ELEVATION CAPITAL MANAGEMENT LIMITED:
COACH INC [COH:US]

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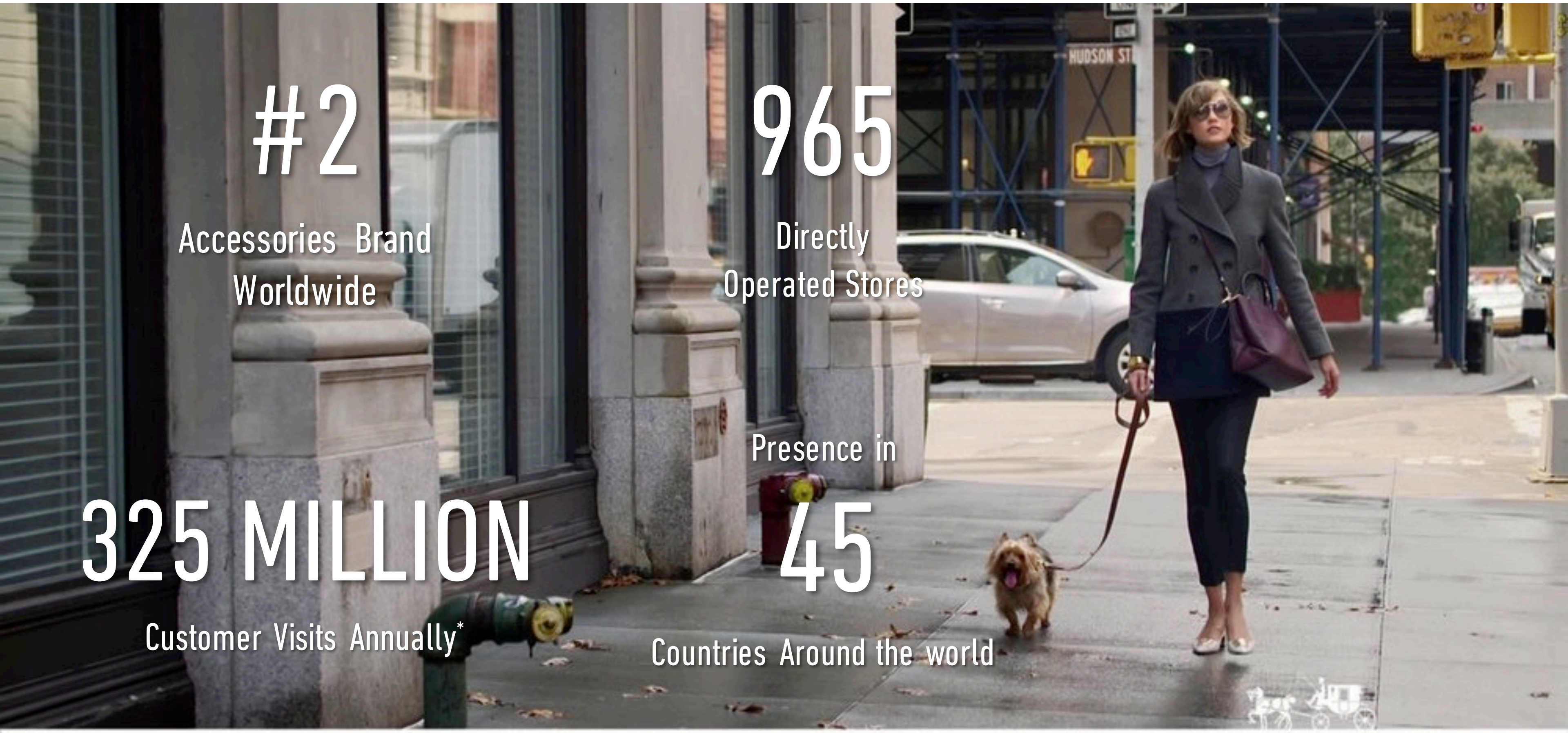
COACH INC: THE ICONIC AMERICAN BRAND…

- Founded in 1941, Coach has established itself as the iconic American brand that defines "accessible luxury" with an effortless New York style.



COACH
NEW YORK

* Source: Coach Inc Investor Presentation, November 2015

COACH INC: THE ICONIC AMERICAN BRAND WITH RICH HERITAGE AND HISTORY OF INNOVATION...

1941	Coach was founded as a small family-run business (originally named 'Manhattan Leather Bags') in Manhattan and specialised in the manufacture of leather goods, mainly wallets.
1946	Miles Cahn and his wife Lillian joined the Company.
1950	The Cahns took over the running of the business. Miles improved the manufacturing techniques to increase the softness and strength of the leather, and Lillian suggested that Coach introduce women's leather bags to its offering to supplement the men's accessories.
1961	Miles and Lillian Cahn took over Coach in a leveraged buyout, then hired Bonnie Cashin, a renown sportswear designer to work as the creative head for Coach, who revolutionised Coach's product design and introduced many design features such as the turnlock, a Coach hallmark.
1985	The Cahns sold Coach to Sara Lee for a reported US$ 30M. Coach was helped by its new owner to open many new boutiques in Macy's and other department stores across the United States in the following years.
1996	Coach hired Reed Krakoff to modernise its product offerings.
2013	Coach hired Stuart Vevers as the new Executive Creative Director, replacing Reed Krakoff.
2015	Coach acquired Stuart Weitzman, a women's luxury footwear company for US$ 574M in cash.

COACH INC: CURRENT BRAND PORTFOLIO

COACH US$ 4,149 MILLION

NET ANNUAL SALES*

STUART WEITZMAN US$ 300 MILLION

NET ANNUAL SALES**

The Coach brand is one of the most recognised fine accessories brands in both North America and in targeted international markets. Coach has a rich heritage of pairing exceptional leathers and materials with innovative design.

Coach is available on five continents in over 1,000 directly-operated stores worldwide and many more in collaboration with its global wholesale and distributor partners.

The Coach brand is currently undergoing process of transforming itself from an accessories brand to a total lifestyle brand that will define "global modern luxury".

Stuart Weitzman is a leading women's premium footwear brand in North America, with a strong growth opportunity in North America and also international markets. Its products (mostly footwear) are sold primarily through wholesale concepts as well as through retail concepts.

Stuart Weitzman is sold primarily through department stores in North America and international distributors, including approximately 600 wholesale locations, and within numerous independent third party distributors. Its products are also sold in freestanding flagship and retail stores, and e-commerce websites. As of June 27, 2015, Stuart Weitzman had 54 directly operated stores.

* FYI2015 ending 27 June 2015 ** 12-month period ending 30 September 2014

COACH INC: INCREASED COMPETITION IN CORE BUSINESS

- In recent years, Coach has faced an onslaught competition in its core business from competitors such as Michael Kors, Kate Spade and Tory Burch that are perceived by consumers as “contemporary and refreshing”.
- Coach had been slow in responding to new competition, to innovate its core products and refresh/define its brand image.
- However, Coach has been reasonably successful in its men’s line after launching its first men’s store in NYC in 2010. This business now accounts for 16% of sales (US$ 680M in sales), and is currently projected to reach US$ 1B in sales by 2018.

