Availability of manufacturing contractors
Porter’s Five Force Industry Analysis

- Nearly no barriers to entry due to availability of manufacturing contractors
- High competition as a result
- Low supplier power, buyers have power (many suppliers, and no switching costs)
- Kors → over-dependence on few buyers [problematic]
- Threats of substitutes - prevalent due to omnipresence in counterfeit goods
Cross-Comparison of Strengths

**Coach**
- Coach dominates handbag market→ 55% of revenues (women’s apparel accounts for 50.4% of apparel market value [2013])
- Strong distribution network (North America, Asia, and Europe)
- E-commerce promotes brand throughout global markets

**Michael Kors**
- Diversified portfolio of products receive proportional resources
- Brand equity through celebrity promotion (viewed as high-end luxury product)
- Uses strong brand presence to strengthen licensing business [collaboration with Fossil for watches]
Synergies/Opportunities

- What’s there to gain from a merger?
  - More market share - both spectrums
    - Coach’s competitive pricing strategy captures consumers of lower-priced luxury goods and
    - MK’s pricing strategy captures market share of higher-end luxury goods
  - MK’s diversified portfolio, well-established “high quality” brand image, licensing network can be utilized by Coach
  - Coach’s distribution channels and e-commerce success can help MK reach untapped markets/more global reach
Inherent threats

- As previously mentioned, substitute goods are very prevalent in this industry
  - Counterfeit goods are inherent in the apparel-retail industry
  - Very difficult for MK or Coach to do anything about this
- No barriers to entry (e.g. availability of manufacturing contractors) contributes to the intense competition (more of a problem for MK)
- Coach specific threat → Chinese economy slowdown
  - Chinese consumers = largest # of luxury good buyers in the world
  - Government put ban on advertisements of luxury goods
    - Adverse effect on Coach’s future revenues
Key Takeaways

● Merger benefits
  ○ Coach:
    ■ access to licensing rapport MK has built
    ■ access to MK’s creativity and diverse product development
    ■ capturing market share of higher-end luxury good consumers
  ○ MK
    ■ access to Coach’s vast distribution network
      ● solves MK’s limited distribution problem
    ■ access to Coach’s e-commerce customers in Asia
    ■ help MK expand their stores in Europe (aiming for a total of 600)

● Mutual benefit- both companies’ are adapting to market demand by developing existing lines (e.g. Coach→ Footwear, MK→ Eyewear)
Financial Analysis

- Profit analysis
- Stock Performance Analysis
- Balance Sheet and Ratio
- Kors’ FY End is March 28th
- Coach’s FY End is June 28th
Profit Analysis - Kors

- 32% increase compared to FY 2014.
- Net Profit at $881 million,
- 33% increase compared to FY 2014.
- Profit Margin 20.15%, Operating Margin 28.77%
Profit Analysis - Kors

Geographic Information

We generate revenue globally through our segments. Through our retail and wholesale segments we sell our products in three principal geographic markets: North America, Europe and Asia. Through our licensing segment, we enter into agreements that license to third parties use of our brand name and trademarks, certain production, and sales and/or distribution rights. Revenues generated through these agreements are primarily earned in North America and Europe.

The following table details our net sales and revenue by segment and geographic location for the fiscal years then ended (in thousands):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail net sales - North America</td>
<td>$1,656,095</td>
<td>$1,318,887</td>
<td>$938,515</td>
</tr>
<tr>
<td>Retail net sales - Europe</td>
<td>412,063</td>
<td>235,571</td>
<td>101,754</td>
</tr>
<tr>
<td>Retail net sales - Japan</td>
<td>66,420</td>
<td>38,547</td>
<td>22,373</td>
</tr>
<tr>
<td>Wholesale net sales - North America</td>
<td>1,662,540</td>
<td>1,335,545</td>
<td>913,145</td>
</tr>
<tr>
<td>Wholesale net sales - Europe</td>
<td>401,068</td>
<td>241,972</td>
<td>118,970</td>
</tr>
<tr>
<td>Wholesale net sales - Asia</td>
<td>1,480</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Licensing Revenue - North America</td>
<td>100,289</td>
<td>117,386</td>
<td>86,975</td>
</tr>
<tr>
<td>Licensing Revenue - Europe</td>
<td>71,514</td>
<td>22,935</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,371,469</strong></td>
<td><strong>$3,310,843</strong></td>
<td><strong>$2,181,732</strong></td>
</tr>
</tbody>
</table>
Profit Analysis - Kors

