Tapestry (TPR) – Capri Holdings (CPRI)

Fairness Opinion & Merger Consequence Analysis

Table of Contents

Fairness Opinion

28 November 2023

Independent Committee of the Board of Directors
Capri Holdings Limited
Tapestry, Inc.
US

Members of the Independent Committee of the Board:

Tapestry, Inc. ***("Tapestry"*** or the ***"Buyer"),*** announced on 10 August 2023, a public offer to the shareholders of Capri Holdings Limited ***("Capri"*** or the ***"Company"),*** to acquire all outstanding shares in Capri for cash. Capri's shareholders are being offered a cash consideration of USD57 per Capri ordinary share (the "Offer"). As a result of the Merger, Capri ordinary shares will no longer be publicly traded and will be delisted from the NYSE.

You have asked us to provide our opinion as to whether the Offer reflects the fundamental value of Capri and the value of the synergies attributable to Capri from a financial point of view to the holders of Capri shares (other than Tapestry and its affiliates).

For these purposes:

- *'Fundamental value'* shall mean as at the date hereof, the implied value of the Company, applying a discounted cash flow analysis which is designed to provide an implied value of the Company by calculating the present value of (a) projected free cash flows up to a certain point in time; (b) the terminal value of free cash flows in subsequent years using a perpetual growth rate; and
- The *'synergies attributable to Capri'* are the recurring synergies on an operating level within the current geographic areas, as estimated by Capri's senior management under the Company's current shareholding structure, which, in the view of senior management would be likely to materialize over the next 10 years. Furthermore, adjustments were made to these projections, guided by our professional knowledge and insights derived from financial analysis and industry expertise.

For purposes of the opinion set forth herein, we have:

a) Reviewed certain publicly available financial statements and other business and financial information of the Company and the Buyer, respectively.
b) Reviewed and modified certain financial projections prepared by the management of the Company.
c) Reviewed and analyzed a comparison of the projected future financial results and trading multiples of Capri with those of other companies that we deemed relevant.
d) Reviewed and analyzed a comparison of the financial terms of the Merger with the financial terms of certain other transactions that we deemed relevant.
e) Discussed the past and current operations and financial condition and the prospects of the Company, including information relating to certain strategic, financial, and operational benefits anticipated from the combination.
f) Reviewed and analyzed the Merger Agreement and the specific terms of the Merger.
g) Performed such other analyses and reviewed such other information and considered such other factors as we have deemed appropriate.

We have also modified, without independent verification, the information that was publicly available or supplied or otherwise made available to us by or on behalf of the Company and formed a substantial basis for this opinion. Concerning the financial projections, including information relating to certain strategic, financial, and operational benefits anticipated by Capri's senior management, we believe we have reasonably prepared them on bases reflecting the best currently and publicly available estimates and judgments of the management of the Company of its future financial performance. As you know we have not been provided with access to management or internal financial information of Tapestry or Capri and instead, have relied on publicly available information and information set out in the Offer Document. To render this opinion, we have assumed that there has not occurred any material change in the assets, financial condition, results of operations, business, or prospects of the Company or Tapestry since the respective dates of the most recent financial statements and other information, financial or otherwise, relating to the Company and Tapestry, respectively, made available to us. For our review of the Offer, we have assumed the Offer would be consummated as contemplated in the Offer Document, and that in connection with the receipt of all the necessary governmental, regulatory, or other approvals and consents required for the Offer, no delays, limitations, conditions or restrictions will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offer.

Selected Comparable Company Analysis

We performed a comparable company analysis, which attempts to provide an implied value of a company by comparing it to similar companies that are publicly traded. We reviewed and compared, using publicly available information, certain current and historical financial information for Capri with corresponding current and historical financial information, ratios, and public market multiples for publicly traded in fashion, luxury goods, and high-end luxury goods that shared certain similar business and operating characteristics to Capri. These companies were chosen based on our industry knowledge and because they have businesses that may be similar to Capri’s.

Selected Precedent Transaction Analysis

We performed a precedent transactions analysis, which is designed to imply the value of a company based on publicly available financial terms of selected transactions that share some characteristics with the merger. We compared publicly available statistics for selected transactions involving businesses that JP Morgan judged to be similar in certain respects to Capri’s business and aspects thereof based on our experience and familiarity with Capri’s industry. We selected such comparable transactions because they shared certain characteristics with the merger, most notably because they were in the fashion, luxury goods, and high-end luxury goods sectors.

Discounted Cash Flow Analysis

We performed a discounted cash flow analysis, which is designed to provide an implied value of a company by calculating the present value of the estimated future cash flows and terminal value of that company. We calculated a range of implied values per share of Capri common stock based on estimates of future cash flows for fiscal years 2024 through 2028. We performed this analysis on the estimated future cash flows contained in the forecasts representing the Standalone Case (modified management projections), Optimistic Case, and Pessimistic Case.

In arriving at this opinion, we considered the results of all of our analyses and did not attribute any particular weight to any analysis or factor considered. Subject to the assumptions, limitations, qualifications, and conditions described in such opinion, the USD57 per share in cash to be received by the holders of shares of common stock of Capri under the merger agreement is fair from a financial point of view to the holders of such shares.

We are not legal, tax, regulatory, or actuarial advisors. We are financial advisors only and as such direct the assessment of all legal, tax, or regulatory matters to the Company and its legal, tax, and regulatory advisors. In addition, this opinion does not address (i) the adequacy to, or any other consideration of, the holders of any class of securities, creditors, or other constituencies of the Company; or (ii) the adequacy of the amount or nature of any compensations to be paid or payable to the Company's officers, directors or employees of the Company, or any class of persons, relative to the Offer to be received by the holders of the Capri shares under the Offer.

We have not made any independent valuation or appraisal of the assets or liabilities of the Company, nor have we been furnished with any such appraisals. Our opinion is necessarily based on financial, economic, market, and other conditions as in effect on, and the information made publicly available as of, the date hereof. Events occurring after the date hereof may affect this opinion and the assumptions used in preparing it, and we do not assume any obligation to update, affirm, or reaffirm this opinion.

In our opinion we have determined, without independent verification, the assessment of Tapestry of its synergies by the ongoing long-term cooperation benefits between the two companies achievable under the current ownership structure based on ongoing projects and initiatives as communicated publicly by the senior management of Capri. We understand that the synergies have not been reported on by independent auditors of the Company. This opinion does not address, nor does it provide any views as to whether the shareholders of Capri will benefit from the estimated synergies.

This opinion does not in any manner address the prices at which the Company's shares will trade at any time nor should it be construed as or interpreted to mean that the Company's earnings will match or be greater than or less than its earnings in the preceding financial period or any other period. We express no opinion or recommendation as to how the shareholders of the Company should respond to the Offer. This opinion does not address the relative merits of the Offer or any other alternative business transaction, or other alternatives, or whether such alternatives could be achieved. In arriving at our opinion, we were not authorized to solicit, and did not solicit interest from any party concerning an acquisition, business combination, or other extraordinary transaction, involving the Company, nor did we negotiate with any parties that may express an interest in the Company or any of its constituent businesses.

We have acted as financial advisors to the Independent Committee of the Board of Directors of Capri in connection with this transaction and will receive a fee for our services. We will be paid a fixed fee for our services as a financial advisor to Capri in connection with the Offer, a portion of which is contingent upon delivery of this letter. The fee payable to us for our services as a financial advisor to Capri in connection with the Offer is not contingent upon or related to the outcome of the Offer. We may also seek to provide such services to the Buyer and the Company in the future and expect to receive fees for the rendering of these services. In the ordinary course of our securities underwriting, trading, brokerage, foreign exchange, commodities and derivatives trading, prime brokerage, investment management, financing, and financial advisory activities, we or our affiliates may at any time hold long or short positions, finance positions, and may trade or otherwise structure and effect transactions, for our account or the accounts of customers, in debt or equity securities or loans of the Buyer, the Company or any other company or any currency or commodity that may be involved in this transaction or any related derivative instrument.

This opinion has been approved by a committee of our employees by our customary practice. This opinion is for the information of the Independent Committee of the Board of Directors of Capri. It may not be used for any other purpose without our prior written consent, except that a copy of this opinion may be included in its entirety in any announcement the Independent Committee of the Board of Directors may make under the Takeover Rules in connection with this transaction. This opinion is not addressed to and may not be relied upon by any third party including, without limitation, employees, creditors, or company shareholders.

Based on and subject to the preceding, when considering the fundamental value of Capri together with the additional value from the synergies attributable to Capri, whether under the current shareholding structure or if the Offer is successful, we think that the Offer does reflect the fundamental value of Capri and the value of the synergies attributable to Capri from a financial point of view to the holders of Capri shares (other than Tapestry and its affiliates).

Very truly yours,

Group 4

The Fashion Industry at a Glance

Bain & Company and Alta Gamma's 2023 spring luxury study shows the personal luxury goods market is projected to grow 5-12% in 2023, following a record year in 2022, despite uncertain economic conditions. The global luxury market has fully recovered from the Covid-19 crisis, having grown 8%–10% over 2019 levels. (Key Driver: Personal luxury goods – Heart of the entire luxury industry)

Customer Base:

- The luxury market now appears better equipped to cope with economic turbulence than during the 2008 crisis, thanks to a consumer base that is both larger and more concentrated on top customers who are less sensitive to downturns compared to the rest.

Strong Demand Trend:

- Solid domestic demand, alongside a boost from US and Middle Eastern tourist shoppers.
- Positive relationship with price – For instance, the leather goods category has benefited from a generalized price increase (from the most expensive products to entry-level items) that didn't hamper volume growth.

Supply Chain:

- Retail continued to grow faster than wholesale and reached parity in terms of market share, thanks to the robust recovery from the COVID-19 Pandemic.
- Directly operated channels are increasing in importance again. The retail channel has now reached parity with the wholesale channel.
- The coming years will see a further blurring of the boundaries between mono-brand outlets and e-commerce, which will increasingly push brands to take an "omnichannel 3.0" approach, enabled, and enhanced by new technologies. Mono brand websites gained further ground, raising their share to about 45% of the online segment during the current year, up from 43% in 2021.

Geographical Trends:

- The Americas regained the top position for personal luxury goods sales. Asia (excluding Japan) switched to second position, followed by Europe.
- Asia surged by 43% when mainland China and Japan were excluded – Key Markets: Thailand, Southeast Asian countries, as well as South Korea. Japan – Solid recovery although not exceptional.
- China: Post-COVID Recovery is flat if not deteriorating. – Second-hand luxury market rose.
- Rising Stars: India stands out; its luxury market could expand to 3.5 times today's size by 2030 propelled by younger customers and an expanding upper and middle class.