58%

of Sales

17%

of Sales

Women’s Accessories

16%

of Sales

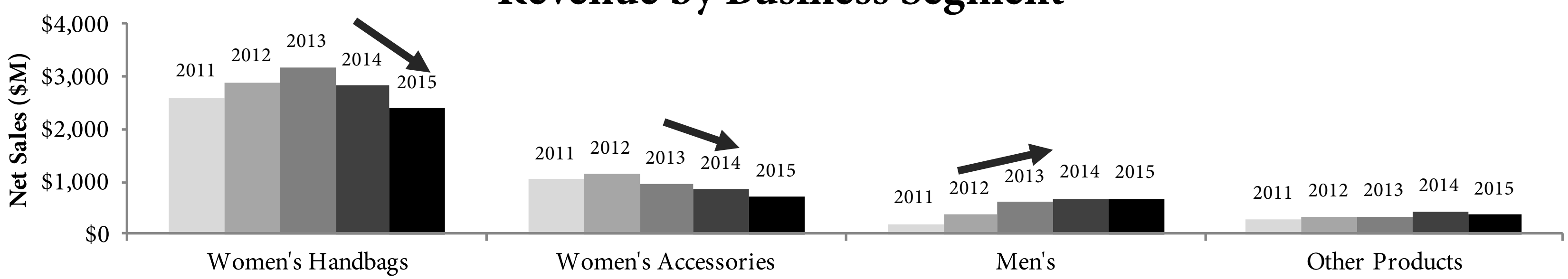
Men’s

9%

of Sales

Other Products

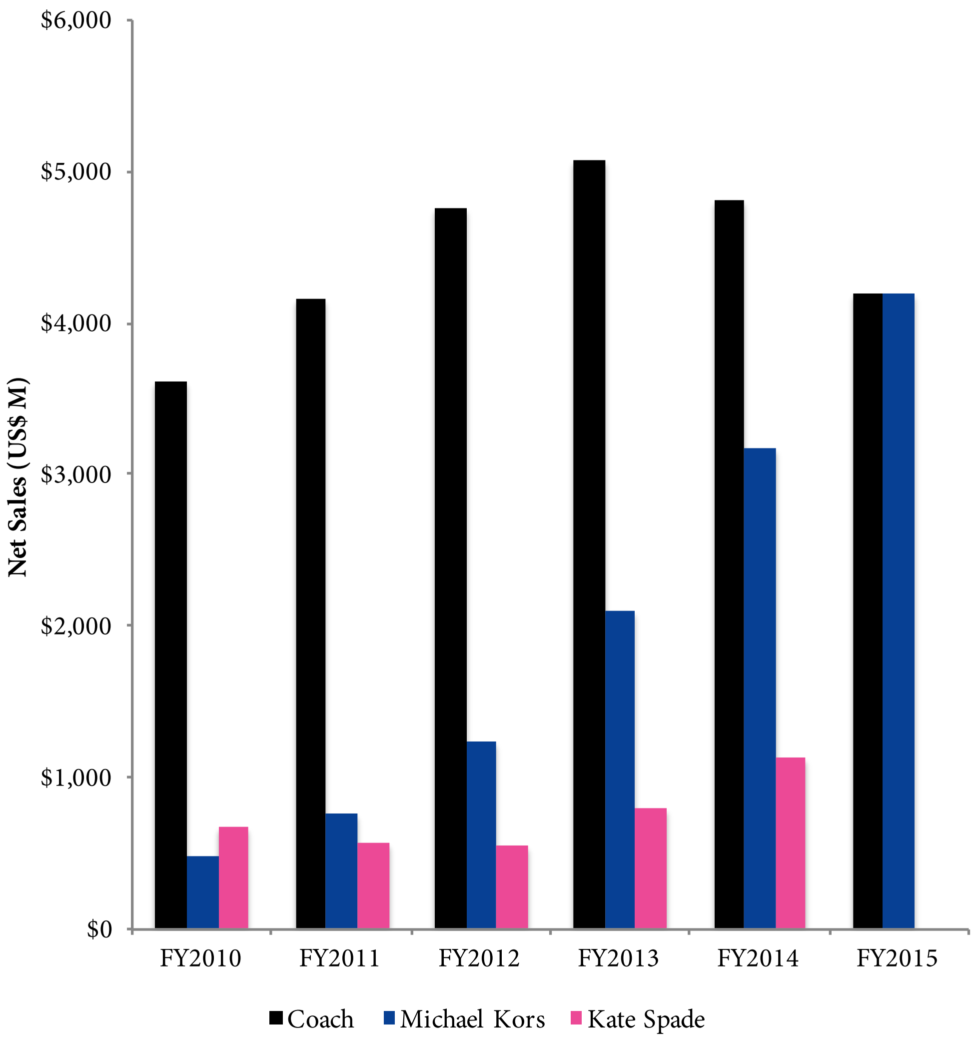
Revenue by Business Segment



Source: Coach Inc FY2015 10-K Report

COACH INC: INCREASED COMPETITION IN CORE BUSINESS

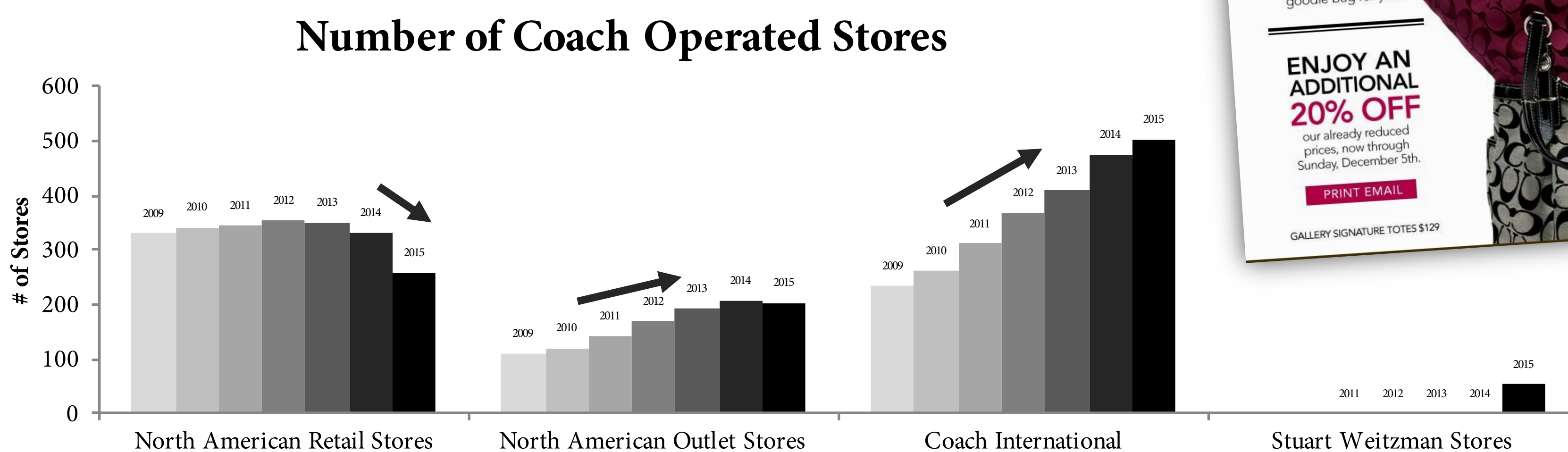
Coach vs Michael Kors vs Kate Spade



Source: COH.US/KORS.US/KATE.US 10-K Reports

COACH INC: UNSUSTAINABLE GROWTH STRATEGY BY PREVIOUS MGMT

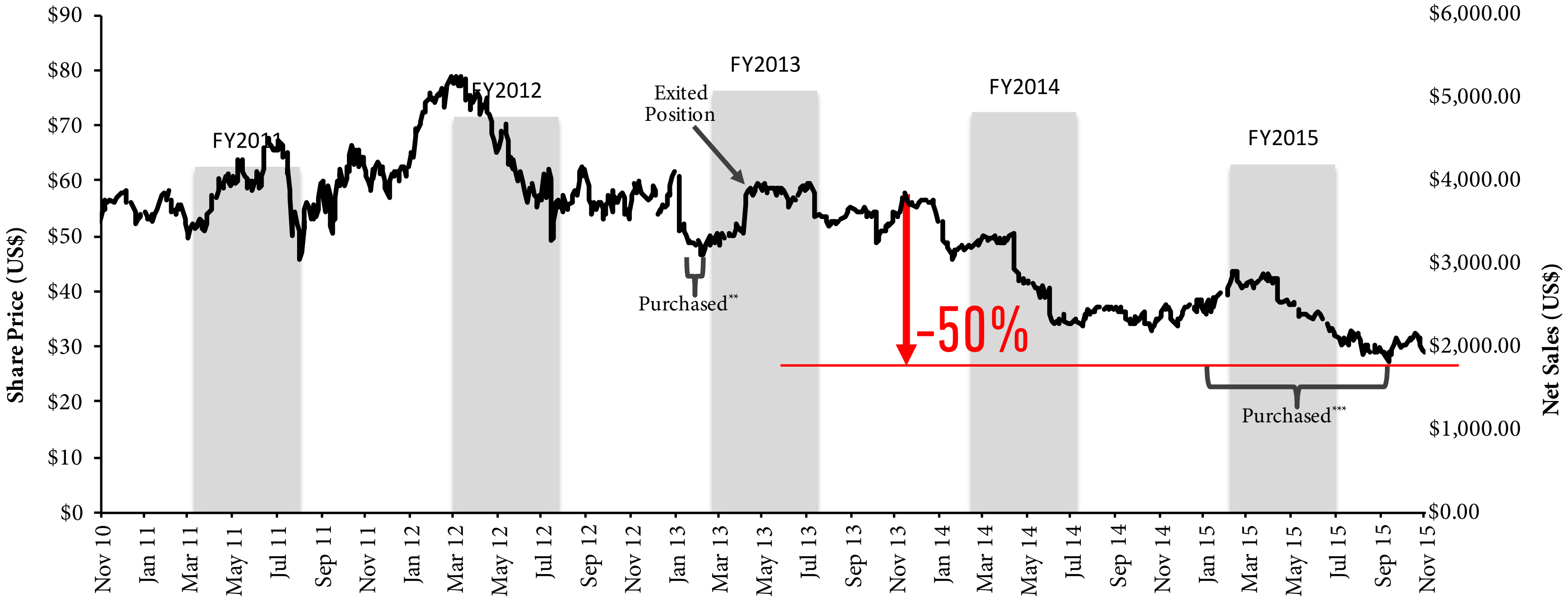
- Coach logo bags and accessories flooded the market via the many stores/outlets and too many promotions/sales that commoditised its brand. The problem was compounded by large quantities of counterfeits in the market.
- The problem is being rectified by current management, with a multi-year strategic transformation plan that was announced in 2014 to rebuild/reposition the Coach brand.
- Coach also undertook its first-ever acquisition in early 2015 by acquiring Stuart Weitzman to again become a multi-brand company (previously the Reed Krakoff brand was its other brand) to improve its growth prospects.



Source: Coach Inc FY2015 and FY2013 10-K Reports

COACH INC: SHARE PRICE DOWN MORE THAN 50% IN TWO YEARS…

- The Company's past growth/expansion strategy led to excessive promotional products/events/pricing that have damaged the Coach brand and allowed competitors such as Michael Kors, Kate Spade and Tory Burch to take away meaningful market shares from Coach.
- Since 2013, the Company has embarked on a turnaround/rebranding effort, trying to rebuild Coach into a lifestyle brand that inspires a more "emotional" response to the customers.
- Investors are becoming impatient as the Company continued to rein in promotional events/pricing, closing stores and execute rebranding strategy which has led to significant decline in revenues and profits.
- Share price has declined more than 50% in two years, from US$ 57.90 on 29/11/13 to US$ 27.44 on 28/09/15.
- Current share price* = US$ 28.93 (Market Capitalisation = US$ 8.03B)



* As at 17 November 2015

** Elevation Capital Value Fund average cost = US$ 48.39, exit price = US$59.66, with an IRR of 124.5%

*** Elevation Capital Value Fund purchase price range = US$ 28.97 - US$ 36.89, as at 24 November 2015

COACH INC: SUCCESSFULLY OPERATING IN A GROWING MARKET GLOBALLY

+6%

ANNUAL GROWTH IN GLOBAL PREMIUM BAG AND ACCESSORIES MARKET

Coach management estimates that global premium bag & accessories market will grow from a US$ 42B market (2015) to US$ 55B (2020).

+24%

COACH'S SUCCESSFUL INTERNATIONAL EXPANSION MASKED BY APPRECIATING USD

The strong US Dollar has masked the successful international expansion program in recent years (24% annualised growth since 2001).

COACH INC: CONTINUING SUCCESSFUL INTERNATIONAL EXPANSION

NORTH AMERICA

- Significantly reduced outlet "flash sales".
- Capital investment to elevate store experience in the new modern luxury concept format.

EUROPE (US$ 9.5B market)

- Offers significant growth potential from a low base of 35 stores which currently produce US$ 90M in sales (vs total sales of US$ 4B).

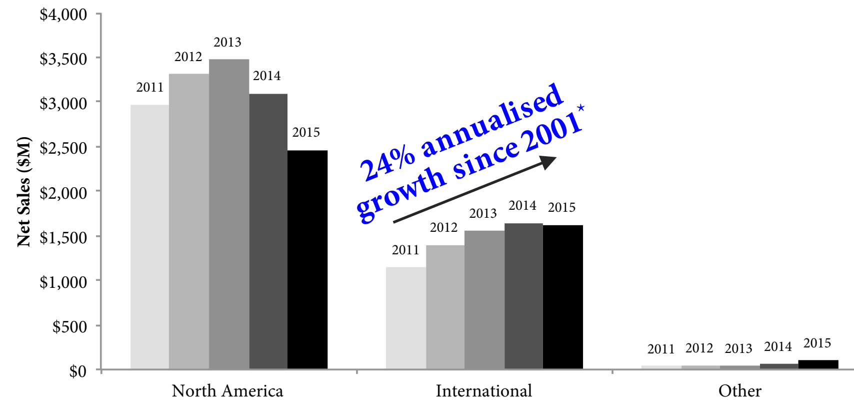
ASIA / PACIFIC (US$ 14B market)

- Enviable market position in China/Greater China, with a 50%+ annualised growth since 2008.
- In China, consumers are shifting from status to value which benefits Coach.

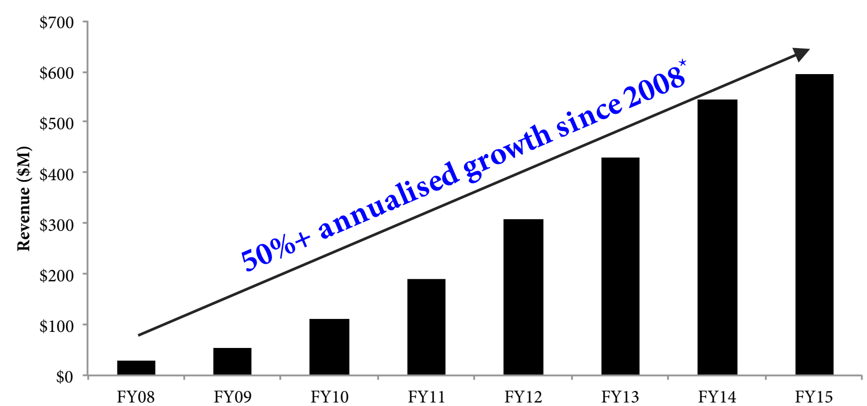
LATIN AMERICA (US$ 1B market)

- Small presence with a few stores run by a distributor.

