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Capri Holdings Ltd. (CPRI)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Capri Holdings Limited Third Quarter Fiscal 2019 Earnings Conference Call. Today's conference is being recorded. I would now like to turn the conference over to Ms. Katina Metzidakis, Vice President of Investor Relations. Please go ahead, ma'am.

Katina Metzidakis

Vice President-Investor Relations, Capri Holdings Ltd.

Good morning, everyone, and thank you for joining us on Capri Holdings Limited 's third quarter fiscal 2019 conference call. With me this morning are Chief Executive Officer, John Idol; and Chief Financial and Chief Operating Officer , Tom Edwards.

Before we begin, let me remind you that certain statements made on this call may constitute forward-looking statements, which are subject to risks and uncertainties that could cause actual results to differ from those that we expect. Those risks and uncertainties are described in today's press release and in the company's SEC filings, which are available on the company's website. Investors should not assume that the statements made during the call will remain operative at a later time, and the company undertakes no obligation to update any information discussed on the call.

In addition, certain financial information discussed today will be presented on a non-GAAP basis. These non-GAAP measures exclude certain items related to transaction, transition , and integration costs associated with the Jimmy Choo and Versace acquisitions, and restructuring and noncash impairment charges primarily associated with underperforming retail stores. Unless otherwise noted, all information on today's call will be presented on a non-GAAP basis, and all revenue and comparable store sales will be quoted on a reported basis.

To view the corresponding GAAP measures and related reconciliation, please view the earnings release posted to our website earlier today at capriholdings.com.

Now, I would like to turn the call over to Mr. John Idol, Chairman and Chief Executive Officer.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

Thank you, Katina, and welcome to our first Capri earnings call. We're extremely pleased to have recently completed the acquisition of Versace. The house of Versace is one of the most storied luxury brands in the world and fits perfectly into our group strategy to focus on international fashion luxury brands that are leaders in style and trend. With this addition, we've created one of the world's leading fashion luxury groups.

We have positioned Capri Holdings to now have accelerated growth in the global fashion luxury market. Both Versace and Jimmy Choo are underdeveloped brands versus their potential. With the resources and investment that our group will provide, both of these brands will be positioned for significant growth, in particular our expertise in luxury accessories will help accelerate this underdeveloped category at both Versace and Jimmy Choo.

We are already in the process with both companies to develop these categories rapidly. With the power of Versace and Jimmy Choo, as well as the strength of Michael Kors, we believe our three iconic founder-led fashion brands position Capri Holdings to accelerate revenue to \$8 billion and deliver multiple years of earnings growth.

Now I'd like to turn to the results for Capri Holdings. Revenue in the third quarter was \$1.44 billion and were flat year-over-year, reflecting a 4% decline in Michael Kors, offset by increased revenue from Jimmy Choo. Earnings per share of \$1.76 was above our guidance range.

Our new guidance for fourth quarter and full year now incorporates the projected results of the Versace acquisition. For the full year we expect earnings per share of \$4.90 to \$4.95, including \$0.15 dilution from Versace. This guidance reflects a \$0.05 increase to our previous expectations of \$4.95 to \$5.05 per share for the pre-acquisition business, reflecting our better-than-anticipated third quarter results.

Now turning to the Michael Kors brand. We continued to execute against our three strategic pillars of product innovation, brand engagement, and customer experience. Michael and his design team created exciting product that delighted and engaged our customers during the holiday season.

Moving to our product performance. In accessories, for Michael Kors Collection, the Bancroft group remains a customer favorite particularly in color blocking styles. The new Mia small shoulder satchel, which was introduced in holiday with novelty jewel detailing, also showed strong results. We will continue to amplify our luxury runway accessories offerings in our stores, which have higher average price points and are produced in Italy.

In our MICHAEL Michael Kors line, Whitney remained the bestselling group, with the tri-color quilted design featured in our holiday marketing campaign. The introduction of three limited edition styles with prices ranging between \$550 and \$750 helped drive strength in our Whitney group.

Our Michael Kors signature styles were also standout during the quarter. Signature represented 19% of our retail fleet sales during the quarter, and we plan to grow signature to approximately 30% of our fleet accessory sales over the next year. While comparable store sales in accessories declined in the low single digits, we saw sequential improvement in sales compared to the second quarter as we increased inventory levels. Looking

ahead, we will continue to focus on fashion innovation and believe our inventory levels, as well as our signature mix, will be in more appropriate position for the fourth quarter.

Moving to our performance in footwear. During the quarter, we launched Lexi suede platform with metallic leather trim that was featured in our holiday campaign and has been resonating well with customers. Kors Styles, such as our Claire pump and Lily flat, continued to perform well, as customers responded to new designs. The fashion active category and the newly launched Olympia sneaker, which was featured in color blocking, was well received. Embossed, snake prints, glitter chain mesh detailing, and wedge silhouettes helped drive continued strength in our best-selling Felix, Billie, and Skyler sneakers. We continue to successfully incorporate signature combinations through our footwear offerings from boots to sneakers. Overall, comparable store sales in footwear increased double digits.

In women's ready-to-wear, our Michael Kors Collection experienced one of its best season in the company's history, as our new marketing campaign successfully drew new younger consumers to the brand.

Michael's design leadership in our luxury category continues to resonate with our customers. In our MICHAEL Michael Kors line, our Kors Style head-to-toe dressing platform continued to drive growth across all categories. Our holiday campaign, which focused on luxury assortments of dresses and outerwear that were glamorous, embellished, and party-ready, performed well. In dresses, bestsellers in the quarter featured Art Deco-inspired patterns, glitter embroidery, and crystal embellishments. In outerwear, styles featuring feminine draping and full fur silhouettes were top picks. Comparable store sales in women's ready-to-wear increased mid-single digits.

Turning to our men's business. In sportswear, customers responded to our luxury shearling and grained leather moto jackets. Streetwear-inspired signature items were strong sellers for holiday gifting. Our signature Greenwich polo and lightweight crewneck sweaters also performed well during the quarter. Our men's accessories collection continued to show strong growth. Backpacks were the bestselling style, led by our signature MK group. We also saw continued strong demand for our Harrison pebbled leather group. Comparable store sales in men's increased mid-single digits.