Key Product Categories:

- Accessories remained the largest personal luxury goods category and grew by 21%–23%. Within accessories, leather goods grew by 23%–25%, far surpassing its pre-Covid levels (up 39%–41% compared with 2019)
- The apparel category grew by 22%–24% in 2022, aided by wardrobe restocking. Womenswear and menswear grew at about the same pace.
- Watches have evolved from a challenging category to a new object of desire. Sales of new watches grew by 22%–24% and reached a record 55.08 billion US dollars (52 billion Euros), reflecting solid demand for top-of-the-range models and iconic pieces, but growth was capped by low product availability.
- Shoes grew by 20%–22% compared with 2021 to reach 29.62 billion USD (€28 billion)

Future Outlook and Key Investment Areas:

- By 2030, luxury should have expanded beyond its traditional business model, expecting the growth of new types of activities, often powered by technology. This could include revenues generated by:

- The monetization of communities (through virtual events and data monetization, for instance)
- Brand-related media content (such as movies, music, and art)
- Secondhand luxury goods (by bringing more secondhand sales in-house, for instance)
- "3 .0 experiences" (such as virtual stores, digital shopping assistants, and ultra-luxury travel and hospitality)

- Younger generations (Generations Y, Z, and Alpha) will become the biggest luxury buyers by far, representing 80% of global purchases.
- Online should become the leading channel for luxury purchases with an estimated 32%–34% market share, followed by mono-brand stores (30%–32% market share)

Competition:

- **Financial Information: Key Competitors**

Below is a list of prominent publicly traded companies in the fashion industry, including the two companies that are transacting in the deal we will evaluate. Company information has been obtained from Capital IQ.

LTM Data	Capri Holdings Limited (**Target)**	Tapestry, Inc. (**Acquirer)**	Burberry Group plc	Ralph Lauren	LVMH	Prada S.p.A.	Kering SA
Currency	*USD*	*USD*	*GBP*	*USD*	*EUR*	*EUR*	*EUR*
Income Statement Data							
Revenue	5,488	6,661	3,094	6,503	84,695	4,532	20,556
Gross profit	3,626	4,715	2,182	4,246	58,202	3,628	15,550
Net income	463	936	490	528	16,033	582	3,411
Margins							
Gross Margin %	66.10%	70.8%	70.5%	65.3%	68.7%	80.1%	75.6%
EBITDA Margin %	15.60%	20.3%	23.6%	14.5%	29.8%	25.2%	30.7%
Net Income Margin %	8.40%	14.1%	15.8%	8.1%	18.9%	12.8%	16.6%
Growth Data							
Total Revenue Growth	(4.7%)	(0.4%)	9.5%	1.5%	17.2%	20.4%	5.3%
Gross Profit Growth	(3.9%)	1.4%	9.4%	1.5%	17.3%	24.7%	7.2%

Data Source: S&P Capital IQ

Note: Data for Capri Holdings Limited and Tapestry Inc. is as of 7/1/2023, Burberry Group plc as of 4/1/2023, Ralph Lauren as of 09/30/2023, and for the remaining companies as of 6/30/2023.

- **Strategic Information: Key Competitors**
  - **Tapestry, Inc.**

Tapestry, Inc. is a global company that designs, manufactures, and distributes apparel, footwear, accessories, and branded lifestyle products. The company has a strong presence in North America, the United States, Japan, Greater China, EMEA, the Americas, the Asia-Pacific, India, and Africa and operates through a variety of design, marketing, distribution, and retail channels. Tapestry, Inc. owns a portfolio of well-known brands, including Versace, Coach, Jimmy Choo, Stuart Weitzman, and Michael Kors.

- **Burberry Group plc**

  Burberry Group plc is a global company that designs, manufactures, and distributes apparel, cosmetics, accessories, footwear, and leather goods. The company has a strong presence in Asia Pacific, EMEA, and the Americas and operates through a variety of design, manufacturing, retail, wholesale, and licensing channels. Burberry Group plc owns a portfolio of well-known brands, including Burberry.

- **Ralph Lauren**

  Ralph Lauren Corporation designs, markets, and distributes lifestyle products in North America, Europe, Asia, and internationally. The company directly operates retail stores and concession-based shop-within-shops; and operates Ralph Lauren stores, factory stores, and stores and shops through licensing partners. The company produces products ranging from the mid-range to the luxury segments, with brands that constitute one of the world's most widely recognized families of consumer brands.

- **LVMH**

  LVMH is a global company that designs, manufactures, and distributes spirits, fashion & leather products, perfumes & cosmetics, watches & jewelry, and selective retailing. The company has a strong presence globally and operates through a variety of design, manufacturing, marketing, and distribution channels. LVMH owns a portfolio of well-known brands, including Christian Dior, Louis Vuitton, Givenchy, Kenzo, Guerlain, Sephora, and Bulgari.

- **Ermenegildo Zegna N.V.**

  Ermenegildo Zegna N.V., together with its subsidiaries, designs, manufactures, markets, and distributes luxury menswear, footwear, leather goods, and other accessories under the Zegna and the Thom Browne brands.

- **Prada S.p.A.**

  Prada S.p.A. is a global company that designs, manufactures, and distributes leather goods, footwear, apparel, and accessories. The company has a strong presence in the Americas, the Asia-Pacific, Western Europe, Japan, EMEA, and globally and operates through a variety of design, manufacturing, and distribution channels. Prada S.p.A. owns a portfolio of well-known brands, including Prada, Miu Miu, Church's, Car Shoe, and others.

- **Kering SA**

  Kering SA is a global company that designs, manufactures, and distributes apparel, footwear, leather goods, and accessories. The company has a strong presence in Asia-Pacific, EMEA, North America, Japan, and globally and operates through a variety of design, manufacturing, and distribution channels. Kering SA owns a portfolio of well-known brands, including Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, and others.

*For More Details on relevant companies used for Comparable Companies (Trading Multiples) analysis, Please Refer to Appendix 1.

<u>Regulations:</u>

Capri Holdings Limited, the target company in the deal we will be evaluating, in its 2023 10-K cited two regulatory acts that affect its business:

- **The Generalized System of Preferences ("GSP"):**

  GSP, the largest and oldest U.S. trade preference initiative, waives import taxes to boost trade and economic growth, focusing on specific countries. Capri benefits from this by avoiding duties on numerous products imported from these designated nations. However, if the GSP program, which expired on December 31, 2020, is not reinstated, or renewed, Capri will face considerable additional taxes, negatively impacting their gross margins.

  - Since the beginning of 2023, Capri's stock performance has been on a general decline until the announcement of the acquisition by Tapestry.
- **Customs and Border Protection ("CBP"):**

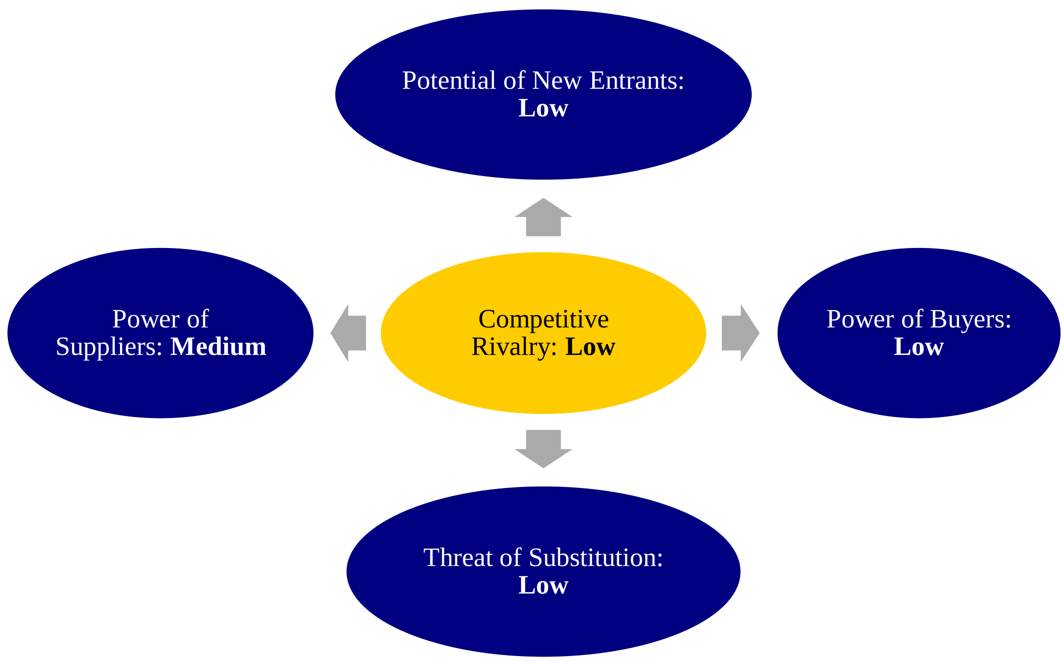
  If additional tariffs, taxes, duties, or quotas are imposed by the United States or other countries, or if there are withdrawals from or modifications to trade agreements, the cost of the products could increase. This, in turn, could adversely affect the company's results of operations and financial condition in the industry.

Technology:

- In 2021, fashion companies invested approximately 1.7% of their revenue in technology. By 2030, that figure is set to double to between 3% and 3.5%, according to McKinsey, as the fashion tech industry continues to grow at a faster pace than ever before.
- Innovative eco-materials: The industry is investing in closed-loop recycling systems that can reduce waste and make sustainable fashion the norm. Novetex Textiles, for instance, has developed a system for mechanical cotton recycling that does not consume water or produce chemical waste and can process up to three tons of fabric daily.
- Technological advancements are providing several ways to improve the sustainability of fashion, from eco-friendly dyeing techniques to lab-made sustainable material alternatives for fashion production. Gucci, for example, is exploring 'livestock-free,' nature-friendly materials, while the likes of Hermès and Lululemon are turning to mycelium, a material made from fungus, as an alternative to leather.

Porter's Five Forces:

Industry: Apparel, Accessories, & Luxury Goods



- **Competition**

  The industry is characterized by many players, both large and small. Additionally, there is a considerable number of diverse brands contributing to the competitive landscape. The rise of e-commerce also increased the intensity of competition, as online retailers can reach a global market and offer a wider range of products at competitive prices. Regardless of these factors, many companies face challenges in establishing a strong brand presence and cultivating customer loyalty amidst a saturated market, making the competitive rivalry low.

- **The Potential of New Entrants**
  The high capital requirements associated with starting a fashion business can be a major barrier to entry. Also, established players in the industry have a significant advantage in terms of brand recognition and customer loyalty, acting as barriers for new entrants attempting to penetrate the market.
- **Power of Suppliers**
  Luxury brands often have strategies in place to manage the bargaining power of suppliers. They may engage in strategic sourcing and supplier diversification to mitigate dependency on a single supplier. However, following the impacts of COVID-19 and the Russia-Ukraine war, the supplier's bargaining power has increased. Due to lockdowns, workforce shortages, and health concerns, many suppliers faced reduced production capacity during the pandemic. Also, switching suppliers may prove challenging for brands due to the established product quality and material standards. Such transitions entail potential risks to product quality and brand image, consequently impacting customer loyalty.
- **Power of Buyers**
  Customers possess limited bargaining power in the luxury goods market. Despite a wide array of options available for fashion products, luxury goods typically maintain non-negotiable prices due to their premium nature. Moreover, the enduring value of luxury items discourages significant price negotiations, further consolidating the low bargaining power of customers. Furthermore, the inherent nature of the customer base these luxury brands enjoy (people who are very less likely to be affected by the interim financial ups and downs of the economy, although they are not completely immune) makes sure that despite price rises, the demand for these products will only increase, as explained by Bain & Company’s luxury industry overview/ outlook.
- **Threat of Substitutes**
  The threat of substitute products is deemed to be low due to the unique and distinctive nature of these branded products. Consumers are drawn to luxury and branded items not only for their design and artistry but also for their rarity. Brand reputation further contributes to the low potential for readily available substitutes, solidifying the overall low threat of substitute products in this market.