Revenue by Geographic Segment



Greater China Revenue Growth



Source: Coach Inc FY2015 and FY2013 10-K Reports
* Source: Coach Inc Investor Presentation, November 2015

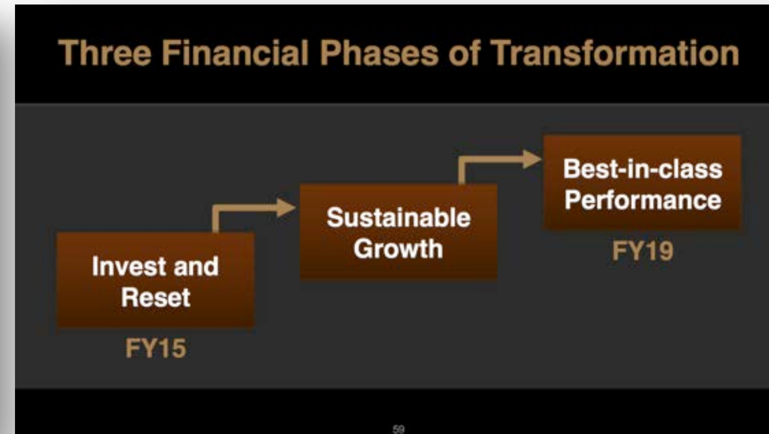
COACH INC: 'RIGHTING THE WRONG' - THE MULTI-YEAR TRANSFORMATION PLAN

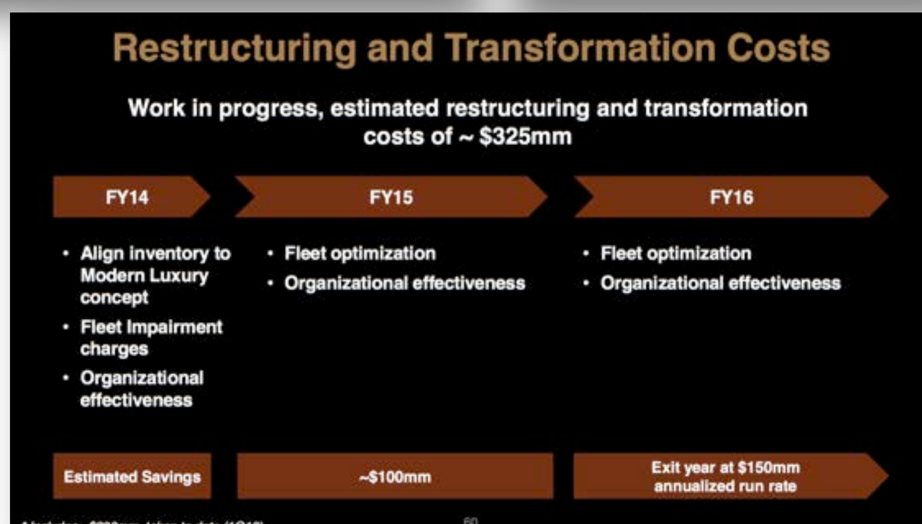
As early as 2013, management realised it could not maintain the status quo. Change was needed in a way that was both bold and different. Since this point, significant changes have been made to both management and design teams, alongside a wholesale change in the company's direction/strategy.

2013	Coach to rebrand itself as a lifestyle brand, with a renewed focus on its women's ready-to-wear line
2013	In February 2013, Coach announced that Victor Luis, head of Coach's international business is to succeed long time CEO Lew Frankfort when he retires
2013	In September 2013, Stuart Vevers joined Coach as Executive Creative Director, replacing long time creative director Reed Krakoff.
2014	In January 2014, Victor Luis was appointed CEO of Coach
2014	In August 2014, the Company announced a multi-year strategic transformation plan as Management admitted that "the competitive landscape has shifted and we have not responded effectively…"
2015	Coach acquired Stuart Weitzman, a women's luxury footwear company for US$ 574M in cash

COACH INC: THE MULTI-YEAR TRANSFORMATION PLAN

- We believe the current transformation strategy is sound, and the execution to date has brought new life into the Coach brand. However, the time required to unwind past mistakes, with its negative economic effects and the uncertainty and timing of the turnaround efforts has continued to affect investor confidence. Management's current projections suggest a return to best-in-class financial performance in FY2019.





Selected slides on the Transformation Plan (Source: Coach Investor Presentation)

COACH INC: NEW EXECUTIVE CREATIVE DIRECTOR – STUART VEVERS

- 1996 – After graduation from University of Westminster, Stuart Vevers started his career at Calvin Klein in New York, and then moved on to successful roles at Bottega Veneta, Givenchy and Louis Vuitton.
- 2004 – Appointed Creative Director of Mulberry.
- 2006 – Named Accessory Designer of the Year at the 2006 British Fashion Awards.
- 2007 – Appointed Creative Director of Loewe.
- 2013 – Joined Coach as Executive Creative Director to lead all aspects of the Coach brand, including Women's and Men's product design, brand imagery, and store environments.
- 2015 – Named Accessories Designer at the ELLE Style Awards 2015.

"Master of the 'It' bag, Vevers is the man behind the arm candy we covet, from Mulberry's Bayswater to Loewe's Amazona. And now to Coach, where Vevers has revitalised the US brand and, true to form, made it cool again…

Accessible, affordable and totally desirable – Stuart Vevers' Coach has ticked every box."

- ELLE Style Awards 2015

Stuart Vevers

COACH INC: FIRST-EVER ACQUISITION – STUART WEITZMAN

In May 2015, Coach acquired Stuart Weitzman, a leading designer and manufacturer of women's luxury footwear for US$ 574M in cash. Similar to Coach, it is a brand built on offering innovation, relevance, and value to a loyal customer base, and is known for its craftsmanship and quality – merging fashion and function.

Stuart Weitzman

COACH INC: INTRODUCING MODERN LUXURY…

- Management are in the process of positioning the Coach brand as a global modern luxury lifestyle brand.
- Management define *Modern Luxury* as:
  - Authentic expression of quality and fashion at exceptional value
  - Inviting and approachable
  - Personal relationship with a trusted brand
- Management plan to have 40% of the stores worldwide in the new modern luxury concept format by the end of FY2016.

The Company's first Paris flagship store was opened recently (October 2015), reflecting the Company's focus in fashion relevance.

COACH INC: CAPITAL STRUCTURE & OWNERSHIP

Coach has a very sound balance sheet. Very little debt is employed within the business and the majority of liabilities are made up of accrued expenses such as payroll expenses and lease liabilities.

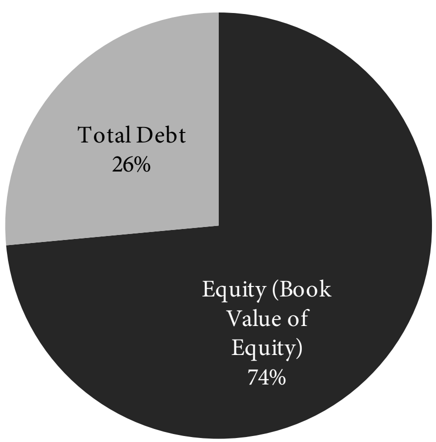
EQUITY

- Currently, Coach has 277.5 million shares outstanding, with a market capitalisation of US$ 8.03B based on a share price of US$ 28.93*.
- Note the company also has an "open" register with no blocking stakes.

DEBT

- The Company has debt totalling US$ 891M, which implies a strong net cash position of US$ 386M as at 26 September 2015.

Capital Structure



Top 10 Shareholders*	**Number of Shares***	**%***
The Vanguard Group	22.58M	8.14%
Dodge & Cox	17.38M	6.26%
BlackRock Institutional Trust	11.38M	4.10%
State Street Global Advisors (US)	10.88M	3.92%
Wedgewood Partners	10.51M	3.79%
T. Rowe Price Associates	9.82M	3.54%
SunAmerica Asset Management	9.52M	3.43%
Fidelity Management & Research	5.09M	1.84%
Mellon Capital Management	4.68M	1.69%
Schroder Investment Management	3.97M	1.43%
Total:	**105.85M**	**38.14%**

* Data Source: Thomson Reuters Eikon as at 17 November 2015

COACH INC: STRONG FINANCIAL POSITION

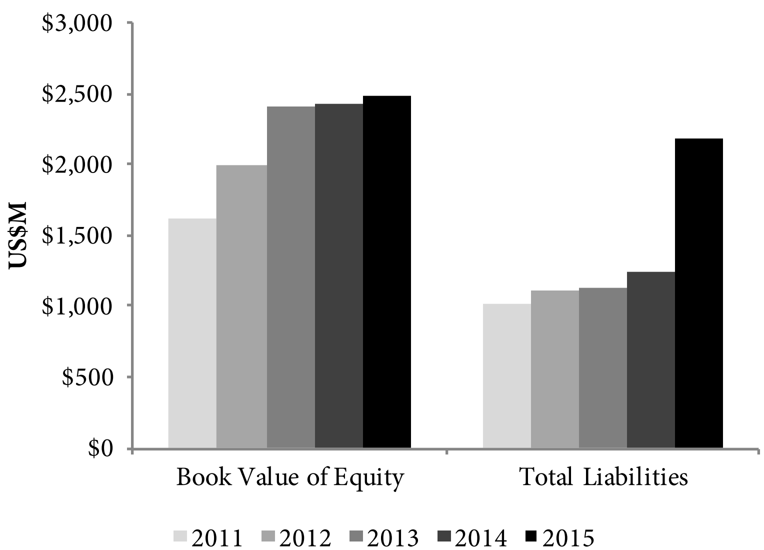
BALANCE SHEET

- The Company added US$ 900M of debt (Term Loan: US$ 300M, 4.250% Senior Notes: US$ 600M) in FY2015.
- The Balance Sheet remains strong, with a Net Cash position (Cash = US$ 1.3B*, Total Debt = US$ 890M*) and US$ 310M of Short-Term Investments.

