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Capri Holdings Ltd. (CPRI)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Capri Holdings Limited Fourth Quarter Fiscal 2019 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Tom Edwards, Chief Financial Officer and Chief Operating Officer of Capri Holdings. Please go ahead.

Thomas J. Edwards

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

Good morning, everyone, and thank you for joining us on Capri Holding (sic) [Holdings] (00:00:22) Limited's fourth quarter fiscal 2019 conference call.

Before we begin, let me remind you that certain statements made on today's call may constitute forward-looking statements, which are subject to risks and uncertainties that could cause actual results to differ from those 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 this 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, 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.

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

I would also like to provide an update on our revised segment reporting structure. Given our recently expanded group, each of our three brands now forms a segment. In addition, we have created a Capri Holdings corporate cost category for activities that support our overall group. Together, these four elements comprised total Capri results.

Please note that costs now included in our Capri corporate category were previously allocated to the Michael Kors brand. The Michael Kors operating margin has been adjusted accordingly for all reporting periods and historical results will be provided in this format with a separate 8-K filing in addition to our 10-K filing. Going forward, we will discuss results and guidance at the total Capri Holdings level as well as in our three brand segments.

Finally, I would like to note that all comparable store sales numbers that we discuss today are on a constant currency basis, which is how we will be reporting these numbers going forward.

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 & Director, Capri Holdings Ltd.

Thank you, Tom, and welcome to our fourth quarter fiscal 2019 earnings call.

Looking back, 2019 was a transformational year for Capri Holdings. We expanded our fashion luxury group with the addition of Versace, one of the world's most storied Italian luxury brands. We delivered robust growth for Jimmy Choo and continued to execute against Michael Kors' three strategic growth pillars: product innovation, brand engagement, and customer experience.

Taken together, we believe our three brands position Capri Holdings to accelerate revenue growth from \$6 billion to our long-term goal of \$8 billion. We expect to grow Versace from \$900 million to \$2 billion in revenue, expand Jimmy Choo from nearly \$600 million to \$1 billion in revenue, while building Michael Kors from \$4.5 billion to \$5 billion.

Now, turning to our full year, we were pleased to report that Capri Holdings delivered double-digit revenue and earnings growth. Revenues were \$5.2 billion, an increase of 11% compared to the prior year; earnings per share of \$4.97 increased 10% versus last year, including \$0.13 dilution from the Versace acquisition.

The addition of Versace was a milestone and a strategic expansion of our global fashion luxury group. We have quickly and successfully integrated this new acquisition into Capri Holdings and have already begun to implement our growth initiatives to rapidly expand the brand's global presence. We are building on a base of strength and momentum as Versace delivered double-digit revenue and comparable store sales growth over the past year.

For Jimmy Choo, we successfully executed against our growth plans and delivered double-digit revenue results in fiscal 2019. Comparable store sales increased mid-single digits during the year, led by our iconic footwear offerings. And the brand is now positioned to accelerate its accessories expansion. Operating earnings were above our expectations, and Jimmy Choo was accretive to fiscal 2019, a full year ahead of our initial expectations.

Michael Kors delivered stable results for the year, with revenue flat and overall operating margin in line with the prior year. Comparable store sales were down 1.4% for the year. These results were consistent with our expectation to stabilize and rebalance Michael Kors in order to reposition the brand for long-term growth.

Taken together, we are encouraged with our strategic and operational progress in fiscal 2019 and believe we are well positioned to deliver on our long-term growth targets.

Turning to fourth quarter results. For Capri Holdings, we exceeded our expectations on both top and bottom lines. Revenues in the fourth quarter were \$1.3 billion and increased 14% year-over-year, reflecting the addition of Versace, growth for Jimmy Choo, and flat revenue for Michael Kors. Earnings per share of \$0.63 was above our expectations and flat to prior year, including dilution from our acquisition of Versace.

Moving to Versace, we were pleased with fourth quarter results: our revenue of \$137 million, ahead of our expectations; comparable store sales grew in the high-single digits, driven by strength in ready-to-wear and footwear.

In women's ready-to-wear, Versace's spring themes resonated with customers. The collection was bold and refined, mixing a vibrant blend of colors and Versace symbolism. The iconic hibiscus and Versace alphabet prints combined past and present with a modern youthful attitude. Versace's trademarks adorned streetwear pieces that were colorful, playful and strong, while more formal styles displayed novelty detailing an iconic hardware.

The men's line exuded confidence and employed further interpretations of the Versace trademark symbols, including heritage prints, the Medusa, and vintage logo presented in new forms. The men's offerings range from streetwear to formal wear, highlighting the breadth of the offerings in our menswear collections.

Building on the brand's artistic range, another focal point for the quarter was a capsule collection with Kith, one of the most influential fashion retailers. The collaboration presented Versace's signature opulence through Kith's trademark streetwear lens and resonated with customers.

On the red carpet, Versace continue to address celebrities with unparalleled glamour and luxury from Donatella's Atelier, including Taylor Swift, Sandra Oh, Irina Shayk, Henry Golding, Constance Wu, Rosie Huntington, Regina King, Chloe and Halle Bailey, Angelina Jolie, Ariana Grande, Chadwick Boseman, Naomi Campbell, and Cardi B.

In footwear, performance was led by the continued expansion of fashion active. In our core active offering, the Chain Reaction line remained our bestseller. To build on this momentum, we expanded Chain Reaction with a capsule collection featuring a collaboration with renowned musician 2 Chainz. The capsule collection was led by the 2Chain Reaction. This sneaker that merged 2 Chainz aesthetics with Versace's classic Greek Key detailing love lettering and iconic chain-link sole. The capsule included athletic wear and was well received.

In terms of brand awareness and engagement, Versace supported the Kith and 2 Chainz collaboration with extensive social media coverage. The brand also held two runway shows during the quarter. The men's show reflected on the modern concept of a man challenging stereotypes to display different facets of characters through style choice. The show also featured signature pattern silks and animal prints, ranging from vibrant colors to highly refined tailored offerings.