Looking ahead, we anticipate continued growth in our men's business and are excited to share that we will be launching a new men's footwear line in the fall season, featuring active and modern hybrid streetwear styles. We believe this new line will further expand the Michael Kors men's business.

In our watch and jewelry segment, Michael Kors ACCESS smartwatch continued to outperform the broader category. Our new Access Runway watch and Sofie remained bestsellers. In fashion watches, customers continued to respond well to slim silhouettes, particularly those in luxury leather band offerings.

While we are encouraged by these positive results, the overall watch category was more challenged than we anticipated in the quarter. The fashion watch category continues to see declines globally, and we are being impacted by this secular trend. We now expect declines in watches to continue in the fourth quarter and into next year at a greater rate than we had anticipated.

Separately, our response to our new fine jewelry line was encouraging. Our iconic Mercer Link and Kors [ph] Love Heart (00:23:53) collection emerged as bestsellers during the quarter, driven by holiday gifting. Interchangeable nesting rings and bracelets from our custom Kors offering also resonated well this season. The fine jewelry launch has led to significantly higher AURs for the category.

From an overall revenue perspective, our retail stores experienced a significant decline in volume moving from our fashion jewelry line to our new fine jewelry line. We are carrying this category in approximately 60% fewer stores. We plan to expand distribution over time and remain optimistic about the future growth of our fine jewelry line.

Now I'd like to provide an update on the performance of our second #MKGO capsule collection. Bold, which launched in October. Bold is a new athletic wear-focused collection, which was inspired by street style fashion and showcases our new Kors signature offerings across all men's and women's categories. We saw very strong sell-throughs on this capsule. Given the success of these #MKGO capsules and the energy they have created in our stores, we plan to continue with further introductions.

Now turning to brand engagement. We have seen great success with our new Michael Kors Collection campaign featuring Binx Walton. This new campaign highlights Michael's vision of our modern jet set luxury consumer and how she lives her life. For spring, Michael has created an exciting campaign for our MICHAEL Michael Kors line featuring supermodel Bella Hadid as the new face of our brand. Bella instantly telegraphs the lifestyle attitude and mood that is quintessentially jet set. The imagery reflects the speed, energy, and optimism that are the hallmarks of our company.

Moving to customer experience. We continued to expand our database globally and now have approximately 34 million customers, a 27% increase over last year, which demonstrates the continued strength and desirability of the Michael Kors brand.

Moving to our loyalty program. KORSVIP now boasts over 1.5 million members in the U.S., a 50% increase from last quarter. VIP members show stronger engagement and transaction metrics as compared to non-members, a very encouraging sign. Additionally, our social media presence continues to grow. Overall, during the third quarter we increased our global social media audience to over 44 million followers, reaffirming Michael's position as one of the most followed fashion designers in the world. Overall, we believe that the strength of the Michael Kors brand and Michael's vision for jet set luxury are a strong foundation for us to build upon.

Now turning to Jimmy Choo. Results remained strong, with revenue growing mid-single digits on a reported basis and high single digits on a constant currency basis. Comparable store sales grew in the low single digits, driven by the strength in footwear, partly offset by weaker handbag performance, as we continued to transition to our new accessories platform.

In fashion footwear, our new boot collections showed strong performance, including the knee-high Madalie, the Cruise flat biker boot, and the Merrill ankle bootie. Romy also remained a bestseller in our core 24/7 line.

In fashion active, the Norway sneaker was a bestseller. We also recently launched our Diamond sneaker, which was inspired by Sandra Choi's unparalleled design vision embodying the sense of lightness and clarity of a diamond in a sculptured trainer. The Diamond sports a clear sole, silver laces, and is offered in Crystal Shimmer Suede. Additionally, we offer a handcrafted version with an array of Swarovski crystals. The Diamond has immediately become an iconic offering and generated strong consumer response.

Jimmy Choo continued to dominate the red carpet with celebrities such as Kate Middleton, Margot Robbie, Kate Moss, Kaia Gerber, Cara Delevingne, and Priyanka Chopra, all photographed wearing our shoes.

In accessories, we continued to transition to new fashion groups, as the category remains a key focus for the future growth. We launched MARIANNE in the fall season, which was our first new accessories addition. Callie

continued to be a strong performer, a timeless and elegant clutch offered in suede and satin, with a variety of embellishes ranging from crystals to pearls. We're excited to be launching our new HELIA collection, which features Jimmy Choo signature star quilt design crafted on Nappa leather, and is highlighted in our new spring campaign. More accessories introductions, including our first-ever signature JC collection, are planned throughout 2019.

In terms of marketing, our Diamond sneaker launch was supported by a breakout social media campaign focused on the most influential streetwear digital platforms. Separately, our new Asia brand ambassador, Victoria Song Qian, continued to generate high engagement with extensive social media contact in China. During the quarter, Jimmy Choo's Instagram followers grew to 9.5 million.

Looking ahead, we are thrilled to announce that internationally acclaimed supermodel, Kaia Gerber, will be the face of Jimmy Choo's Spring 2019 campaign. With her timeless beauty and fashion pedigree, Kaia's authenticity transcends generations and is the perfect representation of the dramatic energy of the Jimmy Choo brand. The campaign highlights the fresh spirit our new Helia handbag and Raine sneaker. Overall, we remain very encouraged by the continued growth of Jimmy Choo and are excited about its future prospects.

Now I'd like to provide a brief update on Versace. While the brand was not included in this quarter's results, on a stand-alone basis Versace continued to experience strong growth, with double-digit revenue and comparable store sales increases in the quarter. We've already begun working with Donatella Versace and CEO, Jonathan Akeroyd, on the execution of our strategic vision. We began our efforts to increase marketing exposure with the first-ever Versace New York fashion runway show in December.

The show was a testament to Donatella's unique design vision and fused the sartorial heritage of Milan with the energy of New York. Versace's unmistakable looks, which were equal parts bold and refined, evoked both a rock 'n' roll spirit, as well as runway glamour. The show drew press and celebrities from around the world. The reviews, press coverage, and social media generated from the show, continued to expand the global reach of Versace.

