



Instituto Superior de Economia e Gestão

UNIVERSIDADE TÉCNICA DE LISBOA

DESDE 1911

**MASTER IN
FINANCE**

MASTER FINAL WORK

EQUITY RESEARCH: CAPRI HOLDINGS LIMITED

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ORIENTAÇÃO:

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OCTOBER – 2019

Agradecimentos

Em memória da minha avó. Apesar de já não estares presente foste a melhor pessoa que conheci até hoje e toda a minha inspiração e determinação vem de ti. Espero um dia ser metade da pessoa que foste.

Para a minha mãe e para o meu pai. Foram sempre um exemplo de garra e superação, ensinaram-me a lutar pelos meus sonhos e a nunca desistir. Este trabalho é também um pouco vosso pois, sem o vosso apoio nada disto seria possível. Muito obrigada!

Para o Martim. Não tenho palavras para descrever o apoio que sempre me deste. Foi um caminho longo e árduo, estiveste sempre do meu lado e nunca me deixaste desistir. Um obrigada nunca será suficiente!

Para o professor João Cantiga Esteves. Muito obrigada por todo o apoio e paciência nesta etapa da minha vida. Foi essencial para a concretização deste projeto.

Para os meus amigos e a minha família. Muito obrigada por tudo!

As a final project of ISEG's Master in Finance, it was elaborated this report that includes an valuation of shares value with a detailed analysis of CAPRI Holdings Limited group. The report structure follows the CFA Institute guidelines and ISEG's Master final work project standards. This report starts with a valuation recap where it is shown the main conclusions, followed by a group description, management/governance policy and social responsibility. Then, it is present a detailed analysis of the luxury industry (market outlook, SWOT analysis, peers analysis and Porter's five forces). After this market analysis, a financial analysis and a group valuation were carried out. The valuation was performed using an absolute method, Discounted Cash Flow, and a relative method, Multiples. To conclude this report, were identified different risk types that Capri group can be exposed. In 2017, Michael Kors acquired Jimmy Choo and Versace in 2018, originating CAPRI group. The target price of \$ 48,8 was achieved using valuation method of Discounted Cash Flow and a relative valuation of Multiples. The recommendation is to **reduce**, supported by 5 main factors: acquisition of a non-public company, some market reluctance to accept the union of the three companies, UK instability due to Brexit situation, increase of duties and trade war between US and China.

Financial data of this report is dated on March 31st, 2019. Any further event has not been considered.

JEL classifications: G10, G17, G32, G34, G38

Keywords: Capri; Michael Kors; Jimmy Choo; Versace; Equity Research; Valuation; Discounted Cash Flow; Multiples; Luxury industry

Como projeto final do Mestrado em Finanças foi elaborado o presente relatório. Este, engloba uma avaliação do valor das ações com uma análise detalhada do grupo CAPRI Holdings Limited. A estrutura do relatório reflete as recomendações do instituto CFA e as normas do trabalho final de mestrado do ISEG. O relatório tem início com uma síntese da avaliação onde se apresentam as principais conclusões sendo seguido de uma descrição do grupo, da sua política de *governance* e responsabilidade social. De seguida apresenta-se uma análise exaustiva da indústria de luxo (perspetivas de mercado, SWOT e as cinco forças de Porter). Após esta análise de mercado, segue-se a análise financeira e a avaliação do grupo. A avaliação consistiu no uso de um método absoluto, *Discounted Cash Flow*, e um método relativo, Múltiplos. Para concluir este relatório foram identificados os vários tipos de risco a que o grupo CAPRI pode estar exposto. Em 2017, a Michael Kors adquiriu a Jimmy Choo e em 2018 a Versace dando assim origem ao grupo CAPRI. O preço-alvo é de \$ 48,8 tendo sido alcançado através da avaliação pelo método Discounted Cash Flow e da avaliação pelos Múltiplos. A recomendação é **reduzir** estando sustentada em 5 fatores principais: a aquisição de uma empresa não cotada, a relutância do mercado de luxo e dos próprios consumidores em aceitar a união destas três marcas, a instabilidade do Reino Unido com a situação do Brexit, o aumento de impostos e a guerra comercial entre os Estados Unidos e a China.

Os dados financeiros deste relatório reportam a 31 de março de 2019 não sendo qualquer evento posterior considerado.

JEL classifications: G10, G17, G32, G34, G38

Palavras-chave: Capri; Michael Kors; Jimmy Choo; Versace; Equity Research; Avaliação; Discounted Cash Flow; Multiples; Indústria de luxo

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Date: 31/03/19

Current Price: \$ 45.75

Recommendation: Reduce

Ticker: CPRI (NYSE)

USD: 1.000 GBP: 0,76717

Target Price: \$ 48.8



Table 1 - Market Profile

Market Profile	
Closing Price (\$)	45,75
52-week price range (\$)	57,51
52-week average volume	2 808 444
Shares outstanding	151 579 000
Market Capitalization	4 718 600 000
ROE	22%
D/E	1,73
P/E	18,4

Source: Thomson Reuters & Estimates

The recommendation for CAPRI Holdings Limited is to **REDUCE** with a target price of \$ 48,8, on December 2019. Comparing with latest closing price published on 31st March 2019 (\$ 45,75), there is a small potential upside of 7%. This price was achieved using discounted cash flow method (80%) and multiples approach (20%) in order to complement this recommendation and decrease some risk of excessive assumptions used in the business. This recommendation is influenced by WACC, political and economic instability, changes in currency (GBP) and the acceptance of industry in the association of these brands.

WACC and consequently beta have the higher impact in the analyzed variables. A decrease of 10% in WACC originate an increase of 40% in the target price.

Figure 1 - Sensitivity Analysis

WACC	Impact in terminal value		
	Growth rate		
	-10,0%	3,0%	10,0%
3,7%	106	156	271
4,1%	73	96	133
4,6%	54	66	83
5,1%	41	48	58
5,6%	32	37	43
6,2%	25	29	33
6,8%	20	23	25

Source: Estimates

The trade war between US and China, and the increase of duties from the goods import and export could affect negatively the company business and this instability support the reduce recommendation. Jimmy Choo is a UK based company and all their business are recorded in GBP, this could impact the company's results and affect the final target price. Regarding the uncertainty period which United Kingdom is facing due to the exit of European Union and all instability around Europe, the Reduce option is the most solid recommendation.

Acquisition of a non-public company has always a high risk that is complemented with the fact that luxury industry and some costumers do not accept very well the convention of Versace with Michael Kors and Jimmy Choo group. Versace do not have outlet stores and is associated with top of luxury, unlike the other two companies that have more affordable collections, especially Michael Kors. This leads to an elevated reputational risk, therefore it is better to consider a more conservative recommendation.

Table 2 - Target Price

Valuation	2019 Target price
DCF	\$ 47,69
Multiples	\$ 53,01
Total	\$ 48,75

Source: Estimates

Table 3 - Financial Highlights

		Resume					
		2019	2020F	2021F	2022F	2023F	2024F
Revenues		5 238	5 683	6 151	6 650	7 187	7 767
Net Profit		542	1 030	1 134	1 296	1 398	1 509
Total Assets		6 650	6 595	6 426	7 075	7 671	8 282
Total Liabilities		4 214	3 537	2 657	2 217	1 863	1 882
Net Debt		2 394	1 372	523	0	0	0
Net Profit Margin		10%	18%	18%	19%	19%	19%
Total Assets turnover		0,79	0,86	0,96	0,94	0,94	0,94
ROA	DuPont method	8%	16%	18%	18%	18%	18%
Leverage		2,73	2,16	1,71	1,46	1,32	1,29
ROE		22%	34%	30%	27%	24%	24%

Source: Estimates & Capri 10-K report

Business Description



Capri Holdings Limited (CAPRI or CPRI) is a fashion (apparel, footwear, global accessories and more) luxury group, representing three iconic brands, which operates at a global level. Capri purposes' is to maintain the exclusivity and independence of their brands and continue to expand their worldwide level. Michael Kors, Jimmy Choo and Versace are the three companies that compose the group. In order to increase their worldwide presence, Michael Kors acquired Jimmy Choo in Fiscal 2017 for \$1.4 billion and recently, December 2018, the private company of Versace for \$2.1 billion. After these two acquisitions the Capri group was created with the intention of englobe all companies without losing their individuality and distinctiveness.



Michael Kors' founder is known as Global Ambassador Against Hunger for the United Nations World Food Program and for his charity work on the development cancer research. In 1981, Karl Anderson Jr. (also known as Michael Kors), a fashion designer, founded the company, launched a womenswear line and sell them at the best boutiques at Fifth Avenue in the USA. Between 1990 and 1997 the company faces a bankruptcy scenario, KORS Michael Kors line was launched and discontinued, however in 1997 the company recovery and launched their accessible luxury line. Five years later, the men's line was created and in 2004 two more labels were created: Michael Kors Collection and MICHAEL Michael Kors. 2011 was the year of the initial public offer (IPO) and the company had the intention to issue 41.7 million shares in the price range of \$17-\$19. In 2014 Mr. Kors decided to invest more in his menswear line and hired the former CEO of Hugo Boss to lead this improvement. In 2016, MKHL became the official lifestyle partner of the world championship Formula 1 McLaren-Honda team. Nowadays, company has 3 primary collections: **Michael Kors Collection** – the luxury line that is sold in the retail stores and finest luxury department stores e.g. Saks Fifth Avenue; **MICHAEL Michael Kors** – the accessible luxury line that can be found in all of lifestyle stores and leading department stores e.g. Macy's and **Michael Kors Men** – the line created for men and with a recent grow. All these collections can also be bought in the website of the company.



Jimmy Choo in 1986 opened a boutique with made-to-order shoes in London to private and important costumers; in 1996 Jimmy Choo PLC was created. Company is familiarly associated with women's luxury shoes and their complements (handbags, scarves, and belts), men's luxury shoes and accessories for business. Company was been acquired four times for private equity and management companies before the acquisition by Michael Kors. Jimmy Choo was the first luxury footwear company to go public (25% of company in London IPO for 140 pence or \$ 2.24). The brand is used by several famous people such as: Princess Diana, Sarah Jessica Parker, Michelle Obama. 78% of its revenues are related with luxury shoes. The collections are divided in 3 types **Choo24:7**, **Made-to-Order** and **Collaborations**. The first one represents 50% of the sales and is composed by continuative and seasonal collections; normally the seasonal icons are more extravagant and have bolder colors. The most famous made-to-order shoe is the **Cinderella** that feeds the Cinderella's dream of every girl. This company also have product licensing agreements for fragrances, sunglasses, eyewear and a men's collections.

In 1978, Gianni Versace created the most extravagant and glamorous brand in that time, **Versace**. After Gianni death, his sister Donatella Versace assumes que creative area of company and continues to these days. Company is known for an audacious creation, colorful flashy prints, has as rock and roll signature (contrasting black looks with gold accessories) and an incomparable craftsmanship. Versace has a worldwide presence and is represented in several areas such as, haute couture, ready-to-wear, accessories, home furnishings and footwear. As per other group's brands, Versace also has licensing agreements for its fragrances, jeans, watches and eyewear lines. The



newest collection is a testament to Donatella's unique design vision and is equal parts bold and refined, evoking both rock and roll spirit as well as runway glamour.

Key Revenue and Cost

Principal key driver in luxury industry is the brand, the perception that costumers have from each brand. The source of revenues becomes from the retail of the accessories, shoes and luxury clothes. The costumers want this type of products because they give them status, differentiation and are trendy. The brands (Michael Kors, Jimmy Choo and Versace) are intimately connected with luxury, glamorous, quality and exclusivity, characteristics that are very appreciated for their clients and make a difference in their choice. In this industry, the price is found through rational and emotional thinking. The rational part is based on Keystone Markup methodology - [Figure 2](#) – where the price is four times the first cost (it is important to understand that some products are handmade and have higher production costs). Additionally, exists the emotional or irrational part which is related with the brand's image, their value in the market, the perspective of the brand that consumer has and their involvement with the environment and society.

The core cost that group must support is related with raw materials (Cotton, Leather, Cashmere, PVC) that has enormous dependency of the variations of the materials' price. Regarding other costs, it is important to underline the costs of marketing, advertising, and promotion (associated with the brand public image), labor costs, manufacturing (outsourcing contractors), distribution facilities, shipping and open/close/renovation stores. The application of some tariffs and duties in the companies' products will increase their final prices. An example of this situation was on May 2019, where Trump's government increase tariff rate to 25% (before was 10%) for some products that are imported from China, having a huge impact in the company costs due to their global presence.

Capri has five different product categories: Accessories, Apparel, Footwear, Licensed Products, Licensing Revenue and Home (that came with Versace's acquisition) – [Appendix 15](#). The Accessories' category leads the company's revenues with 60% of the total revenues. Licensed Products composed by Wearable Technology, Eyewear, Watches, Jewelry, Fragrances and Beauty have similar weight of 3-4% of the total revenues. New category, Home, only have 0.1% of the weight and this category is related with furniture and some decoration produced by Versace – [Graphic 1](#).

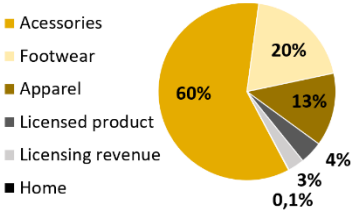
Capri sells its products through three different channels of distribution: retail (online and offline), wholesale and licensing. Retail channel has revenues through the sale of the products on company's stores and website. It can be performed in two different ways, the first one can be described as an offline method, where the sale is recognized when the product is moved from the store. The other possibility can be done online, by e-commerce (website), and it is declared when the product is delivered to the client. For the time being, e-commerce sales are growing faster in the fashion industry and due to that there is a strong investment in this area. All these amounts (revenues) have in count the real and estimated returns that could occur. The Group has 1 249 retail stores, including 347 outlet stores, where it is possible to buy not only companies' products but also Gift cards to offer. Other important channel is the wholesale, which includes sales on specialty store doors, department store doors and travel retail shops with a total of 4 826 wholesale doors. Revenues are recognized by deducting estimated returns, trade discounts and operational chargeback to gross sales. The group still has a licensing segment in which always receive at least a minimum amount of royalties agreed for licensed products and advertising contributions for the use of *Versace*, *Jimmy Choo* and *Michael Kors* trademarks. This agreement could be for products where third-party can manufacture and sell luxury products including jewelry, watches, eyewear, sunglasses and fragrances – [Graphic 2](#).

Figure 2 – Price structure (Keystone markup methodology)



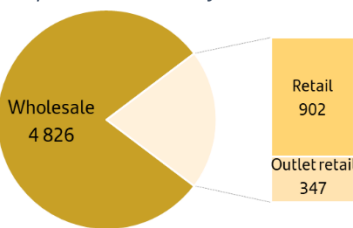
Source: Forbes

Graphic 1 - Revenues for Category



Source: Company's 10-K Report

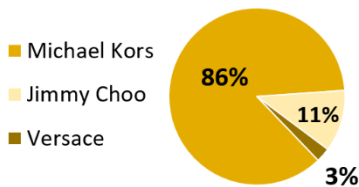
Graphic 2 - Number of stores



Source: Company's 10-K Report

Before Versace's acquisition, business was organized in four segments MK Retail, MK Wholesale, MK Licensing and Jimmy Choo. Currently, the company began to report in three different segments: Versace, Jimmy Choo and Michael Kors – [Graphic 3](#).

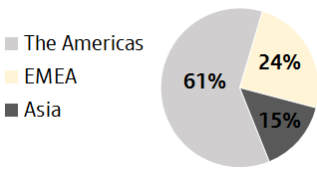
Graphic 3 - Revenues for Segment



Source: Company's 10-K Report

- **Michael Kors** represents 86% of total revenues. These sales are distributed globally by 3.202 wholesale stores, 853 retail stores, licensing agreements and e-commerce sites.
- **Jimmy Choo** is responsible for 11% of revenues from 2019FiscalYear. These sales are distributed worldwide by 596 wholesale stores, 208 retail stores, licensing agreements and e-commerce sites.
- **Versace** has nearly 3% of the total revenues in Fiscal 2019 (since December 2018 to February 2019). These revenues are distributed globally by 1.028 wholesale stores, 188 retail stores, licensing agreements and e-commerce sites.

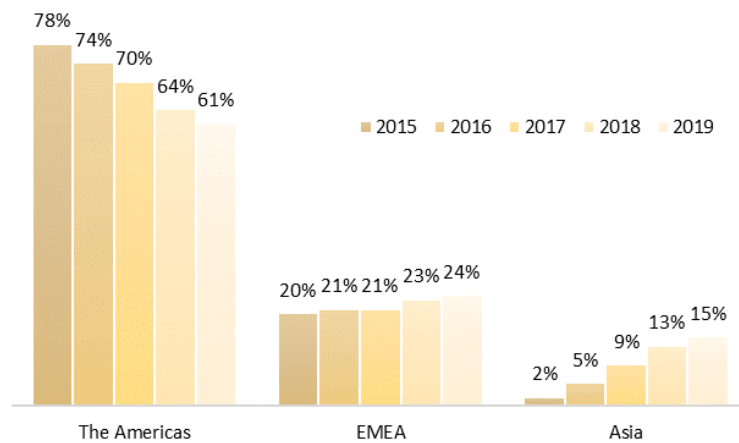
Graphic 4 - Revenues for geographic markets



Source: Company's 10-K Report

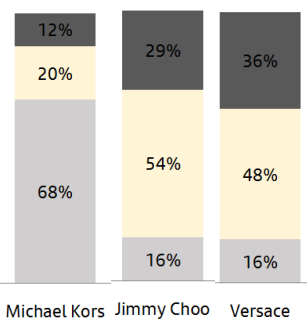
The Group has a global presence: Americas (U.S., Canada and Latin America), EMEA (Europe, Middle East and Africa) and Asia. Americas' market leads the revenues with 61% of the total revenues. Jimmy Choo and Versace's revenues have more expression in EMEA, instead of Michael Kors which has more expressive sales in the Americas. The Asian market represents only 15% of the revenues, nevertheless this market has the higher growth of the last years on the fashion industry – [Graphic 4, 5 and 6](#).

Graphic 5 - Revenues Growth for Regions 2015-2018



Source: Company's 10-K Report

Graphic 6 - Revenues' distribution: Regions by brands



Source: Company's 10-K Report

Michael Kors and Jimmy Choo's production process is performed by independent third-party manufacturing contractors who are chosen on their capabilities, the availability of production capacity, pricing and delivery criteria. Almost all MK's production happens in Asia, on the contrary, only a small part of JC's production occurs in Asia. The majority are produced by specialists in Italy. This multi-supplier strategy gives flexibility, specialist skills, time to market and scalability as well as diversifies risk. Company do not have any written agreement with these contractors therefore any of the parts could terminate the relation at any time. Versace controls the production process for almost all products. Raw materials and all components are bought and goes to a warehouse in Italy where the quality control happens. Later on, they are sent to independent manufacturing contractors. Almost all Versace's production occurs in Italy, the remaining production happens in Turkey and a small part in Asia.

