

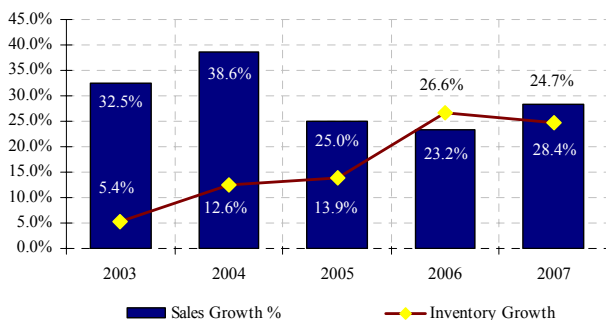
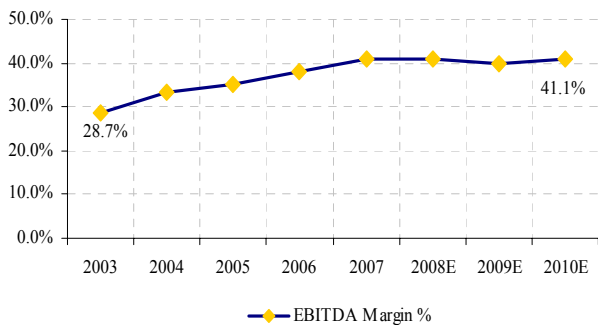
Coach Inc (COH) BUY – Surviving a Tough Macro Environment CP: \$35.84; PT: \$39.79

Market Profile	
Stock Price At Time of Research	\$26.9
Current Stock Price	\$35.8
52 Week Price Range	\$52.0 - \$24.9
Average Daily Volume (mm)	5.0
Beta	1.32
Dividend Yield	NA
Shares Outstanding (mm)	348.1
Market Capitalization (Bn)	\$12.4
Enterprise Value (Bn)	\$11.9
Institutional Holdings	88.5%
Insider Holdings	1.2%
Short % of Float	3.0%
Tangible Book Value per Share	\$4.1
Total Debt to Equity (12/07)	1.1%
Return on Equity (12/07)	46.6%

- Coach is trading at a discount.** Our PT of \$39.79 assumes COH can trade at 16.5x our FY09 diluted EPS of \$2.43, a discount to the stock's 6-year historical average of P/NTM EPS of 24.5x. Our price target is supported by our discounted cash flow model, which incorporates a 9% WACC and 4% terminal growth rate.

	2008E	2009E	2010E
Con. Diluted EPS	\$2.06	\$2.43	\$2.91

- Coach Japan – a value proposition.** Coach currently holds 11 percent market share of the 520 billion yen Japanese market, up from 2 percent in 2002. Consumers of luxury products in Japan are favoring lower-priced, high quality products. Management thus estimates that there is tremendous potential to achieve 15 percent share in Japan primarily through distribution growth.
- Channel Checks Negate Negative U.S. Recession Sentiments.** Our channel checks at the flag ship store in New York and other COH stores in high end malls in NJ tell us that consumers continue to purchase hand bags in \$300 - \$500 price range, off-setting fears that U.S. economic recession sentiments might deter purchase of luxury products.

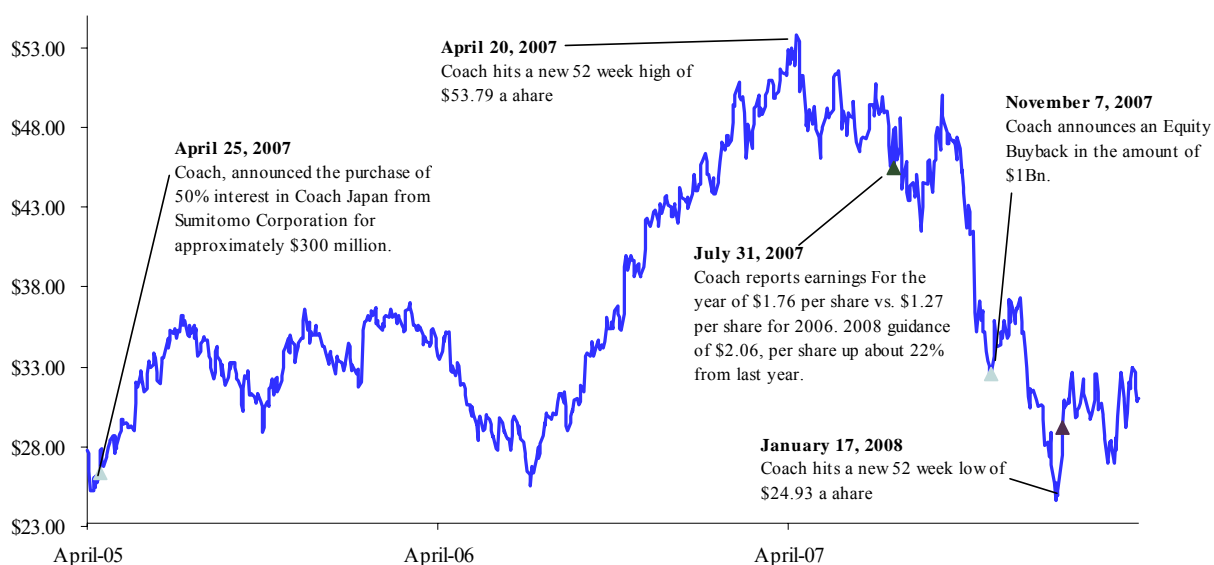


- Bigger Market Opportunity.** The Coach brand represents ~22 percent of U.S. handbag market. The company estimates that the global luxury handbag market will increase to \$20 billion by 2009, with 60 percent of the total being in North America and Japan. The company maintains the #2 market share, behind LVMH and had approximately nine percent of the global market share in 2007 and further expects to grow its share to 15 percent over the next few years, primarily through new stores and expansions.

Business Description

Company Profile: Founded in 1941, Coach Inc (COH) is one of the best recognized accessory brands in the United States, selling a broad range of fine accessories for women and men, including handbags, wallets, business cases, luggage and travel accessories, outerwear, eyewear, gloves, scarves, and fine jewelry. The company currently merchandises its vertically-designed and manufactured product utilizing catalog, e-commerce, retail, factory, and department store formats in the U.S. and Japan, as well as other countries throughout the world. As of 1Q FY08, Coach operated 272 retail stores and 96 factory stores in North America and 146 stores in Japan. Furthermore, the company distributes Coach products through department stores, freestanding retail locations, and specialty retailers at 108 locations in 18 countries outside of the U.S. and Japan.