The women's show explored the house's code through a new lens, with a focus on the iconic Versace Safety Pin in newly embellished interpretations. The collection highlighted other signature features barocco such as silk prints, the Greek Key, and elegant gold chains that adorned several styles. The show was also marked by the

debut of the brand's new Barocco V logo, a bold symbol of the brand's aesthetic heritage, which was prominently featured on the new Virtus handbag collection.

The Virtus was presented in a variety of silhouettes and finishes, including V-pattern quilting, vibrant color combination, and mixed materials. Both shows were met with critical acclaim, drawing press and celebrities from around the world.

During the quarter, Versace's Instagram followers grew 17 million, an increase of 45% over prior year. Additionally, Donatella's personal Instagram followers reached 4 million, demonstrating the power of the Versace brand.

Moving to Jimmy Choo, we were pleased with fourth quarter results as revenues grew nearly 30% and comparable store sales increased in the mid-single-digits. Comparable sales were driven by continued strength in footwear, partially offset by softer handbag performance as we continue to transition to our new accessories platform.

In footwear, several new fashion collections showed strong performance including Bing, a luxury mule with crystal-encrusted detailing and Lavish, a suede pump with black and silver glitter tulle overlay. Romy remained the bestseller in our 24:7 line.

In fashion active, the newly introduced Raine sneaker highlighted in our Spring campaign featuring Kaia Gerbe quickly became a bestseller. The Raine features luxurious calfskin with a bold logo sole and is offered in glitter fabric in a variety of luxe color combinations.

Our recently launched DIAMOND Sneaker featuring a clear sole, silver laces, crystal shimmer suede was also an instant success and quickly sold out in many styles. Sales of Raine and DIAMOND are both exceeding our expectations.

Jimmy Choo continued to dominate the red carpet with celebrities such as Beyoncé, Brie Larson, Emilia Clarke, Emily Blunt, Lady Gaga, Amy Adams, Penélope Cruz, Jennifer Lopez, Kylie Jenner and Mary J. Blige, all photographed wearing our shoes.

In accessories, we introduced the first fashion group under our new design team as we began to position this category for future growth. This new collection called Helia features Jimmy Choo's star signature quilt design, crafted on Nappa leather and is highlighted in our Spring campaign with Kaia Gerber. Initial consumer response was positive.

In our existing collections, performance continued to be led by Callie, a timeless and elegant clutch offered in suede and satin with a variety of embellishments ranging from crystals to pearls.

In terms of brand awareness and engagement, our Helia bag and Raine sneaker launches were supported by broad marketing and social media campaigns featuring Kaia Gerber. Kaia's authenticity transcends generation and is the perfect representation of the dynamic energy of the Jimmy Choo brand.

We also expanded our customer outreach in Japan during the quarter launching on LINE, Japan's preeminent social media platform. Initial response was very strong with significant engagement and rapidly expanding following.

During the quarter, Jimmy Choo's Instagram followers grew to 10 million, an increase of 26% versus last year.

Now turning to Michael Kors' fourth quarter revenue, which was in line with our expectations and flat compared to prior year, comparable store sales declined 1%, including headwinds from our watch and jewelry categories.

Moving to our product performance, in accessories, Michael Kors Collection, the Bancroft group, remained a customer favorite particularly in color blocking styles. The new Bancroft mid-sized shoulder satchel was introduced with novelty treatments from the runway and showed strong results.

In our MICHAEL Michael Kors line, Whitney remained the best-selling group led by novelty iterations such as quilting, seasonal denim and embellished hardware mixes.

During the quarter, we introduced Cece, which features an elegant fold-over silhouette lock and key detailings as well as studded metal finishes. This new group that effortlessly takes the customer from day to night was an immediate success.

Our Michael Kors Signature styles continued to show strong demand. We remain under-inventoried in this classification and we'll take a larger position in coming quarters. We continue to plan to grow Signature to approximately 30% of our retail fleet accessory sales by the end of the year.

Moving to footwear, performance was driven by fashion active, which was led by our best-selling Skyler, Felix and Kendra sneakers. The recently launched Olympia rapidly became a bestseller and our new [ph] luxe cheetah hair-calf treatments (00:16:36) launched across multiple categories were well received.

In women's ready-to-wear, fashion items featured on our Bella Hadid campaign resonated, particularly outerwear with metallic foil and butterfly-embroidered novelty detailing. In dresses, Michael's spring collection incorporated soft feminine treatments highlighted by floral sequins, lace and seasonal colors, and were well received.

In our men's business in sportswear, our signature Greenwich Polo remained the top seller while customers responded enthusiastically to our burnished leather jean jacket and baseball jackets with color blocking.

Our men's accessories collection continued to show strong growth led by our pebbled leather racing group. Backpacks were our top sellers in the quarter led by Grayson, Henry and Kent groups. We expanded our Signature product representations including a signature athletic capsule that performed well.

In our watch category, despite our initiatives to mitigate declines in this segment, the overall watch category remains more challenged with declines above historical levels. We continue to focus on accelerating our fine jewelry line to offset watch declines longer term.

With respect to brand awareness and customer engagement, Michael Kors was the number one most engaged brand during New York Fashion Week on social media. This performance was driven by Michael's fall runway show, which was inspired by the glamour, fun and energy of Studio 54. The show highlighted alluring pieces that conveyed romance and opulence.

We also saw a positive response to our exciting MICHAEL Michael Kors Spring Campaign featuring supermodel, Bella Hadid, as the new face of our brand. Bella's quintessential jet set attitude radiated across social media, print and in-store. We continue to expand our database globally, reaching approximately 36 million customers, a 27%

increase over last year. We increased our global social media audience by 9% to over 45 million followers, both of which demonstrate the strength and desirability of the Michael Kors brand.

Now moving to our expectations for Capri Holdings for fiscal 2020, fiscal 2020 will be an investment year for our company as we invest more heavily in Versace and Jimmy Choo to capitalize on the long-term opportunities for both of these preeminent luxury houses. We expect to deliver double-digit revenue growth as we build momentum and scale for our group.

Earnings per share are expected to be approximately flat to prior year, including anticipated dilution from the first year of Versace acquisition and a higher tax rate. This performance will be driven by clearly defined initiatives in each of our three luxury brands.

Starting with Versace, we will execute against our growth initiatives. First, we will build on Versace's luxury runway momentum driven by Donatella's fashion vision. Second, we will enhance the brand's powerful and iconic marketing by adding significantly to the company's spending levels to expand engagement and monetize our large social media following. Third, we will increase the brand's global retail footprint openings, approximately 30 new luxury stores this year. Fourth, we will accelerate e-commerce and omni-channel development, leveraging Capri's capabilities to launch omni-channel in the year. And fifth, we will expand Versace's accessories and footwear business with the addition of new design teams that will be led by Donatella's creative vision to develop compelling new collections.

With these resources and focus, we intend to significantly expand our accessories signature offering for fall 2020.

For Jimmy Choo, in fiscal 2020, we expect to grow revenues double-digit and expand our operating margin moderately. First, we will continue our footwear innovation led by Sandra Choi's design vision to create glamorous red carpet fashion collections, while placing renewed emphasis on building the rapidly growing fashion active classification.

Second, our strategy to expand accessories penetration remains on track. We recently launched the Madeline group, which is performing well in our retail stores. Looking ahead, we plan to introduce our first-ever signature JC collection in the fall supported by a 360-degree marketing campaign featuring Kaia Gerber.

Third, we will continue our retail expansion program and add approximately 30 new stores. Given the strong success of our recent openings, we have decided to target a global fleet of 300 stores, which represents a 50-store increase from our prior expectations.

With the Michael Kors brand, we expect fiscal 2020 revenues to be slightly below prior year, while delivering stable operating income margin. We will continue to execute on our strategic growth initiatives.

First, we will maintain our focus on product innovation, delivering fashion and newness across all product categories, as well as expanding our successful signature offering driven by Michael's vision. Second, we plan to continue to increase brand engagement by leveraging Michael's leading social media presence and enhancing our 360-degree marketing efforts. Third, we plan to enhance customer experience by expanding our customer database, continuing to remodel stores, and broadening our successful clienteling program.

In conclusion, fiscal 2019 was a transformational year for Capri Holdings. With the combined power of our three iconic founder-led fashion brands – Versace, Jimmy Choo and Michael Kors -we have positioned Capri Holdings to accelerate revenues to \$8 billion over time and deliver multiple years of earnings growth. We believe our fiscal

2020 initiatives will position us for growth and we look forward to sharing more details at our upcoming Investor Day on June 4.

Now, let me turn the call over to Tom.

Thomas J. Edwards

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

Thank you, John. Starting with the fourth quarter, revenue of \$1.3 billion increased 14% compared to last year, driven by incremental Versace revenue, strong growth at Jimmy Choo, and flat Michael Kors results. Net income of \$95 million and diluted earnings per share of \$0.63 were ahead of our expectations.

Moving to revenue performance by brand, Versace revenues were \$137 million, which was ahead of our expectations and represents high single-digit growth compared to last year on a constant currency basis. These results were driven by high single-digit comparable store sales growth led by continued strength in men's and women's ready-to-wear as well as active footwear.

Versace ended the year with a global luxury fleet of 188 retail stores. Versace's new retail store concept debuted in Florence, Munich and Bal Harbour. We are encouraged by the performance of the stores, which are showing a significant sales uplift. These strong results give us confidence for the future success of our store renovation program.

Now, I would like to turn to Jimmy Choo. Revenues during the quarter were \$139 million, representing a 29% increase compared to prior year. These results were driven by three factors.

First, we added 26 net new stores versus last year, bringing the total global fleet to 208 retail stores. Second, Q4 benefited from a wholesale shipment timing shift from Q1 of approximately \$10 million. And third, comparable store sales increased in the mid-single-digits, reflecting continued strength in footwear, partially offset by flat accessories sales.

Turning to Michael Kors, revenues of \$1.07 billion were flat compared to last year on a reported basis and increased 2% on a constant currency basis. Comparable sales declined 1%, with watches and jewelry continuing to be a large headwind in the quarter that reduced total comparable sales by a combined 170 basis points. Comparable sales grew in Europe and Asia, offset by declines in the Americas. Global e-commerce benefited comparable sales by 350 basis points.

Now, turning to total company margin performance. Gross margin was 59.4%, a decrease of 90 basis points over prior year. This reflects an anticipated decline in Michael Kors brand gross margin compared to the prior year, partially offset by a benefit from the inclusion of Versace.

Total company operating expense increased \$115 million. This reflects \$95 million in expense related to the addition of Versace, with the remainder driven by moderate increases at Jimmy Choo and Michael Kors, both primarily related to retail store expansion. As a percentage of revenue, operating expense increased 270 basis points to 50%, primarily due to the addition of the Versace business.

Total company operating margin was 9.3% compared to 13.1% last year, driven primarily by the addition of the Versace business. Versace's operating margin was negative 4.4%, reflecting only two months of results and additional brand investments. Jimmy Choo's operating margin was negative 5.8% during the quarter, reflecting normal seasonality and additional investments, but representing a significant improvement from last year's margin

of negative 14.8%. Michael Kors' operating margin was 15.5%, a 270-basis-point decline primarily reflecting lower gross margin and higher expenses related to store expansion.

Our tax rate for the quarter was 11.2% compared to 31.2% in the prior year, primarily reflecting the realization of certain tax credits and the benefit of lapping higher provisions recorded in the prior year.

Turning to our balance sheet, we ended the quarter with \$172 million in cash and cash equivalents and \$2.6 billion of debt. Inventory was \$953 million compared to inventory of \$661 million last year, with the increase primarily reflecting the addition of Versace inventory of \$193 million. Jimmy Choo inventory increased 22% compared to the prior year, reflecting revenue growth. Michael Kors' inventory increased 13% compared to prior year, reflecting an increase in signature and core accessories products as we build these classifications to higher mix levels. Additionally, this increase reflects higher in-transit inventory, reflecting changes in our manufacturing sourcing.

We expect inventory to remain elevated over the next several quarters. We believe returning to a more appropriate inventory position will help us support higher gross margins in the back half of the year.

Capital expenditures for the quarter were \$46 million and were primarily spent on new store development, renovations, IT and e-commerce enhancements.

Now, we'd like to turn to our full-year 2020 guidance. As John noted, fiscal 2020 will be an investment year for Capri. We forecast Capri Holdings revenue of approximately \$6 billion.

For Versace, we expect revenue of approximately \$900 million. While this is a moderate increase compared to prior year, underlying performance reflects growth in Versace's core luxury business, led by retail store expansion and a comparable sales increase in the mid-single-digits, partially offset by unfavorable foreign exchange translation and the impact of exiting the Versus and Collection business lines, which account for a revenue reduction of approximately \$50 million.

For Jimmy Choo, we [ph] projected (00:29:42) double-digit increase in revenue to approximately \$650 million, supported by mid-single-digit growth in comparable sales and expansion of our retail store network as we continue to execute on our accelerated growth initiatives.

We now forecast Michael Kors revenue of approximately \$4.45 billion, a slight reduction from prior forecast and prior year, reflecting incremental negative foreign exchange impact from an anticipated stronger U.S. dollar and approximately \$50 million in lower wholesale revenue driven by reduced U. S. accessories shipments. We expect Michael Kors comparable sales to be approximately flat.

We expect Capri Holdings operating margin of approximately 15.5%. Versace's operating margin is forecasted to be positive low single-digits, an improvement from our prior expectation of flat. Versace's operating margin is below historical levels due to increased investments to support accelerated growth and position the brand to expand operating margins to mid-teens longer-term.

For Jimmy Choo, we expect a modest improvement in operating margin in fiscal 2020, reflecting progress as we continue to invest in the brand to drive accelerated growth. We're confident these strategic investments will position us to achieve our long-term revenue target of \$1 billion and an operating margin in the mid-teens as we build greater global scale and further expand the accessories business.

For Michael Kors, we expect a flat operating margin compared to prior year in line with the brand's positioning as the foundation of our global fashion luxury group. We forecast interest expense in the range of \$25 million to \$35 million and our effective tax rate is expected to be approximately 15% for the year. We forecast weighted average shares outstanding of 155 million, resulting in diluted earnings per share of approximately \$4.95 including anticipated Versace dilution of approximately \$0.25.

Turning to capital expenditures. We expect to spend approximately \$300 million in fiscal 2020, which includes store openings of approximately 30 for Versace, 30 for Jimmy Choo, and 40 for Michael Kors, as well as store remodels and IT expenditures. We expect our strong free cash flow will also enable us to reduce debt by over \$500 million.

Now I'd like to discuss our non-GAAP charge expectations for fiscal 2020 and the related business initiatives. First, as part of our transition to a global fashion luxury group, we've created a transformation initiative to deliver synergies across our business by building out corporate shared services, leveraging or creating common systems to accelerate business initiatives in areas such as e-commerce and creating operational centers of excellence.

We are targeting synergies of \$50 million on an annualized basis which we expect to achieve over the next several years. In fiscal 2020, we forecast implementation cost of approximately \$10 million related to this program.

Second, we have embarked on an initiative to build a foundation for a fashion luxury group that will support future growth, operational excellence, and further long-term synergies. We intend to have all of our brands operating on one consistent ERP platform, the SAP S/4HANA fashion management system, which is specifically designed and optimized for all aspects of the fashion business. We expect to begin implementing the system later in calendar 2020, but we'll begin incurring costs related to this implementation this year. The estimated expense and capital investment over the life of the initiative is approximately \$350 million.

In fiscal 2020, we expect to incur approximately \$40 million to \$50 million in expense, which will be reported in Capri Corporate and \$30 million in capital related to this project.

Third, with respect to our recent acquisitions, we expect to incur transition and integration cost of \$60 million to \$70 million in fiscal 2020. Finally, as part of our fleet optimization for Michael Kors, we have closed 100 stores to-date with related restructuring charges of approximately \$94 million. We plan to largely complete this initiative in fiscal 2020 with the closure of approximately 50 additional stores and incur related restructuring charges of up to \$30 million.

Beyond 2020, we will continue to evaluate the profitability of all our stores on an ongoing basis and close unprofitable locations. Before sharing first quarter guidance, I would like to review the normal seasonal earnings variation for the Versace brand.

We expect Versace to generate an operating loss in Q1 and Q3 with the brand's highest earnings quarter being Q2 and Q4. From a year-over-year perspective, we expect to further benefit in Q4 from an added month of Versace results in the quarter as we anniversary the acquisition date. The additional month, December, is Versace's most profitable month of the year as included in Capri's Q4 results due to reporting Versace on a one-month lag.

Now looking at total Capri Holdings on a quarterly earnings basis through the year. We expect first and third quarter EPS to be below prior year, second quarter to be approximately even with prior year, and stronger fourth quarter EPS growth.

Turning to first quarter guidance. We expect total company revenue of approximately \$1.36 billion, a double-digit increase. We forecast Versace revenue of approximately \$200 million and mid-single-digit growth in comparable sales.

For Jimmy Choo, we expect revenue to be approximately flat in the quarter. This reflects the negative impact of the shift in wholesale shipment timing that benefited Q4 and unfavorable foreign exchange impact, offset by continued underlying growth in retail revenue and low single-digit growth in comparable sales.

For Michael Kors, we expect revenue to be moderately below prior year, primarily reflecting negative foreign currency translation and lower wholesale and licensing revenue. We expect comparable sales in the negative low single-digits, closer to the lower end of the range. Our Q1 operating margin is expected to be approximately 13%. For Versace, we expect a negative operating margin, reflecting normal seasonality and increased investments to support our growth initiative.

For Jimmy Choo, we expect a positive operating margin, but below prior year primarily due to higher investments to support our growth initiatives. Michael Kors brand operating margin is expected to be lower than prior year, reflecting a reduction in wholesale and licensing revenue.

Interest expense is expected to be approximately \$8 million to \$12 million. Our effective tax rate is expected to be approximately 18%, which is higher than prior year as we lap benefits related to employee equity compensation realized in fiscal 2019. We forecast weighted average shares outstanding of 155 million, resulting in diluted earnings per share in the range of \$0.85 to \$0.90 including anticipated Versace dilution of approximately \$0.15.

In conclusion, we believe our fiscal 2020 plans position Capri Holdings to deliver meaningful long-term revenue and EPS growth. These results will be driven by higher revenue growth and margin expansion for Versace and Jimmy Choo with Michael Kors as our foundation.

Now, I will open up the lines for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll take our first question from Oliver Chen with Cowen and Company.

Oliver Chen

Analyst, Cowen & Co. LLC

Q

Hi, thank you. At the Michael Kors brand, you mentioned more inventory leading to better growth margins. Maybe you could help us understand how growth margins are trending by channel and what your forecast calls for in terms of wholesale versus direct-to-consumer, and related to that, is your conviction around the signature opportunity. Thank you.

John D. Idol

Chairman, Chief Executive Officer & Director, Capri Holdings Ltd.

A

Good morning, Oliver. That was a lot of question to start out the morning, but first off, I'd just like to say that I think Capri Holdings had an outstanding year last year, and with double-digit top line revenue and earnings per share growth and the acquisition of Versace. So I think we've really positioned our company for long-term growth, and obviously, we're setting ourselves up this year for really positioning the company for double-digit earnings growth in fiscal 2021.

So let me talk first to your question about the Michael Kors margins and where that's going and how that's related to the accessories inventory. So, as you know, we reported comp store sales down about 1% during the quarter, and that was really impacted once again by our watch business primarily and to a slightly lesser degree our jewelry business as we have [ph] repositioned (00:39:28) that from a fashion jewelry line to a fine jewelry line. And we're starting to see some very interesting and nice results around that transition as we're actually seeing on some – on individual stores. Because we have that line and less [ph] doors (00:39:46). We're starting to see some comp store growth in that category against the fashion jewelry line. So we like what's happening there.

We also like, Oliver, what we saw during the quarter with our business and our stores. Again, given the high trend of the decline in the watch and to a lesser degree jewelry sales, that meant that other categories were performing well for us, and particularly again, our footwear, our women's ready-to-wear or menswear all comped up very, very nicely. And we're seeing some very nice trends in the accessories business. So in particular, signature is significantly outperforming its inventory levels and that's in all channels. And so we still have not forecasted enough inventory in that category.

You may remember last year in Q1 and in Q2, the inventories for Michael Kors were down about 10%. We tried to really squeeze the inventories turn much faster. We thought that would create a healthier environment for us. And in fact, we probably pulled back too quickly and most of that pullback as you probably recall came out of signature, and as we went after a little bit more fashion and some of our core styles. The customer clearly said to us in the back half of the year that is not what they were looking for from the company. So we reacted. Quite frankly, we thought we'd be in a little better position than we are now. But again, our sell-throughs are just happening so fast in that category and that's both in our own channels and in our retail partner channels as well. So we intend to again significantly get that inventory up.

We're also seeing some very strong new introductions that you heard me talk about during our prepared remarks and that's very encouraging for us. We haven't seen that quite frankly in probably about four or five quarters. But

we have a couple of new groups that have hit the floor. They're really starting to generate velocity for us. So we're getting behind those. We're also looking at some of our replenishment programs and trying to up that.

What that's going to do for us, Oliver, is in the back half of the year where we were underinventoried in signature, underinventoried in core product, and obviously we were taking markdowns to a higher degree in both our fiscal third quarter and fourth quarter on fashion. We will have less of that and we actually believe that there will be margin expansion for Michael Kors in the third and fourth quarter, and again particularly led by our accessories business.

And then in our retail partner channel, we are going through that same level of transition. And clearly, the department store channel in North America had been more challenged in the accessible luxury category and we just don't exactly know when that's going to stop, but you can see that we've taken down our revenue projections in that category. That all being said, I'm very proud of the fact that we're not going to be maintaining operating margins in Michael Kors. Revenues will be down slightly but we really – we're not calling a return to comp store growth in the accessories category, but I think we're seeing a path to where we can get to that and I would like to think that starts to – we start to see that towards the back half of the year as our inventories get more lined up with how the ownership needs to be especially given the consumer response. And again, signature is performing extremely well for the company in all channels. Thank you, Oliver.

Oliver Chen

Analyst, Cowen & Co. LLC

Thank you.

Q

Operator: We'll take our next question from Randy Konik with Jefferies.

Randal J. Konik

Analyst, Jefferies LLC

Yes, thanks a lot. Good morning. I guess a question for Tom. Can you just clarify the quarterly cadence on the guidance real quick? I think you said, just want to make sure we're clear, I think you said flat EPS for the second quarter, down EPS for the third quarter, and we know the guidance for the first quarter. And so I just wanted to make sure does that imply that we should see fourth quarter up sizably?

Q

And then second part of the question would be around I think you said something along the lines of \$15 million of annualized synergies over time. So, in that, is that incorporated in the fiscal 2021, 2022 outlook? Or is that not incorporated? And if it's not incorporated, when can we start to see those synergies? Just curious on non-financial things, how do you think about the groups or these houses of excellence working together on helping to benefit with a product assortment or product design, et cetera? Thanks.

Thomas J. Edwards

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

Okay. Thanks, Randy. Let me just go through the cadence. First, you articulated it correctly about approximately flat in Q2, a little lower in Q3, and Q4 would be higher. And I would talk about a little context in Q4 that we're benefiting from Versace with both an additional month and favorable seasonality. In Jimmy Choo, we'll begin anniversaring investments and see that inflection begin on operating margin and income. And as John was noting for Michael Kors as we are in a better inventory position with higher signature [ph] in Kors (00:45:50). That positions the Michael Kors business to begin to see margin expansion. So we believe that that will begin to all pull together at that point.

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In terms of synergies, the \$50 million in synergies over time, they are not built into the current forecast. We're still working through all of the pieces and developing our plans and we'll continue to update you as we see that going forward. And in terms of the group and how the group's working together, I'll let John speak to that.

John D. Idol

Chairman, Chief Executive Officer & Director, Capri Holdings Ltd.

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Yeah, thank you, and good morning, Randy. Randy, I think we're very pleased with the integration of Jimmy Choo into the company. That's gone really well for us. And I think we feel similarly to how we're integrating Versace. We're moving very quickly. I'd point out, number one, we closed the collection [ph] in versus line (00:46:46) which will have about a \$50 million impact this year. In actual revenues, it was over \$85 million the prior year. So we're moving quick to make sure that we focus on the luxury part of Versace as we position this towards long-term growth.

I would also add that we are in the process of buying factories that we've talked about previously. We're not prepared to disclose all that information yet, but we are moving quickly towards that. We're also building a new building in Florence, which will house our Jimmy Choo and Versace and some of the Michael Kors made in Italy production groups and design development will take place there and a great place for the design teams to work. So we're creating synergies where we're able to work with some of our leather suppliers, some of our manufacturers, and we're already seeing some of that come to fruition where we're using the group's leverage to create benefit, everything from quality to cost and to resources that are available to us.

And what I'm also very proud of under the leadership of Pierre Denis and Jonathan Akeroyd is how closely their teams are working together. Because remember, the Versace and the Jimmy Choo businesses are slightly different than the Michael Kors business and the amount of product that we're making in Italy is significantly higher at those two companies versus Michael Kors, but we're also layering that into really actually benefit Michael Kors and our collection business.

So, with all of that and then we're layering on our new systems implementation that Tom talked about with SAP, we really think that we're going to be able to create some significant synergies everything from supply chain, to warehouse, the distribution and also how we're able to provide resources to our design teams to be able to let them move very quickly. So I think again, we've been working at this since almost September of last year, so this is not a new initiative for the company, but it takes some time to actually get all these pieces of the puzzle up and running together. And so far so good that we're seeing those initiatives come together and will benefit us in the future.

Randal J. Konik

Analyst, Jefferies LLC

Q

Very helpful. Thank you.

Operator: We will take our next question from Matt Boss with JPMorgan.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Thanks. On the Michael Kors margins, I guess what was gross margin performance in the fourth quarter relative to the 100 basis points contraction forecast? And then within the stable operating margin guide for Kors next year, what's the best way to think about gross margin embedded within that?

Thomas J. Edwards

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

A

So Matt we're not guiding any longer to gross margins at a brand level more to operating margins. And once you adjust for the change in our corporate category cost, Michael Kors margin in Q4 was a little lower than we had anticipated coming into the quarter. When we look at next year and this current year fiscal 2020, we expect the cadence of slightly lower in the beginning earlier parts of the year and then reflecting positive later in the year supported by the inventory position. We'll be talking more to total operating margin as we move forward.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. John, maybe just a follow-up in North America. I guess higher level, how would you assess the current health of the accessory, luxury handbag category, and just any changes over the past year in your view?

John D. Idol

Chairman, Chief Executive Officer & Director, Capri Holdings Ltd.

A

Matt, I would break the two categories down separately. The luxury accessories business globally still feels very healthy. And obviously with the strongest momentum being in Asia and then Europe and then kind of Europe and the U.S. are similar. On the accessible luxury business, the cadence is somewhat similar in that the Asia market remains robust for that category. For us, in Europe, we had a very strong performance second quarter in a row, showing very nice comp store increases in Europe.

So we're really pleased with how that business has returned to health and that was all part of our repositioning as you know or knew about. We're not 100% with our repositioning on the accessories piece of the business over there. But it's getting better. We're starting to see some return to health there as well. North America, I would say the market is weak. And we believe that the North American accessible or luxury market is, I would say, about flat to may be slightly down.

And again we are one of the large players in that market, so I think we have a sense of it. And I think that unfortunately has been driven to some degree by some activities around promotions, where we see our competitors have been very aggressive in price. And that seems to drive down more of the transaction value. So we're actually seeing unit sales up continued. It's unfortunate that it's more of a pricing issue. That's another reason why we want to continue to take product out of the marketplace.

One of the initiatives we're actually working on, Matt, that you'll hear us talk about in our Investor Day is we would like to see the North American accessories market contract a little bit more for us. And in fact, we want to go after even more heavily our women's ready-to-wear footwear. And of course our men's business is starting to get some nice traction. So we want to take the pressure off of everything having to be around women's accessories. And so that's kind of going to be the plan that you'll see us talk about in our Investor Day. And we think that's a healthier long-term road for us.

Again, we believe, we're – we know we're less promotional than we've been in the past. And we're going to continue to try and take that position. And if we can take a little more product out of the marketplace that we think will create – continue to create health for the brand. I don't see the North American marketplace returning to any type of significant growth in the accessories category in the near-term.

And again, I want to remind everyone on this call, that our – we're looking for Michael Kors, the brand, to be stable. We know that's going to be down a little bit in North America. It's going to be up in Europe and in Asia. We

believe, we're going to maintain stable operating margins. So, if we can keep Michael Kors as the foundation, as we transition a little bit more to our women's ready-to-wear footwear and menswear, we think that's a good place for us to inflect for future growth along with Asia opportunity.

And then really as you look out over the next year or two, what we're not going to be able to do with Versace and Jimmy Choo, it's going to add to our earnings pretty quickly. And so we feel really good, quite frankly, about the position that we're in right now, and also feel good about the fact that we reaffirmed our guidance, which is consistent with what we had talked about in the last call. And I think as you map the pieces, you'll see how that comes together very nicely.

Thank you very much, Matt.

Operator: We'll take our next question from Kimberly Greenberger with Morgan Stanley.

Kimberly Conroy Greenberger

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much for all the color, John. I'm wondering, I think you said there was a 170-basis point comp headwind to the Kors brand for watches and jewelry. How big is that business in terms of your retail sales, if you could size that for us just so we can understand where that is today versus historical. Secondly, did you see any sort of different performance in the North American market between full price and outlet? I know there was a lot of promotion for example going on in the outlets, and I'm just wondering if you're seeing some disparate performance there. And then, if you would care to comment on sales trends in Asia by brand, any – if you're seeing discontinued strengths in some of the luxury pieces that would be interesting to hear? Thank you.

John D. Idol

Chairman, Chief Executive Officer & Director, Capri Holdings Ltd.

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Okay. So, first off, good morning, Kimberly. Kimberly, we don't really comment by channel in terms of our performance. That being said, what I will give you some color on is that the inflection is clearly we're seeing our lifestyle omni business improving, and we see that happening rather nicely. So that's why you hear confidence in my voice. And that's being driven by first and foremost, as I said signature is really resonating with the customer. You might also recognize the fact that all of our marketing campaigns are driven around that. We're also very pleased with Bella Hadid and what she's done to really engage with not only the millennials, but the Gen Z customer. That's been a really strong marketing initiative on our part on a global basis. Also, we've had some very strong influencer campaigns that are taking place in Asia.

So we like what we see happening driven by the marketing campaigns and the animation that we're creating with Bella Hadid and our local influencers. And by the way, you're going to see that local influencer initiative happening more significantly in our other brands as well and I'll talk to that in a minute. The watch, we don't give that percentage in terms of what it is. It's still a significant business for us inside of our stores. Unfortunately, as we said in our prepared remarks, and we said that last quarter as well, it is accelerating faster than historic levels. And so therefore, we need to really emphasize other categories and that's one of the issues you'll hear us talk about more is our men's business, which we think is a very big opportunity for us and we will begin to focus more on leather than we had in the past. We probably focused more on a broad based presentation of men's wear being ready-to-wear and leather will probably move that a bit more towards leather, so easier for us to handle inside of our stores, and you'll see marketing campaigns that will reflect that.

If you take the watch piece out, we actually would have comped positive inside the company. So, while I would love to say that we're comping positive, we're not. We look at the health of the Michael Kors business and we see it as relatively stable. North America is a little softer than we would like. But in general, I think we see it as relatively stable and a good foundation for us to really as a platform, and then the growth of Versace and Jimmy Choo that will reside on top of that.

In terms of Asia, I think that we continue to see very robust growth for all of our brands in Mainland China. Outside of Mainland China, you do see some movement as you've heard us talk about in some of our other fashion groups talk about as well and that is that the traveling Asian consumer is without question consuming more inside of Mainland China and less so in some of the more traditional markets where they had purchased product before. And that's really a result of some new regulations that were put in place by the Chinese government as of January 1. So we're very pleased with where all of our brands are going in that marketplace.

And obviously as a company, we are significantly underdeveloped in Asia, really in all three of our brands, while in Versace, a very large percentage of the company in terms of overall revenues, it is quite small compared to our other luxury competitors, and I would say the same for Jimmy Choo. So we have big plans for that marketplace and we see great opportunity for us to grow. Thank you, Kimberly.

Kimberly Conroy Greenberger

Analyst, Morgan Stanley & Co. LLC

Thanks so much. Thank you.

Q

Operator: Our next question will come from Paul Lejuez with Citi.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Hey, thanks, guys. Curious if you can maybe give us some color on what you see in terms of sales transfer rates when you guys closed stores as part of this recent store closing program. Just curious what you've seen on that front. Also curious, John, can you talk a little bit about price points in the handbag category? You've seen I think some pressure from smaller handbags outperforming the larger pricier handbags. Curious if those trends are still in place, how much of a drag that is, and where you expect that to be as we look out to this year. Thanks.

Q

John D. Idol

Chairman, Chief Executive Officer & Director, Capri Holdings Ltd.

Thanks, Paul. On the sales trends, I didn't understand your question about store closure. I'm sorry.

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Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

[ph] When you close stores (01:01:27), what sort of sales from those stores are you able to retain either on other stores or on your e-comm business?

Q

John D. Idol

Chairman, Chief Executive Officer & Director, Capri Holdings Ltd.

Okay. Thank you. So, Paul, there's no real good accurate information that we have. We do see some of it transfer to online, but it's not like we see it go to other locations that are within our radius or vicinity. So we haven't really seen that. We've seen the most amount of transfer happen to our online customer. I will tell you that obviously, it's

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really very helpful for us to take these stores that have been losing money, and by the way, many of these stores three or four years ago made money. It's just when the e-commerce initiative started happening, we were transferring business really out of those stores into our online initiatives and that's how the customer is shopping. So it's very helpful for us to have these store closures happen. And most of it will be behind us by the end of the year.

And in fact, what we're really excited about is our store openings. And if you look at what we're going to do with Versace and take that company from approximately 200 stores to 300 stores, we have huge opportunity to open and these will be in the best cities. And I want to remind everyone that 300 to 400 is where the luxury market is. We will probably be more at the 300 level. And as you noticed in our prepared remarks, we also talked about Jimmy Choo. We're seeing excellent results from the new stores that we've opened, and therefore, we've increased our goals to reflect a 300-store fleet and again very pleased with what's happening at Jimmy Choo, quite frankly both online and in-store. And so there's great opportunity for that and then the Michael Kors fleet will be relatively stable. We'll open some additional stores predominantly in China and to a lesser degree in Japan.

But I think we're in a good place to really manage the fleet that we have today and to optimize that fleet and really create some opportunity for increased profitability in those stores. And I'd also encourage you all, if you're in London, to see the new collection store that we just opened on Bond Street, which is really thrilling. We had an amazing turnout and Michael was there. We're very pleased with that store. And then we opened a new store in Prince Street, replacing our previous store that we had on Broadway. That's actually a brand new concept for the company and I think you'd be quite impressed with what we've been able to do there. So, again, we're moving forward, we're excited about our opportunities, and we believe those are both online and in our retail fleet as well and that's across Versace, Jimmy Choo, and Michael Kors.

In terms of price points, Paul, I would say that again, clearly, the small bag is what's driving the business at retail today and we see that not only in the more accessible luxury category, but we see it in the luxury category. The \$995 and \$1,395 bag business is where we see tremendous amount of strength for both Versace and Jimmy Choo and also in Michael Kors in our collection business as well. So I think the directional heading of that product isn't going to change. We like what's happening with backpacks. We like what's happening with bum bags, and so the market is constantly moving, but we're energized by our opportunities to continue to offer incredible fashion for our customers and then amplify that with 360-degree marketing campaigns. Thank you, Paul.

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Operator: We'll take our next question from Simeon Siegel with Nomura Instinet.
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Hi, this is [ph] Dan (01:05:41) on for Simeon. Thanks for taking our question. Just one on Versace and Choo, wondering if you could speak to your comfort in the margin path there and any specific levers that you could point to. Thank you.

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John D. Idol

Chairman, Chief Executive Officer & Director, Capri Holdings Ltd.

Simeon, I'm going to take the first piece of it, then I'm going to really let Tom talk about it. But first off, we're going to walk you through that very clearly at our Investor Day, so I think you'll be hopefully pleased with how we're going to show you, how we'll bridge our margin growth at both of these companies.

I'll start with Jimmy Choo actually. We took the operating margins down in that company. Gross margins have remained pretty consistent and we really did that because of investment in marketing, investment in certain design talent and people, and some other initiatives that we're taking internally to create some speed-to-market initiatives inside the company.

So all of that's our own doing. We could turn that off tomorrow if we wanted to and have this company in the mid-teens operating margin. We don't want to do that. We want to really plant deep roots. We know that our luxury competitors are very good at what they do and we have to be in a position to really have the strong base that we can grow off of. And I think we feel really good about that.

And the other thing that will happen as part of the inflection for Jimmy Choo really and our goal here is to get it above where it historically peaked which was around 10%, 12% operating margin. We want to be in the mid-teens and ultimately the high teens. And accessories will be the cornerstone to that. The company in its 23-year history never had a logo. We have that now. We introduced that. You will see that in the stores literally in a few months with major marketing campaigns behind it. That takes some time to build, but we believe we have the right to be there as a luxury house and as a brand that is in a women's closet today. So we feel very, very good about that.

And then on the Versace side, I can't tell you how thrilled and excited we are. We have a company that's going to do approximately \$900 million this year that really does not have a women's accessories business for all intents and purposes. Donatella has moved with lightning speed. You heard me talk about the Virtus in the prepared remarks. She created the V with the Barocco design on it. Literally, we had that conversation in September. She created it about two weeks later and introduced it on the runway. So this company knows how to move quickly. We have added senior executives from the major luxury teams that have all joined the company in the last three weeks, so our luxury design team and merchandising team are in place working at Versace on the product right now along with Jonathan and with Donatella.

So, all I can tell you is, we feel excellent about that opportunity and we'll continue to remain focused on our existing businesses. But those accessories business will really add margin and leverage. And then lastly in Versace, we'll go through this with you on Investor Day, we have very low store productivity. So we've great locations, great stores, but huge opportunity to increase our sales per square foot especially versus our competitors and we feel good about our initiatives that are going to be in place to accomplish that. So I think of all of our things that we're setting out to achieve, I think margin expansion for both of these companies is something that we feel, I would say, almost most confident about. Tom?

Thomas J. Edwards

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

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And just sort of summarizing it and putting it in some areas, first is just normalization of growth investments. As John mentioned, we're investing in people, marketing and other areas. And as I noted in Q4 of this year, we'd expect to see that inflection even begin with Jimmy Choo. Of course, Versace, we're investing for the full year and beyond as we grow that business. The second area is just higher revenue and providing leverage on SG&A. So we'll see that over time as both brands are expected to grow double-digits. As John mentioned, the last two items are store productivity with a very large opportunity for Versace, but also expected improvements for Jimmy Choo, and the growth of accessories is the last which comes with higher margins and we expect to help build that margin path. So those are four broad areas that we'll talk a little more about at Investor Day.

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Awesome. Thank you.

Operator: And we'll take our last question from Alexandra Walvis from Goldman Sachs.

Alexandra Walvis

Analyst, Goldman Sachs & Co. LLC

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Great, thanks so much for taking the question here. I wonder if you could talk a little bit more about the Michael Kors wholesale business and where underlying trends are there. Specifically, I'm interested in where we are in the reset process in Europe and in North America, you mentioned that embedded within the guide is the expectation of lower wholesale shipments and I just wanted to understand what's driving that. John, I think you talked a bit about this in response to a previous question, but maybe you could pause between those geographies and help us with the how long – how far away we are from clean wholesale markets in North America or in Europe?

John D. Idol

Chairman, Chief Executive Officer & Director, Capri Holdings Ltd.

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Sure. Thank you, Alexandra, and good morning. The wholesale reset which went along with our, obviously, our full price resets, I'll deal with Europe first, is, we've seen a significant inflection in Europe on a constant currency basis. The last two quarters, we've been up in the mid-single-digits and higher in certain cases in our own company-owned stores and our e-commerce. So we've – and our store closure program there is almost finished. So we're really seeing some good things happening in that marketplace. And that's interesting because it's against a backdrop of some difficult economic headwinds in that marketplace. So we like what we see happening there.

In terms of the retail partners, and there, remember, it's somewhat department store driven and somewhat specialty store driven. There's been some significant turmoil in some of the groups that we have worked with. And so that has created a position that's going to take us a little longer-term to get through. But I would tell you that we're starting to see some inflection in that business. Again, our women's footwear and our women's ready-to-wear businesses have held up relatively well. It's really been our accessories business. And we're starting to see that kind of get in a better position.

North America, I would tell you that we were disappointed in the quarter. And we thought that the business would be better digging into it. We've seen that our penetration of signature in our North American department stores is the lowest than it is anywhere in the world. So this reduction in wholesale/department store shipments is really focused around our accessories business. And I think I have to say that that is probably our fault in that we had didn't – we have not planned the business up high enough in that classification with the department stores.

I believe the category is probably suffering regardless of the stores, but not to the degree that it has an inflection for us. And that's again, I would have put that squarely on our shoulders, and that being said, we're working very closely with our partners to turn that. And I once again would like to see us in an inventory position in terms of ownership of the classification, but that's probably not going to be until more towards the back half of the year.

Alexandra Walvis

Analyst, Goldman Sachs & Co. LLC

Q

Great, thank you.

John D. Idol

Chairman, Chief Executive Officer & Director, Capri Holdings Ltd.

Okay. Thank you very much, Alexandra. I want to thank everyone for joining us on today's call. We look forward to seeing you all at our upcoming Investor Day. And I would also like to say once again that we are very proud of the year of our fiscal 2019 and what we accomplished for Capri Holdings with the acquisition of Versace, the growth development of Jimmy Choo and the fact that Michael Kors had a stable year. Again, we think that we are setting ourselves up for long-term growth, and we look forward to tell you more about that in our upcoming Investor Day. Thank you very much.

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

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