We are confident that we can grow this iconic luxury brand from approximately \$890 million in revenues in 2018 to \$2 billion in revenues. There are five strategic initiatives that we will focus on to achieve this goal. First, we plan to build on Versace's luxury runway momentum. Second, we will enhance Versace's powerful and iconic communications messaging. Third, we will increase Versace's global retail footprint from approximately 200 to 300 stores. Fourth, we will accelerate e-commerce development to create a full omni-channel experience. Fifth, we will leverage our group's expertise to expand men's and women's accessories and footwear from 35% to 60% of Versace's revenues.

In conclusion, we are very excited about our three iconic founder-led fashion houses that form the Capri family. We're also pleased that in fiscal 2019 we are expected to deliver both double-digit revenue and earnings per share growth. Taken together, our three brands position Capri Holdings for accelerated revenue to approximately \$8 billion and to deliver multiple years of earnings growth.

Now let me turn the call over to Tom.

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Thomas J. Edwards, Jr.

Executive Vice President, Chief Financial Officer, Chief Operating Officer & Treasurer, Capri Holdings Ltd.

Thank you, John, and good morning, everyone. For the third quarter, total revenue of \$1.44 billion was flat compared to last year, which was slightly below our expectations. We were impacted by foreign currency

headwinds and lower Michael Kors Retail revenue. Net income of \$265 million and diluted earnings per share of \$1.76 were ahead of our expectations.

Turning to our performance by brand, Michael Kors' total revenues were \$1.28 billion, representing a 4% decrease versus last year. In the Michael Kors Retail business, revenue decreased 1% compared to last year. This reflects revenue increases related to the opening of 22 net new stores versus prior year, more than offset by a comparable store sales decline of 2.4%, which was in line with our expectations.

On a constant currency basis, comparable sales declined 1%. Global e-commerce benefited comparable sales by 290 basis points. As John noted, watches and jewelry were a larger headwind in the quarter than anticipated and combined, reduced total comparable sales by 260 basis points.

Looking at inventory, we entered the quarter with inventory down 11% versus prior year and were underpenetrated in our signature products. We continue to make necessary adjustments to inventory and expect to have a more appropriate level and mix balance in the fourth quarter.

For the Michael Kors Wholesale business, revenue declined 8%. As previously noted, we expected revenue to decline in Q3 as a result of our strategy to reduce inventory and increase full price sell-throughs in the holiday season.

Michael Kors Licensing revenue decreased 10% versus the prior year. This reflects the continued decline in fashion watches. We were also impacted by lower jewelry revenue, as our new fine jewelry offering is in less stores than the prior fashion jewelry offering. We anticipate a continued negative impact from fashion watches and jewelry for the fourth quarter and into next year.

Now I'd like to provide some regional highlights for the Michael Kors brand during the quarter. In the Americas, revenue decreased in the low single digits. Americas' retail revenue was flat and comparable store sales declined in the low single digits for the quarter. Wholesale revenue in the Americas decreased high single digits, primarily driven by a planned reduction in accessories shipments. We reduced inventory into the department store channel as part of our strategy to increase full price sell-throughs.

In Europe, revenue declined in the high single digits for the quarter. Europe Retail comparable store sales increased low single digits on a reported basis and increased mid-single digits on a constant currency basis. This improved performance reflected local market strength, stronger pan-European travel, and robust e-commerce growth. Wholesale revenues in Europe declined in the high teens in the quarter, as we continued to reset our base to drive better full price sell-throughs in the channel.

Turning to Asia, revenue increased in the low single digits, reflecting 20 net new store openings, partially offset by a reported comparable sales decline in the mid-single digits. Constant currency comparable store sales were down low single digits. Mainland China delivered a mid-single-digit increase, while we experienced declines in Japan, Korea, Hong Kong, and Macau, primarily as a result of reduced Chinese tourist activity. Looking forward, we continue to expect growth in mainland China and anticipate tourist traffic will improve into next year. We remain optimistic about long-term expansion in the broader region.

Now I'd like to turn to Jimmy Choo revenue. Revenue of \$162 million was in line with our expectations after adjusting for the foreign currency impact of a weaker pound in the quarter. The prior year period only included two months of revenue, but on a pro forma basis revenue grew mid-single digits compared to last year. These results

were driven by the addition of 38 net new stores since our acquisition, bringing the total global fleet to 206 retail stores.

Comparable store sales increased low single digits for the full quarter, reflecting continued strength in footwear, partially offset by lower accessories sales as we transition to new collections to expand this business in 2019. We're particularly pleased with our business in Greater China, which saw high single-digit comparable sales increase, the strongest growth among all our regions.

Now I will speak to total company margin performance. Gross margin was 60.8%, a decrease of 70 basis points over the prior year. This reflects a 50 basis point benefit from the inclusion of Jimmy Choo and a 120 basis point decline in Michael Kors brand gross margin compared to the prior year. The Michael Kors brand gross margin reflects a decline in Retail gross margin of 280 basis points due to additional markdowns taken in the holiday season.

During the quarter, we continued to transition our inventories to have a greater percentage of signature and Kors Styles. The level of fashion inventory ended as a higher percentage, which resulted in higher markdowns. We believe that our inventories will be more balanced in the fourth quarter, which will begin to stabilize retail gross margins. In our Wholesale segment, gross margins increased 120 basis points, reflecting higher margins in our European business.

Total company operating expense increased \$18 million. This reflects a \$33 million increase in expense related to Jimmy Choo and a \$15 million reduction in Michael Kors operating expense, driven by a shift in expense timing of \$20 million into the fourth quarter. As a percentage of revenue, operating expense increased 130 basis points to 38.8%, primarily due to the addition of the Jimmy Choo business.

Total company operating margin was 22% compared to 24% last year. Jimmy Choo's operating margin was 10.1% during the quarter, in line with expectations. Michael Kors operating margin was 23.5%, 140 basis point decline compared to the prior year. Michael Kors Retail operating margin was 19.4%, a 350 basis points decline, primarily reflecting lower gross margin. Michael Kors Wholesale operating margin was 28.2%, a 320 basis point increase, driven by better gross margin and lower operating expenses. Michael Kors Licensing operating margin was 60.7% compared to 58.4% last year.

Our tax rate for the quarter was 14.6% compared to 20.2% in the prior year, primarily reflecting the impact of the new U.S. tax law, the realization of certain tax credits, and higher earnings in lower-tax jurisdictions.