Industry Mergers & Acquisitions History:

The luxury fashion and personal goods industry has been experiencing a trend of consolidation, with larger luxury conglomerates acquiring smaller brands to expand their portfolios. This trend was driven by the desire to diversify product offerings and reach broader customer demographics. The following are some of the key trends in M&A activity in the Fashion and luxury industry,

- Target investments in sustainability and ESG to both comply with increasing regulations in ESG practices and meet customers' demand for more sustainable items; in that sense, key investments at the top of Fashion and Luxury companies' agenda involve sustainable products and sourcing, circular economy models and clean technologies.
- Investing in resale platforms or initiating partnerships with such platforms to extend the lifetime of products and boost the relevance of brands among consumers, to embrace the rising interest towards pre-owned.
- Most acquisitions have been carried out through buyouts and consolidations (respectively 38% and 44% of the total) -Source: Global Fashion & Luxury Private Equity and Investors survey 2023.

The Fashion and luxury industry rebounded in 2021 and in the first half of 2022, registering a slight increase in M&A deals, The following are some of the major deals, which are relevant and closely resemble Capri Holding’s deal.

List of Comparable Acquisitions								
Date Announced	**Acquirer**	**Target**	**Transaction Type**	**Target Business Description**	**Equity Value**	**Enterprise Value**	**LTM Sales**	**LTM EBITDA**
8/16/2022	Authentic Brands Group LLC	Ted Baker Plc	Acquisition	Ted Baker Plc engages in the design, wholesale, and retail of menswear, womenswear, and accessories under the Ted Baker brand in the United States, the United Kingdom, rest of Europe, Canada, and South Africa.	$246	$409	$575	($9)
10/29/2020	LVMH Moët Hennessy - Louis Vuitton, Société Européenne	Tiffany & Co.	Acquisition	Tiffany & Co., through its subsidiaries, designs, manufactures, and retails jewelry and other items.	15,951	17,023	3,675	611
5/8/2017	Coach, Inc. (nka:Tapestry, Inc.)	Kate Spade & Company	Acquisition	Kate Spade & Company, together with its subsidiaries, designs and markets apparel and accessories.	2,386	2,342	1,378	233
3/3/2016	Samsonite International S.A.	Tumi Holdings, Inc.	Acquisition	Tumi Holdings, Inc. designs, produces, and markets various travel and business products and accessories.	1,816	1,721	548	121
5/18/2015	Ascena Retail Group, Inc. (nka:Mahwah Bergen Retail Group, Inc.)	ANN INC.	Acquisition	ANN INC., through its subsidiaries, engages in the retailing of women's apparel, shoes, and accessories under the Ann Taylor and LOFT brands.	2,355	2,178	2,550	236
5/23/2013	Apax Partners LLP	rue21, Inc.	Acquisition	rue21, Inc. operates as a specialty retailer of junior girls and young men's apparel and accessories.	1,023	967	921	102
10/31/2012	PVH Corp.	Warnaco Group Inc.	Acquisition	The Warnaco Group, Inc., together with its subsidiaries, designs, sources, markets, licenses, and distributes a line of intimate apparel, sportswear, and swimwear products.	2,841	2,800	2,406	296

**Detailed Analysis of the precedent transactions follows later in this memo.*

- **Target Company Features:**
  - In 2022, investors were still oriented towards lower-size firms ($0-$51m), which accounted for 53% of deals in the year, but less than in 2021 (54%). There was a significant increase in deals involving players in the Big Size market, $51-$250m, by 9 pts (+38.3% CAGR 20-22)
  - Deals involving multiples of 5x-10x times the EBITDA increased (representing 38% of the total). Conversely, there was a drop in deals positioned on EBITDA multiples higher than 15x times. Deals with EBITDA multiples lower than 5x re-appeared in 2021, after being zero in 2020, and remained stable during 2022. (Key takeaway: Mid-size deals are on the rise)
- **Investor Profiles:**
  - Deals conducted by strategic investors, mainly operating in Apparel and accessories, Hotels, and other industries, representing 72% of deals. Nonetheless, there was a notable increase in deals driven by strategic investors compared to the previous year (+23 deals). This further confirms the fact that there is a strong trend towards consolidation by strategic acquirers.
  - There was a growth in investments through Consolidation (+25 deals) and Acquisition capital (+7), while Growth capital investments slightly increased (+2 deals).
  - There was a decrease in deals conducted by financial investors (-15 deals compared to 2021.)

Acquisition Information: Tapestry, Inc. and Capri Holdings Limited

Deal Overview and Rationale

Tapestry has been engaged in a three-year growth strategy known as "Future Speed." The pillars of this strategy include:

i. Cultivating Long-Term Customer Relationships
ii. Fostering Innovation in Fashion and Product Excellence
iii. Providing Compelling Omnichannel Experiences
iv. Fueling Global Expansion

I. With the acquisition of Capri Holdings Limited, Tapestry will unify six unique brands (namely: Coach, Kate Spade, Stuart Weitzman, Versace, Jimmy Choo, and Michael Kors) to expand portfolio reach globally and across different product categories, fulfilling especially the last point in their growth strategy. The brands of Capri and Tapestry are iconic in contemporary times, and by joining them together, Tapestry will become a true force to be reckoned with in the fashion industry. With this transaction, Tapestry has been likened to a "Baby LVMH", indicating the major power Tapestry is anticipated to hold post-acquisition. These two companies collectively earned over $12 billion in revenue (about 6% of the market share) and nearly $2 billion in Adjusted Operating Profit in 2022. The deal is anticipated to result in immediate EPS growth for Tapestry on an adjusted basis. The Board of Directors of Tapestry approved a 17% increase to the company's quarterly dividend per share, which would result in a payout of $1.40 per share or over $325 million in Fiscal Year 2024. This shows a continued commitment to capital return.

Synergies

Synergies are anticipated from cost reductions, enhanced supply chain efficiency, and leveraging real estate capabilities.

II. Tapestry's successful and profitable Direct-to-Consumer model will be expanded upon following the deal, to gradually increase Capri Holdings' share of Direct-to-Consumer sales.

III. Another key synergy moving forward would be the strong emphasis on the enhanced digital capabilities that Tapestry will bring to Capri. Currently, Tapestry derives approximately 29% of its revenues from digital channels, a notable contrast to Capri's 18%.

IV. The combined entity will also benefit from leveraging premium retail locations, as highlighted by Richard Hodos, Vice Chairman of Retail Services at JLL, who has collaborated on real estate projects with both companies.

V. The Transaction is expected to yield over $200 million in cost synergies within the three years of the deal closing.

Deal Value and Timeline

The deal was announced on August 10, 2023, and is expected to close in the calendar year 2024. Tapestry, Inc. CEO, Joanne Crevoiserat, has not provided further detail than that in a CNBC Squawk on the Street interview.

Consideration

The all-cash consideration for Capri Holdings is $57.00 per share. This price represents an approximate 59% premium on the 30-day volume-weighted price as of August 9, 2023, and approximately 65% to the closing price of Capri ordinary shares on August 9, 2023, the last full trading day before the announcement of the entry into the Merger Agreement. Each Capri RSU that is held by a non-employee director or named executive officer of the Company will vest as of the effective time and be canceled with the holder becoming entitled to receive the merger consideration of $57/share. Each Capri RSU (other than the ones held by a non-employee director) shall be converted into an RSU of Tapestry. Capri will become a wholly-owned subsidiary of Tapestry.

In an all-cash deal, stockholders get the premiums all at once and are also safe from the risk of the deal not going through and the deal falling through due to financing issues. The all-cash-per-share Merger Consideration provides the shareholders immediate certainty of value and liquidity for their shares and enables shareholders to realize value that has been created at Capri while eliminating long-term business and execution risk.

Closing Conditions

I. Capri will pay Tapestry a termination fee of $240 million in cash if the merger agreement is terminated.
II. For the merger to proceed, the shareholders of Capri must vote in favor of it, and it must receive the support of more than 50% of the outstanding ordinary shares.
III. Additionally, for the merger to move forward, all regulatory and governmental concerns should be satisfied (including anti-trust concerns)
IV. Tapestry will temporarily halt its share repurchase activities to prioritize reducing debt, aiming to achieve a leverage ratio of less than 2.5x Debt/EBITDA within 24 months following the transaction's closure. Additionally, Tapestry is establishing a long-term target of maintaining a leverage ratio under 2.5x Debt/EBITDA

Financing

Tapestry has successfully arranged $8 billion in fully committed bridge financing through Bank of America N.A. and Morgan Stanley Senior Funding, Inc. The anticipated acquisition cost of around $8.5 billion will be financed using a mix of senior notes, term loans, and available cash reserves from Tapestry. A portion of these funds will also be allocated for settling certain of Capri's existing debts. Importantly, it's worth noting that the transaction does not hinge on securing additional financing.

Approvals

The completion of this transaction is contingent upon the approval of Capri Holdings shareholders, obtaining the necessary regulatory approvals, satisfying the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, and meeting other customary closing conditions. Both the Boards of Directors of Tapestry, Inc. and Capri Holdings Limited have unanimously endorsed the deal.

Advisors

Tapestry, Inc. has engaged Morgan Stanley & Co LLC as its sole financial advisor and is receiving legal counsel from Latham & Watkins LLP. Capri Holdings Limited has enlisted Barclays as its financial advisor (fairness opinion) and is being legally advised by Wachtell, Lipton, Rosen & Katz.

Post-Merger Management

Supposedly, John Idol, who led Capri for the past twenty years, is also going to assume some kind of leadership role in the merged entity.

Capri Holdings Limited (NYSE: CPRI) - Discounted Cash Flow Analysis

1. Standalone case

Across the firm, Capri Holdings Limited is undergoing and/or creating various changes for itself. Among these, some macroenvironmental shifts include softening American and wholesale demand. In a post-COVID climate with the fear of an economic bubble burst on the horizon, a decline in American demand can be expected to rise as North America continues into the post-COVID era, but more importantly, as the fear of a recession (which has not happened, despite analysts' worries about it throughout 2022) fades away, we expect American demand to rebound. Although Asian demand has been increasing more than expected since Asian sales account for only 16% of revenue, we do not expect a major uptick in sales revenue from this growing market; this is the same case for European sales. As for wholesale demand, Capri is relatively highly exposed to wholesale, making it extra vulnerable to shifts in its demand. Wholesale demand is somewhat tied to American demand, with its decline occurring due to American demand decline. With the wholesale decline, we expect the firm to shift to more direct-to-consumer methods of selling to combat this effect.