Figure 1: COH 3-Year Market Price History



Products

Coach's product offerings include handbags, women's and men's accessories, footwear, outerwear, business cases, sunwear, watches, travel bags, jewelry and fragrance. The following table shows the percent of net sales that each product category represented

- Handbags.** Handbag collections feature classically inspired designs as well as fashion designs. Typically, there are three to four collections per quarter and four to seven styles per collection. Periodically, the company also offers new lifestyle collections, designed to meet the fashion and functional requirements of their consumer base. During fiscal 2007, the company introduced three major lifestyle collections: Signature Stripe, Legacy and Ergo. In fiscal 2008, COH plans to introduce three additional major lifestyle collections: Blecker, Heritage Stripe and Soho.



- **Accessories.** Accessories include women’s and men’s small leather goods, novelty accessories and women’s and men’s belts. Women’s small leather goods, which coordinate with our handbags, include money pieces, wristlets, and cosmetic cases. Men’s small leather goods consist primarily of wallets and card cases. Novelty accessories include electronic, time management and pet accessories.



- **Footwear.** COH licenses footwear from Jimlar Corp and is distributed through over 700 locations in the U.S., including leading Coach retail stores and U.S. department stores. Footwear sales are comprised primarily of women’s styles, which coordinate with Coach’s handbag collections.



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



- **Business Cases.** This assortment is primarily men’s and includes computer bags, messenger-style bags and totes



- **Eyewear.** COH licenses eyewear from Marchon Eyewear. The collection is a collaborative effort from Marchon and Coach and combines the latest in terms of fashion, luxury and comfort. Sunglasses are sold in Coach retail stores, department stores, select sunglass retailers and optical retailers in major markets.



- **Watches.** COH licenses watches from Movado since 1998 and has developed a distinctive collection of watches inspired primarily by the women's collections with select men's styles.



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



- **Jewelry.** In November 2006, COH launched a jewelry line, consisting primarily of bangle bracelets. The Company plans to expand this category by introducing sterling silver, glass and gold plated brass pieces in fiscal 2008.



- **Fragrance.** In 2007, COH in partnership with Estee Lauder launched its first fragrance, Inc. This collection includes a perfume spray, a purse spray and a perfume solid and is sold exclusively in Coach stores and on the Coach internet site. The Company plans to expand this category by introducing body lotions in fiscal 2008.



Segment Information

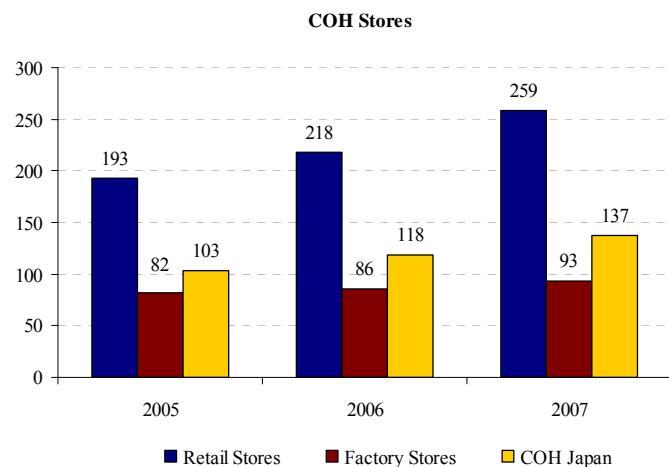
Coach operates in two reportable segments: Direct-to-Consumer and Indirect. In 2007, the D-T-C segment accounted for approximately 70 percent of the net sales, with the balance from the Indirect segment.

Direct-to-Consumer Segment

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

- **Retail Stores.** Coach stores are located in upscale regional shopping

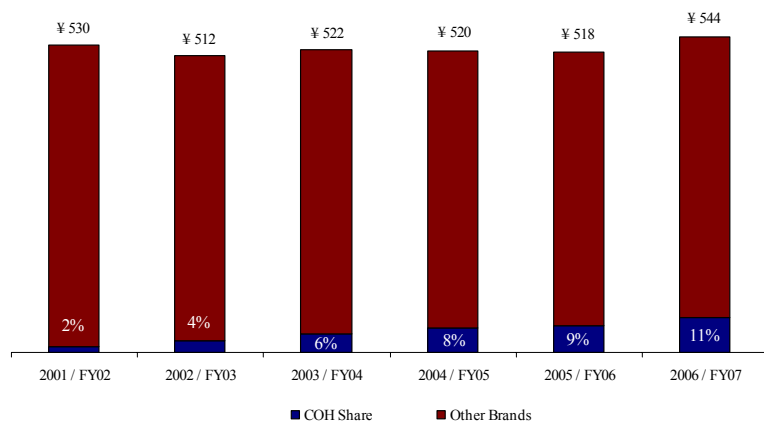
Figure 2: COH Stores



centers and metropolitan areas. The retail stores carry an assortment of products depending on their size and location. The company's flagship stores, offer the broadest assortment of products, are located in high-visibility locations such as NY, Chicago and SFO.

- **Factory Stores.** Coach's factory stores serve as an efficient means to sell manufactured-for-factory-store product, including factory exclusives, as well as discontinued and irregular inventory outside the retail channel. These stores operate under the Coach Factory name and are geographically positioned generally more than 50 miles from major markets. Through these factory stores, Coach targets value-oriented customers who would not otherwise buy the Coach brand. Prices are generally discounted from 10% to 50% below full retail prices.

Figure 3: COH Share in the Japanese Handbag Market



- **Coach Japan.** Coach Japan operates department store shop-in-shop locations as well as freestanding flagship, retail and factory stores. Flagship stores, which offer the broadest assortment of Coach products, are located in select shopping districts throughout Japan.

- **Internet.** Coach views its website as a key communications vehicle to promote traffic in Coach retail stores and department store locations and build brand awareness. During fiscal 2007, the Internet generated sales of approximately \$82 million, up 51% from prior year. The growth in the Internet business was driven by the strength of the Coach brand as well as advertising and email contacts. In fiscal 2007, there were approximately 50 million unique visits to the website. In addition, the Company sent approximately 47 million emails to select customers.