Turning to our balance sheet, we ended the quarter with \$265 million in cash and cash equivalents, and \$2.5 billion of debt. Although Versace transaction closed after the end of Q3, we borrowed funds for the close just before the end of the quarter. During the quarter, we repurchased approximately 2.1 million shares for \$100 million and have an additional \$442 million of availability remaining on our share repurchase authorization.

Inventory was \$765 million compared to inventory of \$677 million in Q3 fiscal 2018. Michael Kors inventory increased 8% compared to the prior year, reflecting an increase in signature and core products as we build these classifications to higher mix levels and net new store growth, particularly in Asia. Jimmy Choo inventory increased 35% compared to the prior year, reflecting revenue growth, accelerated new store expansion, and the consolidation of inventory from two JVs in Asia and the Middle East. Capital expenditures for the quarter were \$45 million and were primarily spent on new store development, renovations, IT, and e-commerce enhancements.

Now I would like to turn to our guidance. We have updated our fourth quarter and full year guidance to incorporate the projected results of the Versace acquisition. For the full year, we expect earnings per share of \$4.90 to \$4.95, including \$0.15 dilution from Versace. This guidance reflects a \$0.05 increase to our previous expectations of \$4.95 to \$5.05 per share for the pre-acquisition business, reflecting our better-than-anticipated third quarter results.

Fourth quarter and full year guidance include Versace results for two months, as we will be reporting the business on a one-month lag, but includes three months of interest expense related to the purchase. Given our expanded group, we expect to present future financial results aligned with our three brands in the fourth quarter and beyond. As a result, we will now provide guidance expectations at the overall Capri level and the brand level.

For the full year, we expect total revenue to be approximately \$5.22 billion. We expect approximately \$4.51 billion for Michael Kors, with reported comparable sales down low single digits. We now forecast Jimmy Choo revenue of \$580 million, a slight reduction from prior forecasts, reflecting incremental foreign exchange impact. For Versace, we forecast revenue of approximately \$130 million.

Our updated operating margin forecast is approximately 17.3%. This reflects brand operating margins of approximately 19.5% for Michael Kors; 4.8% for Jimmy Choo, reflecting additional investments in the brand to drive growth; and a slightly negative operating margin for Versace, which includes purchase accounting amortization and initial investment in the business.

Our assumed tax rate is now approximately 13% for the year. We forecast weighted average shares outstanding of 152 million, including 2.4 million shares issued to Versace family members in connection with the acquisition. Our capital expenditures guidance is approximately \$225 million, which now includes store openings of approximately 75 for Michael Kors and 30 for Jimmy Choo, as well as store renovations and IT expenditures. We now expect Michael Kors to close 50 stores as part of our fleet optimization program.

For the fourth quarter, we expect total company revenue of approximately \$1.33 billion. We forecast Michael Kors revenue of approximately \$1.07 billion, including a low single-digit decline in reported comparable store sales close to the higher end of the range. The foreign currency headwind to comparable sales is largest in the fourth quarter, and Michael Kors constant currency comparable sales are expected to decline closer to the lower end of the low single digits range. Included in this forecast is our expectation that watches and jewelries will continue to negatively impact comparable sales closer to the higher rates seen in the third quarter.

For Jimmy Choo, we expect revenue of approximately \$130 million, including comparable sales increase in the low single digits on a reported basis and mid-single digits on a constant currency basis. And for Versace, we expect revenue of approximately \$130 million.

Our Q4 operating margin is expected to be approximately 10.3%. Michael Kors brand operating margin is expected to be 13.6%, reflecting a reduction in gross margin of approximately 100 basis points versus prior year and expense timing of \$20 million into Q4 from Q3. For Jimmy Choo, we expect an operating margin loss of approximately 4.5%, reflecting normal seasonality, and we expect a slightly negative operating margin for Versace.

Our effective tax rate is expected to be approximately 20%. We forecast weighted average shares outstanding of 153 million, resulting in diluted earnings per share in a range of \$0.56 to \$0.61, including anticipated Versace dilution of approximately \$0.15.

Now I'd like to discuss the fiscal 2020 and beyond for Capri Holdings. While we normally provide long-term expectations at our Investor Day, given the acquisition of Versace, we felt it is important to update guidance for our group and have added a table to our earnings release outlining the major components of these growth expectations.

Turning to fiscal 2020, we expect Capri Holdings revenue of approximately \$6.1 billion, including approximately \$900 million for Versace, and \$650 million for Jimmy Choo, and \$4.55 billion for Michael Kors. We expect Capri Holdings operating margin of approximately 15.5% and earnings per share of approximately \$4.95.

Turning to our capital allocation, we plan on investing approximately \$300 million in capital expenditures focused on new store development, IT, and infrastructure. Our strong free cash flow will also enable us to reduce debt by over \$500 million in fiscal 2020.

Now I'd like to add some additional information for Versace. Fiscal 2020 Versace revenue reflects high single-digit growth on a constant currency basis. On a like-for-like basis, adjusted for exiting the Versus and Collection business line, Versace's core business would be growing at a double-digit rate. We forecast Versace's operating margin to be flat, reflecting incremental non-cash purchase price amortization of approximately \$20 million and increased investments to support growth. We expect to incur transaction costs of \$50 million related to the acquisition, and transition and integration costs of approximately \$100 million to \$150 million over the next several years as we integrate Versace into the broader group. We continue to believe Versace will deliver mid-teens operating margin within the next few years.

For Capri Holdings, beyond fiscal 2020, we expect to deliver accelerated revenue and EPS growth. These results will be driven by revenue growth for Versace, Jimmy Choo, and Michael Kors, as well as expanded margins from Versace and Jimmy Choo. We look forward to providing additional guidance and long-term expectations at our June Investor Day.

In conclusion, we are taking actions to drive strong results and remain confident that our three brands, Versace, Jimmy Choo, and Michael Kors, position our global fashion luxury group to achieve meaningful long-term revenue and earnings growth.

Now, I will open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will now take our first question from Mr. Matthew Boss from JPMorgan. Please go ahead, sir.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Thanks. So, on the Michael Kors brand, I guess, maybe could you elaborate a little on the drivers behind the 100 basis points gross margin compression here in the fourth quarter? Maybe just anything on the near-term puts and takes on the comp. And then just multiyear, the three-year outlook for the Kors brand now calls for stable margins. I'm just curious what the embedded comp in that three year plan is.