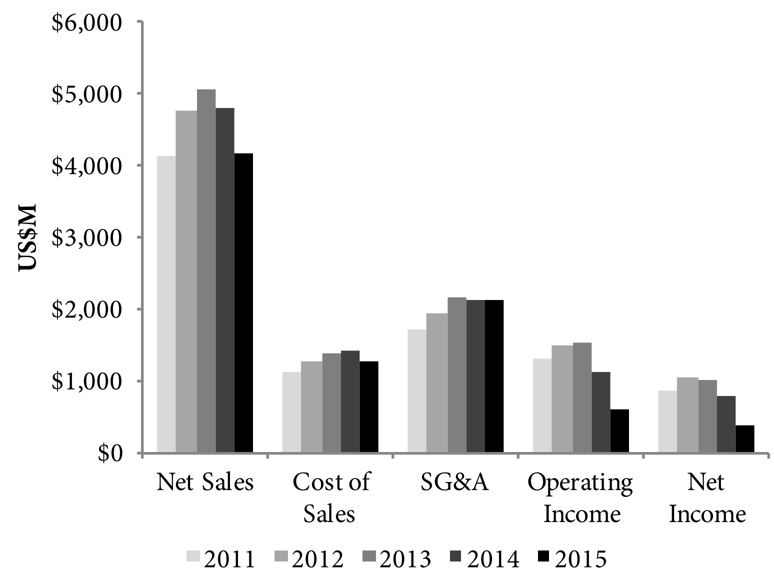
INCOME STATEMENT

- The revenue/profit metrics have all deteriorated significantly since 2013.
- Management indicated top line growth in FY2016, with goal to return to sustainable growth and best-in-class financial performance/margins by FY2019.

Book Value vs Total Liabilities



Revenue, Costs and Profits



* As at 26 September 2015
Data Source: Thomson Reuters Eikon as at 7 November 2015

COACH INC: POSSIBLE SALE OF HQ TO ENHANCE NET CASH POSITION

2011

- Coach announced that it would become an anchor tenant in the Hudson Yards urban renewal project.

2013

- Coach announced that it would enter a JV agreement with Related Companies L.P. to develop a new office tower in Hudson Yards.
- It is expected that the Coach's cost for its share of the project will be ~US$ 750M.
- Coach will own ~43% (~738,000 square feet) of the building, with options to buy two more floors and also a 40% property tax reduction over 20 years.
- The existing HQ (bought in 2008 for US$ 123.5M) will be sold for US$ 130M to fund the project in 2016.

2015

- The building is expected to be completed in early 2016.
- Management had noted the possible monetisation of the new HQ.

Relative Valuation – 11 Times Square

- 11 Times Square, a 1.1M square foot tower completed in 2010, which Norway's sovereign-wealth fund, Norges Bank Investment Management paid US$1,272 a square foot for a 45% stake in Feb 2015 may be a rough guide for valuing 10 Hudson Yards.
- This implies Coach's 43% ownership of the building could be worth up to US$ 939M.

10 Hudson Yards –the 52-story, 1.7M square-foot tower which Coach owns 738,000 square feet (~43%)

COACH INC: CAPITAL RETURNS VIA DIVIDENDS & SHARE REPURCHASING

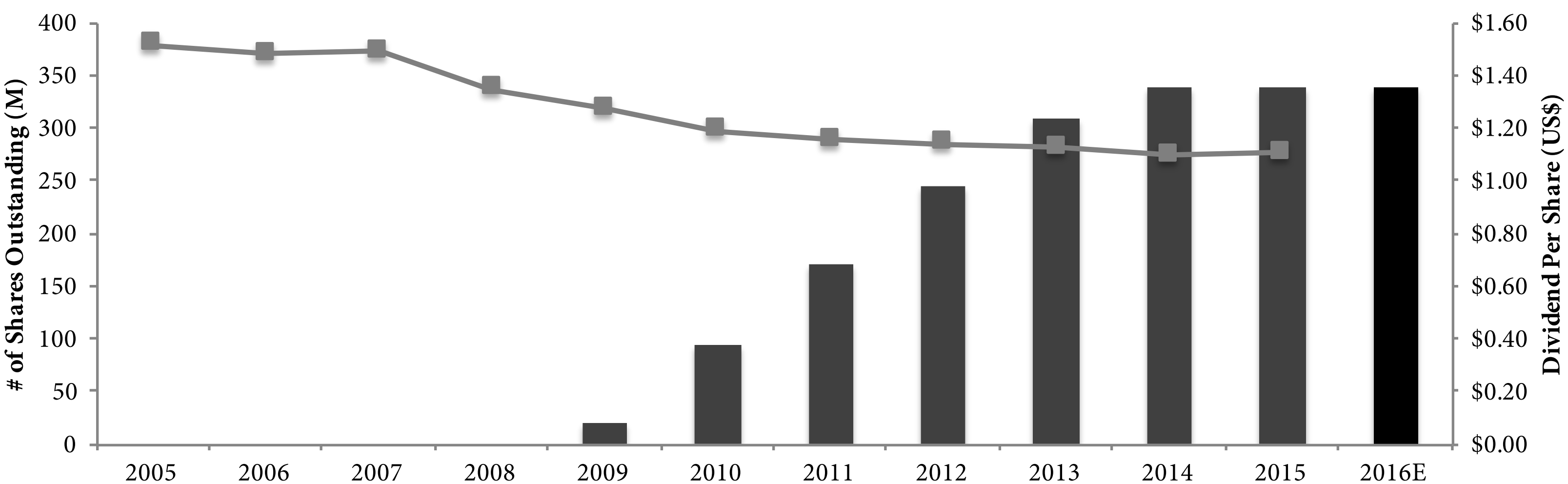
DIVIDENDS

- Prior to any monetisation of real estate in NY (refer pg. 20), we expect the Company to continue to pay a dividend of US$ 1.35 per share in FY2016 (Forecast Dividend Yield = 4.67%*) we then expect a progressive increase in the dividend as the turnaround efforts take hold.

SHARE REPURCHASE

- The October 2012 board-approved US$ 1.5B share repurchase program expired on 2 June 2015.
- Currently there is zero availability in a stock repurchase program. However, we expect new share repurchase authorisation when surplus capital becomes available for share repurchase.
- The Company did not repurchase any shares in FY2015 (10.2M in FY14, 7.1M in FY13, 10.7M in FY12, 20.4M in FY11)**.

Dividend History & Shares on Issue

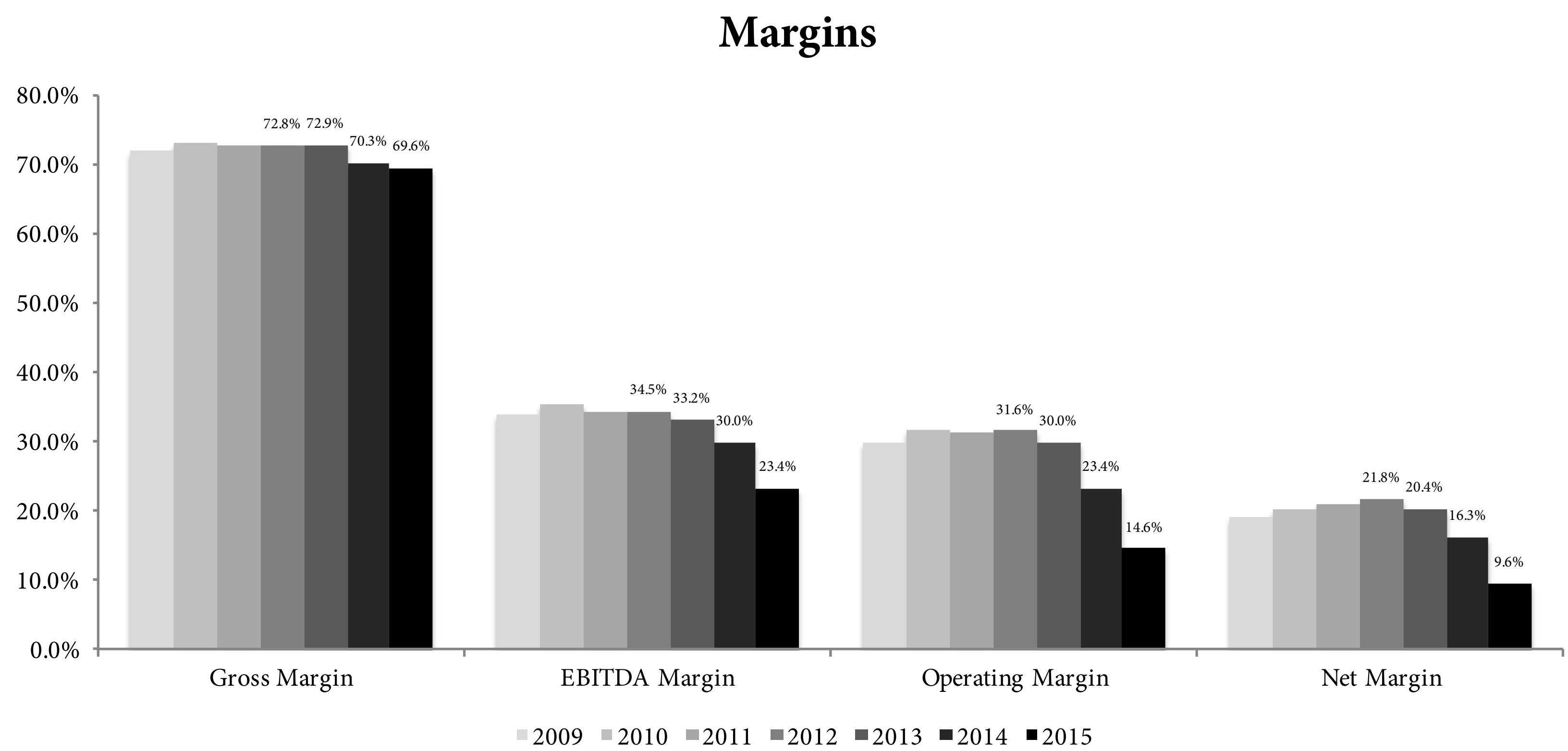


* Based on share price of $28.93 as at 17 November 2015 ** Coach Inc Annual Reports 2012, 2013, 2014, 2015

Data Source: Thomson Reuters Eikon as at 7 November 2015

COACH INC: HIGH MARGIN BUSINESS

- Historically, Coach has high margins on both an absolute, and relative basis.
- The recent decline in Coach's margins is largely associated with the move to reposition the brand.
- The key to Coach's success going forward is the execution of their repositioning of the brand. If Coach can increase their credibility at the mid - higher end of luxury, with higher end products and less discounted goods sold, they will be able to boost margins significantly.