Capri has a high supervision on these contractors and guarantee that company's specification is accomplished. The quality certification occurs in the early stages of production and shipping process, in order to improve the resolutions to any problem that could occur and minimize the impact on costumers.

The opportunity to have three iconic luxury brands in the group, allow to create efficiencies and synergies. In the near future, it is expected that manufacturing and sourcing process include a center of excellence located in Italy. Having the production in the same place, it is possible to support all brands and at the same time share all the expertise, leading to a biggest grow for the companies. However, the design and creative process continue to be independent for each brand.

In terms of distribution, Michael Kors has a primary distribution facility in California that serves most of the retail stores, e-commerce site and wholesale operations in the US. In Europe, the distributor is in Netherlands. The company also has centers in Asia that operates in outsourcing and a leased distribution centers in New Jersey and Canada. All facilities used by Jimmy Choo are shared with other business, increasing the speed and efficiency of the process. The shared central warehouse facility is in Switzerland and acts like a huge hub for all operations shipping to regional warehouses in US, UK and China. Like Jimmy Choo, also Versace has a huge hub but in Italy. This is driven for a third party and it is used for primary operations and shipping to regional warehouses in Hong Kong, Tokyo and New Jersey. E-commerce distribution is on charge of a third party in Germany, Columbus, Ohio and China. Wholesale business is operated for warehouses in US, Japan and Italy.

CPRI acts on the luxury industry, where all companies follow a differentiation strategy and invest in the exclusivity and personalization of its products. They have superior quality and are created by a renowned designer. Their brand and reputation have a huge weight in the apparel, footwear and global accessories market. With the combination of different companies, which have different target audiences, we can reach a much wider range of customers. This will cover a larger business area and create more synergies. Michael Kors is as example of diversity and understanding of this new world of luxury, having different lines to achieve different targets. Thinking about millennial generation, it was created an “accessible” line with the same quality.

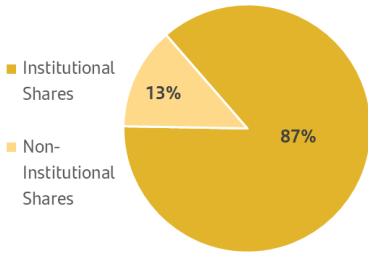
Business strategies

In order to increase revenues and profits, keeping creating value to shareholders, Capri pretend to follow these five business strategies:

- I. Company will transpose the best practices regarding to their knowledge in accessories and footwear industry used in Michael Kors for Jimmy Choo and Versace. E-commerce development and investment continues to be a priority for all brands. After the reunion of these three brands, it is expected that synergies occur especially in company’s manufacturing supply chain, back office support and information systems. In 2020, company expect to implement a global ERP, increasing the system efficiency.
- II. Asia’s market is growing fast and Capri has the opportunity to improve their presence in this market through their three successful and well accepted brands.
- III. Versace’s acquisition requires some integration and support to continue development the brand and achieve \$2 billion of revenues. To do that, Capri has a five plan steps: Create a *runway momentum*; Boost its *powerful and iconic communications messaging*; Increase number of retail stores (188 for 300); Accelerate e-commerce to fulfil the omni-channel experience of the group; Expand men and women accessories and footwear to 60% of revenues instead of 35%.
- IV. In 2017, the acquisition of Jimmy Choo makes MK to compromise the growth of their revenues to \$1 billion over time. To achieve that number, retail stores increased from 175 to 200 and it is expected a new increase to 275 stores, with more concentration in the asian industry. Keeping the footwear as the key product is a priority, however it is expected that accessories line will grow up to 50% on JC’s revenues. Attract younger clients is essential and to do that JC choses its first ambassador, Kaia Gerber (model) with whom made a marketing campaign.

Michael Kors continues to be the basis of the group and the goal is to achieve \$5 billion in revenues through increasing the innovation of products, brand engagement and improve the number of clients.

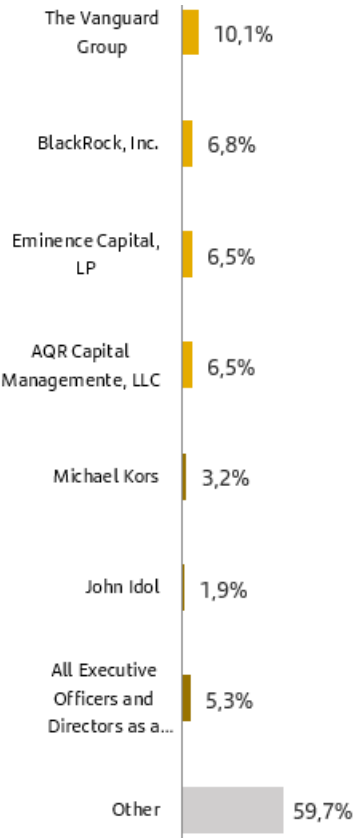
Graphic 7 – Distribution of Shares



Source: NASDAQ

Capri’s board is composed by 8 elements, John D. Idol – Chairman and CEO, Michael Kors – Honorary Chairman and Chief Creative Officer, and for 6 more directors. The Executive Officers team have 5 members including John D. Idol and Michael Kors as well. 86,67% of the shares corresponds to institutional shares, the others 13,3% to non - institutional shares - [Graphic 7](#) -. Exists 455 share owners and each share has the right to one vote. The principal shareholders are VANGUARD GROUP (10,1%); BLACKROCK INC. (6,9%); EMINENCE CAPITAL, LP (6,5%); AQR CAPITAL MANAGEMENT LLC (6,5%); Michael Kors (3,9%), John D. Idol (1,9%) - [Appendix 16](#). All the executive officers and directors as a group have 5,3% of the shares and Michael Kors and John Idol together have close to 6% of the company’s share - [Graphic 8](#).

Graphic 8 - Shareholders



Source: Company’s Proxy Statement Report2019

The guidelines adopted for the board reflect the governance rules of NYSE listed companies and all the responsibilities of all members of boards and committees. Capri follows the laws of the British Virgin Islands and *the Board shall be comprised of a majority of directors that meet the independence requirements*. The criterias for the members selection are: background, exclusivity, financial literacy, experience and character. The group expresses in your code of Business Conduct and Ethics the commitment to a culture of integrity, honesty and it is expected that all employees comply with these principles. This code is available in several languages, promoting a higher understanding for all employees over the world. Capri encourage all their workers to report any situation that leads to a conflict of interest or violation of the code of conduct and ethics, promoting an ethical behavior. Group has 3 committees and is organized by 6 experienced directors – [Table 4](#) -with different backgrounds, depending of their area, which give the diversification needed to success - [Appendix 18](#). All creative directors will be the same for each brand, guaranteeing the individuality, uniqueness and history of each brand – [Table 5](#).

Capri do not have one dominant shareholder, this is, do not exist only one person/company with more than 50% of shares. The shareholder with the higher percentage of shares is the fund *VANGUARD FROUP INC* with 10,1% and apparently do not have a connection to any director or board member. Nevertheless, Michael Kors’ spouse is Executive Vice President and Creative Director and some familiarity issues could occur from that situation and jeopardize company interest. Company aircraft can be used for personal purposes by Michael Kors and John Idol without costs.

All compensation and incentive plan are regulated and controlled by a committee - Compensation and Talent Committee – specifically created to analyze compensation matters. The compensation for named executive officers follows the market practice through the definition of compensation levels according to similar companies (size, business cycle, and industry). In order to align company goals with executive goals and promote company growth, it is available a company’s share ownership program for named executive officers.

The Performance-Based Compensation includes an Annual Cash Incentive Plan, a Long-term Incentive-Based Compensation and is composed by two compensation program features: *Clawback Policy and Recovery of Equity-Based and Cash Awards and Share Ownership Guidelines*. Company also has Transportation Benefit and Life Insurance premiums. Cash

Table 2 - Executive Officers

Name	Position
John D. Idol	CEO and Chairman Honorary
Michael Kors	Chairman, CCO of MK’s brand
Thomas J. Edwards, Jr.	Executive Vice President, CFO and COO
Pascale Meyran	Senior Vice President, CHRO
Cathy Marie Robinson	Senior Vice President, COTO

Source: Company’s Proxy Statement Report 2019

Table 5 - Creative Director for brand

Company	Creative Director
Versace	Donatella Versace
Jimmy Choo	Sandra Choi
Michael Kors	Michael Kors; Lance LePere

Source: Proxy Statement 2019 and news

Table 6 - Compensation Philosophy and Practices 2019

Compensation Philosophy and Practices

- Pay for performance
- Share ownership guidelines
- Double trigger vesting
- Clawback policy
- Review of share utilization
- Independent consultant
- Independent committee

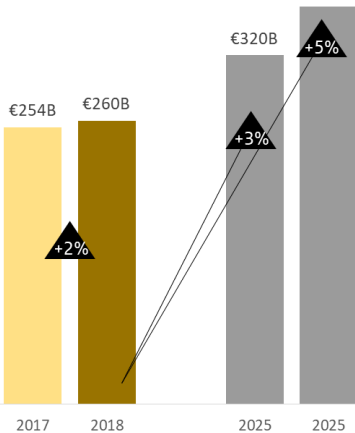
Source: Proxy Statement 2019

Incentive Plan is based on the company’s performance or divisional performance goals and consists on the payment of an award to the executives that are eligible – [Table 6](#).

The performance target under the Cash Incentive Plan is operating income. The Long-term Incentive Plan corresponds to the attribution of share options to named executive officers, that expire in seven years from the attribution date. Depending on each executive officer, there are different agreements to be made- [Appendix 19](#). To increase the security and impartiality on trades, directors, named executive officers, other employees and related parties, it is forbidden to trade company shares two weeks prior to the end of each fiscal quarter or two days after the public release of quarterly earnings. It is also prohibit *all of our employees and directors from engaging in buying stock of the Company on margin, short sales, buying or selling puts, calls, options or other derivatives or engaging in hedging transactions in respect of securities of the Company.*

Group’s relationship with their workers are good and do not have big problems and public scandals about that. Nowadays, Capri has 17 797 employees, 6 701 part-time and 11 096 full time. In the last 3 years, company increased its workforces in 38%. Company reports their concerns about **Social Responsibility** in their Annual Report, and in informal publications on their social media and website – CPRI do not have a specific report like some peers. MKHL created the *KORS CARES* to support several causes, with the aim to help people that live in poverty, around the world, people that are discriminated because their race or gender. Besides that, MKHL has a huge concern with subjects related with environment and the communities, always working together with them to achieve the best for both parts. For example, company try to mitigate the risks of human trafficking and slavery in the supply chains establishing procedures. MKHL also follows, through their suppliers, the *U.S. Conflict Minerals Rule* that is related with the reduction of the power that some of armed groups in Democratic Republic of the Congo has thereby jeopardizing human rights. Capri decided to stop using fur in their clothes, accessories and all products, until the end of 2018, showing solidarity and concern with all animal and environment issues becoming that way sustainably responsible.

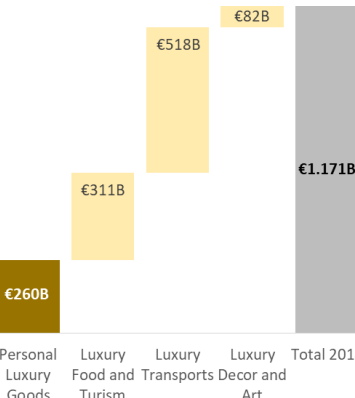
Graphic 9 - Personal luxury goods market forecast



Source: Altagamma 2018 worldwide luxury market monitor – Bain & Company

Industry Overview & Competitive Positioning

Graphic 10 - Global luxury goods markets



Source: Altagamma 2018 worldwide luxury market monitor – Bain & Company

In 2018, the luxury market of apparel, textile and personal goods represented €260 billion (22%) and had a net profit margin of 8,8%, grown YoY close to 2% at current exchange rates and 6% at constant exchange rates. It is expected that this market have 18E–25 CAGR +3 or 5%, confirming the increase of consumer confidence which leads to a solid mid-term macroeconomic outlook - [Graphic 9 and 10](#). At this moment, exists 3 key points to considerate when this market is analyzed: the diversity of economic trends; the rapid and indispensable digital transformation and the evolving of consumer’s preferences and tastes. The increase of consumptions in emergent markets like China, will change the distribution of global consumption. M&A activities are growing in this industry in order to diversify the companies’ portfolio and increase market share. The following analyses explain in detail all these themes.

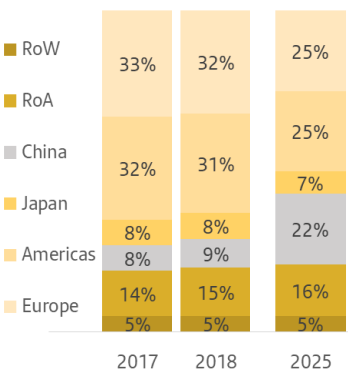
Market Outlook

Market behavior previsions for the next years – consumer spending and geographic distribution of consuming.

The local consumption growth in average 4% YoY, having China the higher growth in this market. One of the reasons for that is related with the rising of the Chinese middle class. Chinese

consumers also travel a lot and spend (30%) more money in other places than other nationalities. Thus, in general, the tourists spend more money (+6%) in Europe and Asia. As we can see before, China has the best performance (+15%) in terms of growth in this industry related with the middle class' expansion, to the renewal of consumer confidence and the increase of the Chinese people's sophistication. Asia (without China and Japan) has a similar performance as Europe (+6%), Canada and Mexico are becoming strong in the luxury industry. The lower performance (+1%) is in Middle East, where the economic and social uncertainty is higher. Geographically, Europe and Americas lead the market achieving together almost 63%, followed by RoA (rest of Asia) with 15% and China with 9%. However, it is expected that Chinese market grow around 13% in the next 7 years, confirming the increase of purchasing power of Chinese consumers – [Graphic 11](#). The dynamic evolving the Chinese consumers have been changing over the years and in 2025 it is expected that continues to change. It is probable that domestic consumption will increase to 50% of Chinese expenses due to the decrease of price harmonization, the increase of global price evolution and the diminution of currency effect.

Graphic 11 - Personal luxury goods market by geography

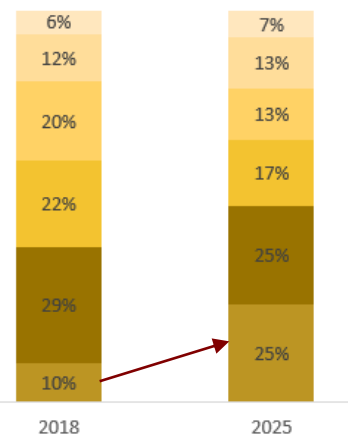


Source: Altagamma 2018 worldwide luxury market monitor – Bain & Company

New paradigm: Ethics Concerns – environmental issues, animal treatment, human rights and better labor conditions.

Nowadays, costumers have different concerns and believes about the environment, animals care and labor conditions and they prefer companies which cares about and pay more attention to these issues. The luxury companies are not an exception, they must adapt to this new world and try to fulfil these new requirements. Companies adopted new technics of production and treatment of the raw material to reduce their consumption of the natural resources, reducing the negative impact in the environment. In the case of Capri, the production is made in an outsource way (excluding some product lines and the majority of Versace production), therefore the company controls all the production and supply chain, to guarantee that the rules and the conditions are followed, protecting the natural resources and the employers' conditions. Some of these sensible topics have legislation/certification associated, as per the case of diamonds – *Kimberley Process Certification Scheme* – companies only could buy pieces that have a registration of their origin and all their tracking. Though, tracking these products is difficult and with internet growth is even more complicated to know if the diamonds that consumers are buying are in fact conflict-free. To mitigate this, people started to use a block chain based technology to follow the precious stones since its origin. Nevertheless, some of these subjects, like fur/leather, do not have uniform legislation and companies only reduce the use of these material if they are really concerned. Capri is fur-free since 2018 and, like some competitors, have tried to create synthetic materials to replace this resource and reuse some of the materials, guaranteeing always the high quality of the materials and, consequently, the quality of the final product.

Graphic 12 - Personal luxury goods market by channel



Source: Altagamma 2018 worldwide luxury market monitor – Bain & Company

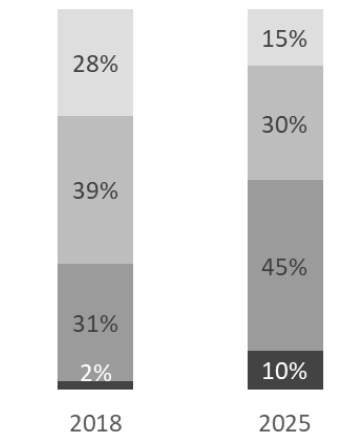
New channels – Increase on online sales.

The increase and development of new technologies, new costumer's mindset, new concerns and globalization effects, leads to more diversified channels. In 2014, the online channel only represented 5% of the revenues. However, in the last 4 years the weight doubled and in the future it is expected that this number increase to 25%, representing more than the Specialty stores (17%) and Department stores (13%). Physical stores need to adapt and evolve to this new modern era – [Graphic 12](#).

Millennials and Gen Z – Luxury market's core consumers

Millennials and Generation Z represent nearly 33 % of the clients in the luxury industry and will achieve 55% by 2025 – [Graphic 13](#). Millennials' choices are based in three assumptions: a

Graphic 13 - Personal luxury goods market by generation



Source: Altagamma 2018 worldwide luxury market monitor – Bain & Company

customized shopping experience; interaction through digital platforms and sustainability. They give value to an exclusivity experience in the in-store shopping and this could be done, for example, by loyalty programs and the invitation to some private events in physical stores. The need of communication through the social media, because costumers started to spend more time online, give to luxury companies a difficult test. Before, this channel was associated to the mass market and now luxury brands need to arrive to their costumers but cannot lose their exclusivity status. Some companies try to deal with this limiting the availability of the products to the certain stores/areas/regions. And as we can see above, the new ethic and sustainability concerns are topics of high relevance for costumers and thus for businesses as well. Another particularity of this industry is the fact that most customers are women however, male customers are growing as the most representative age range of 35 to 44.

