

April 21st, 2017

Coach Inc: COH

Benjamin Bouin

Sector: Consumer Goods

Industry: Textile – Apparel Footwear & Accessories

Current Price: \$39.30

Target Price: \$49.44

Coach is a leading New York design house of modern luxury accessories and lifestyle collections for women and men. Their product offerings include bags, small leather goods, footwear, ready-to-wear, outerwear, watches, weekend and travel accessories, scarves, sunwear, fragrance, jewelry, and related accessories.

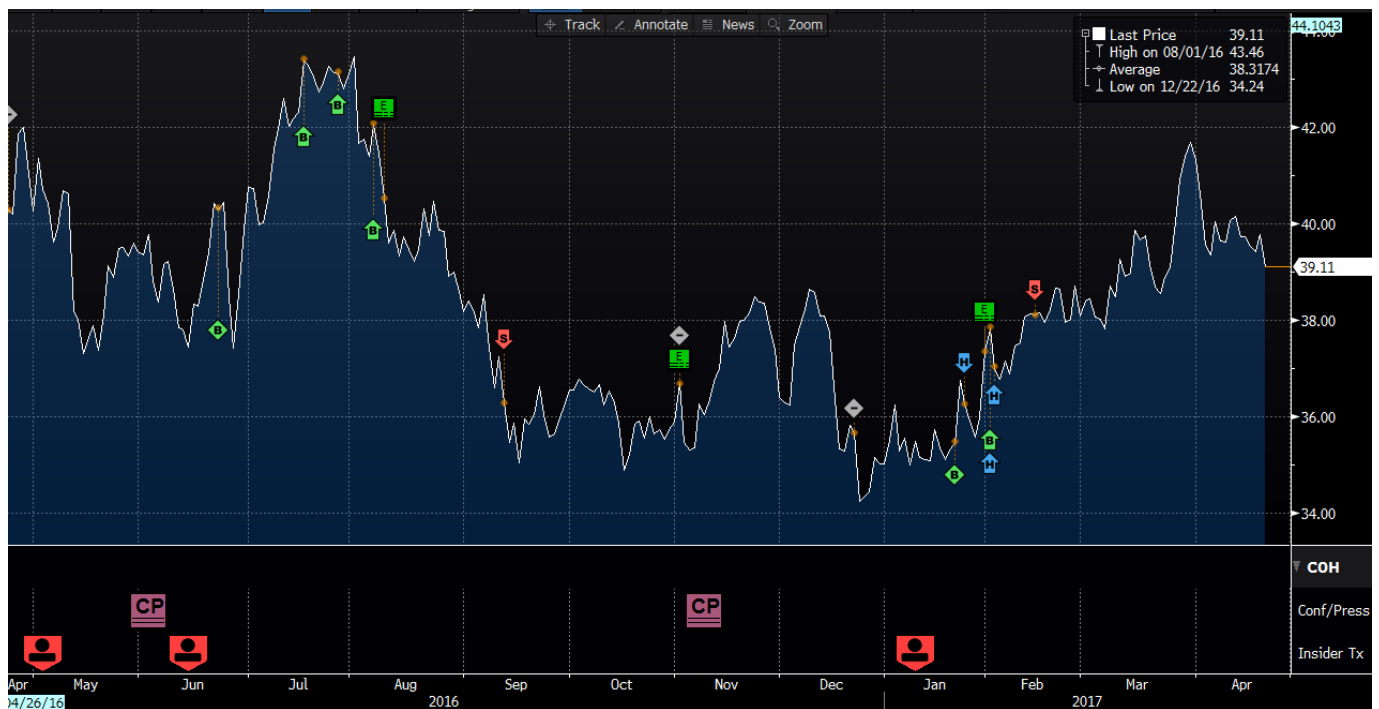
BUY

Current Price: \$39.30
 Target Price: \$49.44
 Market Cap: 11.02B
 Beta: 0.44

Thesis: Coach is working on increasing the customers' experience by remodeling their stores located in North America. This ensures COH to generate a better ROI per store. Furthermore, it continues to expand its presence in Asia through Hong Kong and China. Furthermore through the acquisition of Stuart Weitzman, COH will be able to expand its product line, to increase its market share. This will lead to higher revenue. COH's margin is higher than its competitors and COH is also able to create more value than its competitors, which means that they are more profitable than its competitors.