- **Coach Catalog.** In 2007, the Company distributed approximately 7 million catalogs in Coach stores in North America and Japan and mailed approximately 3 million catalogs to select North American households from its database of customers. Over the last few years, the company has reduced the use of direct mail as a communication tool and implemented marketing strategies that are more accountable and produce a better ROI.

Indirect Segment

COH acts as a supplier of its products to department stores both domestic and international. The Indirect segment represented approximately 20% of total net sales in fiscal 2007, with U.S. Wholesale and International Wholesale representing approximately 12% and 5% of total net sales, respectively.

- **U.S. Wholesale.** This channel offers access to COH products to consumers who prefer shopping at department stores or who live in markets with no Coach store. Net sales to



U.S. wholesale customers grew 31% in fiscal 2007 from fiscal 2006. Coach's products are sold in approximately 900 wholesale locations in the U.S. and Canada. The company's most significant U.S. wholesale customers are Macy's, Dillard's, Nordstrom, Saks, Carson's and Lord and Taylor.

- **International Wholesale.** This channel represents sales to international wholesale distributors and authorized retailers. Japanese tourists represent the largest portion of our customers' sales in this channel. Coach has developed relationships with a select group of distributors who sell Coach products through department stores and freestanding retail locations in 21 countries. For FY07, there were a total of 140 international wholesale location

Company Outlook

Coach's uncanny ability to figure out what women want, get them to buy more purses for more occasions and spend more on the ones they buy is propelling the financial results for the luxury retailer. In recent years the company has found its customers receptive to more expensive designs such as the Francine. Bags that cost \$400 or more now represent 22% of sales, compared with 13% just two years ago. Coach first tested the \$798 territory in a limited number of stores last August with the Miranda bag, which did well, reaching 2% of sales in those outlets. Francine has now been rolled out to all COH stores this month, and now ranks as the No. 5 seller, garnering 2% of overall sales.



PATENT FRANCINE

This bold new design blends a unique shape with a striking combination of brass hardware and shiny patent leather. A long, removable strap offers fashionable flair and even more versatility.

- Inside zip pocket
- Cell phone and multi-function pocket with checkbook functionality
- Ring to clip an accessory or keyfob
- Outside front pocket with turn-lock closure
- Outside open back pocket
- Patent leather
- Legacy stripe fabric lining
- Can be worn on shoulder or cross body
- 15" handle
- 5 1/2" drop
- 45" adjustable strap with dogleash clip
- 16 (L) x 11 1/2 (H) x 6 3/4 (W)

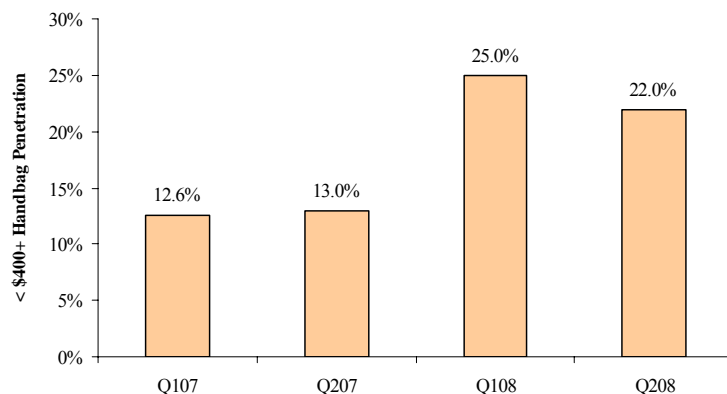
Price: \$798

Style No: 12295

COH unlike most high-end retailers has a hedge against an economic downturn. The company enjoys a diverse base of 99 factory stores. For the Q2 ended Dec. 29, which reflected the holiday shopping season, same-store sales at the factory stores rose 17.7%, while sales at the company's retail shops slipped 1.1%. The strength of the factory stores underscores Coach's ability to serve different sectors of the market.

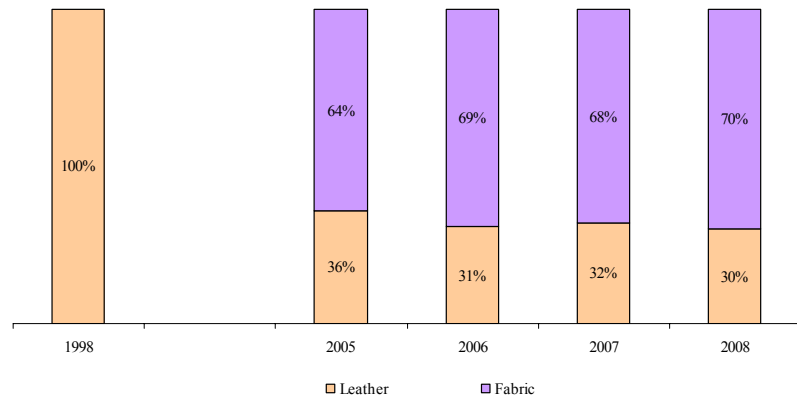
The company thus demonstrates its ability to sell to consumers at various levels while maintaining its brand image. Additionally, the company is expanding its selection of smaller and more affordable bags likely in the \$200 - \$400 range. Coach says its own research suggests that the company

Figure 4: Penetration of < \$400 handbags



could benefit from well-heeled customers trading down from European designers whose bags are priced out of sight by the weak dollar. A company sponsored study in January of 6,000 current and potential customers, 85% said they would spend more on handbags even though they would cut back in other areas of their life.