Alongside these demand shifts, the company is also facing industry-wide price pressures, resulting in increased promotional activity within the Michael Kors and Versace brands. With lower promotional (not base) prices, we expect sales to increase moderately. The promotional pressures are due to increased "wallet creep," according to Barclays financial analysts. The firm has been raising the base prices of products to maintain margins, and Versace/Jimmy Choo demand has remained unaffected amidst these price raises due to their positions as high-end luxury. Jimmy Choo is also adding accessories and formal/casual footwear to boost margins. Margins data by brand can be found in Appendix 2.

Internally, Capri management has cited an impending brand mix shift. This is due to consumer confidence falling in aspirational luxury brands, according to Bloomberg Intelligence. In response to the consumer shift, Capri management aims to elevate the brand image of Michael Kors to be more exclusive and at the same time to scale Versace and Jimmy Choo. This effort could also entail more marketing spend, to increase awareness of Versace and Jimmy Choo's penetration in various areas. However, we don't expect the firm to engage in heavy amounts of marketing as this could dilute the "high luxury" and exclusive images of the brands.

Capri has also been spending more on SG&A to deleverage the company.

- ***Sales***

  We believe consumer demand will rebound in the American market, and as such, although Capri will continue to see negative earnings in the next fiscal year, we expect earnings to increase over the forecast period before stabilizing.

- ***COGS***

  Capri's Cost of Goods Sold has historically hovered at approximately 34%. Despite the brand mix as a shift, resulting in shifting operating margins, we do not expect the brand mix as a percent of COGS/revenue to shift significantly. Moreover, with the addition of higher margins and lower cost-of-production products such as accessories and footwear to Jimmy Choo, we expect COGS to stay relatively flat to historical levels.

- ***SG&A***

  SG&A is at a historic high right now, and we believe this is due to deleveraging spending. As of the last three months before July 1, 2023, Capri Holding LLC held a 67.2% debt-to-total value ratio, higher than historical levels, so we expect the deleveraging spending to continue. Moreover, company management has not cited SG&A spending to be too high nor stated any efforts at reducing SG&A. As such, SG&A is held at a constant 50%.

- ***Capital Expenditures***

    To us, the brand mix stated intentions meant that Capri would open more Versace and Jimmy Choo stores; these could be standing Michael Kors stores that are converted into Versace and Jimmy Choo. In line with this assumption, capital expenditures rise as a percent of sales in the next few years, remaining elevated through 2026 and 2027, before coming down to historical values.

- ***DSO***

    We have mapped Days Sales Outstanding to capital expenditures. As Capri finishes repositioning Michael Kors, expanding the Versace and Jimmy Choo brands, and increasing the direct-to-consumer model, consumers will flock to the firm’s stores once again. As such, DSO declines in response to the increase in capital expenditure.

- ***DIH***

    Days inventory is at a historic high currently, and this trend will likely continue until Capri finishes its transformations of its brands as described above. Coupled with brand changes and the rebound of American luxury fashion demand in a few years, we expect DIH to decline significantly over the forecast period.

- ***DPO***

    As operations recover over the next few years due to American demand rebound and direct-to-consumer methods, we expect days payable outstanding to decline (i.e., Capri will pay its obligations quicker, and supply chain partners will tighten credit due to an easier-to-operate-in environment).

- ***WACC***

    For the calculation of the Weighted Average Cost of Capital (WACC), we used the tax rate of Capri’s home country (the United Kingdom). The risk-free rate comes from the yield on 10-year US government treasury bond yields, the cost of debt is the blended yield on 10-year US corporate bonds rated BBB and BB (blended to match Capri’s credit rating of BBB-), and the market risk premium is the US equity risk premium plus the country risk premium as cited by Damodaran.

    For the target Debt-to-Value ratio, we have used the average Debt-to-Value ratio of Capri’s closest comparable companies, with the assumption that the industry, on average, can optimize the capital structure that is best suited for the industry. It is important to note that Capri itself has a cyclical nature in its capital structure, with its Debt-to-Value ratio moving from mid-50 % to mid-60 % before coming back down to mid-50 %. The average of one such capital structure cycle results in a Debt-to-Value ratio similar to that of the industry average (see Appendix 4). As such, either approach would yield the same WACC, but we have opted for the industry average to keep our numbers forward-looking.

2. Synergy cases

After reviewing the M&A call conducted in August and analyzing Tapestry's previous strategies by referencing various equity research sources, we have identified the strategies Tapestry intends to pursue following the acquisition. Overall, the key emphasis will be on boosting online sales and diminishing dependence on wholesale channels.

As a result, we have made assumptions regarding sales, COGS, SG&A, and other relevant variables. While we maintain current levels for certain factors such as other current assets and current liabilities, we will focus on analyzing the key factors that will be influenced by post-acquisition synergies.

- ***Sales***

    After the acquisition, Tapestry aims to optimize sales by ramping up advertising efforts and expanding its product range, with a specific focus on enhancing sales in Asia to capitalize on Tapestry's regional strengths. Sales data categorized can be found in Appendix 2. Notably, Tapestry currently holds a 29% share of sales in Asia, with approximately 15% of its market presence in China. This strategic move is expected to yield effective cross-selling results.

Regarding product portfolio distribution, accessories constitute a substantial 80% of Tapestry's sales. Accessories have consistently demonstrated profitability and align with ongoing trends in the fashion industry. We believe that diversifying the product range and expanding marketing efforts will provide Tapestry with greater stability and long-term resilience. Additionally, leveraging the online platform to deliver personalized recommendations to customers is anticipated to boost sales effectively.

Note: This strategic move is geared towards mitigating potential impacts from foreign currency fluctuations and macroeconomic challenges expected in 2024.

- ***COGS***

  Strengthening negotiating leverage with suppliers to achieve a modest reduction in the cost of goods sold (COGS). Moreover, as mentioned above, optimizing the sales mix to emphasize accessories, leveraging their higher profitability.

- ***SG&A***

  There are three factors we believe will impact SG&A.

  - Firstly, aligning with the strategy to boost online sales and increase the operating margin. Tapestry executives emphasize a shift from a significant reliance on wholesales to a focus on direct-to-customer sales, aiming to enhance profitability. Currently, Tapestry generates approximately 10% of its revenue through department stores, while Capri relies on the wholesale channel for about one-third of its revenue.
  - Secondly, augmenting marketing expenditure. Following the successful approach taken with Coach, executives intend to substantially increase marketing investments to showcase MK and attract a broader customer base. Over the past several years, Tapestry has more than doubled its marketing investments while concurrently increasing profits.
  - Lastly, improving supply chain management. Leveraging the online platform not only allows for personalized recommendations to customers but also aids in ensuring the timely delivery of the right items and optimizing inventory management. Utilizing data, Tapestry can enhance the efficiency of distribution platforms and nodes, streamlining logistics and transportation.

- ***Capital Expenditures***

  As they focus on enhancing their online platform, there will be an increase in hardware and software investments to optimize the online store, analyze underlying data, and support the necessary infrastructure.

- ***DSO***

  The Days Sales Outstanding (DSO) figures decreased attributed to the surge in online sales and decreased reliance on wholesale. Compared to traditional brick-and-mortar stores and retail vendors, DSO with end consumers is shorter. This improvement was evident as Tapestry reduced DSO from 18 to 12 in 2020-2021 following the launch of its e-commerce platform.

- ***DIH***

  Leveraging the online platform effectively has not only led to inventory reduction, mitigating the Bullwhip effect but also contributed to an increase in online sales, demonstrating a significant improvement.

- ***DPO***

  Due to the larger merged company having better bargaining power with suppliers (because of the 6 major brands under one umbrella), the overall Days Payable Outstanding (DPO) is expected to increase to more than the historical level of either Capri or Tapestry.

- ***WACC***

  For the calculation of the Weighted Average Cost of Capital (WACC), adjustments were made to the tax rate to account for the different countries in which the two companies operate. Additionally, the inclusion of LVMH in the calculation was necessary, given the post-merger entity's proximity to LVMH. In determining the cost of debt, we considered Tapestry's credit rating of BBB, which is slightly better than Capri's, and adjusted the cost, accordingly, yielding a WACC of 8.0%

3. DCF Results

We conducted two scenarios for the discounted cash flow (DCF) analysis, considering the potential impact of synergies. Given the uncertainty in strategy execution, we examined both optimistic and pessimistic scenarios.

In the pessimistic scenario, if cross-selling and marketing promotions do not perform as anticipated, the projected sales growth is expected to be lower compared to the optimistic scenario. Additionally, challenges in reducing the cost of goods sold (COGS) may arise if efforts to increase accessory items prove unsuccessful. SG&A is projected to slightly decrease to reflect the poor growth performance, as will capex. Regarding Days Inventory Held (DIH) and Days Payable Outstanding (DPO), due to suboptimal online sales, the days are expected to be higher than in the optimistic scenario.

DCF	Enterprise Value	Implied Share Price
Stand-Alone	$8,032.10	$34.05
Acquisition with Synergies – Optimistic	$12,194.50	$65.11
Acquisition with Synergies – Pessimistic	$10,556.80	$52.89

Tapestry, Inc. (NYSE: TPR) - Discounted Cash Flow Analysis

1. Standalone case

Similar to Capri Holdings Limited, Tapestry Inc. faces softened American and wholesale demand. However, Tapestry is 90% penetrated in the direct-to-consumer business model, and as such will not be significantly affected by the wholesale demand decline. Asia constituted 29% of Tapestry’s 2023 revenue (see Appendix 2) and as of May 11, 2023, Barclays analysts cited 50% expected growth in sales in Greater China. However, to try to increase transaction growth in North America, Tapestry has engaged in price promotions, just like Capri, but in a controlled manner.

The customer base that Tapestry attracts includes millennials and Generation Z members, who transact at higher average unit retail (AUR) prices than the generations attracted by other fashion companies. They attract these customers by incurring a high amount of marketing expenses that are used to establish an emotional connection with their audience. Tapestry’s product mix centers around global premium handbags, small leather goods, and footwear, representing a product line that is robust against softening demand.

Tapestry is engaged in freight recovery by reducing air freight usage; freight costs on inbound shipments have also started to moderate. Management is engaged in disciplined inventory management to improve gross margins.

- ***Sales***

  Due to the firm's B2C model and revenue streams, Tapestry will not be affected by the softening of demand across America and wholesale as much as Capri. Moreover, due to its customer base makeup, Tapestry can afford to increase prices within reason without facing the effects of weaker demand, thus realizing higher gross margins than Capri.

- ***COGS***

  Tapestry management has not indicated any efforts to lower the cost of goods sold, whether by optimizing its supply chain or other opportunities to lower this value. As such, COGS is held to the constant average levels.

- ***SG&A***

  Tapestry has historically maintained SG&A costs at slightly more than half of revenue. The firm is cited to hold disciplined SG&A levels, and as such, we expect SG&A to slightly decrease over time.

- ***Capital Expenditures***

  The company management has identified about 2-3% Capex over the next few years due to investments in digital platforms, data capabilities, DTC channels, and infrastructure expansion. As such, Capex has been kept to average historical levels, which falls within this range.

- ***DSO***

  Given Tapestry's penetration in DTC channels, we expect DSO to remain constant in the standalone case.

- ***DIH***

  In addition to management's claims for disciplined inventory management, Tapestry brought their sales-to-inventory spread to 9.84% in FY3Q23, declining from 40.31% in FY2Q23. Accordingly, DIH declines significantly over the forecast period.