Data Source: Thomson Reuters Eikon as at 7 November 2015

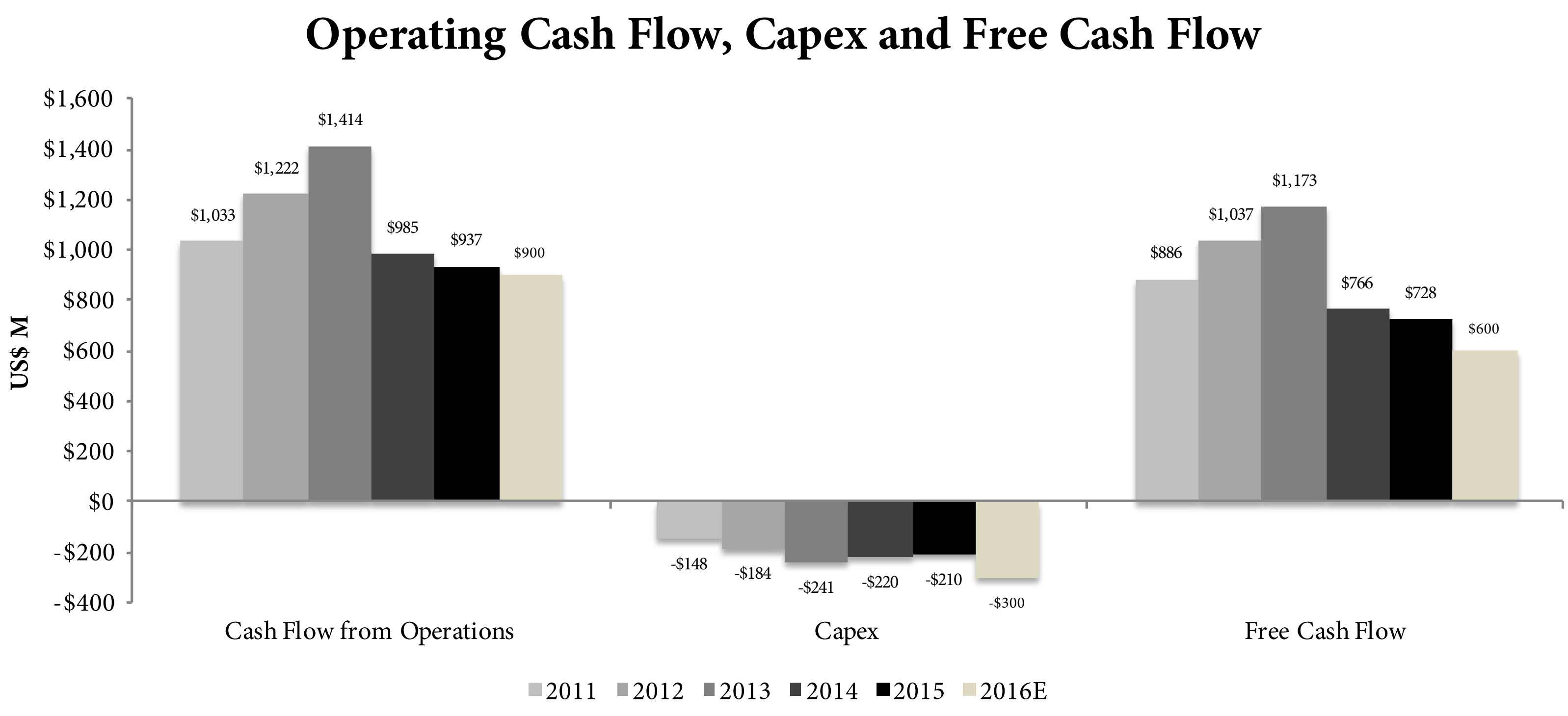
COACH INC: CAPITAL EXPENDITURE & FREE CASH FLOW GENERATION

CAPITAL EXPENDITURE

- Management forecast FY2016 Capex to be US$ 300M, excluding US$ 185M for the new corporate HQ.

FREE CASH FLOW

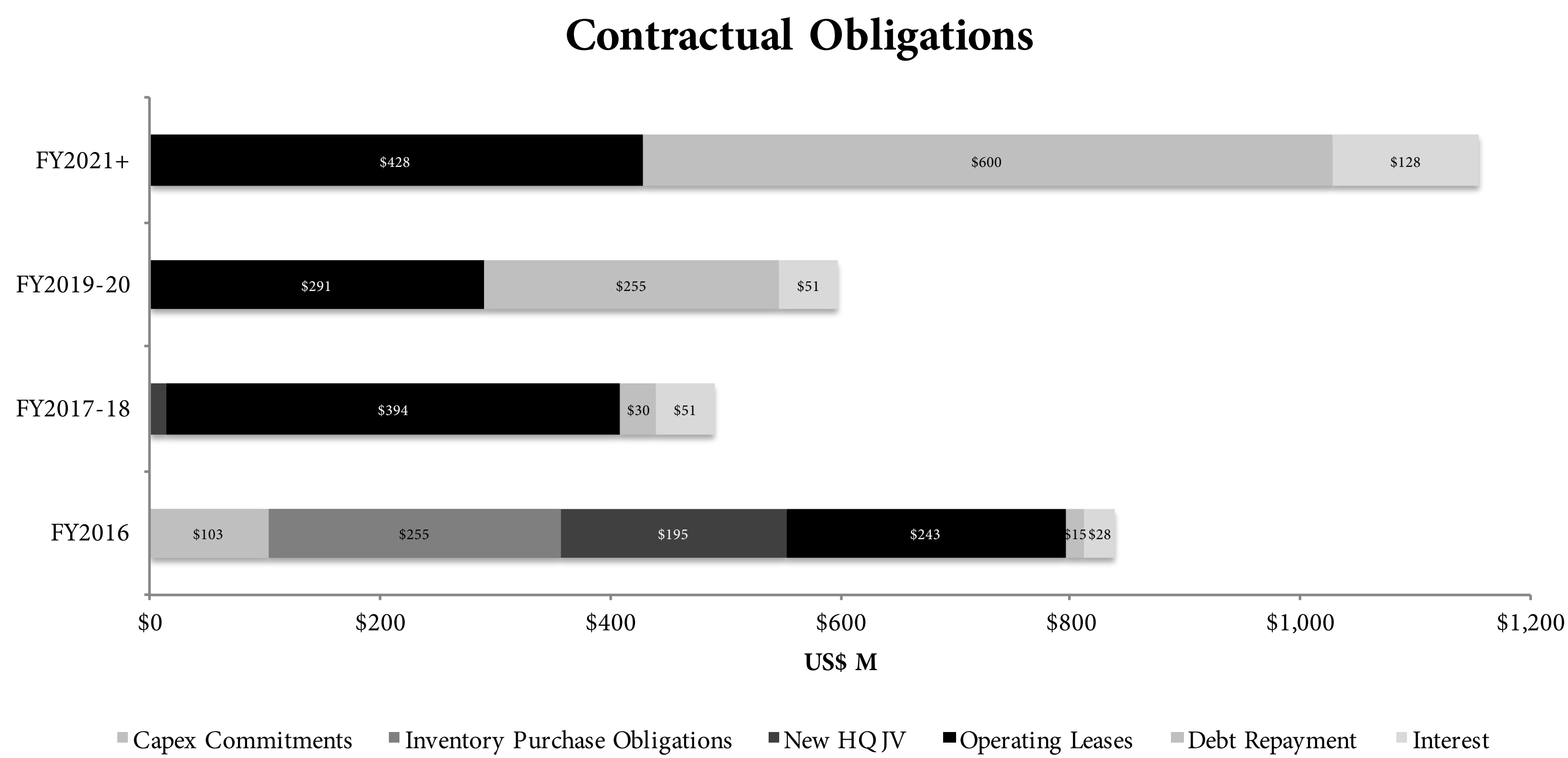
- Based on a forecast Cash Flow from Operations of US$ 900M, we estimate FY2016 FCF of ~US$ 600M, which implies a FCF Yield of 7.5%*. We are confident that the FY2016 FCF will be able to cover the US$ 372.5M dividend payment, even without any monetisation of real estate assets.



* Based on share price of $28.93 as at 17 November 2015

COACH INC: FINANCIAL LEVERAGE AND OPERATING LEASE OBLIGATIONS

- Operating Leases – Coach has lower operating lease obligations than its peer group average (based on Operating Leases / EBITDA and Operating Lease / Equity ratios).
- New HQ JV – The remaining payments for the JV total US$ 210M, and new HQ will be completed in FY2016.
- Additionally, Management has indicated (November 2015) the potential to monetise the new HQ building.



COACH INC: COMPARABLE COMPANIES – MARGINS AND RETURNS

- Coach's margins and returns have deteriorated significantly in recent years as it continues to execute its multi-year major turnaround strategy which started in 2013. However, it is still reasonably ranked among its global peers.
- We believe Coach's margins and returns should start to improve when its turnaround efforts start to bear fruit in FY2016 and FY2017 – Signs of a turnaround will see a rerating in the stock quite quickly in our view.

Company Name	Net Profit Margin	Gross Profit Margin	EBITDA Margin	EBIT Margin	ROE	ROA	Market Cap (USD M)
Mulberry Group PLC	-0.9%	60.5%	11.2%	2.9%	-1.7%	-1.2%	821
Guess? Inc	3.9%	35.9%	8.7%	5.2%	8.7%	5.8%	1,597
PVH Corp	5.3%	52.5%	11.3%	8.3%	11.0%	3.9%	7,024
Kate Spade & Co	6.7%	59.7%	7.9%	3.1%	71.2%	8.1%	2,375
L Brands Inc	9.1%	42.0%	20.9%	17.1%		14.1%	26,372
Ralph Lauren Corp	9.2%	57.5%	17.7%	13.8%	14.4%	11.5%	10,106
Tod's SpA	10.0%	74.7%	19.7%	15.4%	11.6%	8.6%	2,577
Kering SA	10.0%	62.7%	19.9%	16.6%	8.6%	4.5%	22,556
Fossil Group Inc	10.7%	57.0%	18.9%	16.1%	33.4%	17.4%	1,663
Tiffany & Co	11.4%	59.7%	25.5%	21.0%	15.3%	9.7%	9,559
Salvatore Ferragamo SpA	11.8%	63.7%	22.2%	18.7%	35.0%	17.8%	3,908
Prada SpA	12.7%	71.8%	26.9%	19.9%	14.0%	10.6%	9,591
Compagnie Financiere Richemont SA	12.8%	66.1%	28.0%	23.5%	12.3%	7.3%	40,504
Hugo Boss AG	13.0%	66.1%	22.9%	18.7%	38.1%	21.1%	6,500
Burberry Group PLC	13.3%	70.0%	23.3%	17.7%	27.4%	16.5%	8,629
LVMH Moet Hennessy Louis Vuitton SE	18.4%	64.7%	23.0%	18.7%	22.6%	11.1%	89,792
Moncler SpA	18.8%	45.9%	33.5%	29.8%	36.6%	14.8%	3,982
Michael Kors Holdings Ltd	20.2%	60.6%	31.9%	28.8%	41.4%	35.9%	7,237
Hermes International SCA	20.9%	66.8%	35.3%	31.8%	30.0%	19.5%	37,520
Coach Inc	**9.6%**	**69.6%**	**23.4%**	**18.8%**	**15.5%**	**9.7%**	**8,029**
Coach Inc – Historic (5yr average)	**17.9%**	**71.7%**	**31.1%**	**26.2%**	**42.0%**	**26.7%**	
Median	**11.4%**	**60.6%**	**22.2%**	**17.7%**	**18.9%**	**11.1%**	**7,237**
Mean	11.4%	59.9%	21.5%	17.2%	23.9%	12.5%	15,385

Data Source: Thomson Reuters Eikon as at 7 November 2015

COACH INC: COMPARABLE COMPANIES – FINANCIAL LEVERAGE

- Coach is among several companies that are in a Net Cash position (Cash = US$ 1.3B*, Total Debt = US$ 890M*).
- It has a conservative balance sheet that could withstand prolonged market weakness.
- The Balance Sheet is set to strengthen further with a real estate divestment – estimated net proceeds +US$ 1 Billion (New HQ +US%900M and old building US$130M).

