TO: THE MCINTIRE INVESTMENT INSTITUTE, MANAGERS
FROM: RAHUL GORAWARA
SUBJECT: COACH
DATE: APRIL 30, 2008

Share Price as 4/30/08	$35.57
Shares Outstanding	351.91M
Market Capitalization	12.52B
LT Debt	13.94M
Enterprise Value	11.78B
52- Week Range	$23.22-$52.00
Float	10.64M
Short Interest	127K
Avg. Daily Vol. (3 mo)	6.54M

	2004	2005	2006	2007
Revenues ($M)	1,321	1,652	2,035	2,612
Growth		25.1%	23.2%	28.4%
EBITDA ($M)	405	536	715	993
Growth		32.3%	33.4%	38.9%
EPS (in $)	0.62	0.86	1.19	1.69
Growth		38.7%	38.4%	42.0%

BUSINESS DESCRIPTION*

SECTOR: Consumer Goods | INDUSTRY: Textile- Apparel, Footwear, & Accessories

Coach is a designer and marketer of luxury lifestyle accessories for woman and men in the United States and internationally (primarily Japan). Coach's product offerings include handbags, women's and men's accessories footwear, outerwear, business, sunwear, watches, travel bags, jewelry and fragrance. It operates in two business segments: Direct-to-Consumer and Indirect. As of June 30, 2007, it operated 259 retail stores and 93 factory stores in North America; and 137 department store shop-in-shops, retail stores, and factory stores in Japan.

Direct-to-Consumer Segment (80% of sales: 58% US and 19% Japan)

The Direct-to-Consumer segment consists of channels that provide the Company with immediate, controlled access to consumers retail stores and factory stores in North America and Japan, the Internet and catalogs. This segment represented approximately 80% of Coach's total net sales in fiscal 2007, with North American stores and Coach Japan contributing approximately 58% and 18% of total net sales, respectively.

Indirect Segment (18% of sales: 12% US and 8% International)

Coach began as a United States wholesaler to department stores and this segment remains important to its overall consumer reach. The Indirect segment represented approximately 20% of total net sales in fiscal 2007, with United States. Wholesale and International Wholesale representing approximately 12% and 5% of total net sales, respectively

Handbags (64% of sales)

Handbag sales accounted for approximately 64% of net sales. The Company's handbag collections feature classically inspired designs as well as fashion designs. Typically, there are three to four collections per quarter and four to seven styles per collection. Periodically, it also offers new lifestyle collections, which are collections designed to meet the fashion and functional requirements of its consumer base. During fiscal 2007, it introduced three major lifestyle collections: Signature Stripe, Legacy and Ergo.

Accessories (28% of sales)

Accessories include women's and men's small leather goods, novelty accessories and women's and men's belts. Women's small leather goods, which coordinate with its handbags, include money pieces, wristlets, and cosmetic cases. Men's small leather goods consist primarily of wallets and card cases. Novelty accessories include electronic, time management and pet accessories. Accessories sales accounted for 28% of net sales during 2007.

Footwear

Footwear is distributed through over 700 locations in the United States including Coach's retail stores and United States department stores. Footwear sales are comprised primarily of women's styles, which coordinate with Coach's handbag collections.

Outerwear

This category includes jackets, sweaters, gloves, hats and scarves. The assortment is primarily women's and contains a fashion assortment in all components of this category.

Business Cases

This assortment is primarily men's and includes computer bags, messenger-style bags and totes.

Sunwear

This collection is a collaborative effort from Marchon and Coach that combines the Coach aesthetic for fashion accessories with the latest fashion directions in sunglasses. Coach sunglasses are sold in Coach retail stores, department stores, select sunglass retailers and optical retailers in major markets.

Watches

It has developed a distinctive collection of watches inspired primarily by the women's collections with select men's styles.

Travel Bags

The travel collections are comprised of luggage and related accessories, such as travel kits and valet trays.

Jewelry

In November 2006, Coach launched a jewelry line, consisting primarily of bangle bracelets.

Fragrance

In March 2007, Coach launched its first fragrance in partnership with Beauty Bank, a division of Estee Lauder, Inc. This collection includes a perfume spray, a purse spray and a perfume solid and is sold exclusively in Coach stores and on the Coach Internet site.

*As quoted from Reuters

Thesis

Since its IPO in 2000, Coach has exhibited strong growth in the premium accessories market fueled largely by its luxury handbags. The company is rapidly expanding in the US and Japan with plans to enter China in the near future. Management has been able to translate its sales growth into earnings while expanding its highest margin product lines and increasing operational efficiency. Meanwhile, the market has created an attractive buying opportunity due to concerns over reduced discretionary spending. In 2007, many analysts downgraded Coach due to those concerns causing the stock to fall more than 50%. Since January, the stock has rebound from its low of $24 to $35 as investors have gained confidence with Coach's recently released earning that show continued growth. Coach has continued to perform well in the current tough market due to its strong brand equity. I believe now is an opportune time for MII to take a long position on the company as it has the chance to buy into a strong, growing brand at an attractive price.

- Brand Equity
- Strong Growth
- Attractive Valuation
- Effective Management
- High Margins/Operational Efficiency
- Product Expansion

(I) Brand Equity

Coach has carved out a niche in the premium accessories market with its luxury handbags. The company fills a void between moderate brands and designer labels. Coach's brand positioning and product offering give it an economic moat and are one of the reasons it is holding up in a weak retail environment.