- ***DPO***

  Due to Tapestry's inherent defenses against softening demand, we expect DPO to stay constant.

- ***WACC***

  For the calculation of the Weighted Average Cost of Capital (WACC), we used the tax rate of Tapestry's home country (the United States). The risk-free rate comes from the yield on 10-year US government treasury bond yields, the cost of debt is the blended yield on 10-year US corporate bonds rated BBB (to match Tapestry's credit rating of BBB), and the market risk premium is the US equity risk premium as cited by Damodaran.

  For the target Debt-to-Value ratio, we have used the average D-to-V ratio of Tapestry's closest comparable companies, with the assumption that the industry, on average, can optimize the capital structure that is best suited for the industry.

2. Synergy cases

Tapestry, Inc. has announced a transformative acquisition that unites a portfolio of six iconic brands, strengthening its position as a major player in the global fashion industry. The combined company, which includes brands like Coach, Kate Spade, and Stuart Weitzman, as well as Versace, Jimmy Choo, and Michael Kors, is set to generate annual sales exceeding $12 billion, operating in over 75 countries. Joanne Crevoiserat, Chief Executive Officer of Tapestry, emphasized the company's dedication to building enduring brands, bolstered by a data-rich consumer engagement platform.

The strategic focus is on diversifying the direct-to-consumer model and capitalizing on synergies, with an anticipated $200 million in run-rate cost savings within three years post-acquisition. This acquisition creates a new global luxury house, positioning Tapestry for substantial value creation for customers, employees, communities, and shareholders.

- ***Sales***

  After the acquisition, Tapestry aims to optimize sales by ramping up advertising efforts and expanding its product range, with a specific focus on enhancing sales in Asia to capitalize on Tapestry's regional strengths. Sales data categorized can be found in Appendix 2. Notably, Tapestry currently holds a 29% share of sales in Asia, with approximately 15% of its market presence in China. This strategic move is expected to yield effective cross-selling results.

  Regarding product portfolio distribution, accessories constitute a substantial 80% of Tapestry's sales. Accessories have consistently demonstrated profitability and align with ongoing trends in the fashion industry. We believe that diversifying the product range and expanding marketing efforts will provide Tapestry with greater stability and long-term resilience. Additionally, leveraging the online platform to deliver personalized recommendations to customers is anticipated to boost sales effectively.

  Note: This strategic move is geared towards mitigating potential impacts from foreign currency fluctuations and macroeconomic challenges expected in 2024.

- ***COGS***

  Tapestry anticipates significant cost synergies in this area, targeting a substantial portion of the $200 million run-rate savings. A part of this cost reduction, we can assume approximately $100 million, will be attributed to optimizing COGS through strengthened negotiating leverage with suppliers. By leveraging the combined scale of the post-acquisition entity, Tapestry aims to secure favorable pricing and terms from its suppliers, achieving a modest yet impactful reduction in the cost of goods sold. This strategic approach aligns with industry best practices and can contribute to improved overall profitability while maintaining product quality and brand standards.

- ***SG&A***

  The remaining $100 million of the projected $200 million cost synergies is earmarked for optimizing SG&A expenses It's important to note that while Tapestry is targeting $100 million in cost savings within SG&A, there may be a partial offset due to increased spending on online marketing initiatives, a strategic focus reiterated by the company during the first three years of the projection. Tapestry recognizes the critical role of online marketing in driving digital sales growth and expanding its e-commerce presence. These investments are supported by industry data, which indicates a significant shift in consumer shopping behavior towards online channels in the luxury fashion sector.

  However, it's worth noting that the benefits of these marketing efforts and the transition to a more streamlined and larger e-commerce platform are expected to kick in as the strategy matures. Industry data reveals that luxury fashion brands that effectively harness the power of e-commerce and digital marketing have the potential to achieve substantial revenue growth and enhanced brand visibility over time. As Tapestry bolsters its stronger online presence, it is well-positioned to capture the advantages of the evolving e-commerce landscape, contributing to long-term profitability and sustainability while delivering a superior customer experience.

- ***Capital Expenditures***

  Capital Expenditures (Capex) play a crucial role in Tapestry's growth strategy, particularly in the context of its recent acquisition and expansion efforts. Capex is likely to be directed toward the integration and upgrading of technology systems, supply chain optimization, and store enhancements as the company seeks to align its operations with the newly acquired brands. A significant portion of Capex is anticipated to be allocated to bolstering Tapestry's e-commerce and digital capabilities. With a focus on online marketing and digital sales growth, investments in technology and digital infrastructure are essential for strengthening the company's online presence and providing customers with a seamless and engaging shopping experience.

- ***DSO***

  The experience and success in reducing Days Sales Outstanding (DSO) following Tapestry's acquisition of Coach in 2018 provide valuable insights and a relevant framework for the company's current acquisition of Capri Holdings. Following its acquisition of Coach in 2018, it had an immediate impact, resulting in a 2.8-day decrease in DSO. Over five years, from 2017 to 2022, Tapestry continued to optimize its DSO performance, bringing it down from 20.8 days to 12.3 days. This remarkable reduction in DSO can be attributed to a variety of strategic initiatives implemented by Tapestry. Just as the initial acquisition of Coach led to a significant immediate decrease in DSO and a continued reduction over the years, the acquisition of Capri Holdings presents an opportunity to optimize DSO similarly.

  With the integration of Capri Holdings into Tapestry, there is the potential to implement best practices and strategies that have already proven effective. The surge in online sales and reduced reliance on wholesale channels, which contributed to a shorter DSO, can be applied to the newly acquired brands and product lines from Capri Holdings.

- ***DIH***

  Tapestry's aggressive approach toward e-commerce, as highlighted in its 10-K and accelerated program for 2025, underscores the company's commitment to optimizing online sales and enhancing customer engagement. The management's proactive stance on inventory control and e-commerce positions Tapestry for stronger DIH performance and improved operational efficiency in the standalone case and post-merger. This is supported by the successful historical case following the acquisition of Coach in 2018 when DIH saw significant improvements. However, the DIH increased significantly post the acquisition. This time, we believe that the increased focus on e-commerce sites and cut down of brick-and-mortar stores as well as wholesales as well as the lessons learned from previous acquisitions might help tapestry in bringing down the DIH.

- ***DPO***

  Due to the larger merged company having better bargaining power with suppliers, the overall Days Payable Outstanding (DPO) is expected to increase more than the original level, but not as aggressively as the drop in DIH.

- ***WACC***

  For the calculation of the Weighted Average Cost of Capital (WACC), a similar approach to Capri Holding's synergy WACC Computation was undertaken. However, Tapestry Comp was replaced with Capri Holdings. This change in comparable companies has led to a slight difference in WACC on the Tapestry synergy case than the Capri synergy case, but the difference is only 3 basis points, and as such should not affect the valuation significantly.

3. DCF Results

DCF - Tapestry	Enterprise Value	Implied Share Price
Stand-Alone	$14,570.60	$49.80
Acquisition with Synergies – Optimistic	$19,000.70	$68.16
Acquisition with Synergies – Pessimistic	$15,807.50	$54.93

Trading Multiples Analysis

Although most of the luxury brands operating in luxury apparel and accessories seem to be comparable with each other from a high level, their key performance drivers vary by a materially significant proportion. We did a benchmarking exercise to come up with a set of very close comparable companies that are near Capri Holdings for valuation purposes.

With the help of the benchmarking exercise, we were able to narrow down a list of three very close comparable companies:

- **Tapestry**: Tapestry, Inc. provides luxury accessories and branded lifestyle products in the United States, Japan, Greater China, and internationally. The company operates in three segments: Coach, Kate Spade, and Stuart Weitzman. It offers women's handbags; and women's accessories, such as small leather goods which include mini and micro handbags, money pieces, wristlets, pouches, and cosmetic cases, as well as novelty accessories including address books, time management and travel accessories, sketchbooks, and portfolios; and belts, key rings, and charms.
- **Burberry Group:** Burberry Group plc, together with its subsidiaries, manufactures, retails, and wholesales luxury goods under the Burberry brand. The company operates in two segments, Retail/Wholesale and Licensing. It provides womenswear, menswear, childrenswear, beauty, eyewear, shoes, and accessories, as well as leather goods, such as bags.
- **Ralph Lauren:** Ralph Lauren Corporation designs, markets, and distributes lifestyle products in North America, Europe, Asia, and internationally. The company offers apparel, including a range of men's, women's, and children's clothing; footwear and accessories, which comprise casual shoes, dress shoes, boots, sneakers, sandals, eyewear, watches, fashion and fine jewelry, scarves, hats, gloves, and umbrellas, as well as leather goods, such as handbags, luggage, small leather goods, and belts; home products consisting of bed and bath linens, furniture, fabric and wallcoverings, lighting, tabletop, kitchen linens, floor coverings, and giftware; and fragrances.

All three companies not only align with Capri in terms of financial metrics but also in terms of strategic direction and operational capabilities.

As the fourth company, we considered including **Zegna:** Ermenegildo Zegna N.V., also known as Zegna or the Ermenegildo Zegna Group, is an Italian luxury fashion house. However, it diverges from Capri in terms of its strategic focus. In contrast to Capri Holdings, Ermenegildo Zegna Group (Zegna), is celebrated for its meticulous craftsmanship in men's clothing, particularly tailored suits, sportswear, and accessories. Zegna maintains a singular focus on the discerning male clientele. Moreover, Zegna is a relatively young company in the high growth stages of the industry life cycle, which is different from the lower growth positions of Capri and Tapestry. So, we chose to weigh Zegna by just 5% despite its comparableness in terms of financial metrics to our two key firms.

To make the model flexible enough to accommodate comparison of the post-merger firm (with synergies) we also included **LVMH:** LVMH Moët Hennessy Louis Vuitton, commonly known as LVMH, is a French multinational holding and conglomerate specializing in luxury goods, headquartered in Paris. Although LVMH is a much more diversified company with a substantially huge market capitalization, we believe it is essential to include LVMH as a comparable company with a slight adjustment. We took a tired approach of weighing the top three comps with 85% and LVMH with 10% weightage, given the size factor.

After tiering the transactions, we assigned a weighting of 85% to luxury brands, 10% to the ultra-luxury brand of LVMH, and 5% to Zegna for its strategic and financial fit considering the merged entity's long-term goals. This gave us an analysis of Capri Holdings' current positioning in the market keeping in mind the potential of Tapestry and Capri Holdings being valued like LVMH as this transaction is being compared to become the LVMH of the United States.

Analyzing the multiples

With the tiered approach from the comparable company's analysis and the metrics flowing from Capri Holdings DCF, the multiples range in the following way.

