



Michael Kors Holdings Limited
Acquisition of Versace Announcement
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PRESENTATION

Operator:

Good day and welcome to the Michael Kors Holdings Limited's Versace Acquisition Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Katina Metzidakis, Vice President of Investor Relations. Please go ahead.

Katina Metzidakis:

Good morning everyone and thank you for joining us. With me this morning are our Chief Executive Officer John Idol, and Chief Financial and Chief Operating Officer Tom Edwards. Throughout this

morning's call we will be referring to Capri Holdings Limited, which is the new name to be adopted by Michael Kors Holdings Limited upon the closing of the acquisition of Versace.

Unless otherwise noted, all discussions of operating income and earnings per share on today's call will be presented on a non-GAAP basis. In addition to this morning's press release, we have posted a presentation to the Investor Relations section of our website. Following prepared remarks, we will open the call to questions.

Finally, I would like to note that today's discussion contains forward-looking statements which are subject to risks and uncertainties that could cause actual results to differ from those that we expect. Please refer to Slide 2 of the presentation as well as the press release and the information contained in our SEC filings. T

Now I would like to turn the call over to Mr. John Idol, Chairman and Chief Executive Officer.

John A. Idol:

Thank you, Katina. Good morning everyone. I am extremely excited to announce our acquisition of Gianni Versace S.p.A. The House of Versace is one of the most storied luxury brands in the world, rooted in Italian glamor and style. The Versace brand has a heritage spanning over 40 years.

Fashion has always been at the core of the Versace DNA. This brand fits perfectly into our Group's strategy, to focus on international fashion luxury brands that are leaders in style and trend. Each of our founder-led companies have runway collections at their foundation, as well as craftsmanship and heritage at their core.

With the acquisition of Versace, we now have created one of the world's leading fashion luxury groups.

Now I'd like to give you a brief overview of the House of Versace.

The creative inspiration for Versace started in 1978 when Versace opened its first boutique on Milan's Via della Spiga. The brand quickly became known for its innovative designs and couture craftsmanship. Through the 80s, 90s and 2000s, the brand continued its global expansion led by its runway excitement and its association with the world's most famous celebrities, including Madonna, Lady Gaga, Beyoncé, Jennifer Lopez, Angelina Jolie, Jennifer Lawrence, Nicole Kidman, Elizabeth Hurley. In men's: Elton John, Sting, Bruno Mars, Matt Damon, Bradley Cooper, and Orlando Bloom, just to name a few.

The brand has also been associated with the most glamorous models in the world, such as Naomi Campbell, Cindy Crawford, Linda Evangelista, Claudia Schiffer, Christy Turlington, Giselle Bündchen, Gigi Hadid, Bella Hadid, and Kendall Jenner.

The Versace clients are equally as glamorous as the celebrities and models that are in love with the brand.

Versace has grown globally over the past 40 years, developing not only its ready-to-wear but also its accessories, footwear, eyewear, watches, jewelry and fragrance businesses.

Additionally, the company has an iconic home furnishings collection that has become synonymous with the Italian luxury lifestyle.

Today, Versace has approximately 200 boutiques in the most glamorous cities in the world. The House of Versace has always had luxury craftsmanship as well as creativity and inspiration as a foundation since its inception. For over 20 years, Donatella Versace has had the vision for the brand's iconic style. A true visionary with an intuition for how to blend fashion, design and culture, Donatella continues to honor the rich and storied Versace heritage while constantly evolving and adapting the luxury house, ensuring the brand's continued relevance.

It is no surprise that Donatella has received endless design awards throughout her impressive career, including most recently the British Fashion Council's Icon Award, the CFDA Fashion Awards Best International Designer and GQ's Designer of the Year Award in the U.K., China and Germany.

Donatella's passion has never been stronger. Her most recent collections for the House of Versace have received some of the greatest accolades in the company's history, both from the press and from its consumers. Donatella will continue to lead Versace's iconic design vision into its next chapter of growth.

Next, I would like to discuss the iconic codes of the House of Versace, which are rooted in the Italian fashion heritage of its founders. Its unique DNA and signature style has led the House to become one of the most highly recognized luxury fashion brands in the world. Versace's unmistakable look, which is equal parts old and refined, evokes both a rock and roll spirit as well as runway glamour. Its iconic signature prints often include the Medusa motif, signature Baroque, and Greek key detailing, which have become status symbols for the brand.

Versace's collections are elegantly displayed in its unique and distinctive boutiques around the world. Versace is one of the most famous luxury brands in the world. For over 40 years, Versace has continued to build its unique, innovative and powerful communications message to consumers worldwide.