Company Name	Net Debt To EV	Net Debt To EBITDA	Total Debt to Total Equity	Quick Ratio	Market Cap (USD M)
L Brands Inc	13.0%	1.60	26,472.2%	1.31	26,372
Kate Spade & Co	7.1%	1.95	205.8%	1.25	2,375
PVH Corp	29.3%	3.19	81.3%	1.15	7,024
Fossil Group Inc	23.2%	0.95	64.5%	2.00	1,663
Moncler SpA	3.9%	0.56	55.9%	0.94	3,982
Kering SA	19.4%	2.62	53.6%	0.53	22,556
LVMH Moet Hennessy Louis Vuitton SE	6.7%	0.80	42.2%	0.71	89,792
Tiffany & Co	3.1%	0.30	39.4%	1.90	9,559
Salvatore Ferragamo SpA	1.0%	0.13	31.4%	0.74	3,908
Compagnie Financiere Richemont SA	Net Cash	Net Cash	21.4%	2.06	40,504
Hugo Boss AG	2.9%	0.31	20.4%	0.91	6,500
Ralph Lauren Corp	Net Cash	Net Cash	20.3%	1.92	10,106
Prada SpA	2.8%	0.29	17.3%	1.11	9,591
Burberry Group PLC	Net Cash	Net Cash	4.7%	1.55	8,629
Tod's SpA	Net Cash	Net Cash	4.4%	1.38	2,577
Hermes International SCA	Net Cash	Net Cash	1.2%	1.80	37,520
Guess? Inc	Net Cash	Net Cash	0.7%	2.62	1,597
Michael Kors Holdings Ltd	Net Cash	Net Cash	0.0%	4.54	7,237
Mulberry Group PLC	Net Cash	Net Cash	0.0%	0.74	821
Coach Inc	**Net Cash**	**Net Cash**	**35.8%**	**2.42**	**8,029**
Median	**6.7%**	**0.80**	**26.4%**	**1.34**	**7,633**
Mean	10.2%	1.15	1,358.6%	1.58	15,017

* As at 26 September 2015

Data Source: Thomson Reuters Eikon as at 7 November 2015, Quick Ratio is defined as (Cash + Marketable Securities + Accounts Receivable) / Current Liabilities

COACH INC: COMPARABLE COMPANIES – VALUATION

- Coach is among several companies (Fossil, Michael Kors, Ralph Lauren, Guess?) that are trading at low valuations on both an absolute, and relative basis to rest of the peer group companies globally.

Company Name	P/E	Forward P/E	P/S	EV/ EBITDA	P/CF	P/B	Gross Div Yield	Market Cap (USD M)
Kate Spade & Co	53.3	37.0	2.0	48.4	24.1	13.7	0.0%	2,375
Mulberry Group PLC			3.6	30.1	71.1	6.9	0.6%	821
Hermes International SCA	36.0	34.2	7.8	20.2	33.0	10.8	1.9%	37,520
Prada SpA	29.5	21.2	2.5	13.8	26.6	3.0	3.1%	9,591
PVH Corp	20.9	12.2	0.9	13.0	7.5	1.6	0.2%	7,024
Compagnie Financiere Richemont SA	31.8	19.1	3.5	12.7	20.5	2.9	2.1%	40,504
Kering SA	19.9	18.4	2.0	12.6	23.0	2.0	1.5%	22,556
Moncler SpA	21.3		4.6	12.4	23.9	7.8	0.8%	3,982
Burberry Group PLC	23.1	17.3	2.2	12.3	11.8	4.1	2.8%	8,629
Hugo Boss AG	21.1	17.5	2.2	11.9	15.3	6.9	4.2%	6,500
Salvatore Ferragamo SpA	22.0	22.0	2.6	11.9	19.7	7.4	1.9%	3,908
L Brands Inc	23.7	23.9	2.3	11.4	15.4	-40.8	1.8%	26,372
Tod's SpA	22.7	23.7	2.4	10.8	36.2	3.0	2.5%	2,577
Tiffany & Co	23.2	18.4	2.3	10.7	12.4	3.3	2.1%	9,559
LVMH Moet Hennessy Louis Vuitton SE	11.8	21.9	2.5	10.3	16.3	3.6	2.0%	89,792
Fossil Group Inc	15.5	7.8	0.5	9.0	5.1	1.9	0.0%	1,663
Michael Kors Holdings Ltd	15.6	9.1	1.6	8.9	6.9	3.8	0.0%	7,237
Ralph Lauren Corp	16.7	17.0	1.3	8.1	10.3	2.7	1.6%	10,106
Guess? Inc	17.0	19.4	0.7	5.4	8.9	1.5	4.8%	1,597
Coach Inc	**24.9**	**15.4**	**1.9**	**9.5**	**10.0**	**3.2**	**4.7%**	**8,029**
Median	**21.7**	**19.1**	**2.3**	**11.9**	**16.3**	**3.3**	**1.9%**	**7,237**
Mean	23.6	20.0	2.5	14.4	20.4	2.4	1.8%	15,017

Data Source: Thomson Reuters Eikon as at 7 November 2015
CF = Cash Flow, BV = Book Value

COACH INC: GLOBAL LUXURY GOODS INDUSTRY

The share price movement in publicly listed luxury goods companies has been influenced by two factors over the past two to three years – (i) a slowdown in global demand and (ii) the prospect of consolidation.

A Slowdown in Global Demand

One major factor is the slowing of the Chinese market and by 'anti-corruption' measures imposed by the Chinese government which have reduced demand for luxury goods significantly. China makes up around 29% of demand for personal luxury products. North America represents 22% of demand and Europe around 21%, reflecting how important the Chinese market is to global luxury.

Prospect of Industry Consolidation

The reduction in trading multiples and the ongoing process of consolidation which has seen the larger luxury goods businesses such as LVMH, Kering and Richemont acquire smaller businesses has seen the stocks of some of their mid-sized competitors elevated in the anticipation of a bid. Companies such as Salvatore Ferragamo and, to a lesser extent, Tod's, have seen an M&A premium being applied to their stock prices in recent times as a result of speculation that one of the large industry players (particularly LVMH) would launch a takeover.

Long-Term Growth Prospect

At a more fundamental, long-term level, demand for luxury goods is driven by trends in the market as well as disposable incomes. The market is relatively price inelastic in that consumers are less reactive to changes in prices than they are in other markets. Companies focus on differentiating their brand from others, with price reflecting consumer perceptions of brand and fashion applications rather than the input costs of the products. Accordingly, the industry is high margin relative to others, with the key area of expenditure being marketing rather than COGS.

* http://www.thisismoney.co.uk/money/investing/article-3165617/INVESTMENT-EXTRA-Fashion-flap-China-blip.html

COACH INC: RECENT INDUSTRY M&A TRANSACTIONS

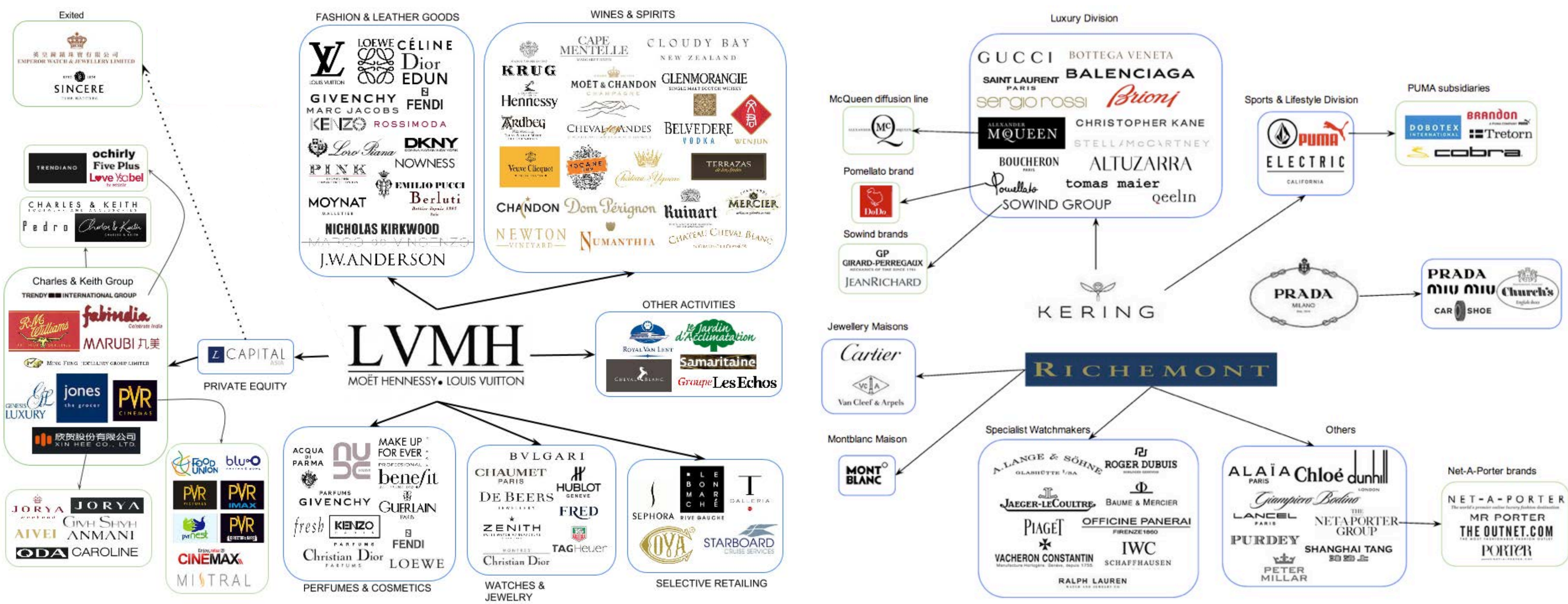
- The luxury sector has seen an increase in the level of M&A activity over the last three-five years. LVMH, Kering and Richemont are all seen as natural acquirers in an industry which has already experienced significant consolidation.
- We also see a possibility that Coach could be acquired by Private Equity (PE). The margin expansion potential, lack of financial leverage and the strong brand recognition of the Company (alongside its low valuation relative to other listed peers) make it a potentially attractive asset for some large PE investors.

Acquirer	**Target**	**Deal Status**	**Deal Value (US$)**	**EV/EBITDA**
VF Enterprises	Timberland Co.	2011	2.18B	11.8x
LVMH	Bulgari	2011	5.20B	22.0x
LVMH	Hermes International (17% Stake)	2011	2.00B	15.5x
PPR	Brioni SpA	2011	0.41B	30.0x
Eurazeo	Moncler SpA (45% Stake)	2011	0.61B	11.8x
Central Retail Corp	La Rinascente	2011	0.37B	11.0x
Mayhoola	Valentino	2012	0.86B	20.0x
LVMH	Loro Piana	2013	2.60B	18.0x
Swatch	Harry Winston	2013	1.00B	23.0x
Signet	Zale	2014	1.46B	15.0x
		Average		**16.8x**
		Coach	**EV = 7.6B**	**9.5x**

COACH INC: CONSOLIDATION IN THE LUXURY GOODS INDUSTRY

'WE SEE THE VALUE OF COACH IN A TAKEOVER BEING BETWEEN US$ 40.50 - US$ 45.52'

Coach may be taken private or acquired by a large competitor. It is our view that a trade sale, to the likes of Kering for example, could be a longer term prospect, rather than short term. Although acquirers like businesses with the potential for margin expansion, we believe that potential acquirers will prefer to sit back and wait to see the results of the turnaround strategy. However, consolidation in the luxury goods industry, driven by Kering, LVMH and Richemont, has been strong recently and there is potential one of these businesses may acquire Coach in the medium term to solidify a global position in mid-tier luxury. We see the value of Coach in a takeover scenario as being between US$ 40.50 and US$ 45.52 (reflecting a takeover multiple of between 13.4 x and 15.1x).