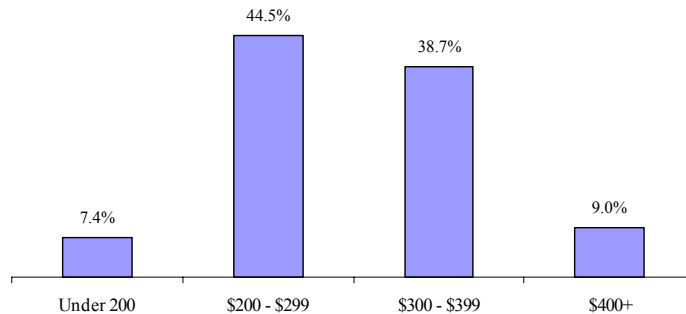
Figure 5: Leather vs. Fabric Mix



Product Innovation

COH is a design and product driven company that is consumer centric. The raw materials developed for COH help distinguish the company from its competitors. In 1998, the company's mix was comprised of 100% leather goods. Today, 30% of the mix is comprised of leather. The housing boom from 2002 till early 2007 swept through America's shopping malls and bed room closets, rewriting the rules of class and consumption. During the 2007 holiday season, middle class Americans spent nearly \$800 on designer hand bags, \$600 on scarves and \$300 on saucepans. As home prices soared, Americans used the equity built up in their homes as their credit cards and raised affordability and consumption to a new level. But as the real estate market came down crashing, the illusion of wealth that millions enjoyed over the past few years quickly disappeared.

Figure 6: COH Tiered Merchandising Breakdown



COH stands to benefit from this phenomenon as the CEO quickly realized that a \$400 hand bag was the sweet spot in the luxury hand bag market. The company serves customers in different price groups, with nearly 85 percent customers purchasing products from the company in the \$200 - \$400 price range.

Key to Success.

- ❖ Coach positions itself as a distinctive brand with product offerings that are easily recognizable
- ❖ The company has a loyal customer base. 9 out of 10 current customers who have purchased a COH bag express intent to repurchase at COH
- ❖ The company has in place a multi-channel distribution platform, including traditional stores, factory outlets stores, catalog (direct mail) and internet, offering a critical balance as it does not need to rely on one channel for majority of its sales



- ❖ Offering innovative and customer centric products. COH shadows customers in the stores and often designs products which are trendy and keeping the current fashion in mind
- ❖ The company has a seasoned management team

Womens’s Hand Bag Fashion Trends in 2008.

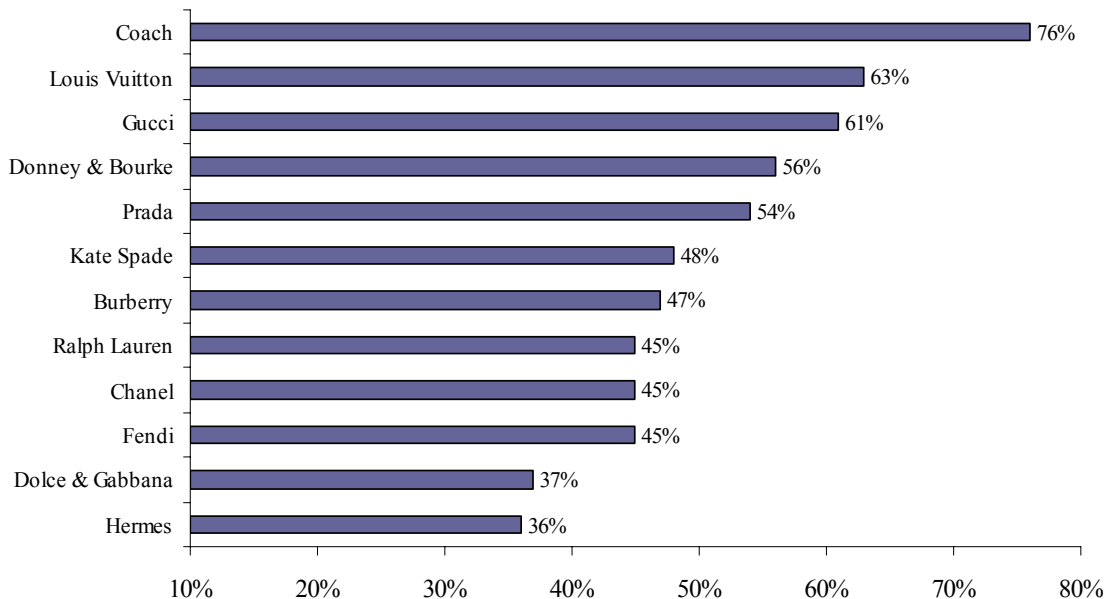
It’s all about recognition, pride and prestige. Handbags have evolved from utilitarian accessories to coveted collectables. Not only do today's wealthy women want to communicate their sense of style and sophistication, but also their individuality. By carrying a handcrafted handbag, they show they can afford to be uniquely exclusive. Individualization and customization is a trend that is popping up in a range of diverse categories and serves to separate the mass-class from the truly wealthy.

It is now widely known that women on average carry about 5 pounds worth of goods in their hand bags. 2008 sees a trend for larger tote-style or shoulder bags. Increased weight and bulk means that the purses are relegated to evening wear, as the majority of bags are now carried over the shoulder rather than in the hand. Designer compartment-style bags are a "must have" for the modern woman, with pockets in different shapes and sizes to help organize the clutter inside. Modern women need lots of tailor-made spaces to house their new toys.

Tote bags (open-top with straps or handles) are selling well, along with the Messenger, a large soft, long-strapped shoulder bag worn across the body, dispersing the weight. These cross-body straps are reminiscent of '80s fashion trends. Many bags for Spring 2008 follow the floral spring-like color trend, with golden olive, daiquiri green, and pinkish reds.

In December 2007, The Luxury Institute of New York released its list of the 26 most recognizable bags entitled “Hand Bag Brands 2008”. The list was compiled in an attempt to measure social-status, exclusivity and quality. Nearly 800 “luxury” consumers took part in the research, with an average net worth of just over \$2 million. The results are as below.