In many of its major markets, Versace has greater than 80% brand awareness. The brand also commands a leading social media presence with 13.5 million followers for Versace and 3.5 million followers for Donatella. Both the brand and Donatella clearly capture the imagination of consumers globally. Given these incredibly powerful metrics, we believe that this creates a dynamic platform to accelerate our aspirations for the brand.

Turning to the Versace management team, since joining Versace, Chief Executive Officer Jonathan Akeroyd's leadership has helped drive strong financial performance for the company. In particular, this year the company will have double-digit revenue, earnings and comparable store sales growth. The company has a world-class management team with the skills and experience to execute our strategic plan. We look forward to partnering with Donatella, Jonathan, and other members of the Versace's talented management team to further unlock the strong growth potential of the brand. We are thrilled to have Versace as part of our luxury group at such an exciting and dynamic point in the company's history.

I would like now to discuss our expectations for the brand's future performance.

We believe that Versace will grow to \$2 billion in revenue over time. There are five strategic initiatives that we will focus on to achieve this goal. First, we plan to build on Versace's luxury runway momentum. Versace's luxury heritage holds both incredible appeal for fashion consumers globally.

Second, we will enhance Versace's powerful and iconic communications messaging.

Third, we will increase Versace's global retail footprint from approximately 200 to 300 stores. Our plan is to open stores at a faster rate to take advantage of expansion opportunities in untapped markets where we believe there will be strong demand for the Versace brand, particularly in Europe and Asia.

Fourth, we will accelerate e-commerce development to create a full omnichannel experience.

Fifth, we will leverage our group's expertise to expand men's and women's accessories and footwear from 35% to 60% of Versace's revenues.

Now let me discuss how the addition of Versace will benefit our global fashion luxury group.

I am pleased that this acquisition positions Capri Holdings to accelerate revenue growth which now includes a goal to achieve \$8 billion over time. Starting with Versace, we will focus on our five-pillar strategy for growing this luxury house to \$2 billion in revenues as previously (inaudible). For Jimmy Choo, we believe that our strategy of increasing new store openings, accelerating footwear growth with a focus on fashion, active and expanding accessories penetration has us firmly on track to achieve \$1 billion in revenue. For Michael Kors, we continue to build on our runway 2020 momentum. Overall, we believe we are on track to achieve \$5 billion in revenues for Michael Kors.

Taken together, these three brands will position us to achieve multiple years of revenue and earnings growth.

The addition of Versace into our group also immediately enhances our already-strong standing within the global luxury fashion market. The integration of this iconic fashion house will notably increase our presence in the fast-growing Asia market, which is a key driver of our long-term growth. Our presence will also expand in Europe, which represents another growth opportunity for our group.

As a result of this acquisition, we have decided to change the name of our company to Capri Holdings Limited. Our new 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 our timeless heritage and strong foundation that is at the core of each of our three founder-led brands in our global fashion luxury group. With the acquisition of Versace, we have succeeded in building one of the world's leading luxury fashion groups in just over one year. We could not have possibly envisioned a better family of brands in Capri Holdings.

I want to take a moment out to recognize and thank our entire team for the tremendous amount of work and dedication they have demonstrated as we have been building Capri Holdings. It is nothing short of remarkable and I am so proud of all that we have accomplished together in such a short period of time.

With that, I would like to turn it over to Tom.

Thomas J. Edwards, Jr.:

Thank you, John, and good morning everyone. Turning to Versace's growth opportunity, we are thrilled to be adding a brand that is resonating with consumers and growing so robustly, and we believe the business has tremendous upside potential to deliver both revenue and margin growth. Under the leadership of Chief Creative Officer Donatella Versace and Chief Executive Officer Jonathan Akeroyd, Versace is expected to deliver double-digit revenue growth in 2018 along with an approximately 50% increase in EBITDA. This performance is grounded in the compelling consumer connection with Versace's design esthetic, which has led to strong double-digit, comparable store sales growth.

Looking ahead, we believe Versace has significant potential to contribute to our group. Over the longer term, we expect to achieve \$2 billion in revenue and EBITDA margin in the high teens percentage range, in line with peer luxury brands.

Given the brand's current double-digit growth rate, we anticipate that Versace will achieve approximately \$1.2 billion in revenue, along with EBITDA margins in the mid teens in our fiscal year 2022, the third fiscal year following the acquisition.