Multiples	EV/ Revenue	EV/ EBITDA	P/E	Implied P/E (PE-G Ratio)
LTM	1.7x - 1.9x	8.2x - 8.3x	13.9x - 15.4x	13.5x - 14.6x
Imp. Sh. Price Range	$44.14 - $52.98	$26.64 - $27.16	$38.42 - $42.27	$37.11 - $39.98
NFY	1.6x - 1.8x	8.0x - 8.1x	13.3x - 13.8x	11.9x - 15.4x
Imp. Sh. Price Range	$41.60 - $49.89	$10.64 - $11.18	$32.94 - $34.38	$29.67 - $38.17
NFY + 1	1.5x - 1.7x	7.4x - 7.6x	11.9x - 12.4x	10.8x - 13.2x
Imp. Sh. Price Range	$41.55 - $49.75	$15.97 - $17.41	$32.23 - $33.73	$29.24 - $35.93

Among these multiple ranges, the most reliable one seems to be the EV/ LTM Revenue. The reason for us to choose this is as follows:

- Luxury fashion companies often have high brand recognition and customer loyalty, making revenue an important driver of their value.
- This multiple allows for easy comparison between different companies in the same industry, as it standardizes the valuation by using a consistent measure despite geographical differences.
- Looking at the last twelve months (LTM) revenues, this multiple considers the company's recent operating performance, which can be particularly relevant in industries with rapidly changing consumer preferences and market conditions.
- **The Transaction Valuation**: For many fashion Industry M&A deals, especially in the luxury fashion segment, acquirers are often interested in acquiring brands or companies with strong growth potential, especially their customer base which is directly tied to the revenue growth. Revenue multiples emphasize growth opportunities by highlighting the company's sales performance.

Transactions Multiples Analysis

Transaction Multiples analysis was a method used to assess the value of a company by comparing it to similar transactions in the market. To perform this analysis, we followed the following steps:

- Researched Comparable Transactions: We began screening through various databases, press releases, and management discussions to see what the outlook regarding the transaction was and if any transactions were compared to our principal transaction. Started mapping out transactions based on the below-mentioned criteria.
  - Industry: Target was supposed to be a company in the Apparel, Accessories, and Luxury goods sector
  - Time Frame: Since transactions in the luxury fashion industry are sparse in number, we had to include transactions spanning from 2013 to 2023.
  - Company Characteristic: Since transaction multiples are difficult to identify for private companies, we tried to stick to companies that were public when acquired or information about the transaction was publicly available.
  - Purchase Consideration: The Fashion industry is majorly driven by all cash transactions; however, there were transactions in the past that included a mix of cash and stock in a deal. Hence, we included all cash and cash + stock transactions in our screening.
  - Percentage Sought: We took transactions wherein the acquirer was buying a controlling stake in the target.

- Gathered Data: We collected the comparable transaction target's respective LTM financial information, as of their transaction date, such as their revenue, EBITDA, premiums paid, and transaction prices.
- Calculated Multiples: Post accumulating data we computed relevant multiples such as Enterprise Value to Sales, Enterprise Value to EBITDA, etc.
- Analyzed the Multiples: Multiples for different transactions resulted in varied outcomes, the EV/EBITDA multiple ranged from 9.2x to 27.8x, where the mean and median of the same were also quite apart at 13.4x and 9.8x respectively. We also observed that it seemed to be the industry standard of valuing transactions based on EV/Revenue rather than other multiples since their mean and median were at 1.9x and 1.2x respectively. We used the 1.9x multiple to value our principal transaction of Capri Holdings and Tapestry.
- Premiums Paid Analysis: We calculated that on average transactions in the luxury goods industry were done at a premium of ~20% of the share price 1 day before the transaction announcement. We also noticed that the variation in the premium was a +/- of ~10%, therefore we decided on a range of 1.7x and 2.1x, from the mean EV/Revenue multiple of 1.9x, for our transaction analysis valuation to be used in the football filed analysis.

Tapestry and Capri Holdings' transaction valued at the 1.9x EV/Revenue multiple yields a share price of ~$57/share, which is what Tapestry is paying Capri Holdings shareholders. Analysis makes us believe that Transaction Multiples analysis provides valuable insights for investors, M&A professionals, and business owners when assessing the worth of a company in a competitive marketplace.

Value Creation Analysis

	Optimistic	Pessimistic
Capri after Acquisition	$ 12,194.50	$ 10,556.80
Less: Capri Standalone	$ (8,032.10)	$ (8,032.10)
Equals: Value created in Acquisition	$ 4,162.40	$ 2,524.60
Tapestry after Acquisition of Capri	$ 19,000.70	$ 15,807.50
Less: Tapestry Standalone	$(14,570.60)	$(14,570.60)
Equals: Value created in Acquisition	$ 4,430.10	$ 1,236.80
Total Value Generated from the Transaction	**$ 8,592.50**	**$ 3,761.40**
Capri's share (Purchase price - Standalone)	$ 467.90	$ 467.90
Tapestry's share (Total Value created - Capri's share)	$ 8,124.60	$ 3,293.60
Value Generated Contribution	Optimistic	Pessimistic
Capri	48%	67%
Tapestry	52%	33%
Synergy Distribution Percentage Share	Optimistic	Pessimistic
Capri	5%	12%
Tapestry	95%	88%

In both scenarios, the total value generated from the transaction is higher in the optimistic case compared to the pessimistic case. Value Generated Contribution percentages show the relative contribution of Capri and Tapestry in creating value, with the optimistic scenario favoring Tapestry and the pessimistic scenario favoring Capri.

The percentage share distribution highlights the dominance of Tapestry in both scenarios, but the degree of dominance varies based on the level of optimism or pessimism. The reason for this is since it is an all-cash deal, the shareholders get their share of value creation through the 67% higher offer price than its share price. The synergies are therefore mostly attributable to the Acquirer.

M&A Template Background & Process

Commencing with the M&A Model Template, we initiated the process by constructing the Standalone sheets for both the Acquirer ("Tapestry") and the Target ("Capri Holdings"). The document amalgamates the valuations of these two entities, taking into consideration the impending transaction, and furnishes the user with a pro forma template to project the values of the merged entity. Extracting data from VC2, we obtained the Acquirer's Income Statement, Balance Sheet, and Cash Flow Statement. Subsequently, we devised a Debt schedule keeping in mind that the acquirer would discharge its debt and repeat the process for the Target.

Moving on to the PF Assumptions 1 tab, we opted for three financing structures, namely:

- Proxy Statement
- 8K
- No Bridge Facility

In each case, we grouped transactions with similar maturities into one bracket, for example, term loans with 2025 and 2026 as years of maturity were grouped. Each financing structure resulted in different sources and uses due to variations in fees on the different types of debt.

Given that this transaction involved Goodwill generation, we performed a Purchase Price Allocation, aligning the Equity Purchase price with Capri's Identifiable assets. We accounted for Tangible and Intangible asset write-offs, reinstated the Deferred Tax Liability, and ultimately arrived at the goodwill generated by the transaction.

For Synergies, we computed three types:

- Revenue = Combined Co. Revenue – Standalone Cos. Revenue
- Cost Synergies = Combined Co. EBITDA – Standalone Cos. EBITDA
- Capex = Combined Co. Capex – Standalone Cos. Capex

We structured the file to enable navigation through the synergy cases on the TS tab, illustrating how Optimistic and Pessimistic synergies impact the transaction.

Post the Pro Forma Income statement, we addressed the Balance Sheet, making necessary adjustments pertinent to the transaction. In the Debt Schedule, all linkages were established with the Pro Forma Balance Sheet. Given the presence of debt in the combined firm with specific repayment deadlines, we accorded priority to repaying this debt over the Revolving credit and modeled the payment schedule accordingly. Notably, SOFR curves were employed in the debt schedule, aligning with the pricing terms of the deal, Tapestry, and Capri's debt instruments.

The template reveals that the EPS Accretion/(Dilution) analysis varies with different financing structures. However, the transaction is accretive in the long term, even if dilutive in the initial years.

Comments on Merger Consequences Analysis

Operating Scenario 2: Optimistic

We will observe the effects of this deal by considering two alternative financing structures while examining the optimistic operating scenario as described earlier. Note that the synergy scenario selected is 1, to avoid double counting of synergies.

Financing Structure 2: As Described in the 8-K from November 15, 2023

- **Balance Sheet Effects**
  - Total Liabilities in the pro forma is nearly double the amount of each firm standalone combined. This is due to the large amount of new senior notes that Tapestry has most recently issued, totaling $6,128.4; this is also due to the bridge facility that we assume will be reduced by the number of bonds issued to $1,842.5.
    - The total liabilities decline throughout the period as the notes issued by Tapestry are paid off at their given maturities of 2025, 2026, 2027, and 2028.
  - Through the forecast period, shareholders' equity increases while total liabilities decrease. This shows that over time, the combined entity can generate value for shareholders without taking on further liabilities, meaning that the extra value shareholders will see will come from operations, not leverage.
  - Net working capital nearly doubles from proforma 2023 to 2024 and stays significantly high until 2027, when it comes down slightly. This is likely due to the expenditure necessary for the integration of the two firms, not to mention the assumed continuing restructuring of Capri's brand mix as discussed earlier.
  - In the years 2024 through 2026, the Cash Balance is zero. The Cash balance turns positive in 2027 and increases substantially from there, indicating positive enough performance to sustain operations and service any debts.
- **EPS Accretion/(Dilution)**
  - In this operating scenario and financing structure, this deal is accretive in 2023 proforma. This outcome aligns with the claims of Joanne Crevoiserat, who initially said that this deal was immediately accretive in various network interviews she conducted. However, the deal is dilutive in 2024, a fact that is seemingly unknowingly left out of Crevoiserat's statements.
  - From 2025 onwards, the deal is accretive and becomes increasingly more so, reflecting positive (perceived) returns for investors.
  - For the forecast period after 2024, the firm has a synergy cushion from which to break even. This gives confidence in the success of the combined entity.
- **Credit Statistics**
  - ***Coverage (e.g., EBITDA-to-interest expense)***
    - In the standalone, Tapestry's coverage ratio is 21.7x while Capri's is 7.5x, reflecting the much better financial health of Tapestry (and, hence, the acquisition of Capri). In one year after the transaction (2024), the combined company's coverage ratio dropped to a staggering 4.8x, reflecting the massive amounts of debt taken on by the firm. As this debt is paid off during the forecast period, the coverage ratio does not recover to Tapestry's pre-transaction levels; this does not signal confidence for lenders of the deal.
  - ***Leverage (e.g., debt-to-EBITDA and debt-to-total-capitalization)***
    - The debt-to-EBITDA and debt-to-total-capitalization increase significantly in the year 2024 and come down over the period to Tapestry's pre-acquisition levels.
- **DCF**
  - As compared to the standalone case, Tapestry's Net Income margin is consistently higher during the forecast period in this operating scenario, following a dip from 2023 to 2024. However, Capri's Net Income margin suffers two years longer than Tapestry's, remaining

below standalone values until 2026 and then subsequently jumping up in the last two years of the forecast period.
    - Tapestry will enjoy consistently increasing operating margins (1% per annum) in the optimistic scenario as opposed to a 1% increase across the forecast period in the standalone scenario. Similar to its Net Income margin projections, Capri will suffer a drop in operating margin before rebounding to higher-than-pre-transaction levels in the last two years of the forecast period.
- **Transaction Multiples**
    - In EV/LTM EBITDA, both Tapestry and Capri were valued between 8.7x and 8.6x, with Tapestry slightly above. However, when considering this deal in the optimistic case, the EV/EBITDA multiple of Capri is expected to rise above that of Tapestry by the year-end of 2023 and even more in 2024; this increase is driven by the premium (control and synergy premiums) over Capri's stock price in the purchase price as well as anticipated underperformance of Capri as discussed above.
    - In this scenario, Capri's EV/EBITDA and Equity/NI increase dramatically from 2023 to 2024 as opposed to the standalone scenario. The increase in these multiples from 2023 to 2024 is stunted in the optimistic scenario as compared to the standalone scenario.
- **Debt schedule**
    - Given that Tapestry plans to use its cash on hand to finance this deal, we have assumed a zero minimum cash balance in the debt schedule. Fortunately, there is enough cash on hand to make optional repayments on top of mandatory ones throughout the forecast period.