Catalysts:

- **Short Term (within the year):** The next earnings on April 24th.
- **Mid Term(1-2 years):** They are going to increase their presence in Asia, and reforming their stores in North America
- **Long Term(3+):** Increase their product line to reach larger market shares

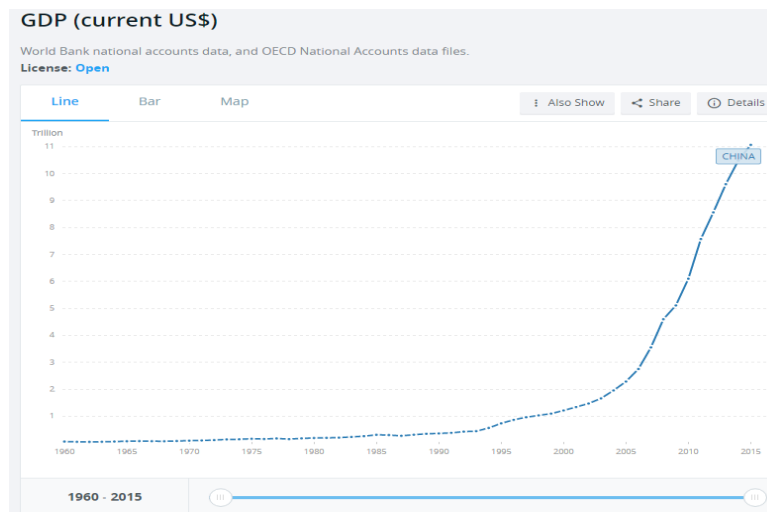


Revenue:

In order to ensure its long term growth, COH is remodeling their stores to increase their customers' experience. In fact, these remodeling actions have permitted to improve their ROI. Indeed, its products are more accessible to its customers. Its stores are also more luxurious. Furthermore, in May 4th 2015, COH has acquired Stuart Weitzman for \$573.98 million in order to increase its product line. By looking at its revenues, we already can see that there is a real demand for the footwear segment. In fact, in Q1 2017, Stuart Weitzman represented 7.7% of their total revenue, in Q2, it already represented 8.1%. Furthermore, through Stuart Weitzman, COH is already working with their new creative director to launch an important product line of outerwear and standard tops and bottoms in order to increase their market shares. Indeed, these categories represent \$80 billion global opportunity and today they only catch \$4.5 billion of this global opportunity. Thus, COH can easily thanks to its new strategy catch more of this market opportunity.

Revenue/Total Stores			
	History		LTM
COH	\$	4.74	\$ 4.42
Competitors	\$	4.09	\$ 5.44

If we look at the revenue per stores historically COH has higher revenue per store than its competitors. Moreover, if we look at their revenue per store for the lasts twelve months, COH has done worse than its competitors. This can be explained by the fact that they are currently remodeling their stores in North America in order to increase the customers' experience. This means that they have to close store temporally during the remodeling process and reduce their stores number.



As discussed earlier, COH's objective is to expand its presence in Asia, specifically in China. Indeed, China has seen its rich population growth increase faster than in the rest of the world. In fact, if we look at the GDP of China, we can see the GDP has grown promptly since 2005. Furthermore currently COH has only 172 stores in China, while there are more than 200 cities with a population of a million or more in China. This leaves room for many opportunities to COH to increase their presence in this country. An increase in COH's presence in Asia will let them to increase their sales and cash flow. In fact, we already can see COH's growth in sales in China. Between 2015 and 2016 COH's China sales have increased by 2.58%.

Margins:

COR/Total Stores			
	History		LTM
COH	\$	1.41	\$ 1.39
Competitors	\$	1.53	\$ 2.46

If we look at the cost of revenue per store on the lasts twelve months, we can see that COH is doing better than its competitors. This implies that COH has less costs and is able to generate a higher gross profit than its competitors.

Other Op. Exp./Total Employees			
	History		LTM
COH	\$	0.15	\$ 0.16
Competitors	\$	0.09	\$ 0.11

If we look at the other operating expenses per stores, we can see that on the lasts twelve months, COH has \$0.05 higher other operating expenses per dollar of sale than its competitors. This is very small considering that COH is investing a lot into its store remodeling. We can believe this will reduce on a long term since they are able to generate a better ROI per store remodeled than on the older ones.