(II) Growth

Coach is an amazing growth story. It has achieved average annual growth of 30% during the last five years, largely due to new domestic stores and expansion into the Japanese market. Strong sales at older stores have also contributed to Coach's phenomenal growth. At the same time, operative profits have growth even faster, increasing by about 50% on average annually. It has been driven by growth in high margin product lines and better sourcing. With little debt and ability to turn sales into free cash flow, Coach is in an excellent position to fund continued growth.

Coach has also benefiting from the doubling of the woman's handbag business from $2.5 billion in 2001 to nearly $5 billion today. Women are buying an average of four handbags per year, twice what they were in 2001. During that period, Coach has extended its market share from 17% to 25%

The strength of new store openings in 2007 has far outperformed management expectations. In North America, Coach added 41 new stores, including twelve new markets, and expanded six others. In Japan, the company continued to develop by adding twenty new locations and expanding nine highly-profitably existing locations. The company plans to nearly double its store base in North America during the next few years, with a long-term target of around 500 stores. International expansion is also important to Coach's continued growth strategy. Indeed, Coach products are being well-received abroad, particularly in Japan. Given the popularity of the brand and Coach's buyout of its Japanese partner's stake in Coach Japan, expansion into new Japanese markets should fuel growth. Around 20% of Coach's sales in 2007 were from Japan. Japan plays an important role in this market since the Japanese consumer makes up about 40% of the global luxury handbag market. Coach currently has 8% of the Japanese market and aim to increase its share to 15% over the next five years.

Coach is committed to expanding overseas and is currently eyeing the Chinese market. It has already established an on-the-ground presence in China. The company recently opened eight new locations in key cities in Chinese Mainland in an effort to grow distribution and raise brand awareness.

(III) Attractive Valuation

The Coach stock price has tumbled (over 50%) since April 2007. Concerns over recession, the housing crisis, and lower discretionary spending have affected analyst outlooks. This is true for the entire retail market not just Coach. Meanwhile, Coach has continued to post great numbers due to its strong brand equity. Since January 2008, the stock has rebounded from $24 to $35 as analysts realized that Coach is able to withstand a recession. I believe the stock has plenty of room to run still due to its valuation relative to competitors.

Coach P/E: 18.0
Industry P/E: 17.6

Coach 5-year Sales Growth Rate:	29.4
Industry 5-year Sales Growth Rate:	16.2

Coach Quick Ratio:	2.61
Industry Quick Ratio:	1.59

Coach Gross Margin:	76.1
Industry Gross Margin:	53.2

Coach Profit Margin:	23.9
Industry Profit Margin:	11.3

Coach ROA:	33.9
Industry ROA:	13.6

Coach ROE:	46.1
Industry ROE:	25.0

(IV) Effective Management

Lew Frankfort has served as chairman and CEO since 1995 and led the firm through its IPO in October 2000. He has more than 25 years of experience at Coach. In recent years, he has revitalized the Coach brand and assembled a top-notch management team. He has a 2% stake in the company which helps align his interests with shareholders. A majority of Coach's board is independent, and officers and directors own nearly 4% of the shares outstanding. Although the role of chairman and CEO are not split at Coach (Frankfort holds both positions), the company has appointed a lead director who can challenge the CEO if necessary.

Coach also has a focus on hiring talented people. The company has designed a compensation plan that earns employees an average salary for the industry, with an opportunity to go 25% higher for superior performance. Frankfort explained, "Our aim is to reward our best performers and to compel them to become better leaders of others. Collaboration is non-negotiable at Coach. Our company is a family, but you do have to perform to fit in."

(V) High Margins/Operational Efficiency

With operating margins in the high-30% range, Coach ranks as one of the best-performing specialty retailers. Lower sourcing costs and a shift to slightly higher-priced bags have helped drive profits. Additionally, the company's ability to spread its operating costs over a growing sales base has contributed to stellar profit growth. The company is in a financial position to fuel continued growth. Coach has more than $800 million in cash and investments, and management has shown effective use of working capital in the past.

Coach has taken full advantage of its niche to improve operational efficiency. Most retailers run into trouble because they build up too much inventory. Since Coach is in the accessories market primarily, it has the advantage of not need to offer multiple sizes. As such, the company has driven sales growth with low inventory.

(VI) Product Expansion

In 2007, Coach continued to expand through new product categories, such as perfume and jewelry, and is evaluating another channel of distribution with its Coach Legacy boutique. Although handbags and accessories account for most of its sales, its footwear, outerwear, business cases, sunwear, watches, and travel bags have continued to grow in recent years.

Risks

(I) Relying on Fashion Trends to Drive Sales

As a fashion-forward brand, Coach depends on hitting the latest fashion trend. A large portion of Coach's recent success can be attributed to executive creative director Reed Krakoff and his ability to design trendy product lines. If he were to leave, it would be a big loss for Coach. There is the risk that competitors might steal market share with the introduction of a more popular product.

(II) Competition

Competitors have witness the rapid growth of the luxury accessories market as well as Coach’s phenomenal success and are eager to jump in. Liz Claiborne has announced it is focusing on expanding its Kate Spade brand, which competes directly with Coach in the accessories market. Other luxury retailers are also dedicating effort to expanding their presence into the accessories market.

Value-Added Research

The web version of this memo does not include Value-Added Research contacts for privacy reasons.