Siena Market Line
3rd week of April 2015

Coach, Inc.
NYSE:COH

Analyst: Pamela Juergens
Sector: Consumer Discretionary

SHORT

Price Target: $24.12

Key Statistics as of 4/25/2015

Market Price:	$42.65
Industry:	Apparel, Accessories, and Luxury Goods
Market Cap:	$11.76 B
52-Week Range:	$32.72-50.60
Beta:	0.7

Thesis Points:

- Expensive transformation plan in the works
- Rapidly losing market share to new entrants
- Eroding brand image
- Decreasing sales and margins

Company Description:

Coach, Inc. provides luxury accessories and lifestyle collections for women and men in the United States and internationally. The company's products include handbags, wallets, wristlets, cosmetics cases, and watches for women, as well as wallets, and time management and electronic accessories for men. They also make wearables, such as outerwears, gloves, scarves, and hats, as well as jewelry and luggage. They also have a line of fragrances and body lotions for women. The company markets its products to consumers through a network of company-operated stores, including internet, and Coach operated stores and concession shop-in-shops. It also sells its products to wholesale customers and distributors in 35 countries.

Thesis

Coach, Inc. was once known as one of the premier luxury handbag and accessories brand both in the United States, and internationally. However, they missed many pricing and design mark in the last ten years and they have been rapidly losing their market share to new entrants, in a growing market. They have an eroding brand image because of an overabundance of factory stores, and sales. Their sales and margins are in steady decline, and expected to continue declining. They hve a $300 million transformation plan in the works, that is not guaranteed to return them to their status as a well respect "affordable luxury" brand.

Product Offerings

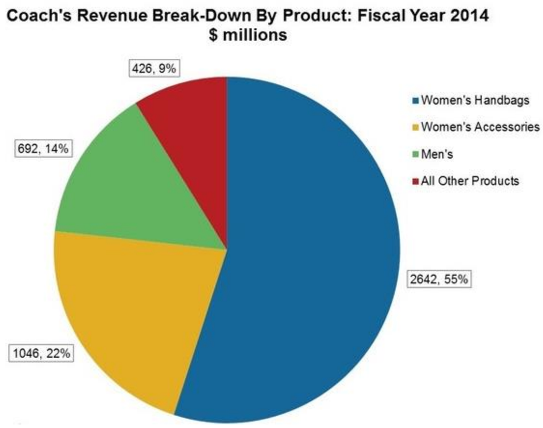
The company has different segments of product offerings that comprise their revenues, including:

Womens Handbags: Women's handbags are how the company started and their current core product category. Within their women's handbags section they have many different lines of products including "A Tribe Called Coach", "Modern Metallics", "Americana", "Trending Textures", "Perfect Pieces" and "Coach X Baseman", which consists of products designed by Gary Baseman. Coach offers many different lines handbags in an attempt to attract many different types of customers. Women's handbags accounted for 55% of revenues, or $2.6 billion in FY 2014.

Women's Accessories: The women's accessories segment primarily includes wallets, wristlets, and cosmetic cases that complement handbags. These products are typically offered under the same product lines as the handbags, and are often made to be worn as a set so they are designed to match the handbags that coach makes. Women's accessories accounted for 22% of Coach's revenues, or ~$1 billion in FY 2014.

Mens Products: Men's products include business cases, computer cases, totes, messenger bags, wallets, belts, and card cases, as well as time management and electronics pieces. The men's segment also has different product lines including "Business Best" and "Americana". Coach recently began to offer men's shoes in an effort to diversify their offerings for a segment they believe will drive their future growth. Men's products accounted for only 14%, or $0.7 billion of revenue in FY 2014.

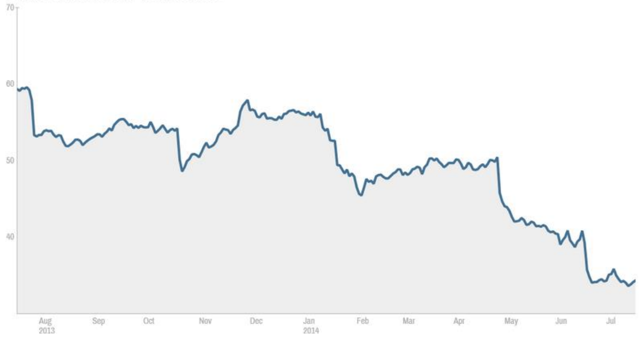
Other Products: Coach's other products include apparel, footwear, sunglasses, watches, jewelry, fragrances and travel bags. Currently, these products cater primarily to women. All other products accounted for 9%, or $0.4 billion of revenues for FY 2014.