* Based on Kering SA's share price of €160.95, and Puma SE's share price of €207.15 as at 23 November 2015

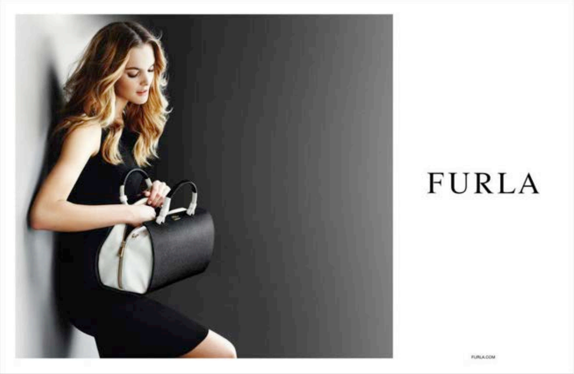
Brands Map Source:: http://quiddityof.com/tag/brands-map/

COACH INC: ALTERNATE SCENARIO #1 – COACH TRANSFORMS INTO A LUXURY CONGLOMERATE

- Coach may seek to turn itself into a luxury conglomerate to reduce dependence on its core brand.
- The Stuart Weitzman acquisition makes a lot of sense in terms of footwear which was a weak part of Coach's product lineup because of legacy licensing arrangements.
- However, future acquisitions are not without risk given the high multiples typically paid within the sector.

POTENTIAL ACQUISITION TARGETS FOR COACH

(Family owned)



(Family owned)

(Private)

(Market Cap = ~GBP 560M)

(Market Cap = ~GBP 550M)

COACH INC: ALTERNATE SCENARIO #2 – COACH AND RALPH LAUREN MERGER

- A merger of Ralph Lauren Corp and Coach Inc would create a luxury group that comprises both mid-tier and high-end luxury with a global footprint.

US$ 10.59B*

MarketCap

RALPH LAUREN CORP (RL:US)

+

US$ 8.03B*

MarketCap

COACH INC. (COH:US)

* Based on share prices as at 17 November 2015

COACH INC: ALTERNATE SCENARIO #2 – COACH AND BURBERRY MERGER

- A merger of Burberry Group PLC and Coach Inc would also create a luxury group that comprises both mid-tier and high-end luxury with a global footprint.

US$ 8.36B*

MarketCap

BURBERRY GROUP PLC (BRBY:LN)

US$ 8.03B*

MarketCap

COACH INC. (COH:US)

* Based on share prices as at 17 November 2015

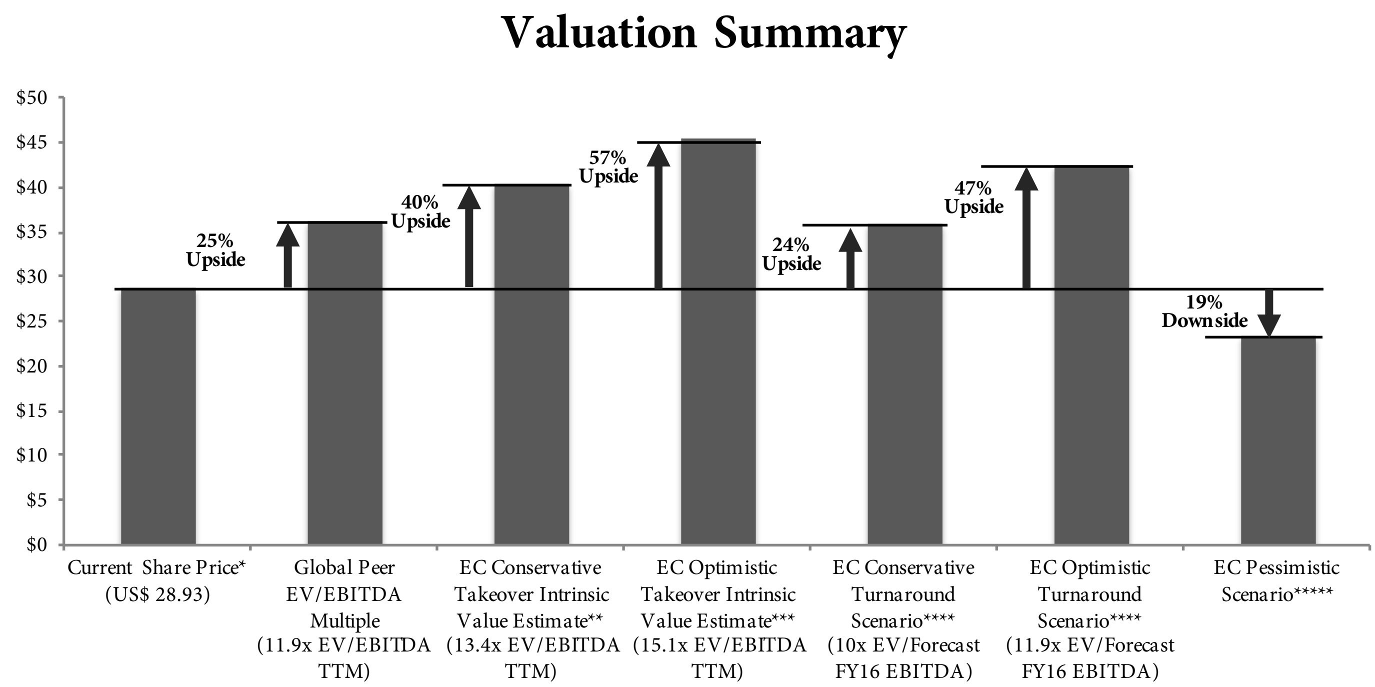
COACH INC: ELEVATION CAPITAL'S VALUATION RANGE

Elevation Capital Estimated Intrinsic Value Range:

US$ 23.53 - US$ 45.52 PER SHARE

Downside/Upside Potential Range:

-19% - +57%



* Current Share Price = US$ 28.93 (as at 17 November 2015)

** EC Conservative Takeover Intrinsic Value Estimate is based on 20% discount to recent industry M&A multiple of 16.8x

*** EC Optimistic Takeover Intrinsic Value Estimate is based on 10% discount to recent industry M&A multiple of 16.8x

**** Based on Thomson Reuters SmartEstimate Forecast FY16 EBITDA of US$ 960M

***** Based on EC Pessimistic Scenario of FY16 EBITDA of US$ 768M (20% discount to SmartEstimate Forecast), and an EBITDA multiple of 8.0x (16% discount to current EBITDA multiple of 9.5x)

COACH INC: KEY OPPORTUNITIES (1)

Turnaround

The significant decline in Coach's revenue reflects the importance of Coach's turnaround strategy. They have lost ground to their most direct competitors (Michael Kors, Tory Burch and Kate Spade), with revenue growth stagnant since 2012. There are some external reasons for this (i.e. beyond the control of management), however, in large part it is down to over-exposure/devaluation of the brand. A turnaround rests on the shoulders of Stuart Vevers (Creative Director), who was appointed in 2013. If the Coach brand can be turned around and can gain credibility at price points above those it has targeted in the past (and at a premium to the likes of Michael Kors and Kate Spade, etc.) there is potential for revenue growth and, most importantly, higher margins.

China and Europe

The Chinese market has provided a headwind over the past two years, largely as a result of the Chinese government's anti-extravagance legislation. Despite this, the business is growing in China, and is well positioned in Tier 1 through Tier 4 cities. Management have recently announced a change of focus in China, with the closure of some stores in less attractive areas and a drive to establish a presence in more attractive areas with flagship stores. In the long run, China will be one of Coach's largest and fastest growing markets. Likewise, Coach is experiencing difficulties in the European market at present as a result of uncertain economic conditions. In the long run, Europe also presents an opportunity to increase market share, given its current size.

COACH INC: KEY OPPORTUNITIES (2)

M&A Activity

We suggest that it is possible that one of large luxury goods conglomerate such as LVMH or Kering could acquire Coach, as we have observed strong consolidation activities in the luxury goods industry by these conglomerates in recent years. In the case of Kering, we suggest that it can dispose its controlling stake in Puma SA (market value of US$ 2.86B*) to partially finance an acquisition of Coach.

Private Equity

We also see a possibility that Coach could be acquired by private equity. We note that the margin expansion potential, lack of leverage and the strong brand recognition of the Company (alongside its low valuation relative to other businesses) may make it an attractive asset to some large PE investors. Large US retail private equity managers such as Leonard Green** could be interested in Coach, as well as the major firms such as KKR, Carlyle, TPG or Blackstone.

Monetisation of New HQ

Management have recently expressed the willingness to monetise the new headquarters at 10 Hudson Yards in New York. As we noted, the cost for Coach's ~43% stake of the building is ~US$ 750M, and we suggest its 43% stake currently has an implied market value of ~US$ 939M based on recent real estate transactions.

* Based on Puma SE's share price of €207.15 as at 23 November 2015

** Leonard Green has historically invest in the retail sector, including companies such as BJ's Wholesale Club, David's Bridal, Del Taco, J. Crew Group, Jo-Ann Stores, Lucky Brand, The Sports Authority, etc.