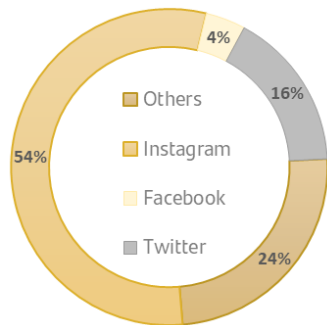
Online luxury market booming – impact and adaptation to the e-commerce and social networks

Digitalization came to stay, this is a fact, and all the companies need to adapt and evolve their digital skill and presence. Nowadays, the way of creating, distributing and selling products is becoming different, existing new ways of doing these processes using technology and social media. Luxury industry is not different and brands started to improve their online presence through the e-commerce and the social networks. 70% of consumers connect to their favorite brands through social platforms. The increase of presence in the social media happens because of the 27% increased of followers on three social platforms: Instagram, Facebook and Twitter. Instagram leads this online presence with 54%, followed by Twitter with 16% - [Graphic 14](#). A large part of retail revenue comes through the e-commerce channel, and the experience of the costumer it is a concern. The idea is to give the best experience, similar to the experience in offline stores, to their clients, and some companies already started to build new app and devices to help costumer, e.g. an app designed to show to the customer how the clothes fit before buying, could be used in the physical and online stores. The online market share is dominated by four companies – [Graphic 15](#) – representing together around 60% of the total market share.

Mergers & Acquisition activity – Acquisition of Jimmy Choo and Versace for Michael Kors

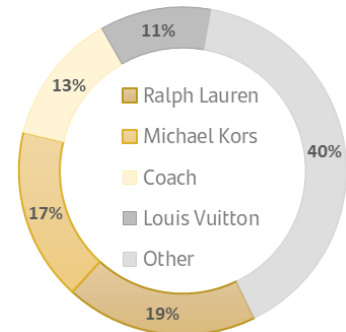
The merger and acquisition activity are intense in this market (217 deals in 2017), companies are always looking ways to improve and increase their business. M&A leads to market consolidation and nowadays this point is even more important and necessary. The acquisitions are increasingly happening at an early stage of the brand. Through this process, brands can achieve higher market share, improve their skills and expand their name while diversifying their portfolio. In 2017, the Capri’s peers Coach (now Tapestry) acquired Kate Spade. In 2016, Coty did the acquisition of the Procter and Gamble beauty line and the “giant” of the M&A activity is LVMH Moët Hennessy Louis Vuitton SE, with the merger/acquisition of more 20 brands (Christian Dior, Bulgari, Hermès, etc.). Michael Kors bought Jimmy Choo in November 2017 and in December 2018 complete Versace’s acquisition. Behind these acquisitions are the fact that MK want to create America's first luxury group, thus the company changed the name at the end of the deal to Capri Holdings Limited (NYSE: CPRI). The new name was inspired in the Italian island of Capri and refers to the three brands involved Michael Kors, Jimmy Choo and Versace, as company said *The island’s spectacular three rock formation, formed over 200 million years ago, is symbolic of the timeless heritage and strong foundation that is at the core of each of the three founder-led brands in our global fashion luxury group.*

Graphic 14 - Distribution of social media platforms



Source: PMX Agency's Trend Report

Graphic 15 - Online Market share by brand



Source: PMX Agency's Trend Report

Political and economic analysis

The North American continent is under the shadow of Trump's government. Their political and social positions (creation of import duties for partnership countries, construction of the wall between the US and Mexico, trade war with China) created some instability and have huge impact on the consumers. But not only Trump has these extreme positions, a little all over the world people with positions of responsibility and power have these radical ideas which lead to serious economic and social problems. Example of that are the Venezuela and Brazil's cases and the social instability that currently exists in both countries. Other instability factor is Brexit, it is still unclear what will be the effects of the UK's exit from the European Union. The delay and uncertainty with Brexit's process, the possibility that UK leave the European Union without agreement, increase the instability and could leave a dramatic social and political situation. Terrorism attacks also contribute to this instability, increasing the fear and the feeling of insecurity, being able to have a negative impact on the tourism and consequently in the consumption.

Although all these insecurity feelings, the US economy is growing and has good expectations associated to GDP growth. Also in Europe, the economy grew at the highest rates of the last 10 years, having all member states saw an expansion in their economies. GDP evolution is expected to continue strong and inflation in the same levels. The increase of disposable income in some important parts of globe helped to increase the consumption of goods that are not essential. Of course that the success of the luxury market is not only linked to the disposable income, but if there is more money in the middle classes, consumption of luxury products can increase because consumers who did not have purchasing power can now buy some of these products.

SWOT Analysis

One of the group strengths is related with the capacity of the consumers to recognize instantly the main products: Michael Kors – bags, they all have inscription MK on the clasp or are suspended in the bag straps; Jimmy Choo – quality shoes with glamour, its Cinderella shoes that are a classic; Versace – irreverent and unique pieces of clothes, and the medusa icon. Their lines are **immediately recognized**. All the brands were **created for iconic designers**; Michael Kors is one of the most appreciated fashion creator in the industry and had won several awards through the years. Jimmy Choo was known for their perfect handmade shoes, the style, quality and uniqueness convinced princess Diana to use their shoes and become it a global success. Gianni Versace was considered one of the most talented and irreverent designers of his era, died without reach its top performance. It is undeniable the power of these brands in the luxury industry and the many years of history. Capri is present all over the world and **increased their presence** and market share through the acquisition of some peers, like Jimmy Choo in 2017 and Versace last year. In this way, company **diversified their presence** in the luxury industry and expanded their business reaching different consumers and targets.

Table 7 - Social media presence

Brand	Social Media	Followers
Michael Kors	Instagram	15M
	Facebook	17M
	Twitter	3,5M
Versace	Instagram	18,9M
	Facebook	5,4M
	Twitter	4,7M
Jimmy Choo	Instagram	10,5M
	Facebook	3,7M
	Twitter	1,5M

Source: Instagram, Facebook, Twitter

The company follows the trend of digitalization and understands the importance of the technologic products. Through their licensing contracts, they have the opportunity to **have technological products** associated with their brand, like smartwatches (Michael Kors ACCESS) for example. Follow the trend, **social media** is now required to arrive closer to the consumers, and the three brands have presence in all the principal ones: Instagram, Facebook, Twitter. Michael Kors leads on Facebook with 17 M followers and Versace on Instagram with 18.9M followers – [Table 7](#).

Thinking about their strategic positioning, MK become the first luxury fashion brand to do a **partnership with McLaren-Honda racing team**, making clothes line exclusive for them. Company adjusted one of them collections to achieve more consumers, that way MK has a more accessible collection that is sell in outlet stores. Also JC and Versace have few outlet stores. Nevertheless, the existence of this outlet stores that can be reached by everyone who do not belong to the “elite”, can give the idea of loss of exclusivity which is associated with luxury industry,

being thus also a weakness. Recently, Jimmy Choo celebrated a partnership with **Swarovski**, where customers can personalize their shoes and bags with Swarovski's crystals. Over the years, Versace also has some partnerships, participating in special collection from Swedish fast-fashion, **H&M** and the Brazilian fast-fashion, **Riachuelo**.

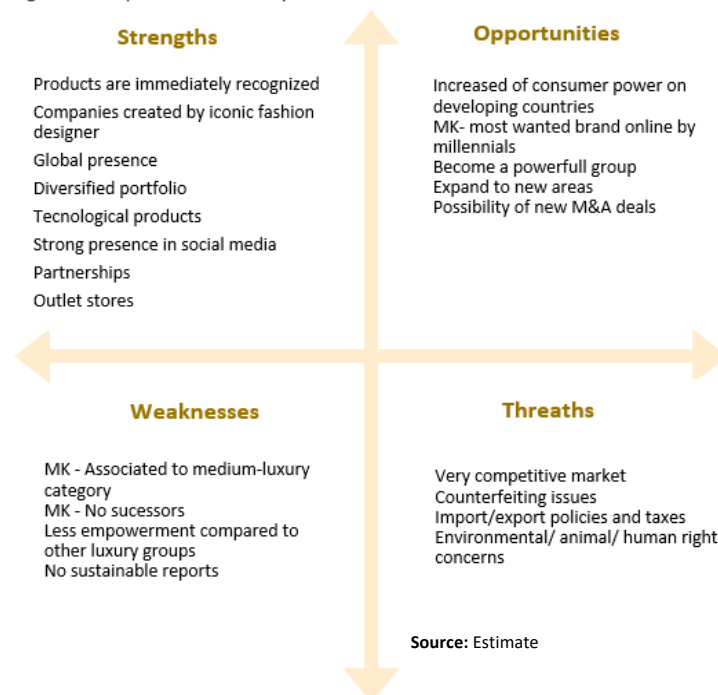
The concern about environment and animals could be a plus and a strength to all brands in a world where it's becoming a more important subject. The decision of abandon the use of fur and the *U.S. Conflict Minerals Rule* is important to achieve a most concerned customer.

One of the weaknesses of Michael Kors is their association with a medium-luxury category and not so much a high luxury market. Company do not have, yet, the same empowerment as Louis Vuitton, for example, that are a European group of luxury brands. The most exclusive products' line is not accessible to all clients, being reserved only for high class society and this can be reductive. To mitigate this client reduction, Michael Kors sells more affordable lines in the outlet stores. Inside this "loss of exclusivity" subject, constant discounts / promotions that the brand makes, affects the brand image in the luxury market. Other weakness is related with the fact that the founder, Michael Kors, do not have any successor in the family, therefore when he left Michael Kors the company will lose their "family status". Due to the group **do not have a formal report about environment and social responsibility** issues, this can be seen as a weakness because gives the idea to the most conservative and concerned consumers that MK does not give the right attention to these important questions.

The increase of the consumption power in the medium class of developing countries, like China, is an opportunity to increase the sales and raise more clients. The words "Michael Kors + handbag" were the most searched words online by millennials and this is an opportunity for the brand to explore its website, increasing the e-commerce, and its presence and weight in social media. Through the acquisitions, born the opportunity to become more powerful group in luxury market and thus lose this label of medium luxury. Michael Kors expands its line to other areas like luxury décor or furniture and improves the business using expertise of Versace brand. This market has many M&A businesses and Capri can do more acquisitions, having higher market share and becoming a huge American luxury group, as Louis Vuitton was in Europe. Versace acquisition can lead to reach the high luxury market, taking consumers to associate other brands to that luxury category.

One of the threats of this industry is related with the high levels of competition, new companies can born every day and consumers may prefer their products. The counterfeiting is also impossible to control and is a huge threat to the luxury companies. The products are desirable and their design is easily copied and sold, giving a cheaper alternative. The licensing contracts is also important, and company needs to do everything to not fail. Kors has a global presence and imports/exports to all continents, some import/export policies and taxes taken may threaten this industry by limiting or hindering the distribution of products. Changing mentalities and concerns for the environment, animals and human rights leads some consumers to exclude brands that do not respect or have the same principles.

Figure 3- Capri's SWOT Analysis



Peers Analysis

The principle followed by all the companies in the luxury market is to provide unique and exclusive content for their customers. This, and not only, connect Capri to their peers: Tapestry Inc., Louis Vuitton, Burberry and Prada – [APENDIX 10 and 11](#). Tapestry is recognized for its craftsmanship's quality of their luxury accessories, bags and lifestyle collections. Louis Vuitton is well known by their handbags and travel bags in leather and canvas material with their "LV" pattern. Also, Burberry is known by the pattern of their clothes, accessories and bags and was the first luxury company to join at the Ethical Trading Initiative. Prada group represents the Prada and the Miu Miu brands. The group is intimately close with innovation and transformation. Prada brand is associated with the *best of Italy's design and manufacturing tradition, sophisticated style and outstanding quality*. Miuccia Prada *has always been a sophisticated interpreter of her times who has stayed ahead of styles and trends*. Miu Miu is a brand more *free-spirited* and was created in 1993, reflecting an *emancipated and discerning woman* view. Coach, now known by Tapestry, is becoming a global group with the acquisition of Kate Spade, similar strategy used by Michael Kors with the acquisition of Jimmy Choo and Versace; and Louis Vuitton with acquisition of Christian Dior and Hermès. Burberry is closely related with English royalty and recently changed their iconic pattern with 20 years to a new modern logo, presenting them in the Thomas Burberry Bear in the principal cities and stores around the world. Louis Vuitton, Prada and Burberry are only in premium luxury while Michael Kors and Coach have a more accessible line.

Porter's five forces

Threat of new entrants: Low This is an industry that is growing, has differentiated products, some entry barriers and is related with high profits. Initial investment is not large and the most of raw materials have an attractive price, being very profitable. Therefore, it seems that it is easy to join this market nevertheless, these new companies do not have the marketing capacity, the brand recognition or loyalty's consumers nor the infrastructure used by established companies. The newcomers face, in most of the cases, poor profit margins and have more difficulty to diversify their portfolio. Recognized companies could enjoy economies of scale and, for whom is listed in the stock exchange market, could have more financing options. They also represent the massive share of total revenues on industry with a history and culture already well known by the consumers. The level of this force is **2**.

Buyer power: Medium In the luxury industry, the price is settled by the brands and consumers do not have any power on it. The luxury goods tend to have an inelastic demand, even in downturns prices tend to continue high. If the price decreases in this industry it can be associated with a lack of quality and affect brands. However, this way of think is changing over the years as some companies have regular discounts and some outlet stores. The products in this market are highly differentiated and are purchased in small volumes. Though, the principal consumers in the industry are individual consumers and their choices are close to their style, having the power to choose from which company they want to buy. It is easy to swap between companies. This increase the power that consumers have, and it is important that companies invest in strategies to attract and retain customers, leading to keep loyalty. According to the above explained, the buyer bargaining power is medium– force is **2,5**.

Supplier Power: Medium Luxury industry could have two types of suppliers – the one that is merged with the companies and have higher power and the other that is independent from brands which is localized in Asia, for example, with less power. The independent has lower bargaining power because some raw-material and labor costs are low. Due to that, switch costs are small and it is easy for the companies to change their suppliers. In luxury industry, suppliers need to be highly skilled craftsman and sometimes when companies change their supplier, the risk of poor quality can occur. Suppliers that are merged with companies have huge bargaining power since they can influence the manufacturing costs. Weighting these two views the force is **2,5**.

Threat of substitution: Low In this market, customers tend to be loyal to brands and typically they do not switch a brand for another. However, Gen Z is not so loyal, since they have different consumption's notions and if

brands are involved in some social/environment problems it is possible that sales are affected. Similar products with low prices do not attract the “typical customer” on the luxury industry because of the intrinsic thinking that low prices point to low quality. Counterfeit and custom-made clothes can represent a risk to the revenues. In the other hand, original brands are essential to the clients of the luxury brands due to special status that are perceived by the use of original luxury goods. Therefore, force is **2**.

Competitive rivalry: Medium-High The rivalry is intense, market is growing, and brands loyalty based on features, quality and exclusivity is significant. The industry allows the entrance of new players, but it is difficult for them to grow in this market of highly differentiated products. Luxury companies well established tend to avoid price competition collaborating each other. The force is **3**.

Graphic 16 - Porter's five forces



Legend:

Threat to the business:

- 1. Insignificant
- 2. Low
- 2.5. Medium
- 3. Medium-High
- 4. High

Source: Estimate

Investment Summary

Capri Holdings Limited (CAPRI or CPRI) is a fashion (apparel, footwear, global accessories and more) luxury group, representing three iconic brands, which operates at a global level. Capri purposes' is to maintain the exclusivity and independence of their brands and continue to expand their worldwide level. Michael Kors, Jimmy Choo and Versace are the three companies that compose the group.

Strong/Stable Financial Position as a result of group creation In the past, Capri achieved a stable operating cash flow, in 2019 the acquisition of Versace reduce this cash flow. During next years, it is expected that Capri generates positive and solid operating cash flow. Group establishment will lead company to achieve synergies and increase their value and results.

Valuation Methods The discounted cash flow model (DCF) through free cash flow to the firm (FCFF) was used to achieve CAPRI's target price. To complement the absolut valuation, was realized a relative valuation through multiples approach. This valuation involves an average of three multiples and had an average target price of \$ 53.00. The final target price is \$ 48.80, composed by 80% of DCF valuation and 20% of multiples valuation, and has a upside potential of 7%.

Recommended investment action The target price has a potencial upside of 7%, this value is small and regarding all the political uncertainty in US with trade war and Trump's policies, the UK instability with Brexit and the market hesitation for the union of these three brands. Therefore, the recommendation is to **Reduce**.

Investment Risks As Capri has subsidiaries and foreigner suppliers that have local currencies different from the currency used in the company's reports (USD), company was exposed to foreign currency exchange risk and its financial resultss could suffer with that. Recent acquisitions could also result in poor financial results if the acquisitions do not go well. Other risk that has a huge impact in results is the brand damages risk, the perception that public has in these brands is crucial for company's success.

Recent Developments The most important company's events are related with the creation of an apparel, footwear and global accessories luxury group (CAPRI), through the recent acquisition of Jimmy Choo in November 2017 and Versace in last December. Company is increasing their proximity with some technological gadget and techniques and environmental/social concerns.

Valuation

DCF Approach: Free Cash Flow to the Firm

To achieve a \$ 48 target price it was used the discounted cash flow methodology. Through this it is achieved the value for the investors. To reach the Free Cash Flow to the Firm, it started with the net income plus interest times taxes and then added the D&A and other non cash charges (restructuring expenses and other charges). Then, it is subtracted the variation in working capital and the CAPEX needs. Later on, it is estimated the present value of terminal value and added NPV to FCFF. Thus, the enterprise value was reached and adjusted with net debt to achieve the Equity value. Dividing the Equity value by the shares outstanding it is possible to determine the target price – [Appendix 9](#).

Table 8 - Forecast Revenues

	Net sales	Licensing Revenues
2020F	5569,8	113,7
2021F	6027,7	123,0
2022F	6516,7	133,0
2023F	7043,5	143,7
2024F	7611,4	155,3

Source: Estimate

Table 10 - CAPRI's peers

Companies	Market Share	Category Accessories	Peer
Burberry Group plc	✓	✓	Yes
Coats Group plc	x		No
Guess, Inc.	x		No
Hermès International Société en commandite par actions	✓	x	No
LVMH Moët Hennessy Louis Vuitton S.E	✓	✓	Yes
Prada S.p.A	✓	✓	Yes
PVH Corp.	✓	x	No
Ralph Lauren Corporation	✓	x	No
Salvatore Ferragamo S.p.A.	x		No
Stefanel S.p.A.	x		No
Tapestry, Inc.	✓	✓	Yes
Ted Baker Plc	x		No
Tiffany & Co.	✓	x	No
V.F. Corporation	✓	x	No



Peers' group
Burberry Group plc
LVMH Moët Hennessy Louis Vuitton S.E
Prada S.p.A
Tapestry, Inc.

Important item in net income

Revenues - Growth on sales is closely related with the increase of consumption from emerging markets, products' personalization and the change of "heart of luxury" to a digital experience. To forecast the revenues was applied the inflation rate from the 3 geographical regions forecasted and the expected growth rate from the luxury market (5%). It was assumed that licensing revenues will be 2% of total revenues regarding historical data and net sales correspond to 98% of revenues. The revenues forecast at 5 years is presented in [Table 8](#) and more detail of revenues can be seen in [Appendix 7](#).