Managment

Coach recently appointed a new CEO, Victor Luis, following the retirement of Lew Frankfort in December 2014. Prior to being appointed CEO, Luis was the President and Chief Commercial Officer at Coach, and he has been with Coach since 2006. Luis is carrying out the same vision put into place by Lew Frankfort. Also, in 2013 it was announced that Stuart Vevers would be joining Coach as Executive Creative Director. Coach is counting on him to reinvent Coach and help them target the higher-end customer again. However, after investors were not confident that Vevers will be able to turn the brand around, and the stock performance was disappointing following Coach's hire of Vevers.

Coach stock since Vevers hire



Industry Outlook

Handbags and accessories are among the fastest growing segments in the overall luxury goods industry. In North America alone the handbag and accessory market is an $11.4 billion market. The global market for accessories, including handbags, is rising at a fast pass since the last recession and is further expected to be a highly growing and profitable market for the next couple of years. This growth is largely being driven by a rise in disposable income, expanding middle class, growing preference for branded products, and rising number of wealthy consumers worldwide. Other key factors driving growth is the increasing working women population, accelerating online sales trend, and improvement in global growth.

Transformation Plan

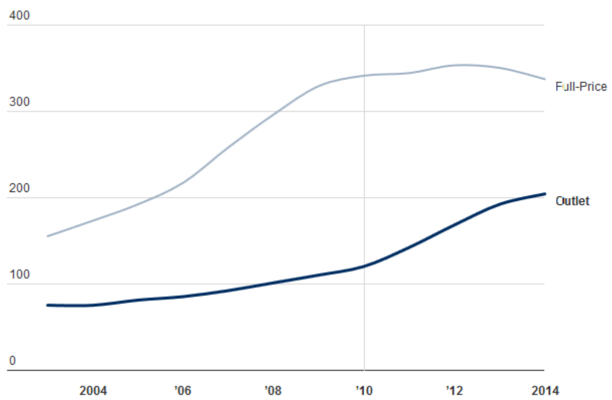
In 2014, Coach unveiled a transformation plan to restore their brand image and grow their sales in the coming years. The Transformation Plan is focused on a new global branding strategy centered on the concept of defining modern luxury. Coach intends to do this through organizational efficiencies, the closure of approximately 70 retail stores in North America, updating their global store fleet and realigning inventories. Through this plan, Coach will incur pre-tax charges of approximately $250- 300 million, a portion of which were recognized in Q4 2014, and the remainder will be incurred in FY 2015. Shares of Coach fell 10% in the month following the announcement of the plan. This is an expensive plan for Coach, that is not guaranteed to work.

Losing Market Share

The growing handbag and accessory market should be good news for affordable luxury brand Coach, but instead they are rapidly losing market share in a growing industry. Coach used to be one of the leading brands in North America in the affordable luxury market. In FY 2008 Coach had over 35% market share in the handbags and accessory industry, and in FY 2014 their market share was only 23%. Coach's eroding market share is attributed to rising competition from new entrants like Michael Kors and Kate Spade. Another reason for their decline in market share is their decline in same store sales. Same store sales are declining for Coach but they are increasing for competitors Michael Kors and Kate Spade. In Q2 F2014, comparable store sales in North America were down by 13.6%, gross profits fell by ~10 %, and gross margin contracted three percentage points. In contrast, Michael Kors' most recent earnings report saw a 24% increase in comparable store sales, accompanied by a 50% jump in sales in North America. Another reason Coach has been losing market share is that their designs have not been resonating with customers lately. They have been unable to come up with designs that customers want to wear, and that connect with the customers.