Financing Structure 3: No Bridge Facility

In this scenario, we assume that rather than a bridge facility, Tapestry issues the notes it has issued and then draws on its revolving credit, which up until November of 2023 has remained undrawn.

- **Balance Sheet Effects**
    - The same effect on Shareholders' Equity and Total Liabilities over time is observed in this financing scenario as in financing scenario two.
    - Net Working Capital Remains unchanged.
    - The Cash balance remains at zero throughout the forecast period, indicating a lack of the firm to support this financing structure.
- **EPS Accretion/(Dilution)**
    - The deal is accretive in 2023 but dilutive in 2024 before seeing increasing accretion from 2025 onwards, though not at the same rate of increase as in financing structure two.
    - The synergy hurdles the firm must surpass in 2024 are nearly double those of financing structure 2 before the firm enjoys a synergy cushion to break even.
- **Credit Statistics**
    - ***Coverage (e.g., EBITDA-to-interest expense)***
        - Post-transaction, the EBITDA-to-interest expense does not recover, remaining less than Tapestry's standalone coverage by the end of the period, even more so than in financing structure 2.
    - ***Leverage (e.g., debt-to-EBITDA and debt-to-total-capitalization)***
        - Debt-to-EBITDA increases in the early years of the transaction period before declining back to Tapestry's standalone value. Debt-to-total capitalization increases dramatically before dropping to a value matching Tapestry's standalone value; this is likely due to the maturity of the revolving credit facility in 2027 and the paydowns of the senior notes.
- **DCF**
    - The Net Income and Operating Margins remain unchanged in the financing scenario change.
- **Transaction Multiples**
    - As anticipated by the unchanging DCF margins, the trading and transaction multiples remain unchanged in the financing scenario change.

- **Debt schedule**
  - In financing structure 3, the combined company will run a deficit in cash available for optional repayments in the year 2025; as such, *the firm will be unable to service financing structure three.*

Operating Scenario 3: Pessimistic

We will observe the effects of this deal by considering two alternative financing structures while examining the pessimistic operating scenario as described earlier. Note that the synergy scenario selected is 1, to avoid double counting of synergies.

<u>Financing Structure 2: As Described in the 8-K from November 15, 2023</u>

- **Balance Sheet Effects**
  - Shareholders' equity and Total Liabilities move in the same direction as described for the optimistic scenario with financing structure two.
  - Net Working Capital again doubles from the pro forma value but stays elevated throughout the forecast period. Expenditures are still incurred to merge the two firms and restructure Capri but stay elevated due to unanticipated integration difficulties (hence, the "pessimistic" scenario).
  - The cash balance remains zero until 2028, due to integration difficulties in this operating scenario.
- **EPS Accretion/(Dilution)**
  - This deal and financing structure proves to be dilutive in the first two years post-transaction (2024 and 2025) and then accretive. However, accretion achieved by the end of the forecast period is significantly less than that of the optimistic operating scenario in either financing structure.
  - The synergy cushion is delayed an additional year until 2026.
- **Credit Statistics**
  - ***Coverage (e.g., EBITDA-to-interest expense)***
    - The combined entity is not able to recover Tapestry's pre-transaction coverage ratios within the forecast period and becomes even lower than the optimistic scenario in financing structure 3 by the end of the period. This signals risk or weakness to involved lenders.
  - ***Leverage (e.g., debt-to-EBITDA and debt-to-total-capitalization)***
    - Total debt-to-EBITDA and debt-to-total-capitalization ratios recover to pre-transaction levels.
- **DCF**
  - Tapestry will observe a roughly 3% increase in Net Income and Operating Margins as opposed to 1% in the standalone case.
  - Capri will observe a 7% increase in operating margin and an 8.4% (more than double) increase in Net Income margin across the forecast period as opposed to a flat and 1% increase, respectively. However, Capri's margins at the end of the period are still below those of the optimistic operating scenario.
- **Transaction Multiples**
  - In this operating scenario, both firms' EV/EBITDA and Equity Value/NI multiple increases are more pronounced.
- **Debt schedule**
  - In this scenario, the combined company runs an even larger deficit in Cash Available for Optional Repayment than the optimistic operating scenario with financing structure three, indicating that *the firm will not be able to service its debt if the synergies are not realized nearly fully.*

Financing Structure 3: No Bridge Facility

- **Balance Sheet Effects**
  - The Balance sheet effects are the same as described in the pessimistic scenario with financing structure two.
- **EPS Accretion/(Dilution)**
  - EPS Accretion/(Dilution) is the same as described in the pessimistic scenario with financing structure two.
- **Credit Statistics**
  - ***Coverage (e.g., EBITDA-to-interest expense)***
    - This scenario exhibits the worst coverage ratio recovery, with the EBITDA-to-interest ratio reaching only 9.9x by the end of the forecast period.
  - ***Leverage (e.g., debt-to-EBITDA and debt-to-total-capitalization)***
    - The total debt-to-EBITDA and debt-to-total capitalization ratios remain elevated against pre-transaction levels.
- **DCF**
  - The Net Income and Operating Margins remain unchanged in the financing scenario change.
- **Transaction (and Trading) Multiples**
  - As anticipated by the unchanging DCF margins, the trading and transaction multiples remain unchanged in the financing scenario change.
- **Debt schedule**
  - In this scenario, the combined company runs a deficit in Cash Available for Optional Repayment earlier than in previous scenarios, in 2024. This indicates a *severe* inability of the firm to service its debt in the case of poorer-than-expected performance.

Discussion of Merger Consequences Analysis

This deal led to significantly increased operating and profit margins for both Capri and Tapestry, which is a positive for the management. Moreover, the deal is mostly accretive over the forecast period, regardless of the operating scenario/financing structure, posing another strength for investor appeal. The nearly constant synergy cushion throughout the forecast period is favorable.

The combined entity's credit profile never truly recovers, and the entity runs the risk of having a deficit of cash for debt repayments, which will further exacerbate the credit profile. However, this is the status quo, and firms typically issue new debt to pay down existing debt. Tapestry may likely do this in the years following its acquisition of Capri to eliminate this risk. The issuance of more debt would also alleviate the struggle to generate a positive cash balance observed in several of the operating/financing scenario combinations.

The more optimistic the operating scenario, the more pronounced the transaction multiples valuation for the target at the expense of the acquirer. Although this may seem to put Tapestry at a disadvantage, given that Tapestry would own Capri in the case of a merger scenario, this phenomenon does not pose much risk.

LBO Analysis & Discussion

In this scenario, Tapestry acquires Capri, and the debt associated with the acquisition is transferred to Capri's balance sheet. This would likely impact Capri's financial ratios, such as leverage ratios (Debt/Equity, Debt/EBITDA), interest coverage ratio, and return on equity. The standalone nature implies that Capri operates as a separate entity, and its financial performance and debt repayment capability are evaluated independently. We have compiled four different financing structures for the transaction. However, we find Structure 2 to be the most optimal and has the maximum likelihood of occurring. In this traditional LBO approach, the financing items (specific tranches of debt) are assumed to be refinanced accordingly if a situation arises in which the firm is not able to repay within the stipulated period (as alluded to in the section **Discussion of Merger Consequences Analysis)**. This being the case, the credit statistics play out in the following manner.

Credit Statistics	Pro forma 2023	Year 1 2024	Year 2 2025	Year 3 2026	Year 4 2027	Year 5 2028	Year 6 2029	Year 7 2030	Year 8 2031	Year 9 2032	Year 10 2033
% Debt / Total Capitalization	*92.40%*	*94.10%*	*94.30%*	*93.50%*	*89.80%*	*85.60%*	*81.00%*	*76.00%*	*70.60%*	*64.70%*	*58.40%*
EBITDA / Cash Interest Expense	1.6x	1.0x	1.2x	1.5x	2.1x	2.3x	2.5x	2.7x	2.9x	3.2x	3.6x
(EBITDA - Capex) / Cash Interest Expense	2.0x	0.5x	0.7x	1.0x	1.6x	1.8x	2.0x	2.2x	2.3x	2.6x	2.9x
EBITDA / Total Interest Expense	1.6x	1.0x	1.2x	1.5x	2.1x	2.3x	2.5x	2.7x	2.9x	3.2x	3.6x
(EBITDA - Capex) / Total Interest Expense	2.0x	0.5x	0.7x	1.0x	1.6x	1.8x	2.0x	2.1x	2.3x	2.6x	2.8x
Senior Secured Debt / EBITDA	3.0x	5.1x	4.2x	3.5x	2.2x	1.8x	1.5x	1.1x	0.8x	0.4x	-x
Senior Debt / EBITDA	10.1x	15.2x	12.3x	10.1x	6.9x	6.4x	5.8x	5.3x	4.8x	4.3x	3.7x
Total Debt / EBITDA	10.1x	15.2x	12.3x	10.1x	6.9x	6.4x	5.8x	5.3x	4.8x	4.3x	3.7x
Net Debt / EBITDA	10.1x	15.2x	12.3x	10.1x	6.9x	6.4x	5.8x	5.3x	4.8x	4.3x	3.7x

Furthermore, to address any competition that Tapestry might face while bidding for Capri Holdings, we have created a Status Quo financing structure, where we have assumed a potential acquirer's Equity contribution into the source of funds as 32% as compared to a bare minimum of Tapestry's 8% (in the form of Cash) and the rest of the mix to be Debt.

Sources of Funds	**5 Status Quo**
Revolving Credit Facility Size	$2,000.00
Revolving Credit Facility Draw	-
Term Loan A	-
Term Loan B	-
Senior Unsecured Notes (2025 & 2026)	2,000.00
Senior Unsecured Notes (2027 & 2028)	1,500.00
Senior Unsecured Notes (2030 & 2031)	1,500.00
Bridge Facility	-
Equity Contribution	2,475.80
Rollover Equity	-
Cash on Hand	238
	-
Total Sources of Funds	**$7,713.80**

That being said, we have assumed an average IRR of ~20% requirement by the competing bidder, resulting in a maximum purchase price (affordability) for each share of Capri to be $45.70. This reiterates the fact that a strategic acquirer can pay more than any financial acquirer because they are better equipped to extract the greatest number of synergies.