From an EPS perspective, we expect this acquisition to be EPS dilutive in Year 1 in the high single digits as we plan to invest in Versace to drive accelerated growth, similar to the successful strategy we put in place for Jimmy Choo. These investments will be focused on additional marketing initiatives, accessories and footwear development, store expansion and the support of the company's e-commerce platform. We expect Versace to be accretive in Year 2 in the low single digits, and accelerate to high single digit accretion in Year 3.

Next, I'd like to discuss the details of this transaction. The value of the transaction is €1.83 billion or approximately US\$2.12 billion. This will primarily be a cash transaction. The Versace family will also receive €150 million of the purchase price in shares of Capri Holdings. We are extremely pleased to welcome the Versace family as shareholders in Capri Holdings, and view their equity investment as a testament to their strong support of our future plans and value creation opportunities. We expect to fund the cash portion of the acquisition with a combination of cash on hand, drawings on our existing revolver and new term loan. The acquisition is expected to close in our fiscal 2019 fourth quarter. Post closing, we will prioritize our significant cash flow to rapidly pay down our acquisition debt, just as we have so quickly done following the purchase of Jimmy Choo.

Now, I would like to turn to the financial benefits, strategic advantages and shareholder value opportunity that the Versace acquisition provides to our group.

Together with Michael Kors and Jimmy Choo, the addition of Versace positions Capri Holdings for enhanced growth. We believe Versace's \$2 billion revenue target will help drive our group's revenues to approximately \$8 billion. We also believe that the addition of the high growth Versace brand will position our group to deliver multi-year revenue and EPS growth.

From a strategic perspective, Versace increases our geographic diversification, expanding our presence in the fast-growing Asia region. With Versace as our third luxury brand, we believe we now have the broad platform to leverage and create long-term synergy savings in the area of supply chain, information systems and back office support. We look forward to discussing more operational details after this transaction closes.

In conclusion, let me reiterate that we are extremely excited to have the opportunity to help develop the Versace luxury brand globally, and further drive long-term shareholder value for Capri Holdings.

With that, I will turn the call back to John for closing remarks.

John D. Idol:

Thanks, Tom. The acquisition of the iconic house of Versace is an important milestone on the execution of our strategy to expand our global fashion luxury group. With this acquisition, we have set the stage for our company to significantly increase long-term growth and shareholder value.

I will now open up the call for questions.

Operator:

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using speaker equipment, please ensure your mute function is turned off to allow your signal to reach our equipment. Again, please press star, one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions.

We will now take our first question from Omar Saad from Evercore ISI. Please go ahead.

Omar Saad:

Thank you for taking my questions. Congratulations on the exciting announcement. I was hoping you guys could elaborate on what's really changing at Versace. I think it has been a little bit of slower growth going for a few years and it's kind of really turning the corner and the growth seems to be accelerating currently. Could you talk about what some of the key drivers are?

I would also ask if you could talk about the various brand positions of your three fashion luxury brands now and how they complement one another across categories, price points, regions, brand (inaudible), etc.

John A. Idol:

Thank you, Omar. Good morning again to everyone. Omar, the growth at Versace has been driven by a number of things. Donatella has never been more engaged than she is today. The brand really is seeing a very fast pace of growth right now, driven by her leadership, and it really starts with design the runway, and also by the fact that they're very, very relevant in the modern culture today. As we've talked about it in the prepared remarks, Versace has incredible celebrity following which gives us power across Instagram and across other social platforms.

Secondly, Donatella herself is an actual icon and people follow her and they're very interested in what she has to say about fashion, and again, I think for many of you on this call, we're going to be a more unique company that you cover because this is real, true luxury, and some of our competitors are different than what you might have thought about in the past. Her voice and her leadership in the fashion field is a very key component to the company's, its historical growth but she's even more relevant today than any other time in her history.

The second thing I would say as a key driver of this company is Jonathan Akeroyd. Jonathan has really—he's got a long history with Alexander McQueen, but previous to that at Harrods, and he is an excellent merchant. He has really taken all the this incredible tool box of Versace and focused it a bit more than the company has historically looked at from a merchandising standpoint in the past. You look at things from our company in terms of the power of the men's brand—it's almost 50% of this company's business is men's, so that's kind of an unknown fact many people don't really realize, and men's fashion is quite strong right now. Versace has a very powerful place in the men's business and Jonathan has really amplified that.

Secondly, as you know, the active sneaker area is very strong right now and Versace has one of the best-selling luxury fashion items for that category. The company, while it doesn't have the penetration of accessories, I'll say this as a third point, that we would like to have, it still has been growing that business, so that's been another leading platform for the company.