Figure 7: Handbags Most Recognized by Consumers



Investment Thesis

- **Bigger Picture – Market Opportunity:** The Coach brand represents ~22 percent of U.S. handbag market. The company estimates that the global luxury handbag market will increase to \$20 billion by 2009, with 60 percent of the total being in North America and Japan. The company maintains the #2 market share, behind LVMH and had approximately nine percent of the global market share in 2007 and further expects to grow its share to 15 percent over the next few years, primarily through new stores and expansions. In addition, the company is aggressively expanding in emerging markets, which are expected to represent 25 percent of the total global luxury handbag market, with China representing 10 percent. Management plans to use Hong Kong as a gateway into mainland China and, in addition to other key cities including Dubai, has established a flagship store there that is estimated to generate \$8.5 million in the first year of operations.
- **The Japan Story – Growth in a stagnant market:** The growth in the Japanese market for luxury hand bags has been flat. Coach currently holds 11 percent market share of the 520 billion yen Japanese market, up from 2 percent in 2002. In addition, the macro economic environment and sales trends in Japan are similar to the U.S. with lower store traffic and higher conversion rates. Consumers of luxury products are favoring lower-priced, high quality products. Average retail price for a Coach handbag in Japan was just over JPY57000, or approximately \$530. Other European luxury leather handbags tend to be priced above JPY150000 or approximately \$1400. In the light of macro pressures, one can argue that Coach's value proposition, especially when comparing leather handbags, likely poises the company to gain market share away from European brands. The management thus estimates that there is tremendous potential to achieve 15 percent share in Japan primarily through distribution growth.
- **New Store Strategy:** The management unveiled a new strategy to expand the store tiering system such that the top 40 flagship stores will be classified as gallery stores and given an incremental layer of fashion and higher priced product. The new gallery flagship stores will only be in the top A+ mall locations in the country to exaggerate and distort the upper-end of the store fleet. These new stores will be larger than the average 2,500 square foot store, at around ~5,000 square feet in order to increase penetration of successful smaller categories such as shoes, jewelry, fragrance and scarves.
- **Accelerated FY09 Store Opening Schedule:** Management expects to continue to rollout ~40 new Coach full price stores per year given the success of stores in new markets, which are running ~40-50 percent above plan due to the strength of the brand franchise, customer loyalty, and market share leadership. In FY09, the company is going to accelerate 75 percent of the store openings to 1H09 (July-December 2008) and expects to have ~30 stores opened by November 1, 2008 (before the important holiday selling period). We believe this new store opening plan will drive incremental revenue growth.
- **Minimal Sourcing Cost Pressures:** Over 75 percent of Coach products are assembled in China, however management indicated labor is a very small piece of cost of goods sold. The number one cost component in cost of goods sold is leather and textiles. Coach sources hides from the U.S. primarily and Europe secondarily. Half of the finished leather cost is the tannery value-add which Coach continues to migrate from Europe and U.S. tanneries to Asian tanneries. Approximately 38 percent of Coach

leather is now tanned in the Far East. The ongoing migration to Asia from higher priced countries is driving costs savings which more than offset wage inflation in China. During a recent management presentation, the company also indicated that fashion trends are dictating a move away from heavy leather and hardware toward lighter-weight, softer handbags. This change in fashion trend is also helping to reduce costs going forward as the leather treatment, finish, and glazing become more important.

- **Valuation at historical lows.** COH's valuation is close to its post 9/11 levels, some of the lowest in its history. We think this is unwarranted, especially given what seems like peak operating margins around 38% (vs. mid-teens in 2001) and 5 year EPS CAGR of nearly 37%.

Q308 Review

Sales

Net sales increased 19.2% to \$745.0 million. Direct-to-consumer sales, which primarily consist of sales in U.S. and Coach Japan stores, increased 20% to \$578 million from \$481 million last year and comprised approximately 78% of total sales. Indirect sales increased 15% to \$166 million from \$144 million for the prior year. The internet business also witnessed similar growth primarily driven by the introduction of Coach to the Dillard's and Nordstrom websites.

Comps

Comparable-store sales rose 20% from new and existing COH stores in North America. During the quarter, U.S. retail stores experienced increases in conversion and traffic, while average transaction size declined slightly. Results in full priced businesses, in both the U.S. and internationally, continued to be driven by monthly flow of new product. Sustained momentum in the company's factory store sales growth was driven by the strong Coach brand and continued sales growth in premium factory malls.

What to Look for in Spring

For spring, the company is enthusiastic about its transitional and seasonal offerings. As part of this transition, Coach recently introduced the new Slim Carly, offered in leather and Signature across multiple silhouettes, and an updated Hamptons collection. In February, Coach launched Heritage Stripe, which is a group of coated canvas totes and bags as well as a new collection of Signature Stripe handbags accessories. In March, COH introduced the Francine satchel which is a new silhouette in addition to an updated Hamptons Weekend collection. In April COH re-launched Soho and a pleated Ergo which is expected to hit the stores by Mother's Day.

Store Expansion

The company opened 5 North American retail stores and 2 North American factory stores in 3Q08, bringing the total to 287 retail stores and 101 factory stores. In Japan, COH opened one factory store and two shop-in-shop locations, while two retail locations were closed bringing the total to 147 total locations in Japan. Coach has also announced plans to open at least 15 locations in Russia over the next five years, initially focusing on Moscow and St. Petersburg.

Gross Margin, SG&A, and Earnings

During the quarter, gross profit increased 15% to \$558 million. Gross margin declined nearly 3 percent to 75%. Gross margins were impacted by the sharp rise of the yen over the period as well as continued promotional environment and channel mix. As a percentage of sales, SG&A decreased 100 basis points to 40.5%, as the company was able to leverage expenses on a higher sales base. Operating income increased 13% to \$257 million, or 34.5% of net sales. Net income increased 10% to \$162 million, or 21.7% of net sales, from \$147 million, during 3Q07.

Balance Sheet & Capex

Cash and marketable securities at the end of 3Q08 totaled \$616.2 million compared with \$936 million last year. Inventory levels were \$320 million at the end of the third quarter, up 27.9% year over year and slightly below the sales increase of 19% for the quarter. The company repurchased 11.3 million shares during the quarter at an average cost of \$28.85 per share, and has \$333 million remaining under its current share repurchase authorization. Capex spending during the quarter was primarily for new stores and renovations. The company expects capex to be \$160 million for FY08.

Valuation & Opinion

Our 12-month target price of \$39.79 is based on the stock trading at ~16.5x our FY09 EPS estimate of \$2.43, inline with our estimated 5-year EPS CAGR of 33.7%. We believe the company should trade above the market and sector (average current retail sector multiple of 15.5x), given superior square footage growth (double-digit square footage growth vs. sector average of 6.3%) and strong brand franchise. However, we believe the company should trade below its average historical forward multiple of 24.5x given lower sales in a difficult macro environment.

