



COACH COACH [COH] 1Q17 RESULTS: EPS IN-LINE, REPORTS DOUBLE-DIGIT EARNINGS GROWTH

	1Q17	1Q16	YoY Change
Revenues (USD Bil.)	\$1.04	\$1.03	0.7%
Gross Margin	68.9%	67.6%	130 bps
SG&A/Sales	53.0%	53.9%	(90) bps
Operating Margin	16.0%	13.7%	230 bps
Adjusted EPS	\$0.45	\$0.41	8.9%

Source: Company reports/Fung Global Retail & Technology

- Coach reported adjusted 1Q17 EPS of \$0.45, in-line with the \$0.44 consensus estimate and up 8.9% year over year. Revenues were \$1.04 billion, up 0.7% year over year but below the consensus estimate of \$1.07 billion.
- The company highlighted positive comparable store sales in North America and strong international growth. North American brick-and-mortar comps rose by approximately 4% in the quarter, and international sales rose by 7%.
- For fiscal year 2017, the company maintained its previous guidance; it expects revenues to increase by low- to mid-single digits, and to see double-digit growth in both net income and earnings per diluted share for the year.

1Q17 RESULTS

Coach reported 1Q17 revenues of \$1.04 billion, up 0.7% year over year but below the consensus estimate of \$1.07 billion. Gross profit for the quarter totaled \$715 million, an increase of 3% year over year.

Adjusted EPS was \$0.45, in-line with the \$0.44 consensus estimate and up 8.9% year over year. The company worked to decrease inventory, which totaled \$547 million at the end of the quarter, down 5% from \$575 million in the year-ago quarter.

BY PRODUCT CATEGORY

E-commerce has been limiting for the company, as other retailers maintain online shops where Coach products are available at a discount. The company is working to limit its promotional stance online. Coach is also working to elevate its brand, and handbags in the \$400-plus price bracket now account for 50% of handbag sales, up from about 30% a year ago.

The Stuart Weitzman brand generated \$88 million in net sales, up from \$87 million in the year-ago quarter, impacted by wholesale shipment timing within the fiscal year.

BY GEOGRAPHIC REGION

In the quarter, revenues decreased by 3% in North America, and increased by 7% internationally.

- **North America:** Total Coach brand sales decreased by 3% on a reported and constant-currency basis. Brick-and-mortar comparable store sales increased by approximately 4%, while aggregate North American comps increased by approximately 2%, including the negative impact of e-commerce.



FLASH REPORT

- **International:** International Coach brand sales rose by 7% on a reported and constant-currency basis. Greater China sales increased by 5% along with positive comparable store sales on the Mainland, although this increase was offset by continued weakness in Hong Kong and Macau. In Japan, sales rose by 11% in US dollars, but decreased by 7% in constant currency, impacted by a decline in Chinese tourist spending. Sales in Europe remained strong, growing at a double-digit pace.

OUTLOOK

Coach is maintaining its fiscal year 2017 outlook as previously outlined in August. The company expects revenues to increase by low- to mid-single digits, including an expected benefit of approximately 100–150 basis points from foreign currency, based on current exchange rates.

The company is maintaining its operating margin forecast of 18.5%–19.0% for the full fiscal year.



FLASH REPORT

Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Rachael Dimit

Research Associate

HONG KONG:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

LONDON:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

NEW YORK:

1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com