Gross Profit - The company has a gross profit average (between 2011-2018) of 59% and the current margin is 61%. Regarding the acquisition of Jimmy Choo and Versace, I believe that company will increase their revenues and find economies of scale reducing their costs and will keep last year margin (61%). Therefore, it is assumed that gross profit will be 61% and, in consequence of that, **COGS** will represent 39% of total revenues. These percentages are close to apparel industry that has a gross margin of 51% and a weight of cogs over revenues of 49%.

Capex & Restructuring and other charges

For 2020, it was assumed the value given by CAPRI's 10-K report. For the next years, the value was the historical average value of Capex. However, in the last forecasted year it was considered the same value of 2020 because it is expected an increase of investment.

In 2020, company pretends to close 25 stores and it will be possible that company has some transaction costs of acquisitions. 2021 assumed a decrease of 20% on these costs and for the remaining period no restructuring costs are expected.

WACC Assumptions

Company's WACC fluctuates from 3.6% at 2019 and 5.1% in the terminal period. This occurs because of the level of capital structure that will change over the time. It was used the terminal information in order to reflect better the final structure of the company.

Table 9 - WACC drill down

Variables	Value	Description
Beta	0,99	The beta was calculated through a linear regression using daily data between CAPRI's stocks and S&P 500 index.
Country Risk Premium (CRP)	0,00%	Aswath Damoradan's computation in January 2019
Risk Free Rate (Rf)	2,68%	10 Year US Treasury Bond, zero coupon
Return of Market (Rm)	5,96%	Aswath Damoradan's computation in January 2019
Market Risk Premium (MRP)	3,28%	MRP = Rm-Rf
Tax rate	27%	Aswath Damoradan's computation in January 2019
Cost of Debt	3,18%	Average of all debt rates (Appendix 9)
Capital structure		It was assumed the capital structure of terminal period 77% of equity and 23% of debt. 20

Source: Estimate

Terminal Value

The group acquired recently two companies and has potential to reasonable growth. It was assumed that will grow with minimum market expectation of 3%.

Selection Peers

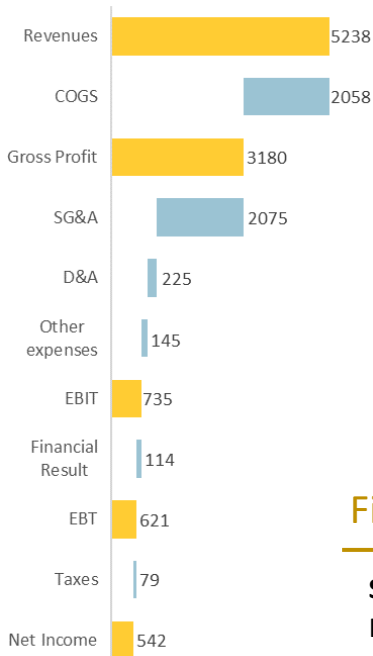
It was applied a 3-step process to identify properly the peer group for CAPRI in which was considered companies in the luxury industry, specifically in the apparel and accessory luxury market. The second step of this process is the market share of each firm and the last one the weight of Accessories' Category in the total revenues – [Appendix 12](#). After this selection, the final CAPRI's group peers was composed by four companies: Burberry Group plc, LVMH Moët Hennessy Louis Vuitton S.E, Prada S.p.A and Tapestry, Inc.- [Table 10](#).

Relative Valuation Approach (Multiples Valuation)

In order to complement the DCF valuation, Multiples valuation was done. This approach compares CAPRI with the peers' group that was chosen. Multiples used is based on price and enterprise value and was left out multiples regarding to dividends because of Capri's dividend policy.

To reduce some possible biased relative valuation, it is made the average of multiples becoming the valuation more accurate. Both methods result in the same conclusion, the current price (\$45,75) is undervalued, relative valuation give a target price of \$53,00 and the DCF valuation \$48,00. In final target price, it is considered that DCF valuation have 80% of weight and the relative valuation 20% in order to minimize some biased information, thus the final target price was \$ 48.80. Only EV/EBTIDA of CAPRI is higher than their peers, the other ratios are lower and this could mean that company is slightly undervalued comparatively to their peers (difference of 19% regarding the average of peers). Tapestry has the most similar ratios to CAPRI - [Appendix 8](#).

Graphic 17 - Net Income Breakdown - 2019



Source: Company's 10-K Report

Table 11 - Derivative Instruments

Derivative Instruments	
Forward Foreign Currency Exchange Contracts	
Acquisition of Versace	€1.680 billion (approximately \$2.001 billion)
Acquisition of Jimmy Choo	£1.115 billion (approximately \$1.469 billion)
Fixed-to-fixed cross-currency swap agreements	
Euro-denominated subsidiaries	\$2.190 billion fixed rate payments of 0% to 1.718% in Euros
Japanese Yen-denominated subsidiaries	\$44 million fixed rate payments of 0.89% in Japanese Yen.

Source: Company's 10-K Report

Financial Analysis

Stable Earnings and costs

In last 3 years the earnings were stable and the average net profit margin was 12%, being fiscal 2019 marked by a slightly decrease in this margin (10%). COGS was stable as well, round 40% of total revenues. Historically COGS tends to have a slightly higher weight in revenues than SG&A, however in fiscal 2019 the reverse happens, the difference is small but it occurs because of the Versace acquisition that increased some costs. For the next years it is probable that the historical behavior come back and COGS have higher significance in revenues than SG&A – [Appendix 7](#)

Assets: Indefinite-lived intangible and Fixed Assets

Over the last 3 years, some differences between carrying value – this value could not be the most precise to value these assets - and fair value of fixed assets and lease rights have been noticed. These values are recorded as impairment but the estimation made by Capri is become more accurate since this difference is decreasing in recent years. Indefinite-lived intangible assets and goodwill pass by an annual impairment test to validate if it is carrying value is or is not recoverable. These assets are evaluated following the fusion approaches: historical data, future DCF, market conditions and performance potentials.

Derivative instruments

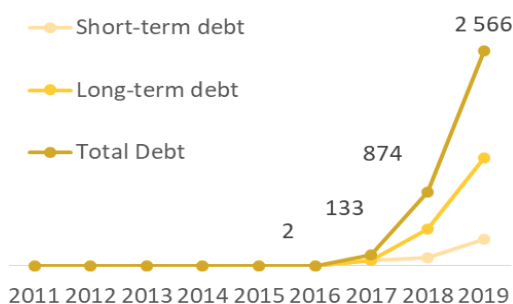
In order to mitigate some risks related with exposure to currency's fluctuation, company enter in several hedge contracts – [Table 11](#). This possible fluctuation impacts directly the cost of sales. In the case of acquisitions, the risk exists until the deal is closed. The period between

final transaction and start of deal could have several variations on currencies, which will affect the business.

Debt

Historically CAPRI finances itself through the side of shareholders equity. The last 3 years were atypical due to the acquisition of Jimmy Choo and Versace and the Retail Fleet Optimization Plan. Because of these three events, company needed to increase their short and long term debt – [Table 12](#).

Table 12 - Debt evolution



Debt	2017	2018	2019
Short-term	133	200	630
Long-term	0	674	1936

Source: Company's 10-K Report

Table 13 - Share repurchase program

	Number	Cost
2016	24 757 543	1 500
2017	21 756 353	1 000
2018	7 700 959	358
2019	3 718 237	200

Source: Company's 10-K Report

Dividend Policy: Company does not pay dividends, however exists a \$1 billion share repurchase program (open market type). This is another way for the company to distribute cash to their shareholders. This program could be suspended and discontinued at any time. In 2016 and 2017, the value of repurchase shares was higher than \$1B nevertheless, last two years together represent 56% of the \$1B share repurchase program – [Table 13](#).

Investment Risk: Description & Risk Assessment

Market Risks

Foreign Currency Exchange risk (MR1)

As Capri has subsidiaries and foreigner suppliers that have local currencies different from the currency used in the company's reports (USD), company is exposed to this risk. Currency is very sensitive to political and market uncertainty, being able to have many drastic behaviors according to events that are impossible to predict. Thus, it is necessary to manage the risk with financial instruments. To mitigate the risk, company uses forward currency exchange contracts that normally matures in 12 months or less. The report of these contracts is done at fair value in company consolidated balance sheet as liability or asset and are a derivative contract to hedge cash flow risk. The changes in these contracts are recorded as accumulated expenses. Some of the contracts are designed as hedges for accounting purposes and the part that is considered ineffective would be reported as earnings in the period of ineffectiveness. In 2019 Fiscal Year, company entered in a fixed-to-fixed cross currency swap with notional amount of \$ 2.190 billion and \$44 million to hedge its net investment in Euro and Japanese Yen-denominated subsidiaries, against uncertainty with the future volatility in exchange rates between these currencies and USD. These contracts mature in January 2022 and November 2024 and have a fixed rate payment of 1.718% for EUR and 0.89% for Yen. With these contracts, company recorded a reduction in interest expense of \$17million in 2019. Despite that, company also need to be careful with the relation of GDB and USD because Jimmy Choo business. This company do not hedge this currency (GDB) and due to that it is exposed on fluctuation.

Table 14 - Type of Borrowings

Borrowings Type	Interest Rate
Term Loan Facility	LIBOR
2018 Credit Facility	LIBOR + prime rate (depending of the origin of borrowing)
Hong Kong Credit Facility	Hong Kong Interbank Offered Rate
China Credit Facility	People's Bank of China's Benchmark lending rate
Japan Credit Facility	Mitsubishi UFJ Financial Group
Versace Credit Facility	European Central Bank (settled at date of borrowing)

Source: Company's 10-K Report

Interest rate risk (MR2)

Company entered in several borrowings outstanding with different entities – [Table 14](#) – because of that it is exposed to the interest rate risk and statements of operations, where comprehensive income and cash flows are affected to fluctuation in interest rates. An increase in interest rate is expected after a period when interest rate is low. One way to reduce this exposure is reducing debt, decreasing the level of interest expense.

Industry's uncertainty risk (MR4)

Uncertainty is present in all markets, especially in markets that are related with non-essentials goods. Luxury market is closely connected with trends and what is fashionable today may not be tomorrow and this could be a risk. A brand that is on top today could be involved in some scandal or be outdated tomorrow. It is a consumer's choice and to mitigate this risk CPRI needs to continually develop its products and adapt both products and communication to new market trends and their consumers. This industry in the past proved that had a close connection with macroeconomic cycle, where recessions periods could affect negatively Capri's business.

Operational Risks

Raw materials risk (OPR1)

Raw materials are important to all industries and luxury is not different. Some of the used raw materials come from nature and exists the risk of scarcity, leading to a possible increase of cost and thereafter increase in the production costs reducing some margins and having a negative impact in operational results. Other causes for this increase could be natural disaster, consumer demand, speculation on the commodities market (e.g. cotton) and unpredictable causes. Capri has a multi-supplier's strategy to mitigate this risk.

Walking out of crucial employees (OPR3)

Companies are influenced by the people who work there. Brands, in the majority of the cases, are the reflection of their workers, being them the board, design and marketing areas, creativity direction (Donatella Versace, Sandra Choi and Michael Kors) and operations. They are targets to other companies and some rivals have aggressive strategies to recruit them and their departure could affect company financially, operationally and their efficiency. In order to mitigate this, companies need to be capable to attract and maintain employees offering competitive benefits and compensations. Capri entered into employment agreement with their executive officers and other key employees [Appendix 19](#).

Regulatory and Legal Risks

Regulatory requirements in the various jurisdictions risk (RLR1)

Capri is present globally and regulation is different from region to region. Due to that, it is necessary to be careful and fulfill the regulation requirements in different countries. If this does not happen, companies could have serious civil/criminal problems that will damage their reputation and substantial penalties. It is also important to have specialists in regional legislation and being alert and attentive to all different regulations in order to mitigate this risk.

Taxes and new policies risk (RLR2)

Tax policies depends on jurisdiction and the group has subsidiaries all over the globe, thus the plan related with tax needs to be adjusted considering these differences. Trump government decided to create an import duty for partnership countries (e.g. China) and added some difficulties (increasing values and creating a small "trade war") to the importation and exportation of the products, having now to pay higher taxes. To reduce the risk, company could require a reserve for uncertain tax positions.

Other risks

Brand's damages risk (BDR)

Luxury brands have in their image and reputation part of their value, so it is important to protect them. Using their names without permission, counterfeit products and collections copied by other brands affect brand's image and consequently their profits. There are several protections and rights related with intellectual properties (more severe in US), having a specific area for brand protection.

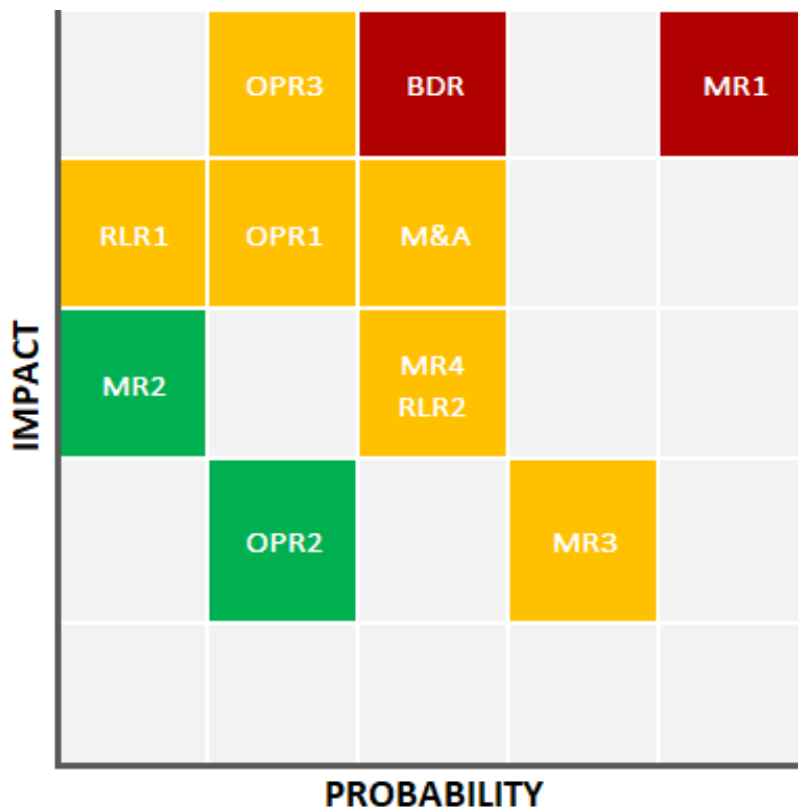
Capri pursues, through the right channels, almost all that companies/individuals online and offline that put in risk the reputation and the prestigious character of the three brands. Other cause of brand's damage is related with outlet sales and discounts, in luxury market this can be perceived as a loss of exclusivity and becomes accessible to all. Companies try to find a balance between these perceptions of loss of exclusivity and reach more customers.

Mergers & Acquisitions (M&A)

Acquisition has several risks, since the success of the integration of the employees, systems, internal controls and all business strategy to the acceptance of the consumers and market. All these steps could fail and due to that, profits that are expected could not arrive, synergies between companies could not result and more costs than expected can occur. To avoid this situation, company needs to have all the information about company that will buy, have a careful implementation and strategic plan, listen all the parts and think long-term. Michael Kors required test brand, goodwill and other intangible assets acquired from Jimmy Choo and Versace in order to see if it is necessary to record an impairment, if the value is higher than the related fair value. With these acquisitions Capri has an additional expense and increases the risk in their financials reports. Jimmy Choo has a third party that was contracted to deal with information technology, accounting and other back office activities, this could represent an additional risk and could have as a consequence an adverse result on group business.

Other minor risks are detailed in Appendix 14

Figure 4 - Capri's risk matrix



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Appendix 1 – Capri’s Income Statement

Income Statement	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Net sales	4 538,8	4 347,9	4 573,7	5082	5 569,8	6 027,7	6 516,7	7 043,5	7 611,4
Licensing revenue	173,3	145,8	144,9	156	113,7	123,0	133,0	143,7	155,3
Total revenue	4 712,1	4 493,7	4 718,6	5 238,0	5 683,4	6 150,7	6 649,7	7 187,3	7 766,7
Cost of goods sold	1 914,9	1 832,3	1 859,3	2 058,0	2 233,0	2 423,6	2 620,2	2 832,0	3 060,4
Gross profit	2 797,2	2 661,4	2 859,3	3 180,0	3 450,4	3 727,1	4 029,5	4 355,2	4 706,3
Selling, general and administrative expenses	1 428,0	1 541,2	1 766,8	2 075,0	1 944,3	2 099,2	2 266,9	2 449,5	2 646,4
Depreciation and amortization	183,2	219,8	208,6	225,0	199,7	216,1	233,6	252,5	272,9
Impairment of long-lived assets	10,9	199,2	32,7	21,0	23,4	23,1	23,8	23,6	23,4
Restructuring and other charges	-	11,3	102,1	124,0	100,0	80,0	-	-	-
Total operating expenses	1 622,1	1 971,5	2 110,2	2 445,0	2 267,4	2 418,4	2 524,3	2 725,7	2 942,6
Income from operations	1 175,1	689,9	749,1	735,0	1 183,1	1 308,7	1 505,2	1 629,6	1 763,7
Other income, net	(3,7)	(5,4)	(1,7)	(4,0)	(1,9)	(2,1)	(2,2)	(2,4)	(2,6)
Interest expense, net	1,7	4,1	22,3	38,0	11,1	12,0	13,0	14,0	15,2
Foreign currency (gain) loss	4,8	2,6	(13,3)	80,0	64,0	64,0	64,0	64,0	64,0
Income before provision for income taxes	1 172,3	688,6	741,8	621,0	1 256,3	1 382,7	1 579,9	1 705,2	1 840,3
Provision for income taxes	334,6	137,1	149,7	79	226,1	248,9	284,4	306,9	331,2
Net income	837,7	551,5	592,1	542,0	1 030,1	1 133,8	1 295,6	1 398,3	1 509,0
Less: Net income (loss) attributable to noncontrolling interest	(1,4)	(1,0)	0,2	(1,0)	(0,8)	(0,8)	(0,8)	(0,8)	(0,8)
Less: Net loss attributable to noncontrolling interest									
Net income attributable to MKHL	839,1	552,5	591,9	543,0	1 030,9	1 134,6	1 296,4	1 399,1	1 509,8
Weighted average ordinary shares outstanding:									
Basic	186 293 295	165 986 733	152 283 586	149 765 468	149 769 098	149 773 109	149 777 303	149 781 905	149 787 526
Diluted	189 054 289	168 123 813	155 102 885	151 614 350	151 617 980	151 614 350	151 614 350	151 614 350	151 614 350
Net income per ordinary share attributable to MKHL:									
Basic	4,50	3,32	3,89	3,62	6,88	7,6	8,6	9,3	10,1
Diluted	4,43	3,28	3,82	3,57	6,79	7,5	8,5	9,2	10,0
Statements of Comprehensive Income:									
Net income	837,7	551,5	592,1	542,0	1 030,1	1 133,8	1 295,6	1 398,3	1 509,0
Foreign currency translation adjustments	18,5	(8,8)	147,4	(134,0)					
Net gain (loss) on derivatives	(32,5)	8,7	(16,2)	17,0					
Comprehensive income	823,7	551,4	723,3	425,0	1 030,1	1 133,8	1 295,6	1 398,3	1 509,0
Less: Net loss attributable to noncontrolling interest	(1,4)	(1,0)	0,2	(1,0)	0,5				
Less: Other comprehensive income attributable to noncontrolling	0,1	(0,4)	0,1						
Comprehensive income attributable to MKHL	822,4	550,0	723,6	424,0	1 030,6	1 133,8	1 295,6	1 398,3	1 509,0