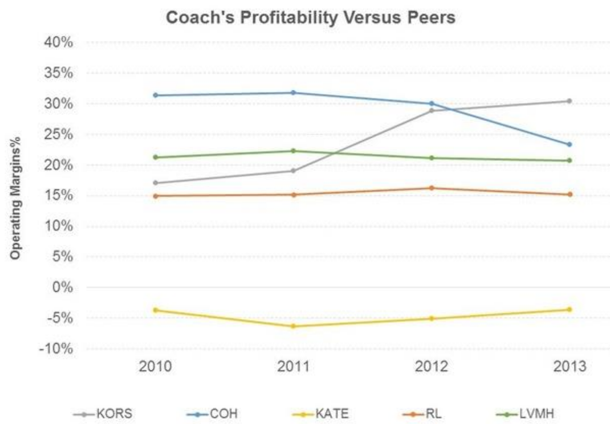
Eroding Brand Image

During and after the recession in 2008 Coach lowered prices in an effort to remain "affordable luxury". They wanted to keep their prices low enough that even through a recession their target market could afford to purchase their products. However, this proved to be a critical mistake for Coach because when they lowered their prices it caused them lose their brand image. People know longer see them as a cool aspirational lifestyle brand, and instead they make products that many people can afford. Over the past 10 years the number of full-price Coach stores has gone from 156 in 2003 to 338 in 2014, while the number of outlet stores is growing at a faster rate and continuing to grow, going from 76 in 2003 to 205 in 2014. Currently, factory sales make up approximately 70% of Coach's total retail business in North America, which is up from 40% 10 years ago. Their factory sales represent almost 50% of total sales, which is very high for a company that wants to bill themselves as a luxury lifestyle brand. The dominance of the factory channel may be hurting Coach in more ways than declining sales. Because of the availability of information on the internet, especially through comparison shopping it might become hard for Coach to ever sell full priced products. Customers may wait for Coach's products to become available in the factory stores, where they can buy them for a much lower price. Further, the factory stores have been placed closer to their retail stores over the past decade, eating into retail sales. In 2005, Coach's factory stores were located 50 to 100 miles from major markets. By 2008, Coach said factory stores were "generally more than 50 miles" away. Now factory stores tend to be more than 30 miles from major markets. Even with their new transformation plan Coach is not planning to decrease the number of factory stores, in fact in 2014 they announced plans to open 15 more. The steady increase in the number of factory stores, as well as their proximity to retail locations indicates that Coach does not see this as a major problem and they will continue to sell their products at a deep discount.



Fundamentals

In FY 2014, Coach had revenues of $4.8 billion, a sharp 5.3% decline from $5.1 billion in FY 2013, and estimates have their revenues shrinking another 12.5% in FY 2015. Along with their decline in revenues Coach's margin have also been steadily declining. In FY 2014, their gross profit margin was was 70.3% down from 73% in FY 2013. Their EBITDA margin was 30.1% in FY 2014, down from 34.3% in FY 2013. Coach' cash and cash equivalents decreased decreased from $1.1 billion in FY 2013 to $868 million in FY 2014, and will continue to decrease as they put their expensive transformation plan into action. While Coach's profitability is in a steady decline peers such as Michael Kors, Kate Spade, Louis Vuitton and Ralph Lauren have seen their profitability greatly increase, or remain steady. It is especially concerning that Coach's sales are declining in a market that is growing faster than the retail sector overall.



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Coach, Inc.	COH	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BEARISH
		Pamela Juergens	$42.65	$21.58	$24.12	3%	1-y Return: -40.26%	

General Info

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	Aug-05-2014
Next earnings date	4/28/2015

Market Data

Enterprise value	$10,719.29
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	275.83
Diluted shares outstanding	277.08
% shares held by institutions	99.58%
% shares held by insiders	0.86%
Short interest	6.36%
Days to cover short interest	4.52
52 week high	$50.60
52-week low	$32.72
5y Beta	1.16
6-month volatility	26.63%

Peers	Market Cap.
Michael Kors Holdings Limited	$12,743.99
LVMH Moët Hennessy Louis Vuitton S	
Kate Spade & Company	$4,335.96
Ralph Lauren Corporation	$11,915.78