So, you have this power of Donatella, the power of her communication to a very broad set of consumers; you have Jonathan's leadership, you had a dynamic women's and men's business, and you have a

footwear and accessories business that is actually growing but really can be exploded given our expertise. I think it's really the right combination for us to be able to acquire this business at this time.

I also want to mention in the prepared remarks, the company is experiencing double-digit comp store growth rate right now and that really shows the power of the brand. I would also say to you it shows how underdeveloped the brand is.

When you look at our three brands—I'll answer the second part of your question. We prepared for you the roadmap for \$8 billion. Michael Kors is going to grow. It's going to grow more slowly because of its size. We're obviously a very large brand globally, and so we'll go from our \$4.5 billion to \$4.6 billion today to roughly \$5 billion over the next few years. Jimmy Choo—by the way, Michael Kors has two layers. It has a luxury layer and a more accessible layer.

Jimmy Choo is pure luxury and will remain pure luxury, but I think we've seamlessly integrated that company into our company. I want to reiterate that. We have seamlessly integrated that company. It's been a great acquisition and it's gone perfectly. That's well on its way to a billion dollar target. We reported in our last quarter strong double-digit top line growth for the company and strong comp store growth, so we feel great about that. That's obviously a business that's in the shoe and accessory world and we're going to build on that accessory line.

Then, lastly, Versace, which has both a ready-to-wear component and an accessories component that we believe we can grow more rapidly.

So, we think that we've got three companies that are balanced and they don't really compete with one another. That being said, we have plenty of competition outside of our own company, but we've put together a portfolio of brands that really can complement one another as opposed to compete with one another.

That's kind of our thought process on how we've built the group, and we couldn't be more pleased than to have these three highly recognized brands, and as you can see by the data that we released, even Jimmy Choo has 8.5 million Instagram followers on a brand that is not nearly the size of what its social media presence is, and that gives us, again, great confidence that this brand will continue to grow from a revenue standpoint.

Thank you very much for that question, Omar.

Operator:

We will now take the next question from Oliver Chen from Cowen & Company. Please go ahead.

Oliver Chen:

Hi John. Congratulations. Our question is about the product categories at Versace. Which ones do you think have the most opportunities and are you most excited about? As you think about the value creation over time, which actions will be sooner versus longer term.

Also, the Versus brand and the collection and atelier, so what do you see happening with respect to the brands within Versace and how you'll think about maximizing what should happen with the brand structure as well? Thank you.

John A. Idol:

Thank you, Oliver. Oliver, first and foremost is Versace is a runway led brand and it's really from Donatella's vision, and I hope all of you will get the chance to meet her over time. She is a dynamic force in her own right and has really, along now with Jonathan, has built this company year in, year out, obviously with her brother and previously with Gianni, but has really been a steadfast light and vision for this company. I would always tell you that the runway for Versace, both in men's and women's is where we will start with our focus.

We believe that given the size of the company—the majority of the company's business is done with the Versace first line, and so that only leads one to the conclusion that you should spend most of your time and effort on building that. It is having, as I said before, double-digit comp store growth in every region of the world, in our brick and mortar stores with almost a non-existent e-commerce business, which is a great opportunity for us as well. So, that is the first focus.

Inside of that, we view accessories as having the biggest impact on the business. Jonathan has done a terrific job with the management team, improving the profitability of the company, and we shared those figures with you because we wanted you to understand the great turnaround that this company has had in profitability. We believe, as Tom indicated in his prepared remarks, that that profitability is still significantly under where our luxury peers are, and we know that they only way to get there is to have a stronger accessories business. So, we will be putting a tremendous amount of initiative and effort behind accessories and footwear, and I might add with both men's and women's, because remember, men's again is almost half of this company's business, and given that, the men's accessories market is powerful and we have a very strong following amongst men around the globe. We view that as having the biggest return in revenue and in margin improvement for the company.

We'll do the same thing that we did with Jimmy Choo. We will step back from the profitability for a very short period of time—some 12 to 18 months most likely—invest heavily in design talent that will bring on for the company marketing initiatives that we will build around the company, and you will see that layer up relatively quickly. Again, we don't need a lot more distribution than we have today, and the locations of our stores are spectacular in every single city. We just need to take those doors and really build out the accessories category in there, and then online, and we think that we'll deliver some pretty powerful growth quickly.