Collections and Products

We have two primary collections that offer accessories, footwear and apparel: the Michael Kors collection and the MICHAEL Michael Kors collection, both of which are offered through our retail and wholesale segments. We also offer licensed products primarily through our retail segment. Our net sales by major product category were as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Years Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 28, 2015 % of Total</td>
</tr>
<tr>
<td>Accessories</td>
<td>$2,872,221 68.4%</td>
</tr>
<tr>
<td>Apparel</td>
<td>549,433 13.1%</td>
</tr>
<tr>
<td>Footwear</td>
<td>444,046 10.5%</td>
</tr>
<tr>
<td>Licensed product</td>
<td>333,966 8.0%</td>
</tr>
<tr>
<td>Net sales</td>
<td>$4,199,666</td>
</tr>
</tbody>
</table>
Profit Analysis - Coach

- Annual sale of $4.8 billion for fiscal year ended June 28, 2014.
- 5.3% decrease compared to FY 2013.
- Net Profit at $781 million,
- 24% decrease compared to FY 2013.
- Profit Margin 10.78%, Operating Margin 18.86%
Profit Analysis - Coach

Net Sales

Net sales decreased 5.3% or $269.2 million to $4.81 billion. Excluding the effects of foreign currency, net sales decreased 3.1% or $155.9 million. The decrease was driven by lower sales in the North America business partially offset by gains in the International business. The following table presents net sales by reportable segment for fiscal 2014 compared to fiscal 2013:

<table>
<thead>
<tr>
<th></th>
<th>Total Net Sales</th>
<th>Rate of Change</th>
<th>Percentage of Total Net Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fiscal Year Ended</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>June 28, 2014</td>
<td>June 29, 2013(1)</td>
<td>Rate of Change</td>
</tr>
<tr>
<td>(dollars in millions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$ 3,100.5</td>
<td>$ 3,478.2</td>
<td>(10.9) %</td>
</tr>
<tr>
<td>International</td>
<td>1,644.2</td>
<td>1,558.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Other(2)</td>
<td>61.5</td>
<td>39.1</td>
<td>57.5</td>
</tr>
<tr>
<td>Total net sales</td>
<td>$ 4,806.2</td>
<td>$ 5,075.4</td>
<td>(5.3) %</td>
</tr>
</tbody>
</table>

(1) In connection with the acquisition of the retail business in Europe, the Company evaluated the composition of its reportable segments and concluded that sales in this region should be included in the International segment. Accordingly, prior year comparable sales have been reclassified to conform to the current year presentation. See Note 7, "Acquisitions" and Note 16, "Segment Information" for more information.

(2) Net sales in the Other category, which is not a reportable segment, consists of sales generated in ancillary channels, including licensing and disposition.
Profit Analysis - Coach

PRODUCTS

Coach’s product offerings include modern luxury accessories and lifestyle collections, including women's and men's bags, women’s and men’s small leather goods, business cases, footwear, wearables including outerwear, watches, weekend and travel accessories, scarves, sunwear, fragrance, jewelry, travel bags and other lifestyle products. The following table shows net sales for each product category represented:

<table>
<thead>
<tr>
<th>Product Category</th>
<th>June 28, 2014</th>
<th>% of total net sales</th>
<th>June 29, 2013</th>
<th>% of total net sales</th>
<th>June 30, 2012</th>
<th>% of total net sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td></td>
<td>Amount</td>
<td></td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>Women's Handbags</td>
<td>$2,642</td>
<td>55%</td>
<td>$2,923</td>
<td>58%</td>
<td>$2,886</td>
<td>61%</td>
</tr>
<tr>
<td>Women's Accessories</td>
<td>$1,046</td>
<td>22%</td>
<td>$1,196</td>
<td>23%</td>
<td>$1,170</td>
<td>24%</td>
</tr>
<tr>
<td>Men's</td>
<td>$692</td>
<td>14%</td>
<td>$600</td>
<td>12%</td>
<td>$424</td>
<td>9%</td>
</tr>
<tr>
<td>All Other Products</td>
<td>$426</td>
<td>9%</td>
<td>$356</td>
<td>7%</td>
<td>$283</td>
<td>6%</td>
</tr>
<tr>
<td>Total Sales</td>
<td>$4,806</td>
<td>100%</td>
<td>$5,075</td>
<td>100%</td>
<td>$4,763</td>
<td>100%</td>
</tr>
</tbody>
</table>
Sales: Kors Compared to Coach