Source: 10-K Report and estimates

Appendix 2 – Capri’s Balance Sheet

Balance Sheet	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Assets	-	-	-	-	-	-	-	-	-
Current assets									
Cash and cash equivalents	702	228	163	172	621	403	803	1 312	1 837
Receivables, net	308	266	291	383	379	410	443	479	518
Inventories	547	549	661	953	744	808	873	944	1 020
Deferred tax assets	-	-	-	-	-	-	-	-	-
Prepaid expenses and other current assets	113	122	148	221	171	185	199	216	233
Total current assets	1 670	1 165	1 262	1 729	1 915	1 805	2 320	2 950	3 608
Property and equipment, net	758	592	583	615	655	658	660	662	664
Intangible assets, net	67	418	1 236	2 293	2 195	2 140	2 088	2 038	1 989
Goodwill	23	120	848	1 659	1 659	1 659	1 659	1 659	1 659
Deferred tax assets	25	73	56	112	112	112	112	112	112
Other assets	24	42	74	242	59	53	237	250	250
Total non current assets	897	1 245	2 797	4 921	4 680	4 621	4 756	4 721	4 674
Total assets	2 567	2 410	4 059	6 650	6 595	6 426	7 075	7 671	8 282
Liabilities and Shareholders' Equity									
Current liabilities									
Revolving Line of Credit	-	-	-	-	-	-	-	-	-
Accounts payable	131	176	294	371	294	318	343	371	401
Accrued payroll and payroll related expenses	60	61	93	133	126	136	147	159	171
Accrued income taxes	52	60	78	34	98	108	124	134	144
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Short-term debt	-	133	200	630	441	-	-	-	-
Accrued expenses and other current liabilities	193	135	296	374	410	444	480	518	560
Total current liabilities	436	566	960	1 542	1 368	1 006	1 094	1 182	1 277
Deferred rent	106	138	128	132	132	132	132	132	132
Deferred tax liabilities	4	80	186	438	438	438	186	80	4
Long-term debt	2	-	674	1 936	1 552	926	717	449	449
Other long-term liabilities	20	31	88	166	46	155	88	20	20
Total liabilities	567	815	2 038	4 214	3 537	2 657	2 217	1 863	1 882
Commitments and contingencies	-	-	-	-	-	-	-	-	-
Redeemable noncontrolling interest	-	-	-	4	4	4	4	4	4
Shareholders' equity									
Ordinary shares	-	-	-	-	-	-	-	-	-
Treasury shares	(1 650)	(2 655)	(3 016)	(3 223)	(3 630)	(4 050)	(4 257)	(4 705)	(5 621)
Additional paid-in capital	719	768	831	1 011	1 011	1 011	1 011	1 011	1 011
Accumulated other comprehensive income (loss)	(81)	(81)	51	(66)	(66)	(66)	(66)	(66)	(66)
Retained earnings	3 008	3 560	4 152	4 707	5 737	6 871	8 166	9 565	11 074
Total shareholders' equity of MKHL	1 996	1 593	2 018	2 429	3 052	3 765	4 855	5 804	6 398
Noncontrolling interest	4	2	4	3	3	3	3	3	3
Total shareholders' equity	2 000	1 595	2 022	2 432	3 056	3 769	4 858	5 808	6 401
Total liabilities and shareholders' equity	2 567	2 410	4 059	6 650	6 596	6 430	7 079	7 675	8 286

Source: 10-K Report and estimates

Appendix 3 – Capri’s Cash Flow Statement

Cash Flow	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Cash flows from operating activities									
Net income	838	552	592	542	1 030	1 134	1 296	1 398	1 509
Adjustments to reconcile net income to net cash provided by operating activities:				-	-	-	-	-	-
Depreciation and amortization	183	220	209	225	200	216	234	253	273
Equity compensation expense	48	34	50	60	60	60	60	60	60
Deferred income taxes	(2)	(60)	9	(71)	147	23	36	23	24
<i>Non-cash litigation related costs</i>	-	-	-	-	-	-	-	-	-
<i>Loss on disposal of fixed assets</i>	-	-	-	-	-	-	-	-	-
Impairment of long-lived assets	11	199	33	21	23	23	24	24	23
<i>Losses on store lease exits</i>	-	-	29	18	-	-	-	-	-
Tax benefits on exercise of share options	(21)	(7)	(7)	(24)	(24)	(24)	(24)	(24)	(24)
<i>Amortization of deferred rent</i>	-	-	-	-	-	-	-	-	-
Amortization of deferred financing costs	1	1	4	4	4	4	4	4	4
Foreign currency losses (gains)	5	3	(13)	80	64	64	64	64	64
<i>Gain on acquisition of MK Korea</i>	(4)	-	-	-	-	-	-	-	-
Other non-cash charges	3	12	-	4	-	-	-	-	-
Change in assets and liabilities:	182	81	157	(165)	248	(187)	(202)	(211)	(227)
Net cash provided by operating activities	1 244	1 034	1 062	694	1 752	1 313	1 491	1 590	1 706
Cash flows from investing activities									
Capital expenditures	(369)	(165)	(120)	(181)	(300)	(155)	(155)	(155)	(300)
<i>Purchase of intangible assets</i>	(11)	(6)	(3)	(3)	(6)	(6)	(6)	(6)	(6)
<i>Investment in joint venture</i>	(1)	-	-	-	-	-	-	-	-
Cash paid for business acquisitions, net of cash acquired	1	(481)	(1 415)	(1 875)	-	-	-	-	-
Realized (loss) gain on hedge related to acquisitions	-	-	5	(77)	-	-	-	-	-
Settlement of a net investment hedge	-	-	-	11	-	-	-	-	-
Net cash used in investing activities	(381)	(651)	(1 533)	(2 125)	(306)	(161)	(161)	(161)	(306)
Cash flows from financing activities									
Debt borrowings	193	1 240	2 520	4 204	1 008	-	-	-	-
Debt repayments	(200)	(1 094)	(1 783)	(2 560)	(1 552)	(926)	(717)	(449)	(449)
Repurchase of treasury shares	(1 152)	(1 005)	(361)	(207)	(448)	(421)	(206)	(448)	(421)
Debt issuance costs	-	-	-	(15)	(15)	(15)	(15)	(15)	(15)
<i>Tax benefits on exercise of share options</i>	-	-	-	-	-	-	-	-	-
Exercise of employee share options	13	8	14	29	-	-	-	-	-
<i>Payment of deferred financing costs</i>	(2)	-	-	-	-	-	-	-	-
Other financing activities	(0)	-	(0)	-	(0)	-	(0)	-	(0)
Net cash provided by (used in) financing activities	(1 149)	(850)	390	1 451	(1 008)	(1 362)	(939)	(912)	(885)
Effect of exchange rate changes on cash and cash equivalents	4	(6)	15	(11)	10	(9)	10	(9)	10
Net decrease in cash and cash equivalents	(277)	(472)	(66)	9	448	(218)	401	508	525
Beginning of period	979	702	230	163	172	621	403	803	1 312
End of period	702	230	163	172	621	403	803	1 312	1 837

Source: 10-K Report and estimates

Appendix 4 – Capri’s Key Financial Ratios

Unit	Description	Formula	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
	Liquidity Ratios										
Actual	CFO Ratio	<i>CFO / Current Liabilities</i>	2,86	1,83	1,11	0,45	1,28	1,32	1,38	1,36	1,35
Actual	Current Ratio	<i>Current Assets / Current Liabilities</i>	3,83	2,06	1,31	1,12	1,41	1,82	2,16	2,54	2,88
Actual	Inventory / Current Assets	<i>Inventory / Current Assets</i>	0,33	0,47	0,52	0,55	0,39	0,45	0,37	0,32	0,28
	Leverage Ratios										
Actual	Debt-to-Equity Ratio	<i>Total Liabilities / Total Shareholders' Equity</i>	0,28	0,51	1,01	1,73	1,15	0,70	0,45	0,32	0,29
Actual	Equity Multiplier	<i>Total Assets / Total Equity</i>	1,28	1,51	2,01	2,73	2,16	1,70	1,45	1,32	1,29
Actual	CFO / Capex	<i>CFO / Capex</i>	3,37	6,27	8,82	3,83	5,82	8,57	9,71	10,36	5,74
Actual	Interest Coverage Ratio (Earnings Bas	<i>EBIT / Interest Expense</i>	689,1	167,0	33,5	19,2	107,2	110,1	117,1	117,3	117,4
	Activity Ratios										
Actual	Accounts Payable Turnover Ratio	<i>Supply Purchases / Average of Acc. Payable</i>	14,57	10,39	6,32	5,55	7,71	7,71	7,71	7,71	7,71
Actual	Accounts Receivable Turnover Ratio	<i>Credit Sales / Average Receivable</i>	14,04	15,67	16,96	15,55	15,00	15,00	15,00	15,00	15,00
Actual	Fixed Asset Turnover Ratio	<i>Net Sales / Average Fixed Assets</i>	6,0	7,4	7,8	8,3	8,5	9,2	9,9	10,6	11,5
Actual	Inventory / Cash	<i>Inventory / Cash</i>	0,78	2,41	4,05	5,54	1,23	1,98	1,07	0,71	0,54
Actual	Inventory Turnover Ratio	<i>Revenues / Average Inventory</i>	3,50	3,34	2,81	2,16	3,00	3,00	3,00	3,00	3,00
Actual	Assets Turnover Ratio	<i>Revenues / Total Assets</i>	1,84	1,86	1,16	0,79	0,87	0,96	0,94	0,94	0,94
	Profitability Ratios										
Actual	EBITDA Margin	<i>EBTDA / Revenues</i>	29%	20%	20%	18%	24%	25%	26%	26%	26%
Actual	Gross Profit Margin	<i>Gross Profit / Revenues</i>	59%	59%	61%	61%	61%	61%	61%	61%	61%
Actual	Net Profit Margin	<i>Net Profit / Revenues</i>	18%	12%	13%	10%	18%	18%	20%	19%	19%
Actual	Operating Margin	<i>Operating Profit / Revenues</i>	25%	15%	16%	14%	21%	21%	23%	23%	23%
Actual	Return On Assets	<i>Net Income / Total Assets</i>	33%	23%	15%	8%	16%	18%	18%	18%	18%
Actual	Return On Equity	<i>Net Income / Total Equity</i>	42%	35%	29%	22%	34%	30%	27%	24%	24%

Source: 10-K Report and estimates

Appendix 5 – Common-Size Income Statement

Common-Size Income Statement	2016	2017	2018	2019	Historical Average	2020F	2021F	2022F	2023F	2024F
Net sales	96%	97%	97%	97%	96%	97%	97%	97%	97%	97%
Licensing revenue	4%	3%	3%	3%	4%	3%	3%	3%	3%	3%
Total revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of goods sold	41%	41%	39%	39%	41%	39%	39%	39%	39%	39%
Gross profit	59%	59%	61%	61%	59%	61%	61%	61%	61%	61%
Selling, general and administrative expenses	30%	34%	37%	40%	33%	34%	34%	34%	34%	34%
Depreciation and amortization	4%	5%	4%	4%	3%	3%	3%	3%	3%	3%
Impairment of long-lived assets	0,23%	4,43%	0,69%	0,40%	1%	0,41%	0,37%	0,34%	0,31%	0,28%
Restructuring and other charges	0%	0,251%	2%	2%	0%	2%	1%	0%	0%	0%
Total operating expenses	34%	44%	45%	47%	36%	40%	39%	38%	38%	38%
Income from operations	25%	15%	16%	14%	23%	21%	21%	23%	23%	23%
Other income, net	-0,079%	-0,120%	-0,036%	-0,076%	-0,034%	-0,034%	-0,034%	-0,034%	-0,034%	-0,034%
Interest expense, net	0,04%	0,09%	0,47%	0,73%	0,08%	0,19%	0,19%	0,19%	0,19%	0,19%
Foreign currency (gain) loss	0,10%	0,06%	-0,28%	1,53%	0%	1,11%	1,03%	0,95%	0,88%	0,82%
Income before provision for income taxes	25%	15%	16%	12%	23%	19%	20%	22%	22%	22%
Provision for income taxes	7%	3%	3%	2%	8%	4%	4%	4%	4%	4%
Net income	18%	12%	13%	10%	16%	15%	16%	17%	17%	17%
Less: Net income (loss) attributable to noncontrolling interest	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Less: Net loss attributable to noncontrolling interest					0%					
Net income attributable to MKHL	18%	12%	13%	10%	15%	16%	16%	17%	17%	17%

Source: Estimates

Appendix 6 – Forecasting Assumptions

Macroeconomic		2020F	2021F	2022F	2023F	2024F	Description
Inflation Rate	The Americas	2,82%	2,60%	2,53%	2,52%	2,50%	Forecast inflation rate by International Monetary Fund. On The Americas inflation it was excluded the Venezuela inflation regarding to the huge country's instability.
	EMEA	4,74%	4,06%	3,82%	3,72%	3,68%	
	Asia	3,14%	3,32%	3,26%	3,31%	3,29%	
	Average	3,57%	3,33%	3,21%	3,18%	3,16%	
Income Statement							
Sales		It was assumed an growth of 5% plus the infation effect for every geographic region See Revenues & Costs assumptions					
COGS		39%	39%	39%	39%	39%	% over revenues See Revenues & Costs assumptions
SG&A		34%	34%	34%	34%	34%	% over revenues See Revenues & Costs assumptions
D&A		3%	3%	3%	3%	3%	% over revenues See Revenues & Costs assumptions
Balance Sheet							
Assets	Receivables	15	15	15	15	15	Account receivable turnover ratio keeping in 15 (average of last years)
	Inventories	3	3	3	3	3	Inventory Turnover Ratio keeping in 3 (average of last years and in line with the average of industry)
	Deferred tax assets	Equal to nominal value 2019					
	Prepaid expenses and other current assets	3%	3%	3%	3%	3%	Historical average of % prepaid expense over revenues
	Property and equipment	655	658	660	662	664	
	Leasehold improvements	639	639	639	639	639	Equal to nominal value 2019
	In-store shops	270	270	270	270	270	Equal to nominal value 2019
	Furniture and fixtures	292	292	292	292	292	Equal to nominal value 2019
	Computers equipment and software	306,6	312,7	319,0	325,4	331,9	Increase of 5% in first year and remaining years 2%
	Equipment	123	123	123	123	123	Equal to nominal value 2019
	Building	47	47	47	47	47	Equal to nominal value 2019
	Land	15	15	15	15	15	Equal to nominal value 2019
	Σ	1693	1699	1705	1711	1718	
	Less: accumulated depreciation and amortization	-1078	-1082	-1086	-1090	-1094	Average of % in the last 3 years
	Σ	615	617	619	621	624	
	Construction-in-progress	41	41	41	41	41	Average of % in the last 3 years
	Σ	655	658	660	662	664	
Intangible assets	Using companies estimations for future amortization to definite-lived intangible assets and keep the nominal value for indefinite-lived intangible assets						
Goodwill	Did not have impairment regarding to goodwill it was assumed the nominal value of 2019						
Liabilities	Accounts payable	-21%	8%	8%	8%	8%	Grow with Inventories
	Accrued payroll and payroll related expenses	-5%	8%	8%	8%	8%	Grow with SG&A
	Accrued income taxes	188%	11%	14%	8%	8%	Grow with Income taxes
	Short-term debt	70% of 2019 Short-term debt					It is assumed that in the next year (2020) company will need some short term debt to fulfill some issues regarding acquisitions however in the future company do not expect enter in short term debt in the follow years (assumed historic behavior)
	Deferred tax liabilities	Equal to nominal value 2019					
	Deferred rent	Equal to nominal value 2019					
	Long-term debt	1552	926	717	449	449	
	Debt Obligations						
	Term Loan Facility	1103	477	268			Payment of \$ 954M 2019 and 2020 and \$ 536M 2021 and 2022
	Senior Notes	450	450	450	450	450	Equal to nominal value 2019
	Other	1	1	1	1	1	Equal to nominal value 2019
Σ	1554	928	719	451	451		
Unamortized debt issuance costs							
Unamortized discount on long-term debt	2	2	2	2	2	Equal to nominal value 2019	
Σ	1552	926	717	449	449		
Equity	Additional paid-in capital	Equal to nominal value 2019					
	Accumulated other comprehensive income (loss)	Equal to nominal value 2019					

Balance Sheet		2020F	2021F	2022F	2023F	2024F	Description
Equity	Treasury shares	(3 629,7)	(4 050,4)	(4 256,9)	(4 705,4)	(5 621,2)	
	Treasury shares	2020	2021	2022	2023	2024	
		(3 629,7)	(4 050,4)	(4 256,9)	(4 705,4)	(5 621,2)	
	# shares total	73 335 937	81 036 896	84 755 133	92 972 437	100 673 396	Shares of the year before + total repurchase shares
	Value unit per share	49	49	49	49	49	Equal to nominal value 2019
	Total repurchase of treasury shares	8 217 304	7 700 959	3 718 237	8 217 304	7 700 959	

Appendix 7 – Revenues estimations and Costs

Revenues

Revenues	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
\$ M Net sales	758	1 237	2 095	3 171	4 200	4 539	4 348	4 574	5 082	5 570	6 028	6 517	7 044	7 611
\$ M Licensing revenue	46	65	87	140	172	173	146	145	156	114	123	133	144	155
\$ M The Americas*	764	1 183	1 939	2 772	3 419	3 507	3 141	3 033	3 182	3 435	3 701	3 985	4 289	4 616
\$ M EMEA	39	109	221	500	885	990	944	1 093	1 279	1 407	1 537	1 675	1 824	1 986
\$ M Asia	1	10	22	39	68	215	409	593	777	842	913	990	1 074	1 164
Total	803	1 302	2 182	3 311	4 371	4 712	4 494	4 719	5 238	5 683	6 151	6 650	7 187	7 767

* Net sales are 98% of total Revenues and Licensing Revenue correspond to 2% of the total. This data is computed based on company's historical data. It is assumed that the group will grow the same as high estimates of market grow thus, total revenue forecast 2020-2024 is calculated use a CAGR of 5%. This rate is in line with the luxury market expectation for revenues. After that, it was applied inflation rate associated to each region: Americas, EMEA and Asia, as can be seen below in table. The value in table is an average of all countries where CPRI have business - inflation regarding to Venezuela was discount of average because is an outlier (regarding the huge country's instability).

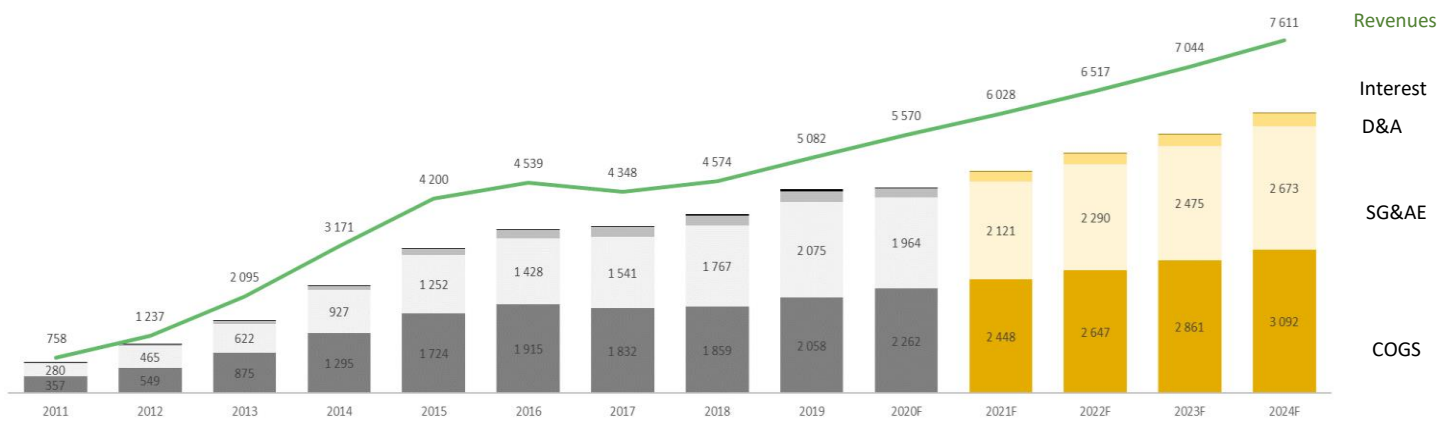
Inflation rate	2020F	2021F	2022F	2023F	2024F
The Americas	2,82%	2,60%	2,53%	2,52%	2,50%
EMEA	4,74%	4,06%	3,82%	3,72%	3,68%
Asia	3,14%	3,32%	3,26%	3,31%	3,29%

Costs

COSTS	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
\$ M COGS	357	549	875	1 295	1 724	1 915	1 832	1 859	2 058	2 262	2 448	2 647	2 861	3 092
\$ M SG&AE	280	465	622	927	1 252	1 428	1 541	1 767	2 075	1 964	2 121	2 290	2 475	2 673
\$ M D&A	26	38	54	80	138	183	220	209	225	200	216	234	253	273
\$ M Interest	2	1	2	0	0	2	4	22	38	11	12	13	14	15
Total	2 676	3 065	3 566	4 316	5 129	5 544	5 614	5 875	6 415	4 437	4 797	5 184	5 602	6 053

COGS has direct correlation with revenues and gross profit. In forecast it is assumed that the gross profit will be stable in 61% (equal to 2019 gross profit and above the historic average) regarding the acquisition of Jimmy Choo and Versace it is expected that company will increase their revenues and could find economies of scale reducing their costs. Thus, COGS will represent 39% of total revenues. These values are lower than the market values, wich have a gross margin of 51% and a weigh of COGS over revenues of 49%, showing an efficiency that can come with the sinergies of three companies. The SG&AE of company is composed of advertising and marketing, warehousing, shipping of e-commerce and rents. In forecasting is assumed the historic average level of SG&AE over revenues (34%) plus the impact of average inflation. D&A and interest were calculated with the historic level over revenues 4% and 0,2%, respectively .

COGS	SG&AE
Product cost (finished goods and raw materials)	Advertising and Marketing
Cost to acquire inventory	Warehousing
Independent manufactures	Shipping of e-commerce
Duties and freight of transportation	Rent
Freight-in	



Source: 10-K Report and estimates

Appendix 8 - Relative Valuation (Multiples)

2019	EV/EBTIDA	EV/Sales	P/E	EBITDA/S	
Burberry Group plc	11,68	2,3	26,2	20%	
LVMH Moët Hennessy Louis Vuitton S.E	11,48	2,9	20,5	26%	
Prada S.p.A	12,6	2,2	30,2	2%	
Tapestry, Inc.	12,0	1,6	14,3	14%	
Average	11,9	2,3	22,8	15%	Average
CAPRI	15,6	1,9	18,4	12%	19%
Difference between CAPRI and Peers	-	-16%	-19%	-20%	

After peers' financials analyses it is achieved the table of ratios that is used in the multiples valuation.

The final target price from relative valuation, **\$53.0**, was the average of target price achieved from every multiple, (average of \$33.06, \$60.32 and \$66). These valuation has a weighting of 20% on final target price.

2019 Comparable Price Target Valuation	
EV/EBTIDA	
CAPRI EBITDA	621
Average PEERS EV/EBITDA	12
CAPRI EV by PEERS estimate	7 405
CAPRI Net Debt	2 394
CAPRI Equity by PEER estimate	5 011
Shares outstanding	151 579 000
Target Price from Relative Valuation	33,06

2019 Comparable Price Target Valuation	
EV/SALES	
CAPRI SALES	5 082
Average PEERS EV/SALES	2
CAPRI EV by PEERS estimate	11 537
CAPRI Net Debt	2 394
CAPRI Equity by PEER estimate	9 143
Shares outstanding	151 579 000
Target Price from Relative Valuation	60,32

2019 Comparable Price Target Valuation	
P/E	
CAPRI NI	542
Average PEERS P/E	23
CAPRI EV by PEERS estimate	12 348
CAPRI Net Debt	2 394
CAPRI Equity by PEER estimate	9 954
Shares outstanding	151 579 000
Target Price from Relative Valuation	66

Source: Thomson-Reuters and Estimates

Appendix 9 - Absolute Valuation (Discounted Cash Flow)

Assumptions

WACC - Weighted Average Cost of Capital

CAPM (Capital Asset Pricing Model) is used to compute the cost of equity $R_e = R_f + \beta \cdot (R_m - R_f)$.

$$WACC = \frac{E}{E+D} \times R_e + \frac{D}{E+D} \times R_D \times (1 - t).$$

Company's WACC fluctuates from 3.6% at 2019 and 5.1% in the terminal period. This occurs because of the level of capital structure that will change over the time. It was used the terminal information in order to reflect better the final structure of the company.

Variables	Value	Description
Beta	0,99	The beta was calculated through a linear regression using daily data between CAPRI's stocks and S&P 500 index.
Country Risk Premium (CRP)	0,00%	Aswath Damoradan's computation in January 2019
Risk Free Rate (Rf)	2,68%	10 Year US Treasury Bond, zero coupon
Return of Market (Rm)	5,96%	Aswath Damoradan's computation in January 2019
Market Risk Premium (MRP)	3,28%	MRP = Rm-Rf
Tax rate	27%	Aswath Damoradan's computation in January 2019
Cost of Debt	3,18%	* Average of all debt rates
Terminal Growth	3,0%	The group acquired recently two companies and have potential to reasonable growth. It was assumed that will growth with min market expectation of 3%.
Capital structure	It was assumed the capital structure of terminal period,77% of equity and 23% of debt. The value of debt in terminal period is lower than the 2019 value 63% because deleveraging	

*Cost of Debt	3,18%
Term Loan Facility	1,84%
2017 Credit Facility	2,26%
Hong Kong Credit Facility	2,02%
Japan Credit Facility	5,80%
Senior notes	4,00%

Capex & Restructuring and other charges

For 2020, it was assumed the value given by CAPRI's 10-K report. For the next years, the value was the historical average value of Capex. However, in the last forecasted year it was considered the same value of 2020 because it is expected an increase of investment.

In 2020, company pretends to close 25 stores and it will be possible that company has some transaction costs of acquisitions. 2021 assumed a decrease of 20% on these costs and for the remaining period no restructuring costs are expected.

Working Capital variation

	2019	2020F	2021F	2022F	2023F	2024F
CURRENT ASSETS						
Inventories	953,0	744,3	807,9	873,4	944,0	1020,1
Account Receivable	383,0	378,9	410,0	443,3	479,2	517,8
State and other public entities	0	0	0	0	0	0
Other current assets	221,0	170,5	184,5	199,5	215,6	233,0
CURRENT LIABILITIES						
Account Payable	371,0	293,6	317,7	343,5	371,3	401,2
Other current creditors	133,0	125,9	135,9	146,8	158,6	171,4
State and other public entities	34,0	98,0	108,4	123,8	133,7	144,3
Other current liabilities	374,0	409,9	443,7	479,6	518,4	560,2
Δ Account Payable		77	(24)	(26)	(28)	(30)
Δ Other current creditors		7	(10)	(11)	(12)	(13)
Δ State and other public entities		(64)	(10)	(15)	(10)	(11)

Analysis

Capri's 80% of target price is calculated with DCF methodology because it was accepted as most accurate approach. The use of WACC was assumed because it will expectable that company keeps its capital structure maintaining its equity higher than its debt.

COST OF EQUITY	2019	2020F	2021F	2022F	2023F	2024F	Terminal
RFR (risk free rate)	2,68%	2,68%	2,68%	2,68%	2,68%	2,68%	2,68%
CRP (country risk premium)	0%	0%	0%	0%	0%	0%	0%
MRP (market risk premium)	3,28%	3,28%	3,28%	3,28%	3,28%	3,28%	3,28%
Regression Beta	0,99	0,99	0,99	0,99	0,99	0,99	0,99
Cost of equity [$R_f + \beta(R_m - R_f) + CRP$]	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%
COST OF DEBT							
Cost of debt	3,18%	3,18%	3,18%	3,18%	3,18%	3,18%	3,18%
Marginal tax rate	27%	27%	27%	27%	27%	27%	27%
After-tax cost of debt	2,32%	2,32%	2,32%	2,32%	2,32%	2,32%	2,32%
WACC							
Weight of equity	37%	46%	59%	69%	76%	77%	77%
Weight of debt	63%	54%	41%	31%	24%	23%	23%
WACC	4%	4%	4%	5%	5%	5%	5%

FCFF	2019	2020F	2021F	2022F	2023F	2024F
EBIT(1-marginal tax rate)	45	92	101	115	124	134
D&A	23	20	22	23	25	27
Restructuring Expense and other charges	12	10	8	0	0	0
Net increase in NWC	-17	25	-19	-20	-21	-23
CAPEX	-18	-30	-16	-16	-16	-30
FCFF	115	127	165	174	186	214
	0	1	2	3	4	5
Discounted FCFF	115	132	180	201	227	275
Cumulative Disc. FCFF	115	247	426	627	854	1 129
Terminal value	8 493	8 802	9 153	9 559	10 017	10 522

Terminal growth rate		3,0%
Perpetuity WACC		5,1%
Terminal value		10 522
PV of terminal value		8 493
NPV of FCFF		1 129
Enterprise value		9 622
Enterprise value		9 622
Net debt		2 394
Value of equity		7 228
No. of shares outstanding		151 579 000
Share price at the end of 2019		\$ 48
Share price at March 2019		\$ 45,8

Appendix 10 – Competitors Analysis

1st Step – Initial sample The initial sample of Capri’s competitors used data from 10-K company report and Damodaran list. In Damodaran list **apparel industry** was selected and eliminate all companies that are not in **USA, UK, France and Italy** in order to polish the research. After that, only companies in the **apparel luxury industry** are chosen.

Companies	Country
Burberry Group plc	France
Hermès International Société en commandite par actions	France
LVMH Moët Hennessy Louis Vuitton S.E	France
Prada S.p.A	Italy
Salvatore Ferragamo S.p.A.	Italy
Stefanel S.p.A.	Italy
Coats Group plc	United Kingdom
Ted Baker Plc	United Kingdom

Companies	Country
Guess, Inc.	United States
PVH Corp.	United States
Ralph Lauren Corporation	United States
Tapestry, Inc.	United States
Tiffany & Co.	United States
V.F. Corporation	United States
Capri Holding	United States

2nd Step – Market share criteria In order to refine the peers’ group, one of the criteria that is applied was the market share of each company. Market share was computed using revenues reported for each company in 2018 and dividing them to the revenues of luxury goods market (\$260 B). Companies that have market share below 1% are out of this group - Coats Group plc, Guess, Inc., Salvatore Ferragamo S.p.A., Stefanel S.p.A. and Ted Baker Plc.

Companies	Market Share	Criteria: Market Share >1%
Burberry Group plc	1,1%	In
Coats Group plc	0,5%	Out of range
Guess, Inc.	0,9%	Out of range
Hermès International Société en commandite par actions	2,3%	In
LVMH Moët Hennessy Louis Vuitton S.E	18,0%	In
Prada S.p.A	1,2%	In
PVH Corp.	3,7%	In
Ralph Lauren Corporation	2,4%	In
Salvatore Ferragamo S.p.A.	0,5%	Out of range
Stefanel S.p.A.	0,0%	Out of range
Tapestry, Inc.	2,3%	In
Ted Baker Plc	0,2%	Out of range
Tiffany & Co.	1,7%	In
V.F. Corporation	1,2%	In
Capri Holding	1,8%	-

3rd Step Accessories' Category criteria Capri's core business is the accessories market which represents 60% of revenues. Thus, the companies chosen, need to have similar core business. If accessories category does not achieve 35% of the revenues, companies are excluded from this analysis. PVH Corp. and Ralph Lauren Corporation do not present their revenues in these categories thus, are excluded because it is not reliable assume that accessories are their core business.

Companies	Category Accessories	Criteria: Accessories' Category >35%
Burberry Group plc	37,0%	In
Hermès International Société en commandite par actions	22,0%	Out of range
LVMH Moët Hennessy Louis Vuitton S.E	39,0%	In
Prada S.p.A	57,0%	In
PVH Corp.		Out of range
Ralph Lauren Corporation		Out of range
Tapestry, Inc.	68,0%	In
Tiffany & Co.	12,0%	Out of range
V.F. Corporation	1,0%	Out of range
Capri Holding	60,0%	

Summary The ultimate decision over the selection of Capri's peers requires that every single company should successfully pass the two criteria (2nd and 3rd step). The table below sum up the results at each stage and resulting in the definition of peers' group.

Companies	Market Share	Category Accessories	Peer
Burberry Group plc	✓	✓	Yes
Coats Group plc	x		No
Guess, Inc.	x		No
Hermès International Société en commandite par actions	✓	x	No
LVMH Moët Hennessy Louis Vuitton S.E	✓	✓	Yes
Prada S.p.A	✓	✓	Yes
PVH Corp.	✓	x	No
Ralph Lauren Corporation	✓	x	No
Salvatore Ferragamo S.p.A.	x		No
Stefanel S.p.A.	x		No
Tapestry, Inc.	✓	✓	Yes
Ted Baker Plc	x		No
Tiffany & Co.	✓	x	No
V.F. Corporation	✓	x	No

Peers' group
Burberry Group plc
LVMH Moët Hennessy Louis Vuitton S.E
Prada S.p.A
Tapestry, Inc.

Appendix 11 – Competitors Resume

E Source: Thomson-Reuters, peers reports and Estimates

Created in 1856 by Thomas Burberry.

Burberry is known by the pattern of their clothes, accessories and bags and was the first luxury company to join at the Ethical Trading Initiative. Burberry is closely related to English royalty and recently changed their iconic pattern with 20 years to a new modern logo, presenting them in the Thomas Burberry Bear in the principal cities and stores around the world.

Enterprise Value	EBITDA	SALES	EV/EBTIDA	EV/Sales	P/E	EBITDA/S
8 894	761	3 817	11,7	2,3	26,2	20%

LVMH Moët Hennessy Louis Vuitton S.E

Created in 1987 by Henry Racamier and Alain Chevalier.

Louis Vuitton is well known by their handbags and travel bags in leather and canvas material with their “LV” pattern. Louis Vuitton also become the gigantic luxury group in Europe with acquisition of Christian Dior, Hermès and other business such as wine and spirits Moët Hennessy.

Enterprise Value	EBITDA	SALES	EV/EBTIDA	EV/Sales	P/E	EBITDA/S
156 058	13 594	53 246	11,5	2,9	20,5	26%

Prada S.p.A

Created in 1913 by Mario Prada.

Prada group represent the Prada and the Miu Miu brands. The group is intimately close with innovation, transformation, independence and the group’s brands are its most important asset. Prada brand is associated with the *best of Italy’s design and manufacturing tradition, sophisticated style and outstanding quality. Miuccia Prada has always been a sophisticated interpreter of her times who has stayed ahead of styles and trends.* Miu Miu is a brand more *free-spirited* and are created in 1993 reflecting an *emancipated and discerning woman* view.

Enterprise Value	EBITDA	SALES	EV/EBTIDA	EV/Sales	P/E	EBITDA/S
62 105	551	28 178	12,6	2,2	30,2	2%

Tapestry, Inc.

Coach - Created in 1941 by Lillian Cahn.

Kate Spade - Created in 1993 by Kate Spade and Andy Spade.

Tapestry is recognized for its craftsmanship’s quality of their luxury accessories, bags and lifestyle collections. **Coach**, now known by Tapestry, are becoming a global group with the acquisition of **Kate Spade** similar strategy used by Michael Kors with the acquisition of Jimmy Choo and Versace.

Enterprise Value	EBITDA	SALES	EV/EBTIDA	EV/Sales	P/E	EBITDA/S
9 735	814	6 027	12,0	1,6	14,3	14%

Source: Thomson-Reuters, peers reports and Estimates

Appendix 12 – Sensitive Analysis

The matrix below reflects the BPI’s Investment Rating and Risk Classification and is used to assist the investment decision. The risk adopted for company at this point of activity is high. The acceptance of the market for these acquisitions it was not clear yet and due to that a recommendation more conservative it is better.