COACH INC: KEY RISKS (1)

Counterfeit Products

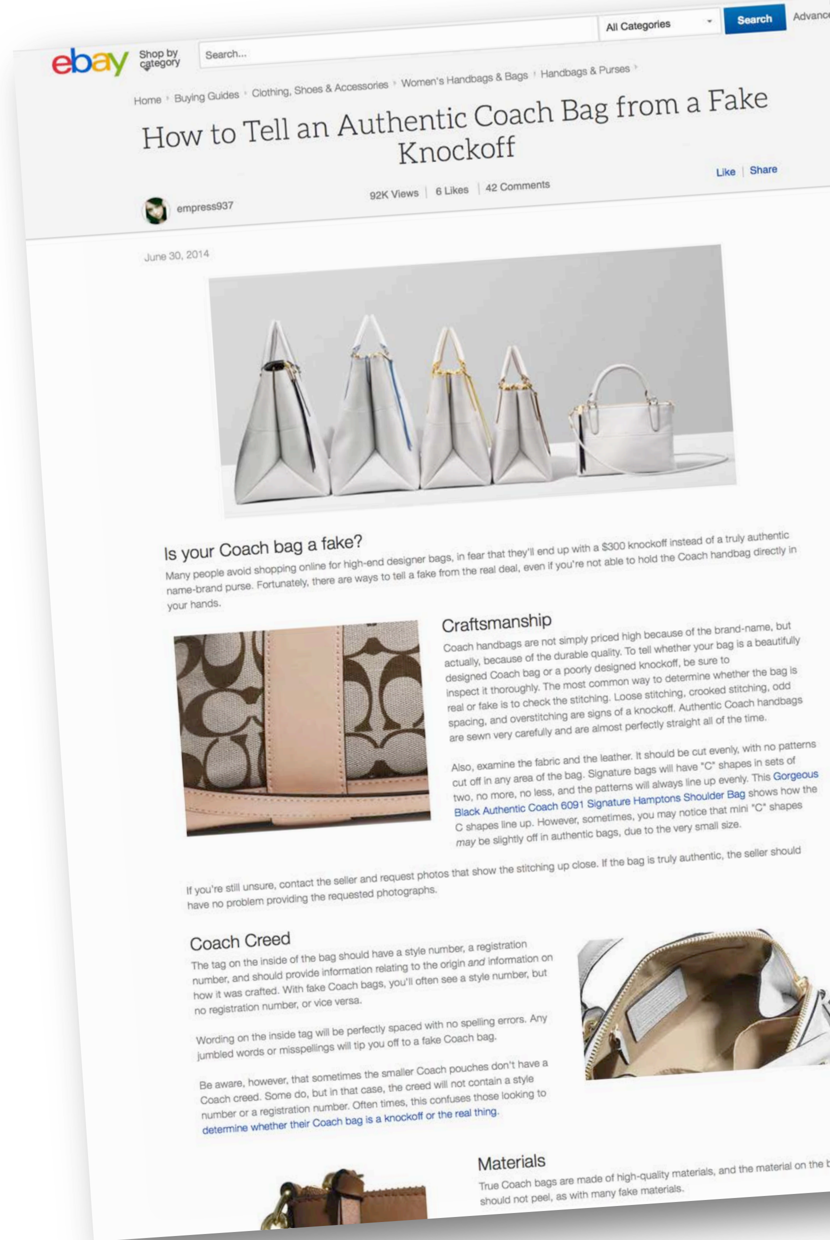
All luxury goods producers have faced counterfeit risks increasingly over the past decade, particularly in the Asian region. As for Tod's, Coach holds the advantage that quality leather is difficult to convincingly imitate and the Company's leather goods are therefore less vulnerable to counterfeit activities. However, the patterned and synthetic hand bags and accessories are susceptible.

Lack of Execution

Much of Coach's future success rests on its ability to execute its turnaround strategy. If Coach fails to gain traction with its new line of products or if its newly remodelled stores fail to increase the brand's appeal, then Coach may face a continuing decline in revenue and earnings.

Currency Risks

A significant part of Coach's business is now derived from markets outside of the United States (39% in FY2015) and this is set to increase further. The strength of the US dollar and the decline of a number of other currencies (including the Euro and the Yen) was a strong headwind during FY2015 and is expected to remain so in the near term.



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How to Tell an Authentic Coach Bag from a Fake Knockoff

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June 30, 2014

Is your Coach bag a fake?

Many people avoid shopping online for high-end designer bags, in fear that they'll end up with a $300 knockoff instead of a truly authentic name-brand purse. Fortunately, there are ways to tell a fake from the real deal, even if you're not able to hold the Coach handbag directly in your hands.

Craftsmanship

Coach handbags are not simply priced high because of the brand-name, but actually, because of the durable quality. To tell whether your bag is a beautifully designed Coach bag or a poorly designed knockoff, be sure to inspect it thoroughly. The most common way to determine whether the bag is real or fake is to check the stitching. Loose stitching, crooked stitching, odd spacing, and overstitching are signs of a knockoff. Authentic Coach handbags are sewn very carefully and are almost perfectly straight all of the time.

Also, examine the fabric and the leather. It should be cut evenly, with no patterns cut off in any area of the bag. Signature bags will have "C" shapes in sets of two, no more, no less, and the patterns will always line up evenly. This Gorgeous Black Authentic Coach 6091 Signature Hamptons Shoulder Bag shows how the C shapes line up. However, sometimes, you may notice that mini "C" shapes *may* be slightly off in authentic bags, due to the very small size.

If you're still unsure, contact the seller and request photos that show the stitching up close. If the bag is truly authentic, the seller should have no problem providing the requested photographs.

Coach Creed

The tag on the inside of the bag should have a style number, a registration number, and should provide information relating to the origin *and* information on how it was crafted. With fake Coach bags, you'll often see a style number, but no registration number, or vice versa.

Wording on the inside tag will be perfectly spaced with no spelling errors. Any jumbled words or misspellings will tip you off to a fake Coach bag.

Be aware, however, that sometimes the smaller Coach pouches don't have a Coach creed. Some do, but in that case, the creed will not contain a style number or a registration number. Often times, this confuses those looking to determine whether their Coach bag is a knockoff or the real thing.

Materials

True Coach bags are made of high-quality materials, and the material on the b should not peel, as with many fake materials.

COACH INC: KEY RISKS (2)

Regulatory Risks

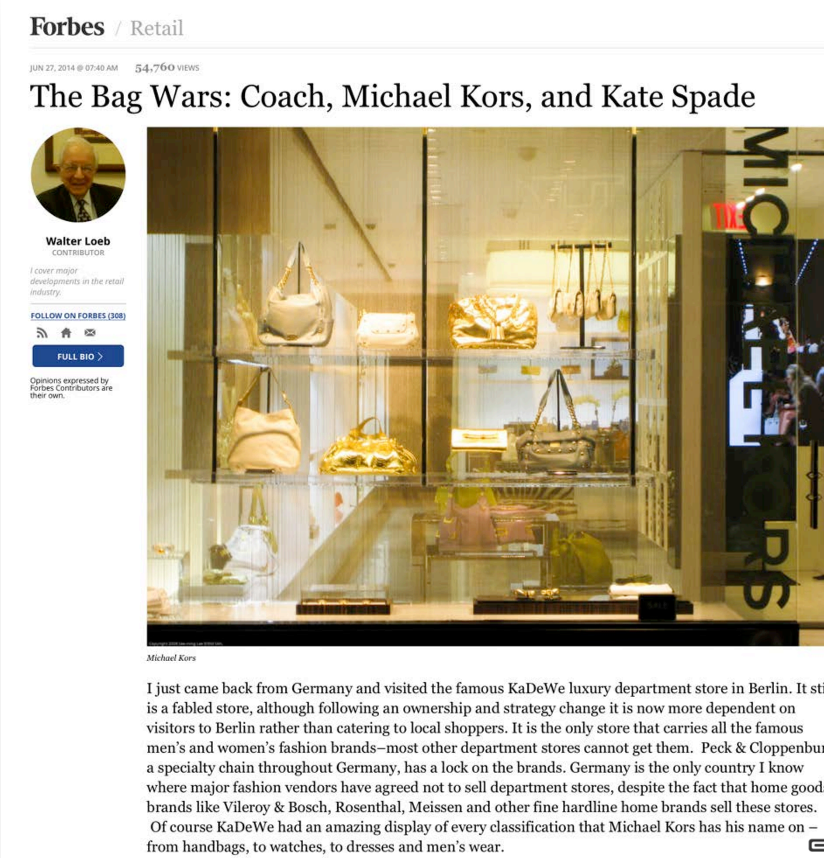
The Chinese government's anti-extravagance laws, aimed at stamping out gifting of luxury goods among government workers, has had a negative effect on luxury companies around the world, including Coach. Previously, Chinese state officials would lavish guests and business associates with gifts such as watches, bags and liquor etc. However, beginning in late 2012, anti-extravagance laws came into effect, providing a lengthy list of do's and don'ts for gifting by state officials. The net effect has been to reduce the practice dramatically, which has in turn had a negative effect on luxury goods manufacturers. Similarly, a consumption tax imposed in Japan during FY2014 hurt revenues there, which fell 7%. These sorts of regulatory changes, in regions where Coach is seeking to expand, can have a significant influence on sales.

Leases

Lease obligations are quasi-debt. Coach has lower operating lease obligations than its peer group average (total obligations are 1.49x EBITDA, relative to a peer group average of 1.59x). However, if revenue and earnings continue to decline, operating lease liabilities will become a more significant cost.

Competition

The likes of Michael Kors, Kate Spade, Ralph Lauren and Marc Jacobs have increased their presence in the affordable luxury category in recent years. Where once Coach was able to dominate the affordable luxury space with a small group of others, now many brands are seeking to make inroads into this space. The solution for Coach is to break through the group to find its own pricing points at a slight premium to the rest, as it is seeking to do with its handbag line.



Forbes / Retail

JUN 27, 2014 @ 07:40 AM 54,760 VIEWS

The Bag Wars: Coach, Michael Kors, and Kate Spade

Walter Loeb
CONTRIBUTOR

I cover major developments in the retail industry.

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Michael Kors

I just came back from Germany and visited the famous KaDeWe luxury department store in Berlin. It still is a fabled store, although following an ownership and strategy change it is now more dependent on visitors to Berlin rather than catering to local shoppers. It is the only store that carries all the famous men's and women's fashion brands–most other department stores cannot get them. Peck & Cloppenburg, a specialty chain throughout Germany, has a lock on the brands. Germany is the only country I know where major fashion vendors have agreed not to sell department stores, despite the fact that home goods brands like Vileroy & Bosch, Rosenthal, Meissen and other fine hardline home brands sell these stores. Of course KaDeWe had an amazing display of every classification that Michael Kors has his name on – from handbags, to watches, to dresses and men's wear.

COACH INC: ELEVATION CAPITAL CONCLUSION

Turnaround Situation

A lot rests on Coach's turnaround strategy. During FY2015, Coach has thus far seen revenue and margins fall significantly. The brand has been devalued by discounting, a high prevalence of outlet offers and product overlap. Where Coach's products were previously available at discount stores for prices 25% lower than in department stores, this will no longer be the case. Coach's new strategy seeks to address this directly, by reducing store count and focusing on the better department stores, airports and the flagship stores in cities around the world. Stuart Vevers, in the work he has done since being appointed as Creative Director, has focused on Coach's 73 years of heritage and on its New York roots, with Forbes saying - "*the new collection gives a nod to Coach's classics*". The brand is resetting itself in China, a key market, by shutting down stores which have become less attractive and opening new flagship stores in more attractive spots such as Shanghai, Beijing and Shenzhen.

Short-Termism Creates Opportunity To Buy A Great Franchise

The market's reaction to Coach's troubles has provided long-term opportunity. Coach now trades at multiples below its historical averages and below that of its peers. This is despite having a long list of attributes not easily replicable. Firstly, it is a classic and enduring brand with an unmistakable link to New York. Secondly, it has profitability metrics which don't bear resemblance to its valuation – its EBITDA growth over ten years has been higher than peers and its margins are higher than the majority of its peers even taking into account the reductions over FY2015. It is in a net cash position and it pays a dividend larger than any of the peers we compare it against (gross dividend yield of 4.7%* relative to a peer group median of 1.9%). Lastly, in the long term, Coach may potentially become a target for a larger competitor or private equity.

* Based on share price of $28.93 as at 17 November 2015

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[In-de-pend-ent Think-ing] **ində’pendənt THiNkiNG** *verb*

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