John D. Idol
Chairman & Chief Executive Officer, Capri Holdings Ltd.

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Good morning, Matt. Let me first start off by saying, as we said in our prepared remarks, I'm extremely excited to see Capri Holdings in the position that it's in today to have the power of the Versace brand, to have the great performance that we've seen in Jimmy Choo, and of course, we've got a very powerful brand in Michael Kors. And we started a vision for Michael Kors called Runway 2020, which was focused on three initiatives. First being product innovation and how we would return the brand to growth through the exciting level of product that we were delivering.

During the quarter, we saw something that – we had pushed very hard on the amount of fashion that we had delivered into the stores, and had at the end of the spring season – or kind of majority of the spring season we were reducing our signature penetration in the company. That was a mistake. We should have not reduced our signature penetration to the level we did. We saw an impact in Q3, given the amount of signature that we did not have inside the stores, as well also reducing our inventories a little bit too far. And so we've taken very quick corrective action that you've seen us – in Q3. And we saw some very interesting things happen in Q3. Number one, our sequential performance in accessories improved during the quarter as the new inventory flows hit really in December, which was primarily signature-driven. And so, we're very encouraged by what we saw happening there.

In the quarter, the thing that really went negatively against us was our watch business, which, unfortunately, had a much larger comp store declines than we had anticipated. And I believe that was a – we saw that across the industry both in the wholesale channel and in the retail channel. And it wasn't only our brand. We think it is secular. So that had a very significant impact on us, well over 100 basis points of comp. We were already trending down, as we reported previously. About half of our comp declines were focused on the watch business. But when you looked at this quarter, it was double the rate of where it was previously. And then also we had a planned decline in our jewelry business as we had transitioned that, but that also impacted us.

So I think in the quarter, while I know probably from the outside looking in it didn't look as good, but from the inside we had double-digit growth in our footwear in comp. We had high single-digit growth in our women's ready-to-wear. And we had sequential improvement in our accessories business. So actually internally we were not displeased from that. We did have to take markdowns that impacted the gross margin, because we had too much fashion inventory in accessories, which really impacted our overall business.

So, as Tom said in his prepared remarks, you're going to see in Q4 actually the inventory are more balanced in accessories. We think our gross margin rates in retail are going to come much more close to normalization. But that is the residual of us clearing the balance of what is left from the holiday season really in the January period that is impacting the gross margin. So that's kind of what you see happening. There is also a gross margin impact from the watch and jewelry sales, our royalties being down we're anticipating in the quarter as well. So those are really the two compression points from a gross margin standpoint.

Matt, in terms of the Michael Kors brand, as we've given long-term guidance now, and we did this attached to our – as you've seen, for a very specific reason. Now we have three very unique and distinct companies that are on different growth trajectories. And we wanted to lay out, so that you and the financial community had a very clear understanding of what we believe will be our opportunities and goals.

In Michael Kors, we do believe we're going to return to growth. It's going to be small growth next year, and that's going to be primarily driven by comps that are flat. That's what our current estimation is. We're not going to project out beyond that, but we think next year will be flat. We would have hoped to have been a little bit north of that, as I said in the Q&A on our last call, but that's being impacted clearly by watches and jewelry. We now anticipate that watches and jewelry will continue to decline at these higher accelerated rates.

And as I said, we're seeing it in our own stores, we're seeing it in the department store channel, specialty store channel. And we don't quite have a clear vision on when that will return to being stabilized. So we think flat comps for Michael Kors for next year. We are seeing some very nice growth in our men's business, so we're going to be taking a more accelerated approach to that business inside of our own stores. We said to you previously, we wanted to get our feet on the ground in that business. We think we're getting close to that, where we can accelerate the men's business. And the Asia market continues to grow for us, and so we see that as an opportunity for the company.

And lastly, I would say that you will see – we were very pleased with Europe in the quarter. We returned to positive comps. And we continue to, by the way, in this quarter see Europe performing very nicely. We're going to go up against our largest currency headwind in Q4, so that's going to, on a reported basis, have a little impact, but what we like is what we see happening there. It's the customer who's really responding to Michael's designs. We're getting some excellent sell-throughs on the product in the marketplace.

So I'd say in general, we're feeling comfortable that the Michael Kors brand is getting close to a stable point, and we'll return to growth next year. And you can see that even through our transition, we're still going to have north of 19% operating margins for the Michael Kors brand. So it's very profitable and it will create a very strong foundation for the group. And we believe that we will return to modest growth next year. And then you layer on our two acquisitions, which over the next two years you can see that – we believe we're talking low double-digit operating to mid-teens operating margins for those companies. And if you take the \$2 billion to \$3 billion level and apply that operating margin, we think we've made two excellent acquisitions, and those will really help power the group going forward from an earnings per share standpoint. Thank you very much for your question, Matt.

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Operator: [Operator Instructions] We will now take our next question from Lorraine Hutchinson from Bank of America. Please go ahead, ma'am.

Lorraine Corrine Hutchinson
Analyst, Bank of America Merrill Lynch

Q

Thank you. Good morning. I wanted to follow-up on the gross margins at Wholesale in North America. The gross margins overall in Wholesale were up, but you attributed that to Europe. Now that you've pulled a lot of the extra

inventory out of the Wholesale channel, I guess, first of all, how did it perform over the holiday season? And second, would you expect gross margins to be up in all geographies in the Wholesale business going forward? Thank you.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

A

Thank you and good morning, Lorraine. Let me talk about a few things. We planned our Wholesale business down both in North America and in Europe. And what happened during the quarter is, there were lower allowances that were given out with both North America and in Europe in the Wholesale business, much greater levels of production in Europe. So the performance overall was close to our expectations and we just had a better situation with the amount of allowance money that we returned.

So, what is, I think, most important is that we are forecasting that the – and still feel comfortable that the Wholesale business next year will be approximately flat. So we had said that we would return that business to roughly flat, possibly even a little growth next year, and I think we feel very comfortable at this point in time that the Wholesale business would be approximately flat for next year. And we've been fairly steady with the operating margin in that category. And so, again, it's going to depend on sell-throughs of the product at Retail and what our assistance is to our Retail partners. But I think we're feeling relatively comfortable and the channel definitely has seen certain strengths in various regions. Thank you, Lorraine.