	Low Risk	Medium Risk	High Risk
Buy	> 15%	> 20%	> 30%
Neutral	> 5% and 15% <	> 10% and 20% <	> 15% and 30% <
Reduce	> -10% and 5% <	> -10% and 10% <	> -10% and 15% <
Sell	<-10%	<-10%	<-10%

Following the table, the buy recommendation happens when the target price is above \$ 61,99, sell when target price is lower than \$ 42,92 and neutral while the price is between \$ 54,84 and \$ 61,99. If the target price is different from these prices reduce recommendation happens. Thus, the recommendation is Reduce with a target price of \$ 48,8 (result from DCF and multiples approaches) and an upside potential of 7%.

The variable that has more impact in the change of target price is WACC. A decrease of 10% in WACC results in an increase of 40% on target price and the inverse (increase of 10%) in a reduction of 24% of price. If terminal growth rate decreases 10% the price share follows the decreasing tendency and fall 16%. And an increase of 10% leads to as increase of price of 22%. Last variable checked is beta, that has an impact on cost of equity and therefore in WACC which in turn will impact the target price. An increase of beta in 10% represents a decrease in 13% of target price, the reverse (decrease in 10% of beta) represents an increase of 16%.

Impact of terminal value

		Growth rate						
		2,2%	2,4%	2,7%	3,0%	3,3%	3,6%	4,0%
WACC	10 522							
	3,7%	14 319	17 064	21 653	30 807	53 143	256 365	-80 657
	4,1%	11 275	12 918	15 398	19 544	26 689	44 460	163 173
	4,6%	9 121	10 172	11 657	13 899	17 185	23 175	37 434
	5,1%	7 524	8 228	9 179	10 522	12 313	15 128	20 167
	5,6%	6 402	6 908	7 570	8 465	9 593	11 229	13 801
	6,2%	5 501	5 872	6 346	6 967	7 718	8 749	10 244
	6,8%	4 763	5 040	5 388	5 832	6 352	7 039	7 981

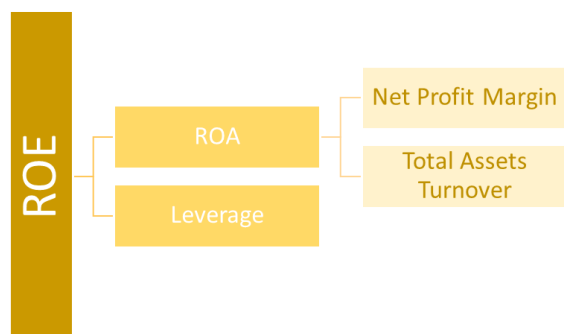
Change in wacc							
48	3,7%	4,1%	4,6%	5,1%	5,6%	6,2%	6,8%
	155,90	96,09	66,01	48,0	37,01	29,00	22,93
	Buy	Buy	Buy	Reduce	Sell	Sell	Sell

Change in terminal growth							
48	2,2%	2,4%	2,7%	3,0%	3,3%	3,6%	4,0%
	31,99	35,76	40,83	48,0	57,54	72,52	99,28
	Sell	Sell	Sell	Reduce	Neutral	Buy	Buy

Change in beta							
48	0,72	0,80	0,89	0,99	1,09	1,19	1,31
	74,79	64,44	55,60	48,0	42,01	36,74	32,09
	Buy	Buy	Neutral	Reduce	Sell	Sell	Sell

Appendix 13 – DuPont Analysis

Is used a three steps of DuPont analysis, decomposing ROE into net profit, assets turnover and leverage.



$$ROE = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Shareholders' Equity}}$$

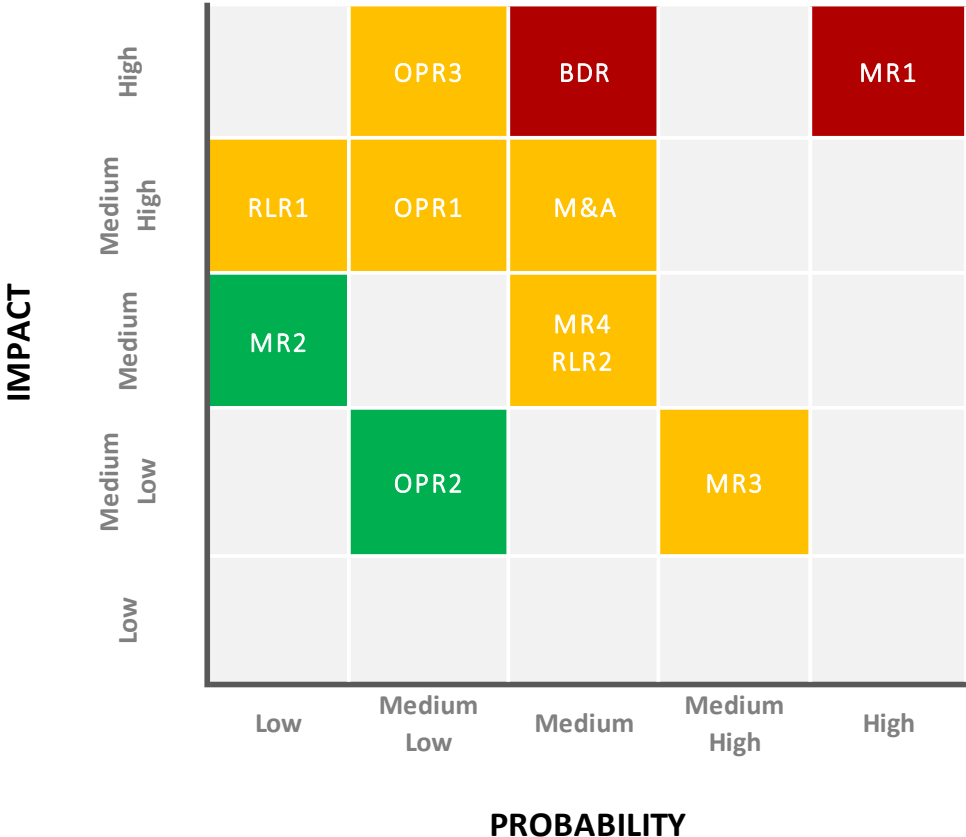
$$ROE = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Shareholders' Equity}}$$

$$ROE = \text{NPM} \times \text{Asset Turnover} \times \text{Equity Multiplier}$$

Leverage through the equity multiplier gauge how much leverage company is, assets turnover how successfully company use its assets and net profit how much profit can the company derive from its revenues. Net profit and ROA are increasing in the forecasting years and because of that ROE increase as well and this is a positive sign for CAPRI health.

DuPont									
	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
ROE	42%	35%	29%	22%	34%	30%	27%	24%	24%
Leverage	1,28	1,51	2,01	2,73	2,16	1,71	1,46	1,32	1,29
ROA	33%	23%	15%	8%	16%	18%	18%	18%	18%
Net Profit Margin	18%	12%	13%	10%	18%	18%	19%	19%	19%
Total Assets turnover	1,84	1,86	1,16	0,79	0,86	0,96	0,94	0,94	0,94

Appendix 14 – Risk Matrix



Risks are always present in business and some have similar impact to all markets, but others have a higher weight in some markets. In luxury market the reputation of a brand is one of the most important drives to companies continues in business thus this risk has a huge impact in companies and the probability of it happen is medium. Even though it is relatively easy for a company to get into some situation that displeases some consumers. Foreign Currency Exchange risk have a higher risk if companies have a worldwide business, like Capri. This risk for the company also has a high impact and probability of happen, the foreign currency exchange market is extremely volatile, and this increase the probability of this risk occur.

Other minor risks

Credit risk (MR3)

Rating agencies (e.g. Moody’s or S&P) regularly do adjusts to the credit rating thus, company was exposed to these adjustments on senior notes for the reason that have outstanding \$450 million principal amount of senior notes then mature in 2024 that have paid semi-annually fixed rate of 4% per year. These senior notes could be adjusted if the rating agencies change the credit rating associated to Senior Notes.

IT and Cyber security risk (OPR2)

In the digital era it is important understand all the risks that company have when increase its presence online. IT are now an intrinsic part of all business, since control of inventories and supply chains, supervise results of entire business in one computer or APP to communications and sales with consumers through e-commerce and social media. CAPRI has a huge investment in this area regarding to follow the market and its huge presence online. The existence of a data base with confidential information about their clients that must be protected increase this investment. Company need to protect this information under the risk of lose credibility and reputation if they be disclosed. To reduce this risk company, invest in integrity and security of the systems and have recovery plans that are tested regularity.

On table below it is represented all type of risks considered and the criteria used to define their position in risk matrix.

Type of risk	Risk	Code	Probability	Impact
Market Risks	Foreign Currency Exchange risk	MR1	5	5
	Interest rate risk	MR2	3	1
	Credit risk	MR3	2	4
	Industry's uncertainty risk	MR4	3	3
Operational Risks	Raw materials risk	OPR1	2	4
	IT and Cyber security risk	OPR2	2	2
	Walking out of crucial employees	OPR3	2	4
Regulatory and Legal Risks	Regulatory requirements in the various j	RLR1	1	4
	Taxes and new policies risk	RLR2	3	3
Other Risks	Brand's damages risk	BDR	3	5
	Mergers & Acquisitions	M&A	3	4

Criteria	
Low	1
Medium Low	2
Medium	3
Medium High	4
High	5

Source: Estimates

Appendix 15 – Specifications of the products line and target price

Michael Kors

Michael Kors Collection	The <i>Michael Kors Collection</i> is a sophisticated designer collection for women based on a philosophy of essential luxury and pragmatic glamour. The collection includes ready-to-wear and accessories, including handbags and small leather goods, and footwear, many of which are made from fine quality leathers. Generally, our women’s handbags and small leather goods retail from \$300 to \$6,000, our footwear retails from \$300 to \$1,500 and our ready-to-wear retails from \$400 to \$7,500	
MICHAEL Michael Kors	<i>MICHAEL Michael Kors is the accessible luxury collection and offers women’s accessories, primarily handbags and small leather goods, as well as footwear and apparel and is carried in all of the Michael Kors lifestyle stores and leading department stores around the world. MICHAEL Michael Kors offers handbags designed to meet the fashion and functional requirements of our broad and diverse consumer base.</i> <i>Generally, MICHAEL Michael Kors handbags retail from \$200 to \$750, small leather goods retail from \$45 to \$250, footwear retails from \$50 to \$300 and apparel retails from \$75 to \$600.</i>	
Michael Kors Men	<i>Michael Kors Men</i> is an innovative collection of men’s ready-to-wear, accessories, and footwear with a modern American style. Our menswear apparel retails from \$50 to \$1,000, our men’s accessories generally retail from \$40 to \$800 and our men’s footwear retails from \$200 to \$400.	
Licensed products	<i>Watches, Wearable Technology and Jewelry</i>	Fossil is our exclusive licensee for Michael Kors watches and jewelry, including our Michael Kors ACCES smartwatches introduced in Fiscal 2017 and our fine jewelry line introduced in Fiscal 2019. Generally, Michael Kors fashion watches retail from \$150 to \$595 , Michael Kors ACCESS smartwatches retail from \$300 to \$500 , Michael Kors jewelry retails from \$55 to \$500
	<i>Eyewear</i>	Luxottica is our exclusive licensee for Michael Kors distinctive eyewear inspired by our collections. Michael Kors eyewear retails from \$100 to \$240.
	<i>Fragrance and Beauty</i>	Estée Lauder is Michael Kors exclusive women’s and men’s fragrance licensee. Michael Kors fragrance and related products generally retail from \$30 to \$125.

Jimmy Choo

Jimmy Choo is a leading global luxury accessories brand and offers a distinctive, glamorous and fashion-forward product range, whose core product offerings are women’s luxury shoes, complemented by accessories, including handbags, smaller leather goods, scarves and belts, as well as growing men’s luxury shoes and accessories business. Generally, Jimmy Choo women’s luxury shoes retail from \$425 to \$4,600, accessories retail from \$600 to \$4,800 and men’s shoes retail from \$170 to \$2,500. Certain product categories, such as Jimmy Choo fragrances and eyewear are produced under product licensing agreements. Interparfums SA is the exclusive licensee for Jimmy Choo fragrances and Safilo SpA is the exclusive licensee for Jimmy Choo eyewear. Generally, Jimmy Choo eyewear retails from \$235 to \$645 and Jimmy Choo fragrances retail from \$75 to \$115.

Versace

Versace is one of the leading international fashion design houses and a symbol of Italian luxury worldwide, which has developed its expertise in haute couture to include ready-to-wear, accessories, home furnishings and footwear. Generally, Versace’s haute couture retails up to \$100,000, ready-to-wear retails from \$275 to \$4,000, accessories retail from \$150 to \$3,500, and footwear retails from \$275 to \$2,500. Certain product categories, such as Versace Jeans, eyewear, fragrances, jewelry and watches are produced under product licensing agreements. Swinger SA is the exclusive licensee for Versace Jeans, Luxottica is the exclusive licensee for Versace eyewear, Euroitalia is the exclusive licensee for Versace fragrances, Samra International is the exclusive licensee for Versace jewelry, and Vertime is the exclusive licensee for Versace watches. Generally, Versace Jeans retail from \$75 to \$2,100, Versace eyewear retails from \$220 to \$500, Versace fragrances retail from \$75 to \$200, jewelry retails from \$125 to \$1,000, and Versace watches retail from \$595 to \$3,500.

Appendix 16 – Shareholders and Ordinary share distribution

Beneficial Owner	Ordinary Shares Beneficially Owned	Percent of Ordinary Shares Beneficially Owned
5% or More Shareholder		
The Vanguard Group ⁽¹⁾	15,175,700	10.1%
BlackRock, Inc. ⁽²⁾	10,337,971	6.9%
Eminence Capital, LP ⁽³⁾	9,796,242	6.5%
AQR Capital Management, LLC ⁽⁴⁾	9,764,989	6.5%
Named Executive Officers and Directors		
John D. Idol ⁽⁵⁾	2,917,399	1.9%
Michael Kors ⁽⁶⁾	4,858,511	3.2%
Thomas J. Edwards, Jr. ⁽⁷⁾	30,389	*
Pascale Meyran ⁽⁸⁾	73,162	*
Cathy Marie Robinson ⁽⁹⁾	68,367	*
M. William Benedetto ⁽¹⁰⁾	17,789	*
Robin Freestone ⁽¹⁰⁾	3,509	*
Judy Gibbons ⁽¹⁰⁾	18,413	*
Ann Korologos ⁽¹⁰⁾	13,881	*
Stephen F. Reitman ⁽¹⁰⁾	12,095	*
Jane Thompson ⁽¹⁰⁾	8,540	*
Jean Tomlin ⁽¹⁰⁾	9,536	*
All Executive Officers and Directors as a Group (13 persons)	8,048,705	5.3%

* Represents beneficial ownership of less than one percent of the Company's ordinary shares outstanding.

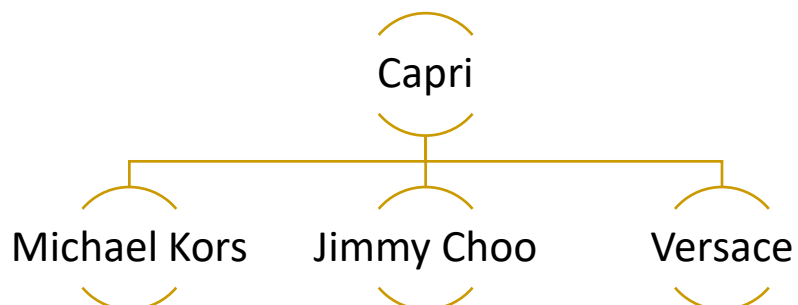
- (1). Based on Amendment No. 6 to the Schedule 13G filed with the SEC by **The Vanguard Group** ("Vanguard") on February 11, 2019. The mailing address for Vanguard is 100 Vanguard Blvd, Malvern, Pennsylvania 19355. Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, is the beneficial owner of **129,339 shares or .10% of the ordinary shares outstanding** of the Company as a result of its serving as investment manager of collective trust accounts. **Vanguard Investments Australia, Ltd.**, a wholly-owned subsidiary of Vanguard, is the beneficial owner of **74,453 shares or .08% of the ordinary shares outstanding** of the Company as a result of its serving as investment manager of Australian investment offerings. Vanguard may be deemed to have sole voting power with respect to 129,339 ordinary shares and shared voting power with respect to 31,653 ordinary shares. Vanguard may be deemed to have sole dispositive power with respect to 14,969,905 ordinary shares and shared dispositive power with respect to 205,795 ordinary shares.
- (2). Based on Amendment No. 5 to the Schedule 13G filed with the SEC by **BlackRock, Inc.** ("BlackRock") on February 6, 2019. The mailing address for BlackRock is 55 East 52nd Street, New York, New York 10022. BlackRock may be deemed to have sole voting power with respect to 9,118,130 ordinary shares and sole dispositive power with respect to **10,337,971 ordinary shares**.
- (3). Based on the Schedule 13G filed with the SEC by **Eminence Capital, LP** and related parties ("Eminence") on February 19, 2019. The mailing address for Eminence is 399 Park Avenue, 25th Floor, New York, New York 10022. Eminence Capital may be deemed to have shared voting and dispositive power with respect to 9,796,242 ordinary shares, Eminence GP, LLC may be deemed to have shared voting and dispositive power with respect to 6,181,206 ordinary shares, and Ricky C. Sandler (Chief Executive Officer of Eminence Capital and the Managing Member of Eminence GP) may be deemed to have shared voting and dispositive power with respect to **9,796,242 ordinary shares**.
- (4). Based on the Schedule 13G filed with the SEC by **AQR Capital Management, LLC** ("AQR Management") and AQR Capital Management Holdings, LLC ("AQR Holdings" and, together with AQR Management,

“AQR”) on February 14, 2019 . The mailing address for AQR is Two Greenwich Plaza, Greenwich, Connecticut 06830. AQR Management is a wholly-owned subsidiary of AQR Holdings, and AQR Management and AQR Holdings may be deemed to have shared voting and dispositive power with respect to **9,764,989 ordinary shares**.