Current Capital Structure

Total debt/market cap	0.17%
Cost of Borrowing	0.89%
Interest Coverage	8.7x
Altman Z	8.66
Debt Rating	AAA
Levered Beta	1.41
WACC (based on market value weights)	10.34%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Luis, Victor	Chief Executive Officer and Directo	$0	$17,851,776	$6,679,113
Nielsen, Jane	Chief Financial Officer	$4,274,463	$2,731,480	$2,048,403
Kahn, Todd	Global Corporate Affairs Officer, C	$0	$0	$2,401,780
Dunn, Sarah	Global Human Resources Officer	$0	$0	$1,831,078
Rainer, Gebhard	President and Chief Operating Offi	$0	$0	$0
Putur, Christine	Chief Information Officer and Exe	$0	$0	$0

Historical Median Performance

	COH	Peers	Industry	All U.S. firms
Growth	11.8%	8.1%	8.3%	7.4%
ROIC	33.6%	9.5%	17.2%	14.3%
NOPLAT Margin	21.7%	12.6%	7.7%	10.4%
Revenue/Invested Capital	1.55	0.75	2.23	1.37
Excess Cash/Rev.	22.4%	12.6%	13.5%	12.9%
Total Cash /Rev.	22.4%	12.6%	12.3%	15.2%
Unlevered Beta	1.40	1.33	1.21	0.95
TEV/REV	3.2x	0.6x	2.0x	2.5x
TEV/EBITDA	9.1x	4.2x	11.5x	13.1x
PE (normalized and diluted EPS)	16.2x	4.7x	24.7x	23.5x
P/BV	7.7x	0.8x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-0.7%	8.3%	9.1%
Last Quarter-1	3.3%	0.0%	17.8%
Last Quarter -2	3.9%	12.5%	11.3%
Last Quarter -3	-2.6%	4.1%	11.5%
Last Quarter -4	-4.3%	-4.1%	-4.5%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	1.5%
Base Year Unlevered Beta	is equal to 1.4
Long term Unlevered Beta	1.40

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	-5.3%	72.4%	$1,323.08	15%	16.1%	10.3%
NTM	-12.5%	72.3%	$1,341.85	16%	50.9%	10.5%
NTM+1	1.9%	72.1%	$1,386.70	16%	51.4%	10.6%
NTM+2	2.6%	72.0%	$1,438.50	16%	51.3%	10.7%
NTM+3	3.3%	71.8%	$1,497.60	16%	51.3%	10.8%
NTM+4	3.9%	71.7%	$1,564.25	16%	51.6%	10.9%
NTM+5	4.6%	71.6%	$1,638.43	16%	52.1%	11.0%
NTM+6	5.3%	71.4%	$1,719.37	16%	52.9%	11.1%
NTM+7	6.0%	71.3%	$1,803.93	16%	54.0%	11.2%
NTM+8	6.7%	71.1%	$1,878.49	17%	55.8%	11.3%
Continuing Period	7.3%	71.0%	$5,056.42	12%	10.0%	11.4%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$20.00	-$1,068.51	275.83
NTM	$534.83	$20.00	-$1,564.07	275.83
NTM+1	$547.45	$20.00	-$1,812.68	275.83
NTM+2	$562.85	$20.00	-$2,071.79	275.83
NTM+3	$583.54	$20.00	-$2,343.66	275.83
NTM+4	$610.20	$20.00	-$2,632.73	275.83
NTM+5	$643.73	$20.00	-$2,943.75	275.83
NTM+6	$685.43	$20.00	-$3,248.87	275.83
NTM+7	$737.33	$20.00	-$3,584.55	275.83
NTM+8	$803.85	$20.00	-$3,975.02	275.83
Continuing Value	-$275.86			

Pricing Model

Period	DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
LTM	$22.54	$37.72	$18.82	$22.54
NTM	$24.87	$39.02	$21.73	$24.87
NTM+1	$25.09	$40.69	$22.10	$25.09
NTM+2	$25.31	$42.67	$22.43	$25.31
NTM+3	$25.44	$44.98	$22.69	$25.44
NTM+4	$25.54	$47.67	$22.86	$25.54
NTM+5	$25.30	$50.80	$23.10	$25.30
NTM+6	$24.86	$54.32	$23.15	$24.86
NTM+7	$24.16	$58.43	$23.07	$24.16
NTM+8	$23.54	$63.37	$22.80	$23.54

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Country Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**1%**	**N/A**	**3%**	**12%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$22.54	$24.87
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$21.58	$24.12
Current Price	$42.65	
Analysts' median est.		$40.65