Name (BICS Best Fit)	Net Mrgn 3Yr Avg LF	3Yr Avg Grs Mgn	3Yr Avg Op Mgn
Median	5.24%	40.79%	8.37%
100) COACH INC	14.50%	69.30%	20.75%
101) FOOT LOCKER INC	8.15%	33.65%	12.33%
102) KATE SPADE & CO	-5.63%	60.10%	10.08%
103) RALPH LAUREN CORP	7.36%	57.28%	13.11%
104) BURLINGTON STORES INC	6.71%	40.52%	6.31%
105) CHILDREN'S PLACE INC/...	4.54%	36.39%	6.83%
106) DSW INC-CLASS A	3.69%	29.43%	8.37%
107) CALERES INC	1.16%	40.79%	5.29%
108) GENESCO INC	5.24%	48.72%	5.56%

Concerning the COH's margins compared to its competitors, we can see on the net margin 3yr average that COH has a 14.5% of net margin, which is the best net margin of all the competitors. Concerning the 3 years average gross margin, COH is generating a 69.3% while the median of the gross margin is 40.79% this represent 28.51%. If we look at the 3 years' operating margin, we can see that COH is still doing better than its competitors. With a median equal to 8.37%, COH generates an operating margin of 20.75%.

Capital Allocation:

ROIC (NOPAT/IC)			WACC	
	History	LTM	History	LTM
COH	56.6%	18.6%	COH	9.9%
Competitors	53.0%	30.7%	Competitors	10.2%

If we look at the historical return on invested capital, COH is doing better than its competitors. Which means that it allocates its capital in efficient way by choosing profitable investment. If we look at the ROIC on the lasts twelve months, we can see that COH is doing worse than its competitors, this can be explained by the fact that COH has acquired Stuart Weitzman. Concerning the WACC, on the lasts twelve months, COH's WACC is equal to 9.8, while its competitor's has reach 10.2, which means that COH is able to find a better capital

allocation than its competitors. Globally, since COH is generating a higher ROIC than a WACC, this means that COH is creating value.

Conclusion:

Coach is working on increasing the customers' experience by remodeling their stores located in North America. This ensures COH to generate a better ROI per store. Furthermore, it continues to expand its presence in Asia through Hong Kong and China. Furthermore through the acquisition of Stuart Weitzman, COH will be able to expand its product line, increase its market share which will lead to higher revenue. COH's margin is higher than its competitors and is also able to create more value than its competitors, which means that COH is more profitable.

Coach, Inc. (COH)

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BULLISH

Analysis by Benjamin Basin
4/21/2017

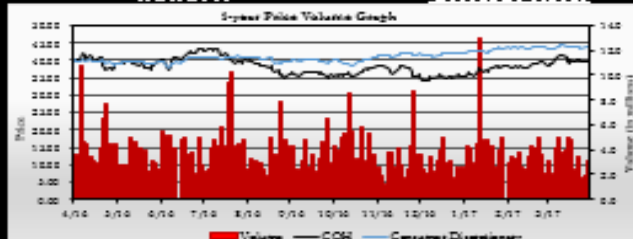
Current Price:
Dividend Yield:

\$39.30
3.4%

Intrinsic Value:
Target Price:

\$46.94
\$49.44

Target 1 year Return: 29.24%
Probability of Price Increase: 9



Description
Coach, Inc. provides luxury accessories and lifestyle brands.

General Information	
Sector	Consumer Discretionary
Industry	Traillon, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	May 2, 2017
Estimated Country Risk Premium	5.54X
Effective Tax rate	34X
Effective Operating Tax rate	32X

Market Data	
Market Capitalization	\$11,162.31
Daily volume (mil)	8.66
Shares outstanding (mil)	288.62
Diluted shares outstanding (mil)	281.85
X shares held by institutions	74X
X shares held by institutional Managers	73X
X shares held by hedge funds	4X
X shares held by insiders	8.15X
Short interest	3.48X
Days to next short interest	2.66
52 week high	\$43.74
52 week low	\$34.87
Levered Beta	1.43
Volatility	25.15X

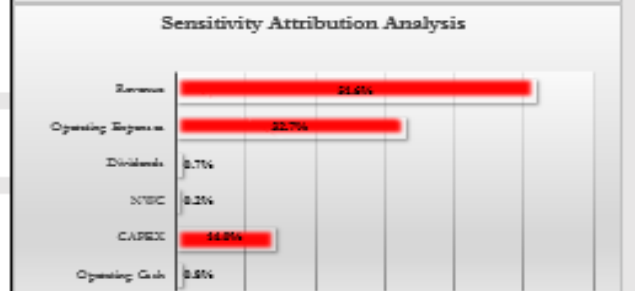
Quarter Ending	
12/26/2015	-2.87X
9/26/2015	-1.44X
7/2/2015	-5.44X
18/1/2015	-4.67X
12/31/2015	-1.35X
Mean	-3.24X
Standard error	1.8X

Full Earning Surprises	
Revenue	EDITDA
12/26/2015	-18.65X
9/26/2015	-15.22X
7/2/2015	-38.88X
18/1/2015	-15.79X
12/31/2015	-11.51X
Mean	-16.65X
Standard error	3.5X



Management	
Luca, Victor	Chief Executive Officer and President, Chief Administrative
Kahn, Todd	President of North America
Cohen, Roder	President of International G
Diakou, Joe	Chief Financial Officer
Willa, Kevin	Principal Revenue Officer
Brown, Melissa	Principal Revenue Officer

Position	
Chief Executive Officer and President, Chief Administrative	-13.74X per annum over 1q
President of North America	3.52X per annum over 3q
President of International G	-15.85X per annum over 2q
Chief Financial Officer	3.5X per annum over 2q
Principal Revenue Officer	N/A
Principal Revenue Officer	N/A

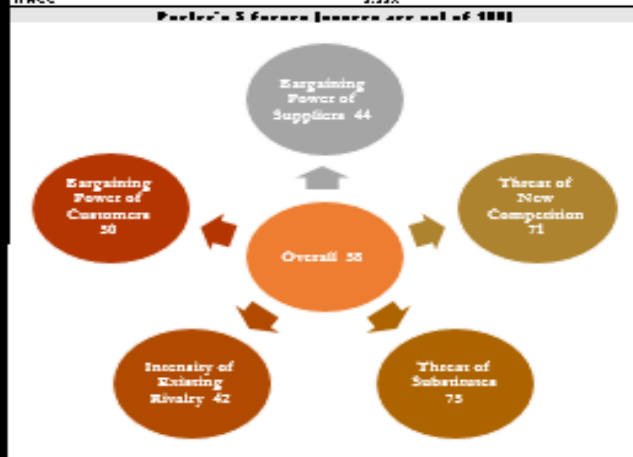


Profitability	
ROIC	14.2X
NOPAT Margin	16X
Revenue/Invested Capital	1.31
ROE	21.6X
Adjusted net margin	14X
Revenue/Adjusted Book Value	1.58

Total compensation year	
12/26/2015	-13.74X per annum over 1q
9/26/2015	3.52X per annum over 3q
7/2/2015	-15.85X per annum over 2q
18/1/2015	3.5X per annum over 2q
12/31/2015	N/A
Mean	N/A
Standard error	N/A

Invested Funds	
Total Cash/Total Capital	26.6X
Estimated Operating Cash/Total Capital	19.3X
Non-cash working Capital/Total Capital	3.4X
Invested Capital/Total Capital	79.6X
Capital Structure	
Total Debt/Common Equity (LTM)	1.31
Cost of Existing Debt	4.93X
Estimated Cost of New Borrowing	4.65X
CGPS Risk Rating	CC
Unlevered Beta (LTM)	1.42
WACC	5.35X

Total compensation year	
12/26/2015	-13.74X per annum over 1q
9/26/2015	3.52X per annum over 3q
7/2/2015	-15.85X per annum over 2q
18/1/2015	3.5X per annum over 2q
12/31/2015	N/A
Mean	N/A
Standard error	N/A



Period	
Base Year	7.3X
12/31/2017	8.8X
12/31/2018	5.7X
12/31/2019	7.4X
12/31/2020	7.1X
12/31/2021	4.8X
12/31/2022	4.7X
12/31/2023	4.5X
12/31/2024	4.4X
12/31/2025	4.3X
12/31/2026	4.2X
Concluding Period	4.1X

Valuation	
ROIC margin	15.6X
2017	2.33
2018	2.62
2019	2.38
2020	3.38
2021	3.47
2022	3.38
2023	3.15
2024	2.95
2025	2.75
2026	2.55
2027	2.34
2028	1.68

Period	
Base Year	\$4,853.48
12/31/2017	\$4,383.74
12/31/2018	\$4,374.87
12/31/2019	\$4,775.15
12/31/2020	\$4,393.67
12/31/2021	\$5,873.33
12/31/2022	\$5,147.15
12/31/2023	\$5,342.53
12/31/2024	\$5,556.46
12/31/2025	\$5,332.18
12/31/2026	\$5,251.34
Concluding Period	

Period	
Base Year	\$2,158.38
12/31/2017	\$1,622.57
12/31/2018	\$1,222.27
12/31/2019	\$1,633.73
12/31/2020	\$1,556.15
12/31/2021	\$3,778.76
12/31/2022	\$3,327.74
12/31/2023	\$1,429.23
12/31/2024	\$1,827.83
12/31/2025	\$1,153.86
12/31/2026	\$1,487.65
Concluding Period	