Lorraine Corrine Hutchinson

Analyst, Bank of America Merrill Lynch

Q

Thanks.

Operator: We will now take our next question from Mr. Paul Lejuez from Citi. Please go ahead sir.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks, guys. John, just curious, now that Versace is in your hands, have you learned anything else that you didn't know at the time you last spoke to us about it? Any thoughts on synergies, any updates there? And I'm curious if you could talk maybe about what's driving that business. Maybe give a sense of timing when you plan to take the brand into more handbags as well. Thanks.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

A

Thanks, Paul. Yeah. I can only tell you we're even more excited. And we've been spending, really since September, super quality time together with Donatella and Jonathan and the management team, a very strong management team inside the company that Jonathan has put together over the last two years. So that's one of the great things about the company and the dedication of the employees. Some of these employees have been there since Gianni and Donatella and Santo started the company 42 years ago. It's really incredible the team that's in place there. So, I think we feel great about it. We've made a couple of new hires, in particular in the marketing. We've hired a new Chief Brand Officer for the company. That just happened recently. And we are strengthening the design teams in accessories, where the company will need to have additional resources put together in that group.

That all being said, Donatella, like Michael, is one of the most prolific designers in the fashion industry, and she has already taken the reins of the accessories project. And I believe I mentioned on the previous call, she's

already designed our new LOGO collection, which we have anticipated it delivering – it will probably be spring of 2020 at this point. But the company really doesn't have any product in that category. The strength has been around the Medusa, which we will continue to drive as an iconic element to the brand. But you're going to see much more – a very visible brand identification added to the line. And you mix that with the iconic strength and the fashion leadership that Donatella and the company have had for 42 years, we've just got a powerful, powerful opportunity for us.

So I'd say you're going to really see the accessories implementation in calendar spring of 2020 at this point as we execute. The company is also in the process of acquiring factories in Italy in both footwear and in handbags as part of our strengthening and deepening commitment to luxury. We are also building a center of excellence for our design teams to work on in Florence. This is the entire group, being Versace, Jimmy Choo, and Michael Kors. So we're moving rapidly to really position ourselves as one of the most important luxury groups in the world.

And what's driving the business is, first and foremost, Donatella's vision for fashion comes from her vision and the runway. And I think that that resonates with – and the power of the consumer who's looking at this brand. We've got a very, very strong business in Asia, which also performed well in the quarter. And you heard us talk about the Jimmy Choo business and how well that did in the quarter in Asia as well. So I think that we see the power of the brand and the fact that it's really underdeveloped in North America significantly, and that being an opportunity for us. But when you take a look at her vision for fashion and luxury, it really resonates with that consumer.

The second thing is Versace is very nimble. If you look at one of our best-selling products across the company, it's our Chain Reaction sneaker. And I hope you all saw that we had a collaboration with two chains recently during the Super Bowl. And we also just launched our Kith collection, which, if you look on Instagram, is really spectacular. So Versace even though is a luxury company deeply rooted in the precise manufacturing of luxury, it's a fashion company and can move very nimbly and is really very much in touch with the culture of what is happening.

And I would also remind you one last thing. Versace does approximately 50% of its business in men's, and I think most people don't really know that about the company. And the men's luxury market is one of the strongest luxury markets in the world right now. And we are a leader in that area. We intend on building on that even further than what we have today. So, you can hear the excitement in our voice. As we reported the company, double-digit increase during the quarter in revenue and double-digit comp store sales. And that's really powerful in today's luxury market. And I believe Versace is one of the leaders in the luxury industry today. Thank you for that question, Paul.

.....
Operator: We will now take our next question from Erinn Murphy from Piper Jaffray. Please go ahead ma'am.

Erinn E. Murphy

Analyst, Piper Jaffray & Co.

Q

Great, thanks. Good morning. I guess my question, John, for you is on Europe. The Retail side of your business seem to be a really strong highlight. And several other peers have called out more softness, France, Germany, UK So I'm curious what you're seeing on a regional basis in Europe on the Retail side, and really what's driving that just from a strategic perspective that out-performance. And then relatedly on the Wholesale side, when do we start to see the European pullback in Wholesale stabilize? Thank you.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

A

Thanks, Erinn. Two things. Number one, our Europe business has seen two things happen. As you know, we really pulled back the inventories inside the stores, and also the marketplace is less promotional than the North American marketplace. And we were really able to capitalize on a disciplined approach to how we presented the product to the consumer. And even though we did not have globally the penetration of signature that we needed, we were more disciplined about how we exited the fashion inventories in Europe, and that really helped drive our business in the markets.

We're also seeing increased traffic in our stores in Europe, which is a very positive sign. Customer engagement is up significantly in the marketplace. So we saw a very positive reaction. And to be frank and honest, it was in almost all markets. We saw some weakness in Germany, but beyond that, we really saw very positive reactions in all the markets in Europe.

On the Wholesale side, we've got still a bit more cleaning up to do. As you know, this is a – been about year and a half plus project for us in North America, and we're only about a year into it in Europe. So I'd say, that will continue on for us probably midway through next year, and then we'll start to see that business turn. We're getting in a much better position than where we had been previously. And as I said to you, we were probably putting too much inventory in the channel. And in Europe, where markdowns happened at the end of the season, there was just too much marked down inventory, and that I think actually was not a very good position for our brand perception. But we're almost through that about another six months, and I think you'll see similar upturns for the brand as well. And we've got some exciting initiatives that are going to also amplify Michael in person and his view of fashion in the Europe marketplace. And you're going to start see that happening in the May time period. We'll talk about that a bit more on our next conference call.

I also want to add that for the Michael Kors brand, huge, huge plus having Bella Hadid being the face of our company, and I hope you [ph] have all gone on and (00:55:23) see the new ad campaign. It is a very big departure for us. It is about the spirit of jet set go and it's about our spirit of optimism and movement and how a modern customer, obviously, targeted a bit more at the millennial, lives their life and how they view living a jet set life.