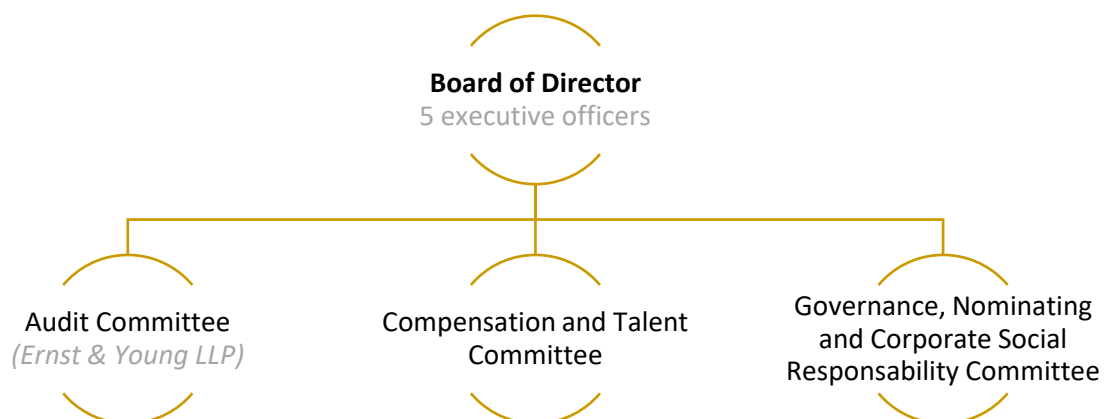
- (5). This amount includes the following securities held by **Mr. Idol**:
- i. **435,775 options** to purchase ordinary shares that are vested and exercisable or will become vested and exercisable within 60 days of May 31, 2019 and
 - ii. **33,605 unvested restricted share** units that will become vested within 60 days of May 31, 2019. This amount also includes **54,600 ordinary shares held by the Idol Family Foundation** and 1,599,400 ordinary shares held by certain grantor retained annuity trusts (“GRATs”) established by Mr. Idol (as grantor) for the benefit of his children. Mr. Idol is not the trustee of the GRATs. Mr. Idol may be deemed to have shared voting and dispositive power over the ordinary shares held by the Idol Family Foundation and by the GRATs, and therefore, may be deemed to have beneficial ownership over such ordinary shares.
- (6). This amount includes the following securities held directly by Mr. Kors:
- i. **307,329 options** to purchase ordinary shares that are vested and exercisable or will become vested and exercisable within 60 days of May 31, 2019 and
 - ii. **33,605 unvested restricted share** units that will become vested within 60 days of May 31, 2019. This amount also includes **95,000 ordinary shares held by the Kors LePere Foundation** and the following securities held by **Mr. Kors’ spouse: (x) 182,900 options** to purchase ordinary shares that are vested and exercisable or will become vested and exercisable within 60 days of May 31, 2019 and **(y) 11,146 unvested** restricted share units that will become vested within 60 days of May 31, 2019. Mr. Kors may be deemed to have shared voting and dispositive power over the ordinary shares and other equity interests held by the Kors LePere Foundation and by his spouse, and therefore, may be deemed to have beneficial ownership over such ordinary shares and other equity interests.
- (7). This amount includes the following securities held by **Mr. Edwards**:
- i. 3,063 options to purchase ordinary shares that are vested and exercisable or will become vested and exercisable within 60 days of May 31, 2019 and
 - ii. 4,073 unvested restricted share units that will become vested within 60 days of May 31, 2019.
- (8). This amount includes the following securities held by Ms. Meyran:
- i. 44,725 options to purchase ordinary shares that are vested and exercisable or will become vested and exercisable within 60 days of May 31, 2019 and
 - ii. 12,432 unvested restricted share units that will become vested within 60 days of May 31, 2019.
- (9). This amount includes the following securities held by Ms. Robinson:
- i. 28,998 options to purchase ordinary shares that are vested and exercisable or will become vested and exercisable within 60 days of May 31, 2019 and
 - ii. 12,220 unvested restricted share units that will become vested within 60 days of May 31, 2019.
- (10). This amount excludes 2,281 restricted share units that will vest at the annual meeting of shareholders to be held on August 1, 2019.

Appendix 17 - Governance Model

Capri Holdings Limited Structure



Governance Model Organization



Appendix 18 – Executive Officers



Michael Kors

Honorary Chairman
Chief Creative
Officer of MK brand

Founder of Michael Kors brand; renowned, award winning designer with over 35 years of industry experience; and instrumental in developing the Michael Kors design, marketing and publicity strategy. Mr. Kors studied fashion design at the Fashion Institute of Technology in Manhattan and in 1981 created what has become an enduring and iconic luxury lifestyle empire. He held his first runway show in 1984 for the Michael Kors fall collection and he has successfully built our Company into a global luxury lifestyle brand. Mr. Kors has been the recipient of numerous industry awards, including the CFDA Womenswear Designer of the Year in 1999 and Menswear Designer of the Year in 2003. Amongst his other accolades, Mr. Kors has also been awarded The Accessories Council ACE Award for Designer of the Year in 2006 and Fashion Group International's Star Honoree at its annual Night of Stars Awards in 2009. In 2010, the CFDA acknowledged Mr. Kors with their most prestigious honor, the Lifetime Achievement Award. He also received the Award of Courage from the American Foundation for AIDS Research (amfAR) in 2011. In addition to all of these accomplishments, from 1998 to 2004 Mr. Kors also served as creative director of Celine, the French luxury brand.



John D. Idol

Chairman
Chief Executive Officer

CEO for over 14 years with intimate knowledge of our business operations and strategy; more than 30 years of experience in retail industry with extensive knowledge of sales and marketing, product development, operations, finance and strategy; and prior public company Chairman and CEO experience.

Mr. Idol has been our Chief Executive Officer since December 2003. Previously, from July 2001 until July 2003, Mr. Idol served as Chairman and Chief Executive Officer and a director of Kasper ASL, Ltd., whose lines included the Anne Klein brand.

Prior to that, from July 1997 until July 2001, Mr. Idol served as Chief Executive Officer and a director of Donna Karan International Inc. Prior thereto, from 1994 until 1997, Mr. Idol served as Ralph Lauren's Group President and Chief Operating Officer of Product Licensing, Home Collection and Men's Collection.



Thomas J. Edwards, Jr.

Executive Vice President
Chief Financial Officer
Chief Operating Officer
and Treasurer

Is the Executive Vice President, Chief Financial Officer, Chief Operating Officer and Treasurer of Michael Kors and has been with the Company since April 2017.

Previously, Mr. Edwards served as Executive Vice President and Chief Financial Officer of Brinker International, Inc. Prior to that, he held numerous positions within finance at Wyndham Worldwide from 2007 to 2015, including having served as Executive Vice President and Chief Financial Officer of the Wyndham Hotel Group from March 2013 to March 2015.

Mr. Edwards has also held a number of financial and operational leadership positions in the consumer goods industry, including as Vice President, Consumer Innovation and Marketing Services at Kraft Foods and Vice President, Finance at Nabisco Food Service Company.



Pascale Meyran

Senior Vice President
Chief Human Resources
Officer

Is the Senior Vice President, Chief Human Resources Officer of Michael Kors and has been with the Company since September 2014.

Previously, Ms. Meyran was at S.C. Johnson & Son, where she held the position of Senior Vice President of Global Human Resources from 2010 until she joined the Company. Prior to her 20-year tenure at S.C. Johnson & Son, Ms. Meyran worked in a variety of human resources functions at General Electric.



Cathy Marie Robinson

Senior Vice President
Chief Operations and
Transformation Officer

Is the Senior Vice President, Corporate Strategy and Chief Operations Officer of Michael Kors and has been with the Company since May 2014 (joining as Senior Vice President, Global Operations).

Previously from 2012 to 2014, Ms. Robinson was Senior Vice President, Chief Logistics Officer at ToysRUs, and from 2010 to 2012, Ms. Robinson was Senior Vice President, Supply, Logistics and Customer Experience at The Great Atlantic & Pacific Tea Company (A&P).

Prior to that, from 2006 to 2010, she was Senior Vice President, Supply Chain at Smart & Final Stores LLC. Ms. Robinson began her career as a United States Army Logistics Officer and also held various logistics and operations positions at Wal-Mart Stores, Inc.

Appendix 19 – Compensation and incentive plan

Share ownership levels.

Position	Minimum Ownership Guidelines (Dollar Value of Shares)	Meets Guidelines
Chief Executive Officer	5x Base Salary	✓
Chief Creative Officer - Michael Kors Brand	5x Base Salary	✓
Executive Vice President, Chief Financial Officer and Chief Operating Officer ⁽¹⁾	3x Base Salary	✓
Senior Vice President, Chief Human Resources Officer	2x Base Salary	✓
Senior Vice President, Chief Operations and Transformation Officer	2x Base Salary	✓

Compensation and incentive detailed by year and name executive officers

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Share Awards (\$) ⁽¹⁾	Option Awards (\$) ⁽¹⁾	Non-Equity Incentive Plan Compensation (\$) ⁽²⁾	All Other Compensation (\$) ⁽³⁾	Total (\$)
<i>John D. Idol</i> Chairman and Chief Executive Officer	2019	1,350,000	—	5,999,962	1,499,988	5,400,000	104,063	14,354,013
	2018	1,000,000	—	(4)	(4)	6,500,000	107,476	7,607,476
	2017	1,000,000	—	799,975	199,996	6,500,000	90,324	8,590,295
<i>Michael Kors</i> Honorary Chairman and Chief Creative Officer - Michael Kors Brand	2019	1,350,000	—	5,999,962	1,499,988	5,400,000	118,794	14,368,744
	2018	1,000,000	—	(4)	(4)	6,500,000	105,642	7,605,642
	2017	1,000,000	—	799,975	199,996	6,500,000	150,197	8,650,168
<i>Thomas J. Edwards, Jr.</i> ⁽⁵⁾ Executive Vice President, Chief Financial Officer and Chief Operating Officer	2019	716,667	—	1,699,951	300,003	800,000	8,100	3,524,721
	2018	575,000	600,000	2,999,987	—	—	54,843	4,229,830
	2017	—	—	—	—	—	—	—
<i>Pascale Meyran</i> Senior Vice President, Chief Human Resources Officer	2019	500,000	—	1,299,963	200,010	250,000	12,213	2,262,186
	2018	500,000	—	1,199,997	300,005	250,000	11,574	2,261,576
	2017	500,000	—	400,038	100,005	175,000	12,950	1,187,993
<i>Cathy Marie Robinson</i> Senior Vice President, Chief Operations and Transformation Officer	2019	500,000	—	1,299,963	200,010	250,000	8,100	2,258,072
	2018	500,000	—	1,199,997	300,005	250,000	7,950	2,257,952
	2017	491,667	—	400,038	100,005	175,000	7,950	1,174,660

All Other compensation

Perquisite	Mr. Kors (\$)	Mr. Idol (\$)	Mr. Edwards (\$)	Ms. Meyran (\$)	Ms. Robinson (\$)
<i>Transportation Benefit</i> ⁽¹⁾					
2019	64,399	11,175	—	—	—
2018	65,997	20,486	—	—	—
2017	113,469	17,370	—	—	—
<i>401(k) Company Match</i>					
2019	8,100	8,100	8,100	8,100	8,100
2018	7,950	7,950	—	7,950	7,950
2017	7,643	7,643	—	7,950	7,950
<i>Company Paid Life Insurance Premiums</i>					
2019	33,252	50,000	—	—	—
2018	30,584	50,000	—	—	—
2017	27,975	50,000	—	—	—
<i>Other</i>					
2019	13,044 ⁽²⁾	34,788 ⁽³⁾	—	4,113 ⁽⁵⁾	—
2018	1,110 ⁽²⁾	29,040 ⁽³⁾	54,843 ⁽⁴⁾	3,624 ⁽⁵⁾	—
2017	1,110 ⁽²⁾	15,310 ⁽³⁾	—	5,000 ⁽⁵⁾	—

Appendix 20 – Acquisitions Plans | Strategic Initiatives and Transaction details

Jimmy Choo

Strategic Rationale

The acquisition of Jimmy Choo is expected to deliver a number of benefits, including:

- The opportunity to grow Jimmy Choo sales to \$1 billion
- A more balanced portfolio with greater product diversification
- An enhanced positioning in the attractive and growing luxury footwear segment 1
- The opportunity to grow in the men's luxury footwear category
- Further expansion in the luxury accessories market
- Greater exposure to global markets, particularly the fast-growing market in Asia

Transaction Details

As previously announced, the acquisition was funded through a combination of borrowings under the Company's new term loan facility and the issuance of senior unsecured notes, with a weighted average interest rate of 3.1%, as well as cash on hand. The acquisition was effected by way of a UK scheme of arrangement, which became effective today.

Copy of NEWS RELEASE from Michael Kors 11/November/2017

Versace

Strategic Initiatives and Transaction Rationale

As part of our strategic plan for the long-term growth of Versace, we intend to execute on the following key initiatives:

- Grow Versace to US\$2.0 billion in revenues globally
- Build on Versace's luxury runway momentum
- Enhance Versace's powerful and iconic marketing
- Increase global retail footprint from approximately 200 to 300 stores
- Accelerate e-commerce and Omni-channel development
- Expand men's and women's accessories and footwear from 35% to 60% of revenues

The acquisition of Versace is expected to deliver a number of benefits for our Company, including:

- Opportunity to help grow our group's revenues to US\$8.0 billion in the long-term
- Expand our global luxury group to include three iconic founder-led brands defined by fashion luxury products with a reputation for world-class design and innovation
- Diversify our geographic portfolio from:
 - 66% Americas to 57% Americas
 - 23% Europe to 24% Europe
 - 11% Asia to 19% Asia
- Potential to create long-term operational synergies

Transaction Details

The transaction is not subject to a financing condition. The cash portion of the purchase price is expected to be funded by a combination of cash on hand, drawings under the company's existing revolving credit facility, and committed underwritten bank term loans from our advisors JPMorgan Chase Bank, N.A. and Barclays. The Versace family will also receive Euro 150 million of the purchase price in shares of Capri Holdings Limited. The transaction is expected to close in the company's fourth fiscal quarter, subject to specified closing conditions, including the receipt of required regulatory approvals.

Our New Name

Capri Holdings Limited (NYSE:CPRI) is the new name to be adopted by Michael Kors Holdings Limited upon the closing of the acquisition. Our name is inspired by the fabled island which has long been recognized as

an iconic, glamorous and luxury destination. The island's spectacular three rock formation, formed over 200 million years ago, is symbolic of the timeless heritage and strong foundation that is at the core of each of the three founder-led brands in our global fashion luxury group.

Financial Considerations

The company believes that the acquisition of Versace enhances the company's economic value and will drive improved long-term shareholder value by accelerating long-term revenue and EPS growth potential. On a non-GAAP basis, the acquisition is expected to be dilutive to earnings per share in the high-single digits in fiscal 2020, accretive in the low-single digits in fiscal 2021, and accretive in the high-single digits in fiscal 2022.

About Versace

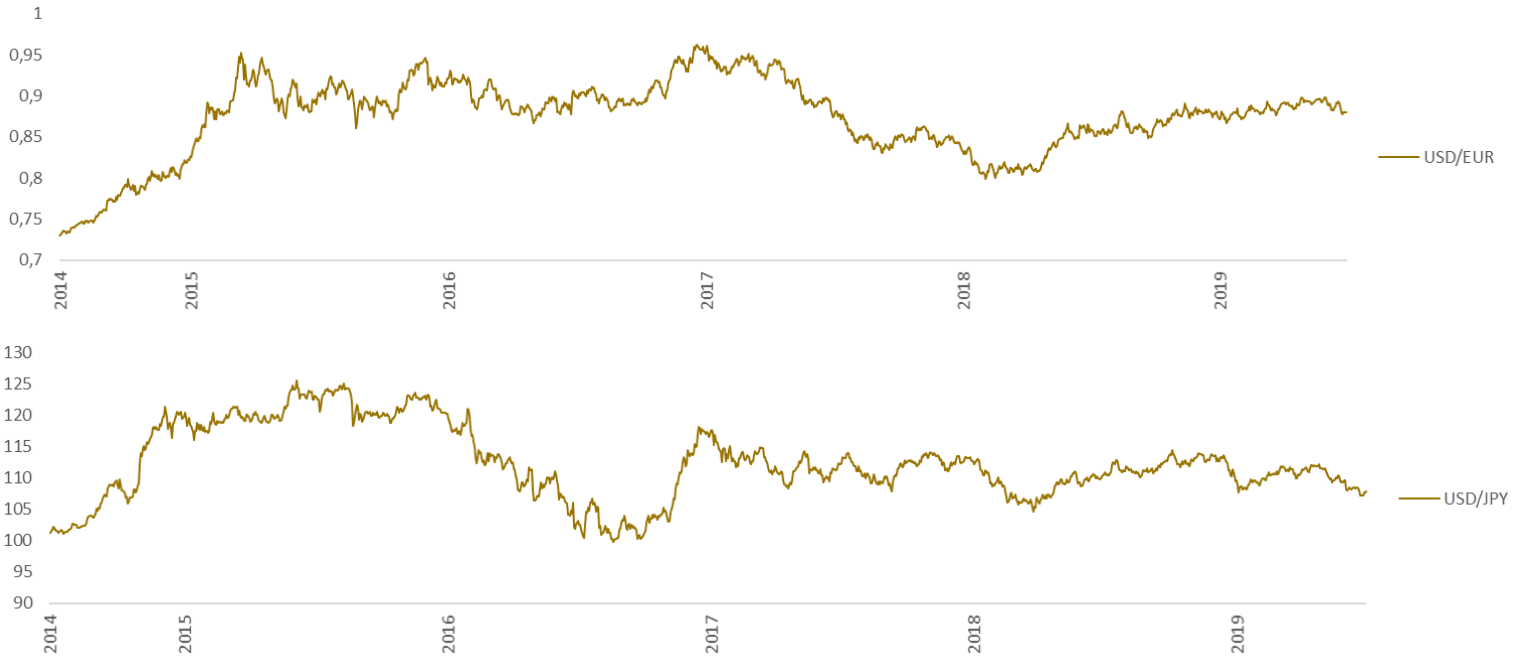
Founded in 1978 in Milan, Versace is one of the leading international fashion design houses and a symbol of Italian luxury worldwide. It designs, manufactures, distributes and retails fashion and lifestyle products including haute couture, prêt-à-porter, accessories, jewelry, watches, eyewear, fragrances, and home furnishings all bearing the distinctive Medusa logo. The Versace group distributes its products through a worldwide distribution network which includes over 200 boutiques in some of the world's most glamorous cities.

Copy of NEWS RELEASE from Michael Kors 31/December/2018)

Appendix 21 – Exchange rate USD/EUR, USD/GBP and USD/JPY

CAPRI hedge the exposition of two currencies Euro and Japanese Yen, thus has a higher security to some expressive ups and downs regarding to these currencies. However, all Jimmy Choo business happens in Pound Sterling and no hedge is done to mitigate this risk. It is important to understand the impact that the up/downs in GBP could have in the company results. All US behavior will affect other currencies.

In 2018 the USD/EUR decreased to the levels achieved in the beginning of 2015, this happens because of all political instability in several countries on European Union (France, Spain, Italy) and US. In 2019 the levels are slightly increasing.



2017 spot the beginning of Brexit process nevertheless, the higher instability was sensed in 2018 (and will be stronger when UK really exit the European Union, October 2019). The levels of 2018 are lower as 2016 values.



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