APV Analysis & Discussion

The APV method values the Capri. It pulls the unlevered free cash flow from the LBO model and uses the unlevered cost of equity to discount the same yielding in PV of the Unlevered Firm $8.4 Billion in the optimistic scenario. The interest tax savings due to the debt component are computed from the LBO template and the PV of the Tax shield is $3.3 Billion. Finally, the crucial component is the estimated cost of financial distress due to the huge debt being undertaken. Because of the stress being put into the firm's cashflows by the additional debt, the firm's credit ratings are likely to fall for the initial few years and are likely to bounce back.

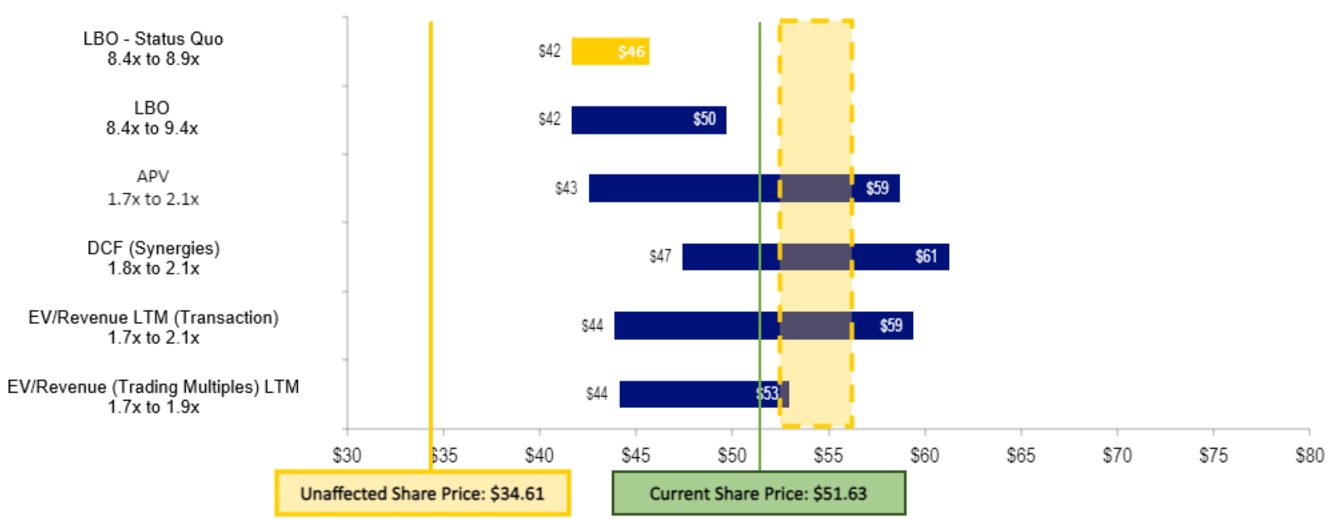
However, to estimate the cost of financial distress, the synthetic debt rating of B is computed which results in a corresponding 26% probability of financial distress – *source Altman and Kishore study.* Assuming 25% of the Firm Value would be lost *[Shapiro and Titman speculate that the indirect costs could be as large as 25% to 30% of the firm value but provide no direct evidence of the costs - Source: Aswath Damodaran]* The estimated cost of financial distress of $555 million which reduces the value of the unlevered firm.

Put together, the value of Capri using the APV method Yields $11.2 Billion.

Adjusted Present Value	
PV of Unlevered Firm	$8,425.01
Total Present Value of FCF from Interest Tax Shield	$3,344.53
Estimated Cost of Financial Distress	$(555.21)
Enterprise Value (APV)	**$11,214.33**

"Football Field" Analysis and Discussion

From the various models discussed above, we performed a football field analysis and obtained the following results. As is evident from the analysis, the implied share price is expected to fall within the range of $56 to $59. Furthermore, this indicates that the offer price of $57 by Tapestry is fair.



Appendix 1

List of Comparable Companies						
Company	Ticker	Business Description	Equity Value	Enterprise Value	LTM Sales	LTM EBITDA
Capri Holdings Limited	**CPRI**	**Capri Holdings Limited designs, markets, distributes, and retails branded women's and men's apparel, footwear, and accessories in the United States, and globally.**	**$6,000**	**$7,842**	**$5,367**	**$529**
Tapestry, Inc	TPR	Tapestry, Inc. is a global company that designs, manufactures, and distributes apparel, footwear, accessories, and branded lifestyle products. The company has a strong presence in North America, the United States, Japan, Greater China, EMEA, the Americas, the Asia-Pacific, India, and Africa and operates through a variety of design, marketing, distribution, and retail channels. Tapestry, Inc. owns a portfolio of well-known brands, including Versace, Coach, Jimmy Choo, Stuart Weitzman, and Michael Kors.	6,836	7,755	6,661	1,355
Ralph Lauren Corporation	RL	Ralph Lauren Corporation designs, markets, and distributes lifestyle products in North America, Europe, Asia, and internationally. The company directly operates retail stores and concession-based shop-within-shops; and operates Ralph Lauren stores, factory stores, and stores and shops through licensing partners. The company produces products ranging from the mid-range to the luxury segments, with brands that constitute one of the world's most widely recognized families of consumer brands.	7,604	8,764	6,450	951
Burberry Group PLC	BRBY	Burberry Group plc is a global company that designs, manufactures, and distributes apparel, cosmetics, accessories, footwear, and leather goods. The company has a strong presence in Asia Pacific, EMEA, and the Americas and operates through a variety of design, manufacturing, retail, wholesale, and licensing channels. Burberry Group plc owns a portfolio of well-known brands, including Burberry.	8,284	8,860	3,828	1,164
LVMH Moët Hennessy - Louis Vuitton, Société Européenne	MC	LVMH is a global company that designs, manufactures, and distributes spirits, fashion & leather products, perfumes & cosmetics, watches & jewelry, and selective retailing. The company has a strong presence globally and operates through a variety of design, manufacturing, marketing, and distribution channels. LVMH owns a portfolio of well-known brands, including Christian Dior, Louis Vuitton, Givenchy, Kenzo, Guerlain, Sephora, and Bulgari.	352,755	383,946	86,026	28,953
Ermenegildo Zegna N.V.	ZGN	Ermenegildo Zegna N.V., together with its subsidiaries, designs, manufactures, markets, and distributes luxury menswear, footwear, leather goods, and other accessories under the Zegna and the Thom Browne brands.	3,015	3,743	1,722	369

Appendix 2

Operating Margin 2023	
Versace	*13.70%*
Jimmy Choo	*6.00%*
Michael Kors	*22.40%*

**Data source: 10-K*

Revenue% over different channels		
	Tapestry	**Capri**
Stores	59%	50%
Digital	29%	18%
Wholesale & Other	12%	32%

**Data source: 10-K, Seeking Alpha*

Revenue% over different areas		
	Tapestry	**Capri**
Americas	65%	56%
EMEA & Others	6%	28%
Asia	29%	16%

**Data source: 10-K, Seeking Alpha*

Revenue% over different products		
	Tapestry	**Capri**
Accessories	80%	51%
Footwear	10%	21%
Apparel	5%	18%
Other	5%	10%

**Data source: 10-K, Seeking Alpha*

Appendix 3

Capri Holdings Limited

($ in millions, except per share data)

		General		Return on Investment				LTM Leverage Ratios
Company	**Ticker**	**FYE**	**Predicted Beta**	**ROIC (%)**	**ROE (%)**	**ROA (%)**	**Implied Div. Yield (%)**	**Debt / Tot. Cap. (%)**
Capri Holdings Limited	**CPRI**	**30-Mar**	**2.14**	**10%**	**18%**	**4%**	**0%**	**52%**
Tapestry, Inc	TPR	30-Jun	1.5	37%	41%	13%	4%	42%
Ralph Lauren Corporation	RL	31-Mar	1.43	20%	23%	8%	3%	54%
Burberry Group PLC	BRBY	31-Mar	1.26	32%	32%	13%	5%	49%
LVMH Moët Hennessy - Louis Vuitton, Société Européenne	MC	31-Dec	1.02	26%	26%	11%	2%	40%
Ermenegildo Zegna N.V.	ZGN	31-Dec	0.47	14%	10%	3%	0%	56%
Mean			**1.14**	**26%**	**26%**	**10%**	**3%**	**48%**
Median			**1.26**	**26%**	**26%**	**11%**	**3%**	**49%**

References

- S&P Capital IQ
- Brian DeChesare, Investment Banking Fairness Opinions: Profitable and Prestigious, or Glamorless Grunt work? from https://mergersandinquisitions.com/investment-banking-fairness-opinions/
- https://www.bain.com/about/media-center/press-releases/2023/global-luxury-goods-market-accelerated-after-record-2022-and-is-set-for-further-growth--despite-slowing-momentum-on-economic-warning-signs/
- Capri Holdings Limited Official Website, from https://www.capriholdings.com/corporate-overview/default.aspx
- Office of the United States Trade Representative (USTR), Generalized System of Preferences (GSP), from https://ustr.gov/issue-areas/trade-development/preference-programs/generalized-system-preference-gsp
- https://www.forbes.com/sites/pamdanziger/2023/08/23/tapestrys-success-in-85-billion-capri-acquisition-hinges-on-management-and-relationships/?sh=1570b680a8ff
- https://finance.yahoo.com/news/tapestry-different-company-amid-growth-plans-120740713.html?guccounter=1
- https://www.sec.gov/Archives/edgar/data/1116132/000114036123044958/ny20009546x1_def14a.pdf
- Tapestry’s Proxy Statement about the deal
- https://www.capriholdings.com/news-releases/news-releases-details/2023/Tapestry-Inc.-Announces-Definitive-Agreement-to-Acquire-Capri-Holdings-Limited-Establishing-a-Powerful-Global-House-of-Iconic-Luxury-and-Fashion-Brands/default.aspx
- https://www.forbes.com/sites/pamdanziger/2023/08/23/tapestrys-success-in-85-billion-capri-acquisition-hinges-on-management-and-relationships/?sh=2642b55ea8ff
- https://www2.deloitte.com/content/dam/Deloitte/it/Documents/finance/fashion-luxury-report-2023.pdf
- Bloomberg News
- Aitken, Deborah, and Andrea Ferdinando Leggieri. “Bloomberg Intelligence.” Capri Research, October 12, 2023. NA.
- Barclays. “Equity Research.” FY4Q23 Earnings Review: Americas and Wholesale Weaken Further, May 31, 2023. NA.
- Barclays. “Tapestry, Inc. FY3Q23 Earnings Review: China Rising Bolstered by Superior Execution.” Equity Research, May 11, 2023. NA.
- Fargo, Wells. “CPRI/TPR: Thoughts into EPS, Lowering Estimates on Weaker US Reads.” Equity Research, August 1, 2023. NA.
- Morgan, JP. “Capri Holdings Ltd CEO/CFO Follow-Up Takes; Mixed 4Q w/ FY24 ShowMe Setup; PT to $42.” North America Equity Research, May 31, 2023. NA.
- Morgan, JP. “Tapestry Inc Mgmt Roadshow Takeaways: Diversified Model in Durable Category; Overweight.” North America Equity Research, May 16, 2023. NA.
- Inc., Tapestry. “Tapestry, Inc.” Washington, D.C.: United States Securities and Exchange Commissions, 2023.