As Michael said, everyone's on the go and fashion needs to be a part of how that is. And what our brand embraces is optimism, and we're going to amplify that more probably than we did in the last year, where our campaigns were not quite as driven around optimism. I think you're going to see really powerful statements and messages, and that will be led by Bella Hadid.

We've got another big announcement of another face that will be part of another campaign that we're doing here that we'll talk about in our May call. That's coming. And you saw already what we did with Jimmy Choo with Kaia Gerber, and that's another powerful statement. So you can see Capri is moving quickly to amplify the strength and the image of each one of our brands distinctly, but also to position them for the modern culture and how the consumer is really looking to see the brand's position. Thank you, Erinn.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Thank you.

Operator: We will now take our next question from Kimberly Greenberger from Morgan Stanley. Please go ahead.

Kimberly Conroy Greenberger

Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. Thank you so much and good morning. John, I wanted to just ask you about the sort of medium-term outlook for the operating margin stability at the Michael Kors brand. And if I look back here in fiscal 2017, 2018, and 2019, it does look like we've sort of been hovering in this high 19% to 20% area. So it's been relatively stable.

When I look at the quarter-to-quarter, it looks like there's a lot more volatility there. And with the inventory growing, we're just trying to figure out how do we reconcile some of the higher inventory and the recent trends in gross margin with the longer-term view that the operating margin for the Kors brand can be stable roughly at this level. So, I'd love to just hear your thoughts on that.

And then with the balance improving in inventory coming into the fourth quarter, is there an opportunity for – if you get the merchandise assortment right, would there be an opportunity over the next several quarters perhaps for some merchandise margin recovery? Thanks so much.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

A

Thank you, Kimberly. I would answer two things, and then I'll let Tom also speak to it. Number one, clearly, the operating margin in retail in the third quarter is something that was not planned for. We would have expected to have better operating – well, gross margin performance, in fact, in the Retail segment. And that was – I think I've already discussed that in terms of the inventory balance. We see that recovering in the fourth quarter, as we said, although there'll be a little bit of pressure on gross margin in the quarter versus our original expectation.

And then we think that, given if we are able to get our signature inventories and some of our core inventories back up to a level that we think is appropriate and more in line with what the consumer demand is, and I might add we not only had issues with our signature inventory during Q3, where we were clearly walking customers. We also had that in some of our more Kors Styles that we had walked away from that the customer came in asking for. So, you'll see a lot of things coming to Retail very quickly that represent certain categories that we, quite frankly, had walked away from. And so I think that's going to be a positive impact to our margin.

And even though the inventories are up 8% in the quarter, you'll see that kind of decelerate down over the next couple of quarters. So we're not uncomfortable with that at all. And also some of that is some new store openings, et cetera. As you know, we brought the inventories down way too low coming out of Q2, and that was a mistake. And that was driven by us trying to continue to get the full price selling up. So I would say that we feel comfortable that the operating margins, there's always going to be movement in the quarters, but I think we feel confident that we'll be able to remain at this stable level that we gave in our guidance for the Michael Kors brand. And I'll let Tom talk to that as well.

Thomas J. Edwards, Jr.

Executive Vice President, Chief Financial Officer, Chief Operating Officer & Treasurer, Capri Holdings Ltd.

A

Sure. Kimberly, the one thing I'd add is over the past few years one impact to operating margin has been deleveraged due to Wholesale declines in revenue. And as we discussed, Q3 for the Americas [ph] the larger (01:00:56) adjustment in inventory in the channel. And as John noted, Europe over the next six plus months or six months will be in a better position in Wholesale. And that headwind will then normalize. So that will also be a support as we look at these stable margins over the next several years.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

A

Yeah. And, Kimberly, [ph] something else and I've got – (01:01:17) Tom's raised a good point. Number one, we've said that, we think Wholesale will be approximately flat next year. And the other thing that's happening is, as we have gone through our fleet optimization program, we've closed a lot of stores that were unproductive, unprofitable for us. And you're going to see some of the benefit of that starting to show up as we go forward as well. So that program has been moving along very, very nicely.

And again, we think that that's the right thing for us to do as a company and a brand. And so you'll see between Wholesale getting flat, inventory mix getting a bit more balanced, and the fact that we've taken the fleet optimization program, and that will start to have some benefit for our Retail group, particularly in North America. We've got enough drivers there that we're going to be very comfortable with our operating margin guidance.

Kimberly Conroy Greenberger

Analyst, Morgan Stanley & Co. LLC

Q

Very helpful. Thank you.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

A

Thanks.

Operator: We will now take our last question from Mr. Randy Konik from Jefferies. Please go ahead, sir.

Randal J. Konik

Analyst, Jefferies LLC

Q

Yeah, thanks a lot. Again, the long-term outlook is very helpful for us. I just want to get a little deeper there, Tom. Around the Jimmy Choo and Versace margin outlook over the next few years, the margin growth there, is that primarily a function of SG&A kind of leverage, or is that a mixture of gross margin and SG&A? Just give us some perspective there on margin ranges or changes. And over that long-term horizon there, are those kind of fully optimized-type margin levels, or do you see them kind of having opportunity from there?

And then back to the Michael Kors, stable I guess outlook for the next few years. It appears there does seem to be some gross margin opportunity, as you noted, in the next quarter. So just curious on where we are in the gross margin range for the Kors Retail segment within the Michael Kors brand, and if there's any SG&A leverage opportunities within the Michael Kors segment as well to help those operating margins possibly beyond stable as we go forward throughout the next few years. Thanks.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

A

Okay, Randy, I'm going to take the first part. That was a lot of questions. You got a lot in there, Randy. First off, good morning.

Randal J. Konik

Analyst, Jefferies LLC

Q

[indiscernible] (01:03:54).

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

A

You did, that's good. I'm sure everybody on the call is very happy to hear all these things. So I'm going to start with one thing. When we bought Jimmy Choo, I think the company had approximately 11% or 12% operating margins, if I remember the number correctly, I mean the range. We purposely took those margins down, and we did that because we were investing in marketing and advertising. We did that because we were investing in people. We did that because we were, quite frankly, driving certain other initiatives inside the organization that we thought would benefit us for the long term.

So we could have taken the company and, quite frankly, wring more costs out of it and probably gotten the operating margins up into the mid-teens right after we bought it. Also remember there's some purchase accounting in there as well, which goes against us negatively. So we could have done all that, but that was not the decision we made. And I think you're going to see as we move forward with the accelerated growth that the company's getting, with the fact that most of our big initial investments are going to be behind us at the end of this year, little more marketing and advertising next year. But then we are going to really reap the benefits of what we have set up for Jimmy Choo.

So this is all thoughtful. It's planned. And, quite frankly, we're right on track for what we had anticipated. So that's all really good news. And I want to caveat that all by accessories, obviously, have to be successful. And you'll really see the big launch of that come this fall season with the new JC signature piece.

The second thing is, Versace is a very similar story. The company had high single-digit EBITDA margins and was moving, quite frankly, closer to mid-double-digit EBITDA margins. When we went into the company, we sat down with Donatella and Jonathan and we said, we want to invest. Our interest is not to have something that we buy this moment and we try to get costs out, and then turn around and have a one or one and half year wonderful story, and then not really have the embedded growth.

We are in a very competitive market in luxury. We know that. But for us to achieve our goal of \$2 billion, which by the way is a very realistic goal. At our Investor Day, we're going to walk you through the marketplace and who we're competing against, because remember Versace and Jimmy Choo, our competition is not the typical companies that you would normally cover in the North American market. These are European competitors, Italian and French, who we have to really dig deep and make sure we're positioned well.

So in doing that, we've taken the EBITDA/operating margins down to basically zero, and we've done that purposely. If you look at the luxury industry and how the companies that are successful in the luxury industry perform, they are typically in the mid-single digits on the very low side. And then most of them, the strong ones are in the high double digits and north, something with a 2 in front of it. So we think we've got, I would almost call it, modest expectations with these mid-teens operating margins, and in particular if you look at where other companies are in this marketplace.

So we want to make sure that everyone understands as we are doing this investing, we've made this decision and we think it's the right decision for the long-term success of Capri Holdings, which has now been repositioned as not just an American company, as a mono brand company, but as a luxury global fashion leader. So, I'll let Tom answer the balance of the questions.

Thomas J. Edwards, Jr.

Executive Vice President, Chief Financial Officer, Chief Operating Officer & Treasurer, Capri Holdings Ltd.

A

Sure. Randy, just to give a little more color on Jimmy Choo and Versace, and what is driving the growth in margins. John mentioned normalizing the investments over time, so that is absolutely a driver. Moving in and increasing our penetration in sales and accessories, which brings higher margins along with that category is an important contributor. Of course, growing overall sales provides leverage on the overall fixed cost base. So that will also help. Gross margin opportunities within that, beyond accessories Jimmy Choo is already doing a great job there, driving some gross margin opportunities just within their business.

And another one for Versace would be exiting unprofitable business lines. As we noted, they're exiting the Versus line, for instance, and that will help support their margins going forward. So we think that there are a lot of support and very clear initiatives that will help drive this. In terms of being fully optimized, I'll just reiterate what John said. We noted Versace in fiscal 2022 at low double digits. We see that as a mid-teens ultimately or perhaps larger.

And with regard to your third question for Michael Kors opportunities, I would just talk about it in terms of gross margin, and then the SG&A piece. So an optimized inventory mix is absolutely going to help support our margins and both stabilizing them and supporting them going forward. We continue – our teams continue to drive and work through manufacturing and product savings. So that's an ongoing effort that we'll continue to work on. At SG&A level, this forecast, a low single digits growth for Michael Kors will really help lever the overall P&L. And as we talked about in the other calls, the renovation and the Wholesale normalizing will also be supportive.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

A

And, Randy, I'd like to add one last thing is that I mentioned earlier, we are in the process of building a location in Florence. We're terming it a center of excellence. It's in a really amazing location, where we will have our three companies' design teams have the ability to really utilize the group's European manufacturing resources. We think there's great margin opportunity through leverage out of this facility. We are also going to be buying certain factories over the next few years. And note, we believe we will have also expanded margin opportunities in that. Those are going to be primarily footwear and accessories related.

So, we've a very clear plan of how we're going to support the luxury goods production and how we can create additional opportunities for margin at both Versace, which is today more of a ready-to-wear-driven company, men's and women's, and Jimmy Choo more of a footwear-driven company. Those are historically, as you know, not as high margin businesses as what we can develop in both the men's and women's accessories business. And there's already leverage that we've created, even in Jimmy Choo, with some of our knowledge between our three groups. And there's kind of been some significant savings that we see on the horizon from just group leather buying, different things that are starting to come through. So we never – and we still have not baked any of those synergies into any of the projections that we've given you to-date, but we do believe that over the long term, we'll be able to talk more about that as we get these initiatives implemented. So on that...

Randal J. Konik

Analyst, Jefferies LLC

Q

That's a lot of great detail for us on the call. Thank you.

John D. Idol

Chairman & Chief Executive Officer, Capri Holdings Ltd.

Thank you. I'd just like to conclude by saying, we look forward to seeing you all at our Investor Day in June. We thought it was important, as Tom said in his earlier prepared remarks, to lay out what our outlook is and our expectations for how the group and the different brands inside the group will perform over the next three years.

We feel very confident that what we have is three highly recognized and respected houses of luxury around the world, and we can build on those three houses.

We will have our moments of ups and downs. We know that. But that being said, the opportunity – and I would say in particular in Versace and Jimmy Choo as being very underdeveloped brands, given what we know from the competitive landscape and what we know from the fact that these houses have such incredible recognition with the consumer, we will optimize those over the next few years. And we think we've got the right management teams in place to be able to execute against these plans.

I also want to add that we are led by our founders. Michael Kors is still here. He has helped build this company to \$4.5 billion and he will help take us to north of \$5 billion. Donatella Versace is still at Versace and has been leading this company's growth. She will be there help taking us to over \$2 billion. And Sandra Choi, who founded Jimmy Choo, has been there and has been growing that company year-on-year. That company has grown every year since it's been in existence, is still at the helm. And our leadership with Pierre Denis there and Jonathan Akeroyd of Versace, we've got an amazing team of executives who are going to take and build these businesses going forward. So we're proud, we're excited, and we look forward to updating you on future calls about the growth of Capri Holdings. Thank you for joining us today.

Operator: This concludes today's call. Thank you very much for your participation. You may now disconnect.

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