I think that's really what's going to happen inside the value creation for Versace. Again, Oliver, nobody knows this better than you quite frankly – if you look at some of the other Italian luxury brands which will remain nameless, they are doing in the billions of euros today. So, Versace is terribly underdeveloped, and that's really going to change now that they'll have the resources of Capri behind them, and Jonathan will have full rein to execute against our strategies that he's been very much a part of building with us. I just left the entire corporate team here and everyone is thrilled and excited to really take this next step in the development of Versace. We're excited and we think we've got an excellent platform to build with them.

Thank you, Oliver.

Operator:

We will now take our next question from Kimberley Greenberger from Morgan Stanley.

Kimberley Greenberger:

Great. Thank you so much. John, I wanted to follow up a little bit on Omar's question. Can you talk about what the revenue growth for Versus Versace was over each of the last three years, and then if there's been a more recent inflection? Is it the fashion execution and sort of merchandising prowess that's driving that, or are there other drivers? Then longer term, as you think about brand development, is the intention here to keep Versace as this strictly luxury brand, or are you contemplating a diffusion line or sort of a lower priced, more aspirational line in addition? Thanks so much.

John A. Idol:

Thank you, Kimberley. Kimberley, I'm going to let Tom talk at the end of this to the growth rate. We're only going to discuss the last—the projected 12 months, just as a side note, because, again, we weren't here with the company before. We don't know what was happening in the previous years. We can only speak to what we have seen and really understand, kind of over the last 12 months for the company, or the projected 12 months.

In terms of, again, we will focus on the luxury part of the (inaudible). As I just said before with Oliver's question is that our competitors here in the Italian luxury market are doing in the billions of euros, and we have brand awareness and consumer following that gives us a platform to really be as good, if not better, than some of these other brands.

It's really interesting. Donatella has built a very unique vision here in this company over the years, which is as I said before, we're part rock and roll, so we clearly appeal to a broad customer base who is young and fun and millennial, and we're very much glamorous. I mean, Versace, if you go back historically, Gianni was one of the first people who really brought high glamour to the runway, and Donatella has always held true to that vision for the company.

We look at those two brand DNA characteristics as giving us an opportunity to really talk to a very broad base of customer. You will see us from a merchandising standpoint build that out even more developed, and again, we have incredible stores, incredible locations, where we know we can do significantly more volume than we're doing today, given what our competitors are doing literally buildings away from us. So, very, very positive platform to build from on that standpoint.

So, again, we're going to focus on the first line, that's where all of our initiatives will be focused, and we'll look at the portfolio and decide if there's rationalization that needs to be done with that over the next two months, or post when we close on the acquisition.

Tom, why don't you speak to the growth?

Thomas J. Edwards, Jr.

Sure. Kimberley, in terms of growth over the last three years, I should probably take you back a little bit further, that the brand has grown very strongly over a longer timeframe. From 2010 to '18 it's been a double-digit CAGR of 12%, moving from a \$350 million business to the current forecast of \$850 million for this year. Tremendous growth over time for the overall business.

Under Jonathan's leadership, there was a slight pause in '17, and then as John mentioned, growth and very significant growth coming into '18 at a double digit rate for both overall revenues and comparable store sales, and we see that growth as something that we're going to build on in terms of momentum and invest, and is the key value driver for the business.

John A. Idol:

Kimberley, also ...

Kimberley Greenberger:

Very helpful.

John A. Idol:

Kimberley, not to get into the weeds here, but also during that slight pause you have to understand that Jonathan closed a lot of stores that his predecessor had opened in some not very good locations, and actually were wrong for the brand. He's done an excellent job in cleaning up what was probably not looked at the appropriate way, and so when you look at that of what he accomplished as well as the strong increase in EBITDA in the company, and he's been here for basically two years, it's really extraordinary, and the management team, I have to give them compliments for that as well.

Thank you, Kimberley.

Kimberley Greenberger:

Great. Thanks.

Operator:

We will now take our next question from Dana Telsey from Telsey Advisory Group. Please go ahead.

Dana Telsey:

Hi. Good morning everyone. As you think about the acquisition of Versace and getting to that high teens EBITDA growth rate margin line that you've talked about, what is the path to get there? How should we look at the buckets for that to move to that level? Thank you.

John A. Idol:

Thank you and good morning, Dana. Dana, there's really kind of three things that will help us get there. First and foremost, again, accessories. By us being able to develop the company to where accessories will penetrate at approximately 60%, we'll have significant improvement on margin, and our luxury competitors that are here in Milan are all at that rate or great. So, we feel very confident, given our knowledge of that space and how we're going to develop that with the company. I've had many long conversation and meetings with both Donatella and Jonathan, and everyone is completely onboard for what we're going to do.