COH WACC Calculation

Coach Beta	1.12	Yahoo Finance
10 Year T-Bill	3.89%	U.S. Treasury
Equity Risk Premium	4.50%	Historical Data
CAPM	8.93%	
Cap Structure		
(\$ in millions)	Value	% of Total
Debt	\$ 2,865	0.2%
Equity	1,458,453	99.8%
Total	\$ 1,461,318	
Corporate Tax Rate	38%	Co. Filings
Yield on Long Term Debt	4.5%	Co. Filings
WACC	8.99454%	

Coach, Inc. Discounted Cash Flow Analysis

(\$ in millions)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Projected 2008	Projected 2009	Projected 2010
EBITDA					\$ 1,286	\$ 1,437	\$ 1,653
Less: Capex					160	240	290
EBITDA Less Capex					1,126	1,197	1,363
Less Taxes on EBIT		38%			(454)	(505)	(581)
Less: Changes in Working Capital					(8)	(44)	(30)
Unlevered Free Cash Flow					\$ 664	\$ 649	\$ 752
DCF Enterprise Value Calculation							
Terminal Value Calculation							
Terminal Value Growth Rate							4%
Terminal Year Cash (2010 Onwards)							\$ 782
Discount Rate (WACC)							9%
Terminal Enterprise Value							\$ 15,633
Discounted Cash Flows at WACC							
Unlevered Free Cash Flow					\$ 664	\$ 595	\$ 633
PV of Terminal Year Cash					-	-	13,158
Total Discounted Cash Flows	\$ 15,050				\$ 664	\$ 595	\$ 13,790

Summary DCF Valuation		
DCF Enterprise Value	\$ 15,050	10.5x
Less: Net Debt	(532)	
Equity Value	\$ 14,518	
Shares Outstanding (MM)	364.9	
DCF Value per Share	\$ 39.79	16.4x

DCF Equity Sensitive Analysis			
	WACC		
Growth	8.0%	9.0%	10.0%
3%	40.15	33.49	28.73
4%	49.69	39.79	33.19
5%	65.58	49.23	39.43

We believe this is an attractive entry point to buy COH stock. The stock is trading at 14.7x our calendar 2009 EPS estimate of \$2.43 and 17.3x our calendar 2008 estimate of \$2.06. COH has a very healthy balance sheet and very strong cash flow. We estimate COH will generate \$600 million in free cash flow in FY08 and \$639 million in FY09. The company authorized a \$1bn stock repurchase program which we anticipate will be complete by FY09. We have factored in \$500 million in stock repurchase in FY08 and \$500 million in FY09 in our model.

Figure 8: Comparable Company Analysis

Co. Name	Stk Price 05/01/08	Equity Value	Ent. Value	LTM		LTM Trading Multiples		FY+1 Trading Multiples		FY-1 P/E	FY+1 P/E
				Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA		
AnnTaylor	\$25.9	\$1,581.6	\$1,438.4	\$2,396.5	\$304.4	0.6x	4.7x	0.6x	4.9x	14.1x	14.2x
Estee Lauder	45.3	8,752.8	9,732.4	7,471.8	1,003.7	1.3x	9.7x	1.2x	9.3x	20.6x	19.1x
Fossil	36.7	2,511.1	2,262.8	1,433.0	219.5	1.6x	10.3x	1.4x	8.5x	26.8x	17.0x
Kenneth Cole ¹	19.5	378.3	287.6	510.7	27.5	0.6x	10.5x	0.6x	10.6x	20.8x	33.3x
Liz Claiborne	18.7	1,774.3	2,460.1	4,577.3	344.1	0.5x	7.1x	0.6x	5.7x	18.4x	12.4x
Louis Vuitton	115.5	54,764.9	63,557.2	21,279.5	5,213.8	3.0x	12.2x	2.3x	9.3x	21.7x	16.0x
Movado Group	22.1	565.5	458.7	559.6	78.5	0.8x	5.8x	0.8x	5.0x	13.1x	13.0x
Nordstrom	35.5	7,783.3	9,922.3	8,828.0	1,482.0	1.1x	6.7x	1.1x	7.1x	12.1x	12.7x
Phillips-Van Heusen	43.3	2,222.4	2,352.0	2,425.2	356.8	1.0x	6.6x	0.9x	6.9x	12.5x	12.9x
Ralph Lauren	63.9	6,502.6	6,296.5	4,670.5	821.0	1.3x	7.7x	1.3x	7.9x	18.8x	17.6x
Quiksilver	10.2	1,286.6	2,243.3	2,502.7	189.4	0.9x	11.8x	0.8x	8.9x	NA	17.8x
Tiffany & Co.	44.3	5,581.9	5,788.4	2,938.8	610.9	2.0x	9.5x	1.8x	8.2x	17.8x	16.2x

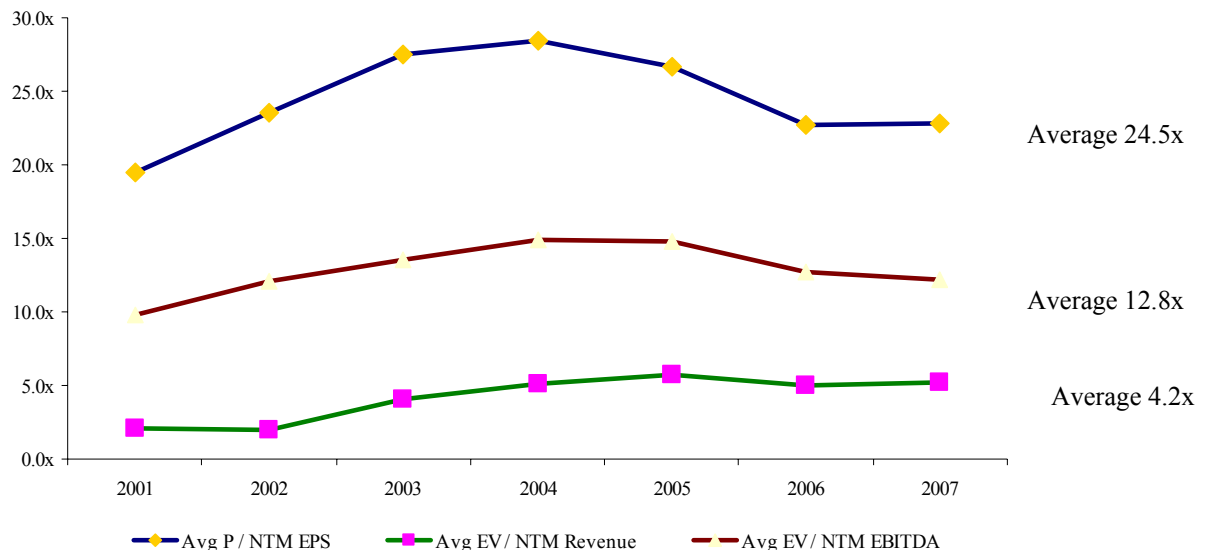
¹ Excluded from summary multiples

Summary Multiples						
Low	0.5x	4.7x	0.6x	4.9x	12.1x	12.4x
Mean	1.3x	8.4x	1.2x	7.4x	17.6x	15.4x
Median	1.1x	7.7x	1.1x	7.9x	18.1x	16.0x
High	3.0x	12.2x	2.3x	9.3x	26.8x	19.1x

