Michael Kors sales strongest sales in year, stock jumps

June 1, 2016

Luxury goods retailer Michael Kors Holdings Ltd reported its strongest quarterly sales growth in a year on Wednesday and said it would join rival Coach Inc in aiming to prevent discounts that can result in a dilution of brand value.

The up-market retailer of clothes, handbags, shoes and fashion accessories also announced the purchase of Michael Kors (HK) Ltd, its exclusive licensee in China and some regions in Asia, for $500 million, to increase its direct exposure to growing Asian markets.

In addition, the company said it would buy back up to $1 billion worth of shares.
The company's shares rose 6.6 percent to $45.55 on Wednesday, recovering partially from a 30 percent fall since March.

Sales jumped 10.9 percent to $1.2 billion in the quarter ended April 2, topping the average analyst estimate of $1.15 billion, according to Thomson Reuters I/B/E/S.

Michael Kors operates 668 stores worldwide, including 390 in the Americas and sales at these stores and online jumped 22 percent in the quarter. The company said it expected online sales to eventually account for 25-30 percent of overall sales.

REDUCING DISCOUNTING

Unlike Coach, which said it would try to partner with department stores to limit promotions and to reduce the number of stores where its products are sold, Kors said it would simply lower the amount of inventory distributed to retailers.

"We don't like the amount of product that's ending up out in the marketplace," said Idol.

Michael Kors has been trying to combat weak demand from department-store companies such as Nordstrom Inc. (JWN.N) and Macy's Inc. (M.N), which are offering big discounts on apparel and accessories to combat a slowdown in tourist spending because of the strong U.S. dollar.

Michael Kors' $348 Cynthia medium satchel is available for $194 on Macy's online store and Nordstrom's website is offering some of the company's tote bags at a discount of 40 percent.

"The North America retail environment remains highly promotional, which is impacting the long-term brand equity of Michael Kors," chief executive John Idol said.

In the current quarter though, the company's strategy of reducing sales through other retailers was expected to pull down sales to $940 million-$950 million from $986 million a year earlier which would mark its first drop in sales since going public in December 2011.

Michael Kors expects a decline in sales in its wholesale business in fiscal year 2017 with the share of total sales expected eventually to drop to 25-35 percent from nearly 50 percent last fiscal year.

Neil Saunders, chief executive of research firm Conlumino, said Michael Kors' strategy was "sensible" in the medium to long term, given that department stores would continue to struggle.

NET INCOME LOWER BUT BEAT EXPECTATIONS

Net income fell 3.0 percent to $177 million, or 98 cents per share, but beat the average estimate of 96 cents per share after share buy-backs reduced the number of shares on issue.

For the current quarter, Kors expects adjusted earnings of 70 cents to 74 cents a share on revenue of $940 million to $950 million. The forecast fell below analysts' estimates for 94 cents a share on $1.03 billion in sales.

Kors also expects expenses to rise on continued global investments in digital platforms, new stores, staff, as well as a $15 million charge related to the acquisition of the Greater China licensee.

For the full year, the company guided for earnings of $4.56 to $4.64 a share and for revenue to be flat. Analysts had forecast $4.50 a share on a 3% sales increase.