Again, remember, we have Donatella's voice, too. It's not just the designer. She is an iconic figure in modern social media today, and we're going to be able to use the power of her. Also, I assume you watched the last runway show. We've had every major model wants to come and be a part of Versace's shows, and that's because some of the greatest models in the world have started their careers here with Donatella, and so she is viewed as an icon for many of those people, and that also gives us a strong ability to put product on or with many of these celebrities. We think we'll be able to socially amplify our accessories through Donatella, through our association with models and celebrities, and our consumers, I think there's a pent-up demand given the fact that they've been buying such a great amount of our ready-to-wear, so it would make sense that we would be able to achieve that. That's the first part of the path.

The second part is the Versace has been a family-run business and they've done a wonderful job, but we believe that we'll be able to bring many efficiencies to the company, and as Tom mentioned in his prepared remarks, we're not going to discuss at this point in time synergies in the group. But just some of the prophecies that we will bring to Versace, we believe is going to impact the margin of the company.

Then lastly, we really think that the productivity of our stores is below where it needs to be. Again, in the luxury world, we're a very solid number, but we could be at a much higher sales per square foot than we're at today, and we know that by doing that we'll have a significant impact on the company's profitability.

So, we think those three initiatives, which quite frankly we've already been working with the management team on, will come together here over the next 12 months.

Thank you, Dana.

Dana Telsey:

Thank you.

Operator:

We will now take our next question from Alexandra Walvis from Goldman Sachs. Please go ahead.

Alexandra Walvis:

Good morning. Thanks for the question. We had a question about the shape of the store base. Firstly, what gives you the confidence that 300 stores is the right size of store base for this business. I believe you said in response to a prior question that you had been closing some stores in recent years. What gives you the confidence now that opening is—there's opportunity to open further stores?

Finally, will those new stores differ at all from the existing fleet, or are you anticipating any material changes to the look and feel or size of the stores as you go through this process?

John A. Idol:

Thank you and good morning, Alexandra. That's a very good question. Number one, as I said earlier, Jonathan spent the last 24 months or so really closing some stores that were in some wrong locations or had some bad leases, etc., and he's done a great job cleaning that up. We have a few more to go that we will look to close over the next 12 to 18 months. That being said, we have such a huge runway of opportunity and locations where we don't have stores in incredible markets, so I would give you the following examples.

Japan. The company has an insignificant revenue base in Japan. Years ago the company withdrew the brand from the marketplace for various reasons, and it's—that is such an opportunity for us as a group and a company. We have very strong business there with Michael Kors, multi hundreds of millions of dollars. We have a very strong business with Jimmy Choo. We know the market and we think we can build the business there quite rapidly.

Secondly, in Europe, there are many markets that the company has not really developed in a significant way, so we will go into that marketplace and be able to move rapidly in opening stores there.

Again, also in Korea, the company basically has a very, very small business, so we think that's a big opportunity for us.

So, when you look at the amount of locations, they're going to be sitting on the same streets as the best known luxury brands in the world.

Some of our competitors actually have more stores than 300. We think that's the right number of us given where we want to be in terms of productivity per square foot inside the stores. I would tell you that the newer stores we're going to open will probably be on the—the won't be as large as some of the flagships that we have today. I think you could probably look at something around a 5,000 foot store, 4,000 to 5,000 foot as a closer kind of benchmark for us on a going forward basis. When you model it, I would think in that kind of a range.

We believe—also, we did a lot of this research previously when we bought Jimmy Choo and assessing that model as well, so it was relatively easy for us to come in and assess the Versace opportunity given what we had done in terms of research with Jimmy Choo.

Thank you, Alexandra.

Operator:

We will now take our next question from Chethan Mallela from Barclays. Please go ahead.

Chethan Mallela:

Good morning. You've talked about the opportunity to accelerate the e-commerce and new channel business for the Versace brand, and I think you mentioned it's relatively insignificant currently. It sounds like investing behind that channel for near-term focus, but can you provide a little more detail on investment priorities, how you're thinking about the pace of development and just how that factors into your margin outlook? When you do your benchmarking, how large do you think this channel could be?

John A. Idol:

Thank you and good morning. I would tell you the following. Number one, we spent over \$100 million in Michael Kors developing a global e-commerce platform that we think is very robust, and we had mentioned in our previous calls that that platform had the capability of having other brands on it (inaudible) Michael Kors. We are going to work very rapidly to develop with the Versace company to come onto our platform. We have also got very, very good omnichannel capabilities, so from a systems standpoint we will get Versace up to a much better positioning than they have today.