Total Sale of Coach and Kors from 2010 to 2015
(in Billion $)

- Coach
- Kors

- Linear (Coach)
- Linear (Kors)
Five Year Stock Performance: Coach, Kors and Nasdaq
EPS: Kors Compared to Coach

EPS Comparison by Coach and Kors

- Coach
- Kors

<table>
<thead>
<tr>
<th>Year</th>
<th>Coach</th>
<th>Kors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2.92</td>
<td>0.40</td>
</tr>
<tr>
<td>2012</td>
<td>3.53</td>
<td>0.78</td>
</tr>
<tr>
<td>2013</td>
<td>3.61</td>
<td>1.97</td>
</tr>
<tr>
<td>2014</td>
<td>3.22</td>
<td>2.79</td>
</tr>
</tbody>
</table>
EPS: Kors Compared to Coach

● Michael Kors’ earnings per share diluted $4.28 per share for fiscal year 2015.
● Coach’s earnings per share diluted $1.93 per yesterday’s earning calls for fiscal year ended June 28 2015, compared to $2.79 for fiscal year 2014.
Dividend per Share Paid by Coach

- Michael Kors never pays dividend.
- Coach has been consistently paying dividends.
  - Risk of cash shortages
# Management Effectiveness

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROA % (Net)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coach</td>
<td>28.74</td>
<td>34.62</td>
<td>36.30</td>
<td>31.26</td>
<td>21.78</td>
</tr>
<tr>
<td>Michael Kors</td>
<td>21.34</td>
<td>27.52</td>
<td>40.60</td>
<td>37.83</td>
<td>35.99</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROE % (Net)</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Coach</td>
<td>45.17</td>
<td>56.66</td>
<td>57.79</td>
<td>47.13</td>
<td>32.44</td>
</tr>
<tr>
<td>Michael Kors</td>
<td>77.45</td>
<td>50.24</td>
<td>53.04</td>
<td>46.49</td>
<td>43.66</td>
</tr>
</tbody>
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## Liquidity Ratios

<table>
<thead>
<tr>
<th></th>
<th>Quick Ratio</th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Coach</td>
<td>1.52</td>
<td>1.42</td>
<td>1.51</td>
<td>1.81</td>
<td>1.31</td>
</tr>
<tr>
<td>Michael Kors</td>
<td>0.73</td>
<td>1.37</td>
<td>4.09</td>
<td>4.09</td>
<td>4.04</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Current Ratio</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Coach</td>
<td>2.46</td>
<td>2.45</td>
<td>2.51</td>
<td>2.87</td>
<td>2.28</td>
</tr>
<tr>
<td>Michael Kors</td>
<td>1.92</td>
<td>2.81</td>
<td>6.02</td>
<td>5.76</td>
<td>6.11</td>
</tr>
</tbody>
</table>
Mergers and Acquisitions

- Coach acquires Stuart Weitzman Holdings, LLC for $573.98 million on January 6, 2015
- Stuart Weitzman - mid-range luxury shoe producer
- Red Flag?