Coach Inc.	\$36.0	\$12,682.9	\$12,080.7	\$3,051.4	\$1,238.5	4.0x	9.8x	3.8x	9.5x	20.8x	17.5x
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We put together an analysis of comparable companies in the luxury segment. Coach on a LTM EBITDA basis COH is trading slightly above other companies in the luxury retail sector. Similarly, as per consensus estimate COH should trade at a forward P/E of 17.5x FY08 diluted EPS of \$2.06. If we analyze, historical data, the stock looks really cheap. From 2001 – 2007, COH has traded at an average P/E multiple of 24.5x, EV / NTM EBITDA of 12.8x and EV / NTM Rev of 4.2x

Figure 9: Historical Trading Multiples



Based on new Spring product deliveries, we believe the current assortments have helped stimulate demand and conversion in department stores which could at least mean stabilization in the full price store comp trend. In addition, the department store channel is much energized about the innovation in COH's fall assortments which could prove to be a catalyst to further improve conversion if traffic does not pick up in the second half of 2008. We believe that COH's Fall/Holiday 2007 offerings did not offer sufficient newness or attractiveness, which was exacerbated by very tough comparisons.

The Fall line was on display on March 13th and it looked promising. More importantly we heard from the department store channel that Coach's fall line generated considerable enthusiasm among department store merchants, and stood out relative to the Fall offerings from COH's fragmented branded competition. While a strong line presentation does not necessarily translate into improved sales and margins, we are encouraged by the positive response to the line which has the potential not only to stimulate COH's business in the wholesale channel, but, more importantly, in its full price stores as well.

Also the in store experience will be enhanced by reducing SKUs 15% in order to emphasize new collections (i.e. show the consumer a "new Coach") and focus in on key items. Finally, as COH discussed in detail on its last conference call, they will move 35 previously designated Flagship doors to Fashion doors, and convert its 40 best flagship stores to an enhance Flagship concept which will carry more higher-priced Collection product. The best of these Flagship doors will be candidates for its new Gallery concept, a larger format (e.g. 9500 sq ft at Short Hills mall, opening in June) store being tested in 4 premier malls; this concept store will have expanded presentations of new growth categories such as Jewelry, Small Leather Goods, footwear and Men's.

Finally, investors can take heart in the ability (and relatively low risk) of new stores to drive earnings growth. The momentum in new stores (opening 40 in FY'08 and 40 in FY'09) continue to be big drivers of EPS growth and have helped offset the slowdown in comps in the North American full price stores. The company continues to believe that it has potential for 500 stores in North America, compared to the 300 they will operate at the end of FY'08.

Valuation (x)	2005	2006	2007	2008E	2009E	2010E
P/E	33.5x	27.1x	27.8x	17.3x	14.7x	12.3x
P / BV	11.9x	9.9x	10.0x	12.0x	13.3x	6.3x
EV/Revenue	7.8x	6.3x	4.9x	4.1x	3.6x	3.2x
EV / EBITDA	23.9x	17.9x	12.9x	10.0x	8.9x	7.8x
Growth (%)						
Revenue	25.0%	23.2%	28.4%	20.6%	14.0%	12.0%
EBITDA	20.5%	33.5%	39.0%	29.5%	11.8%	15.0%
Diluted EPS	39.2%	39.8%	39.8%	33.5%	17.7%	20.0%
Margins (%)						
GP / Revenue	76.7%	77.7%	77.4%	76.4%	75.0%	75.5%
EBITDA / Revenue	32.4%	35.1%	38.0%	40.8%	40.0%	41.1%
Net Profit / Revenue	18.7%	21.1%	22.3%	23.9%	23.3%	23.9%
Return on Capital (%)						
ROIC	28.0%	33.5%	29.0%	55.7%	70.4%	44.7%
ROE	8.4%	9.6%	9.4%	11.6%	16.7%	14.6%
Coverage Ratios (x)						
Net Debt / EBITDA	0.03x	0.00x	0.00x	0.01x	0.01x	0.01x
Efficiency Ratios (x)						
Revenue / Avg Net Fixed Assets	2.2x	2.0x	2.0x	1.8x	1.4x	1.1x
Revenue / NWC	3.7x	3.2x	2.0x	4.6x	12.8x	4.2x

Figure 10: Historical & Projected Income Statement

Coach, Inc.							
Detailed Income Statement							
For Fiscal Year Ended							
(\$ in millions)	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Projected 2008	Projected 2009	Projected 2010
Revenue	\$ 1,321	\$ 1,652	\$ 2,035	\$ 2,612	\$ 3,151	\$ 3,592	\$ 4,023
Cost Of Goods Sold	331	384	454	590	744	898	986
Gross Profit	\$ 990	\$ 1,268	\$ 1,582	\$ 2,023	\$ 2,407	\$ 2,694	\$ 3,037
<i>Margin</i>	74.9%	76.7%	77.7%	77.4%	76.4%	75.0%	75.5%
Selling General & Administrative	546	732	867	1,030	1,121	1,256	1,384
Depreciation & Amortization	43	50	65	81	92	109	124
Total Operating Expenses	589	782	932	1,111	1,213	1,365	1,509
EBIT	\$ 402	\$ 485	\$ 650	\$ 912	\$ 1,194	\$ 1,329	\$ 1,529
Interest Expense	-	-	-	-	-	-	-
Interest and Investment Income	3	16	33	41	39	18	20
Net Interest Expense	3	16	33	41	39	18	20
Profit Before Tax	\$ 405	\$ 501	\$ 682	\$ 954	\$ 1,233	\$ 1,347	\$ 1,549
Income Tax Expense	168	201	284	398	481	512	589
Profit After Tax	237	300	399	556	752	835	960
Minority Int. in Earnings	(18)	(14)	-	-	-	-	-
Earnings from Continuing Operations	219	286	399	556	752	835	960
Earnings of Discontinued Operations	-	22	30	27	-	-	-
Net Income	\$ 219	\$ 308	\$ 429	\$ 583	\$ 752	\$ 835	\$ 960
Per Share Items							
Basic EPS Excl. Extra Items	\$ 0.59	\$ 0.81	\$ 1.13	\$ 1.58	\$ 2.10	\$ 2.48	\$ 2.98
Diluted EPS Excl. Extra Items	\$ 0.57	\$ 0.79	\$ 1.10	\$ 1.54	\$ 2.06	\$ 2.43	\$ 2.91
Weighted Avg. Basic Shares Out.	372.1	378.7	379.6	369.7	357.6	336.8	322.4
Weighted Avg. Diluted Shares Out.	385.6	390.2	388.5	377.4	364.9	344.1	329.7
EBITDA	\$ 444	\$ 536	\$ 715	\$ 993	\$ 1,286	\$ 1,437	\$ 1,653
<i>Margin</i>	33.6%	32.4%	35.1%	38.0%	40.8%	40.0%	41.1%
Income Statement Assumptions:							
Revenue Growth (%)		25.0%	23.2%	28.4%	20.6%	14.0%	12.0%
Gross Profit	74.9%	76.7%	77.7%	77.4%	76.4%	75.0%	75.5%
COGS (as a % of Revenue)	25.1%	23.3%	22.3%	22.6%	22.6%	22.0%	22.0%
SG&A (as a % of Revenue)	41.3%	44.3%	42.6%	39.4%	38.5%	38.0%	37.5%
Int & Investment Income (% of Rev)	0.2%	1.0%	1.6%	1.6%	1.3%	0.5%	0.5%
Income Tax Expense	41%	40%	42%	42%	39%	38%	38%

Figure 11: Historical & Projected Balance Sheet

Coach, Inc.							
Balance Sheet as of							
For Fiscal Year Ended							
<i>(\$ in millions)</i>	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Projected 2008	Projected 2009	Projected 2010
ASSETS							
Current Assets							
Cash & Equivalents	435	383	538	1,187	549	188	888
Accounts Receivables	56	65	84	108	173	197	220
Inventory	162	184	234	291	301	301	301
Other Current Assets	53	76	119	153	146	146	146
Total Current Assets	\$ 706	\$ 709	\$ 975	\$ 1,739	\$ 1,168	\$ 832	\$ 1,556
Property, Plant & Equipment, Net	\$ 164	\$ 204	\$ 299	\$ 368	\$ 528	\$ 768	\$ 1,058
Long-term Investments	130	122	-	-	-	-	-
Goodwill	14	239	228	214	245	245	245
Other Assets	31	96	126	127	178	178	178
Total Assets	\$ 1,044	\$ 1,370	\$ 1,627	\$ 2,448	\$ 2,119	\$ 2,022	\$ 3,037
LIABILITIES							
Current Liabilities							
Accounts Payable	\$ 45	\$ 65	\$ 80	\$ 109	\$ 132	\$ 160	\$ 176
Curr. Port. of LT Debt	0	0	0	0	14	14	14
Accrued Liabilities	124	188	262	298	336	377	415
Short-term Borrowings	2	12	-	-	0	0	0
Total Current Liabilities	\$ 171	\$ 266	\$ 342	\$ 408	\$ 483	\$ 551	\$ 605
Long-Term Debt	3	3	3	3	3	3	3
Minority Interest	40	-	-	-	-	-	-
Other Long Term Liabilities	48	45	93	128	299	299	299
Total Liabilities	\$ 262	\$ 314	\$ 438	\$ 538	\$ 785	\$ 853	\$ 907
Common Stock	4	4	4	4	4	4	4
Additional Paid In Capital	355	566	775	979	1,071	1,071	1,071
Retained Earnings	430	485	417	940	750	1,085	2,045
Treasury Stock	-	-	-	-	(500)	(1,000)	(1,000)
Comprehensive Inc. and Other	(7)	1	(7)	(13)	10	10	10
Total Common Equity	\$ 782	\$ 1,056	\$ 1,189	\$ 1,910	\$ 1,334	\$ 1,169	\$ 2,130
Total Liabilities And Equity	\$ 1,044	\$ 1,370	\$ 1,627	\$ 2,448	\$ 2,119	\$ 2,022	\$ 3,037
Balance Sheet Assumptions:							
Days Sales Outstanding	15.39	14.45	15.14	15.06	20.00	20.00	20.00
Days Payable Outstanding	49.40	61.75	64.23	67.68	65.00	65.00	65.00
Accrued Liabilities (% of Total Opex)	22.7%	25.7%	30.2%	28.9%	30%	30%	30%
Capital Exp					160.00	240.00	290.00
Book Value Calculations							
Total Assets	\$ 1,370	\$ 1,627	\$ 2,448	\$ 2,119	\$ 2,022	\$ 2,022	\$ 3,037
Less: Goodwill & Other Intangibles	239	228	214	245	245	245	245
Net Tangible Assets	\$ 1,131	\$ 1,399	\$ 2,234	\$ 1,874	\$ 1,778	\$ 1,778	\$ 2,792
Total Liabilities	314	438	538	785	853	853	907
Book Value (Tangible Assets - Liabilities)	\$ 817	\$ 961	\$ 1,696	\$ 1,089	\$ 924	\$ 924	\$ 1,885

Appendix

Sources:

- Figure 1: Capital IQ and company sources
- Figure 2: COH 10K dated 8/23/07
- Figure 3, 4, 5, 6: Lehman Brothers estimates
- Figure 7: Luxury Institute of New York
- Figure 8, 9: Capital IQ
- Figure 10, 11: COH 10K dates 8/30/07. 2008 – 2010 estimates based on independent research in conjunction with consensus research estimates
- Graphic images courtesy Coach website