Between e-commerce, omnichannel, we believe that this will represent over time at least a \$100 million business for Versace online. Again, it's going to take us some time to develop that. We also will be investing on different digital marketing initiatives that will drive consumers to the platform as well, further broadening the reach of Versace. These are disciplines and initiatives that we think we know quite well at Michael Kors, and today, also Jimmy Choo has very robust both e-commerce and omnichannel capabilities. So, we think with that, that's something that the company will benefit from.

Thank you.

Operator:

We will now take our next question from Camilo Lyon from Canaccord Genuity. Please go ahead.

Camilo Lyon:

Thank you. Good morning. John, clearly this is a brand that's bigger than the business that it's curious generating. I was curious to get your thoughts on what the untapped opportunity is from the customer perspective. You touched on it a little bit when you were describing the DNA and the heritage of the brand. Just curious to hear how you think about reaching a new consumer and bringing a new consumer to the brand.

Then, secondly, you spoke much about the retail opportunity with the stores and how you expect to penetrate markets that the brand is not currently represented. Is there a wholesale opportunity that's also a part of this longer-term plan?

John A. Idol:

Thank you and good morning. The first interesting issue is I believe Versace is actually reaching a broader customer today than the revenues would indicate, and we can only see that through some of the social media metrics, etc., so clearly there is a larger interest in the brand than the revenues are generating. We need to obviously convert those metrics and we think one of the first things that we're going to do is by getting the e-commerce capabilities up to speed much more quickly for the company, and then marketing through that channel, we'll be able to generate increased revenues not only online but in stores. As you know, many companies, consumers shop—they make 80% of their purchase decision online, but quite frankly, they make 80-plus percent of their purchases in store.

Our merchandise assortments are not robust enough online today. We need to be able to offer the full array of product to the consumer. We need to be offer the very, very fastest service to that consumer, so we think that by amplifying our e-commerce capabilities that the company will just, will have a much broader base.

Along with that, obviously, CRM. The company has a huge opportunity to develop a much bigger CRM base to market to, and again, our luxury competitors are doing a very good job with that today. They're spending a lot of money on marketing directly to their consumers, and they have a very sophisticated database. That's going to be a big opportunity for us to work on with the Versace team, and again, we think we can bring that up to speed pretty quickly.

I think that getting brand awareness up to higher levels in certain markets like Japan, like Korea, like Germany, those will be important things for us, but we have so much low-hanging fruit today with existing customers who are in love with the brand, and quite frankly, who are in love with Donatella, that we can really kind of farm all that to begin with.

In terms of wholesale, absolutely. I mean this is going to be a big opportunity for the company. When I say wholesale, this will be the luxury department stores in the world. Whether that's Isetan, whether that's Harrods, whether that's Galeries Lafayette, whether that's Bloomingdales, all the luxury stores around the world we could have a stronger presence in, but that presence really being equal to our luxury Italian competitors. There's clearly a void in the company for that today.

Again, that being said, I'm so proud of Jonathan and Donatella and the team is they focus on retail first, their own retail business, and Jonathan has done an amazing job of really organizing this company in a way that is more disciplined, that is focused on profitability, and that is focused on driving up the sales

performance in our existing stores, and all the metrics those that that's all coming to a reality. He's really letting Donatella do what she does best, which is to tell the customers what's exciting, what's the next fashion inspiration and why they want—why they should have a Versace as a part of their wardrobe.

Thank you.

Operator:

We will now take our next question from Mark Altschwager from Baird. Please go ahead.

Mark Altschwager:

Good morning and congratulations.

John A. Idol:

Operator, I can't hear when you're introducing people. I need you to speak up. Could you please say that again?

Operator:

Please go ahead caller; your line is open.

Mark Altschwager:

Great. This is Mark Altschwager from Baird. Hey John. Congratulations. Just wanted to ask about supply chain. It looks like nearly 80% of the growth you're planning at Versace is coming from men's and women's accessories and footwear. Just curious your assessment of the capabilities in place within Versace's existing supply chain to execute on that plan, and to what extent are you looking to leverage Kors and Jimmy Choo supply chain in those areas?

Then, separately, I wanted to quickly follow up just on the margin. Long-term plans calling for the high teens EBITDA margin. That compares to the broader luxury landscape, including Michael Kors, that's in the low to even mid 20s. Just maybe help us understand the delta there in terms of developing the long-range goal and perhaps the opportunity to generate EBITDA margins more in line with where Kors is today. Thank you.