- No significant mergers or acquisitions for Michael Kors
Fraud Risks

- Refund Fraud
- POS Manipulation
- Employee Theft
- Shoplifting
- Vendor Collusion
- Salaries and Wage Fraud
- Mobile Device
- Finance Statement
Coach Risks to Fraud

- Stores: 1014 +
- Employees: 17,000+
- 2014 Revenue: $4,806,226,000
- Potential 5% Loss: $240,311,300
- International Operations: 35 countries
Michael Kors Risk to Fraud

- Stores: 550 +
- In-Store Boutiques: 1500 +
- Employees: 11,094 +
- 2014 Revenue: $3,310,843,000
- Potential 5% Loss: $165,542,150
- International Operations: 95 countries
Continuous Monitoring

- Closed Loop Escalated Alerting System

- Maps to risk tolerance
- Adapts to ongoing needs
- Actively involves management
SAP HANA

- An in-memory, column-oriented, relational database management system
- Developed and marketed by SAP SE.
- HANA's architecture is designed to handle
  - High transaction rates
  - Complex query processing on the same platform.
- Was previously called SAP High-Performance Analytic Appliance, but shortened it to HANA for aesthetics.
- Available as an appliance through hardware and software, or cloud based, but not just as software.
- Originally released in November 2010, and has been updated and rereleased several times since then.
### SAP HANA Cost

<table>
<thead>
<tr>
<th></th>
<th>4 nodes</th>
<th>8 nodes</th>
<th>12 nodes</th>
<th>16 nodes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IBM Systems solution for SAP HANA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hardware &amp; maintenance</td>
<td>250,399</td>
<td>450,440</td>
<td>652,571</td>
<td>852,342</td>
</tr>
<tr>
<td>Software licenses &amp; support</td>
<td>163,350</td>
<td>288,750</td>
<td>414,150</td>
<td>539,550</td>
</tr>
<tr>
<td>Facilities</td>
<td>41,012</td>
<td>82,024</td>
<td>123,036</td>
<td>164,168</td>
</tr>
<tr>
<td>TOTAL ($)</td>
<td>454,761</td>
<td>821,214</td>
<td>1,189,757</td>
<td>1,556,060</td>
</tr>
</tbody>
</table>

| **Cisco Appliances + EMC Arrays** |         |         |          |          |
| Hardware & maintenance | 471,678 | 866,032 | 1,259,493| 1,653,847|
| Software licenses & support | 10,205 | 20,410  | 30,614   | 40,819   |
| Facilities             | 74,687  | 149,374 | 224,061  | 298,748  |
| TOTAL ($)              | 556,570 | 1,035,816| 1,514,168| 1,993,414|

| **Cisco SAP HANA Appliances + NetApp Arrays** |         |         |          |          |
| Hardware & maintenance | 489,316 | 915,042 | 1,341,662| 1,767,388|
| Software licenses & support | 5,010  | 10,020  | 15,030   | 20,040   |
| Facilities             | 66,486  | 132,972 | 199,458  | 265,844  |
| TOTAL ($)              | 560,812 | 1,058,034| 1,556,150| 2,053,372|

| **HP AppSystems for SAP HANA** |         |         |          |          |
| Hardware & maintenance | 509,167 | 866,936 | 1,224,715| 1,594,537|
| Software licenses & support | 46,620 | 93,240  | 139,950  | 186,600  |
| Facilities             | 88,301  | 176,602 | 264,903  | 353,204  |
| TOTAL ($)              | 644,088 | 1,136,778| 1,629,568| 2,134,341|

---

**Figure 1:** Three-year Appliance Costs for SAP HANA Deployment – Averages for All Scale-out Configurations

**Figure 10:** Cost Breakdowns (2)
## SAP HANA Benefit

### Cost Breakdown for Servers, Infrastructure, Facilities, & Storage

<table>
<thead>
<tr>
<th>System</th>
<th>4 nodes</th>
<th>8 nodes</th>
<th>12 nodes</th>
<th>16 nodes</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM Systems solution for SAP HANA</td>
<td>454,761</td>
<td>821,241</td>
<td>1,189,757</td>
<td>1,556,060</td>
<td>1,005,455</td>
</tr>
<tr>
<td>Cisco Appliances + EMC Arrays</td>
<td>556,570</td>
<td>1,035,816</td>
<td>1,514,168</td>
<td>1,993,415</td>
<td>1,274,992</td>
</tr>
<tr>
<td>Cisco SAP HANA Appliances + NetApp Arrays</td>
<td>560,812</td>
<td>1,058,034</td>
<td>1,556,150</td>
<td>2,053,272</td>
<td>1,307,067</td>
</tr>
<tr>
<td>HP AppSystem for SAP HANA</td>
<td>644,088</td>
<td>1,136,778</td>
<td>1,629,568</td>
<td>2,134,340</td>
<td>1,386,194</td>
</tr>
</tbody>
</table>

**Average Price**

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>554,058</td>
<td>1,012,967</td>
<td>1,472,411</td>
<td>1,934,272</td>
<td>1,243,427</td>
</tr>
</tbody>
</table>

### SAP HANA Cost

<table>
<thead>
<tr>
<th></th>
<th>Coach's Loss</th>
<th>Michael Kors's Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,934,272</td>
<td>240,311,300</td>
<td>165,542,150</td>
</tr>
</tbody>
</table>

### Revenue Recovered

<table>
<thead>
<tr>
<th>Revenue Recovered</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>22,096,858</td>
<td>14,619,943</td>
</tr>
<tr>
<td>25%</td>
<td>58,143,553</td>
<td>39,451,266</td>
</tr>
<tr>
<td>50%</td>
<td>118,221,378</td>
<td>80,836,803</td>
</tr>
<tr>
<td>75%</td>
<td>178,299,203</td>
<td>122,222,341</td>
</tr>
<tr>
<td>100%</td>
<td>238,377,028</td>
<td>163,607,878</td>
</tr>
</tbody>
</table>
Growth of Data

The Digital Universe is Huge — And Growing Exponentially

If the Digital Universe were represented by the memory in a stack of tablets, in 2013 it would have stretched two-thirds the way to the Moon.*

By 2020, there would be 6.6 stacks from the Earth to the Moon.*

Source: IDC, 2014
* iPad Air — 0.29" thick, 128 GB
Implementation of Data Analytics

Coach and Michael Kors have both implemented data analytics into their businesses in order to optimize operational efficiency and to better predict fashion trends. Ron Offir, an advisor who led the digital transformation of Michael Kors and Coach states:

“Fashion retailers cannot afford to miss sales and disappoint customers due to inventory or operational disconnects...We simply cannot afford to be delivering sub par customer experiences online or in store due to a lack of data connectivity or poor visibility to operational issues.”
Coach and Michael Kors Media Presence
Sentiment Analysis

- Analysis of customer feedback from online content
- Tagged by positive or negative sentiment organized by gender or geographic area
- Inherent bias in sentiment analysis
Media Sources for Sentiment Analysis

Michael Kors

Coach

Media Type

Twitter
Blogs
Online News
Instagram
Forums
Facebook
Newspaper
Magazine
YouTube
Other

63.5%
28.6%
8.3%
8.3%
Michael Kors - Global Sentiment Analysis
Coach - Global Sentiment Analysis
Michael Kors - U.S. Sentiment Analysis
Audit Analytics as a Business Driver

According to research conducted by SAS:

- 27 percent of analytic teams act as service providers
- 38 percent act as consultants
- 25 percent act as business drivers

Coach attributes their success to their use of analytics as a business driver and integrate it to their strategic approach

Awards:
Michael Kors - received the “Inspired Retailer Award” from Epicor
Coach - lauded for its implementation of SAS
Conclusion: Merge!
Synergies

- Michael Kors has the more valuable product, Coach has a well-established superior infrastructure
- Michael Kors has the image of an award-winning designer, Coach has more retail stores and worldwide distribution channels
- Michael Kors can consolidate brands and focus on targeting the top-end market with affordable luxury items, Coach can focus on the middle-income market
## Pricing

<table>
<thead>
<tr>
<th></th>
<th>Michael Kors</th>
<th>Coach</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 month historical</td>
<td>$57.62</td>
<td>$38.12</td>
</tr>
<tr>
<td>average stock price</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted-average shares</td>
<td>203.75 million</td>
<td>275.9 million</td>
</tr>
<tr>
<td>outstanding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated FMV of stock</td>
<td>$11.74 billion</td>
<td>$10.52 billion</td>
</tr>
<tr>
<td>Cash</td>
<td>$979 million</td>
<td>$592 million</td>
</tr>
</tbody>
</table>

- Michael Kors will need funding from a third party investor
- Lucrative opportunity, considering synergies and dividends
- Perfect timing: after Coach publishes 2015 Financial Statements