John A. Idol:

Thank you, Mark. A couple of things. Number one, as a company we now have two of our—a small piece of Michael Kors and two of our brands now are heavily focused on manufacturing that's made in Italy. As a company, we will be embarking on developing a factory base that the company will own. So, we think that's going to be—we now have enough scale to create leverage on the manufacturing side, and so over the next 24 months you will see us making some investments into actual ownership of factories to produce and control our product. Again, that is very much consistent with our luxury peers.

Secondly, we definitely have buying power now with our existing factory base and some of our material suppliers. We know that that's going to flow through in all three companies, both Michael Kors, Jimmy Choo and Versace. Again, that will take us a little bit of time to get organized but we're very clear on what our strategy is and how we will benefit from that as a group.

In terms of the margin, we know that there are companies in the luxury space that have higher EBITDA margins than what our projections are. We feel that given our goal to reach \$2 billion and to have not only an accessories business but also to have our historical ready-to-wear business, that's a margin level will not do anything to compromise quality, and we want that always to be at the forefront. Versace is known for this. Whether it's a dress you buy, whether it's a men's silk shirt you buy, whether it's a beautifully made handbag or shoe, you always know when you buy Versace it is incredible quality. In fact, Versace received some of the highest resale of its products of any luxury goods company in the world when you look at it on some of the locations that resell luxury product. So, we know that's because of our quality and we think that is something that we must maintain as we're building this company, which has such an incredible history of craftsmanship, that we maintain that and don't do anything to dilute that as we move forward.

Thanks, Mark.

Mark Altschwager:

Thank you.

Operator:

We will now take our last question from Erinn Murphy from Piper Jaffray. Please go ahead.

Erinn Murphy:

Great. Thanks, good morning. I wanted to follow up on an earlier question on wholesale and just trying to understand the complexion of growth going forward. Could you just speak to how you're thinking about the comp store sales assumptions from '19 into '20, and then what your plan is for wholesale distribution growth? Where does the licensing business fit today and are there plans to grow that segment of the overall Versace business? Thanks.

John A. Idol:

I'll start with the last first.

Erinn Murphy:

Okay.

John A. Idol:

The licensing business we have no plans on growing. Obviously with our existing licenses, yes, but we have no plans on adding any licensed businesses to the company, and consistent with Jimmy Choo and Michael Kors, we believe in manufacturing as much of our own product as we can ourselves, with the exception of those products that have disciplines that we don't believe is a core competency for us, so eyewear and fragrance, etc. We have incredible partners there, and by the way, the company has a very, very large fragrance business, which, again, gives us another data point for how big this company could potentially be given the size of its fragrance business worldwide.

In terms of the comp store growth, we're not going to be giving projections on Versace's projected two-year comps for growth at this point. We will be talking to you more in our February call a little bit more directionally in terms of the financials, and then we'll give you a full overview, in depth, in our—we will be

conducting an Investor Day in June where we'll be really going into significant depth and you'll meet some of the management team of Versace at that point in time.

In terms of the wholesale business, it's just an opportunity for us in—there's probably 50 locations around the world. Again, I think I mentioned a few of the names of those places. Whether it's Galeries Lafayette and Haussmann or (inaudible), those are where you will see the ground floors of these stores are basically 100% luxury, and they have a very, very high end consumer shopping in those stores, Versace will be a perfect complement for their offerings to their consumers.

Again, that's early days on that thought process. We have to develop our accessories line to a place where it will be sought after by the consumer, and again, we think we'll have the right tools to do that with Donatella at the helm of design and vision and communications, and she'll really help us lead the consumer on that journey. So, we're terribly excited about that opportunity for us.

On that note, I want to say thank you for everyone joining us today on the call. Capri Holdings is now one of the largest global fashion luxury groups. We're very, very proud of the management team and what we've put together in a very short period of time. We will remain focused on the three brands that we have right now. We are not going to be focused on any further acquisitions for the moment. Our priority will be to grow and deliver for our shareholders on the Versace acquisition, to continue the growth of Jimmy Choo, which we believe is on plan, and to continue our efforts with Michael Kors with Runway 2020. We believe that all of those things, along with our ability to quickly pay down the debt from the acquisition of Versace, will position this company for long term revenue and earnings per share growth.

Thank you for joining us today. Look forward to speaking to you in the future.

Operator:

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen.