Capri Holdings Limited (CPRI) CEO John Idol on Q2 2020 Results - Earnings Call Transcript

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FQ2: 11-06-19 Earnings Summary

SEC *10-Q*

EPS of $1.16 misses by $-0.09 | Revenue of $1.44B (15.01% Y/Y) beats by $1.05M

Earning Call Audio

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Capri Holdings Limited (NYSE:CPRI)

Q2 2020 Earnings Conference Call

November 06, 2019, 08:30 AM ET

Company Participants

John Idol - Chairman and CEO

Thomas Edwards - EVP, CFO and COO

Jennifer Davis - Head of IR

Conference Call Participants

Randy Konik - Jefferies

Erinn Murphy - Piper Jaffray

Matthew Boss - JPMorgan

Omar Saad - Evercore ISI

Michael Binetti - Credit Suisse

Kimberly Greenberger - Morgan Stanley

Jungwon Kim - Cowen and Company

Operator

Good day, everyone, and welcome to the Capri Holdings Limited Second Quarter 2020 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Jennifer Davis, VP of IR at Capri. Please go ahead, ma'am.

Jennifer Davis

Thank you, Shannon. Good morning, everyone, and thank you for joining us on Capri Holdings Limited's second quarter fiscal 2020 conference call.

With me this morning are Chief Executive Officer, John Idol; and Chief Financial and Chief Operating Officer, Tom Edwards.

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

In addition, certain financial information discussed today will be presented on a non-GAAP basis. These non-GAAP measures exclude certain items related to transaction, transition and integration costs associated with the Jimmy Choo and Versace acquisitions, restructuring and non-cash impairment charges.

Unless otherwise noted, all financial information on today's call will be presented on a non-GAAP basis and all comparable store sales numbers will be presented on a constant currency basis. To view the corresponding GAAP measures and related reconciliations, please view the earnings release posted on our Web site earlier today at capriholdings.com.

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

John Idol

Thank you, Jennifer, and good morning. Capri Holdings has in a short period of time assembled an outstanding family of founder-led fashion luxury houses. The diversification of our portfolio is a key component for our long-term growth strategy.

Now, I'd like to update you on the progress we are making developing our fashion luxury group. Starting with Versace. We continued to execute against our five strategic growth pillars. First, we are building on Versace's luxury runway momentum driven by Donatella's fashion vision.

Second, we are enhancing the brands powerful and iconic marketing. Third, we are rapidly increasing the brands global retail footprint toward our goal of 300 stores. Fourth, we are accelerating our e-commerce platform to improve our capabilities. And fifth, we are expanding our accessories and footwear businesses with compelling new collections, including our Virtus group featuring the recently introduced Barocco V signature logo.

Turning to Jimmy Choo. We continue to make progress on our strategic initiatives. Starting with footwear innovation, the brand is seeing positive trends for active footwear, a key growth category. Our strategy to expand accessories penetration remains on track with very encouraging results from new groups, including our recently introduced VARENNE

JC signature collection. Lastly, due to our successful store expansion, we recently raised Jimmy Choo global fleet retail goal to 300 stores and are making significant progress towards that target.

At Michael Kors, we are extremely pleased to see an inflection point in our business with positive comparable store sales in the second quarter reflecting improving trends in the Americas and continued growth internationally. Our accessories category has seen a sequential improvement which indicates that our product innovation strategies are resonating with consumers.

We are successfully executing against the brands repositioning efforts to attract and engage millennials and Generation Z consumers, with Michael's optimistic design vision and energetic marketing. Our renewed jet-set vision focusing on speed, energy and optimism across product innovation, brand engagement and customer experience is clearly exciting consumers.

Overall, we are committed to building on the many positive trends we are seeing in our three fashion luxury houses. With continued focus on execution and investment to support our growth plans, we are confident that Capri remains on track to grow revenue to $8 billion over time and deliver multiple years of earnings growth.

Now turning to Capri Holdings second quarter results. Revenues of $1.44 billion increased 15% year-over-year in line with our expectations. This increase reflects the addition of Versace and growth from Jimmy Choo, partially offset by an anticipated decline for Michael Kors.

Revenue was also impacted by unfavorable foreign exchange translation and developments in Hong Kong during the quarter. The situation in Hong Kong intensified and had a greater impact on our results than we originally anticipated.

Earnings per share were $1.16 which was below our expectations. Our earnings were negatively impacted by higher than anticipated expenses in the quarter due to timing as well as greater than anticipated impact from developments in Hong Kong.

Looking at fiscal 2020, we are reiterating guidance for revenue of approximately $5.8 billion and earnings per share of approximately $4.95. For the remainder of the year, we continue to execute on our strategic initiatives at Versace and Jimmy Choo and plan to build on the better-than-expected comparable sales trends we're seeing at Michael Kors.

Starting with the house of Versace. We were pleased with our second quarter results. Revenues of $228 million was ahead of our expectations reflecting higher contributions from new stores and strong wholesale performance.

Comparable store sales were flat for the quarter. Versace continued to deliver double-digit comparable sales growth in the Americas and EMEA, while we experienced declines in Asia as the region was affected by greater than anticipated challenges related to the situation in Hong Kong and consumer reaction in China to an incorrectly labeled product.

Versace’s continued momentum was driven by the positive response to Donatella's fall collection. Customers were particularly enthusiastic about our new seasonal offerings, which featured vivid faux furs, lush jewels and bright hues that epitomize Versace’s rock 'n roll legacy.

In addition, heritage offerings were well received across all lines building on the brand's iconic codes. Both men's and women's ready-to-wear as well as active footwear continued to be key drivers of growth.

In women's ready-to-wear, new groups incorporating updated house codes performed well in the quarter led by a broad offering featuring a variation of Versace’s famous and highly recognizable Safety Pin.

In accessories, we were encouraged by the early response to the launch of the Virtus handbag collection, which prominently displays the new Barocco V logo on a bold symbol of the brand's aesthetic heritage.

Turning to footwear growth, in the fashion active category continued to drive performance led by our best-selling chain reaction line. We also recently introduced a new active group, the Squalo to build on this momentum.

For the men's lines, new styles featuring signature pattern silks and animal prints and a wide range of vibrant colors as well as highly refined tailoring offerings were well received.

In terms of brand awareness and engagement, Versace held a historic runway show during the quarter that was met with widespread acclaim and media coverage. The Spring 2020 Show celebrated the 20th anniversary of the legendary moment in fashion history when the iconic jungle print dress worn by Jennifer Lopez helped inspire the creation of Google images search function.

To close the show, Jennifer Lopez surprised and delighted the audience and lit up social media once again by walking the runway wearing a re-imagined version of the tropical print dress she wore to the 2000 Grammys.

On the Red Carpet, Versace’s presence during the quarter was extensive; the Atelier dress superstar Taylor Swift who opened the MTV Awards Show wearing a custom Atelier Versace look. Versace also dressed Kaia Gerber, Angelina Jolie, Kendall Jenner, Kylie Jenner, Gigi Hadid and 2 Chainz among many others.

The brand’s media coverage was extensive during the quarter. Versace’s Instagram followers grew to 20 million, an increase of approximately 40% over the prior year. Versace’s digital brand momentum is higher than that of its much larger luxury peers, giving us confidence in our ability to expand our product offering and retail footprint.

Overall, we are executing against our growth initiatives at Versace, including continuing our luxury fashion focus, enhancing marketing, increasing the brand's global retail footprint, accelerating e-commerce, as well as expanding our accessories and footwear offerings. We remain confident in our goal to accelerate growth and achieve 2 billion in revenue.

Moving to Jimmy Choo. Revenue increased 8% on a reported basis and 10% in constant currency, in line with our expectations. These results reflect new store openings and higher wholesale shipments, partially offset by a mid-single digit decline in comparable store sales.

Comparable store sales were impacted by weaker performance in Hong Kong and a decline in Japan as we lapped a highly successful 10th anniversary campaign in the prior year. Excluding Hong Kong and Japan, comparable store sales would have been flat.

In footwear, Jimmy Choo continued to deliver strong comparable store sales in the fashion active classification, as Sandra Choi's exciting new designs resonated with consumers. This performance was led by our best-selling Diamond and Raine sneakers.

Turning to our fashion offerings, several seasonal introductions showed strong performance including Fetto, an asymmetric slingback with a modern kick heel and Bing, a luxury mule with crystal encrusted detailing.

In accessories, we continue to expand our new collections introducing the first VARENNE JC signature group. VARENNE is offered in rich autumn colors including Bordeaux, rust and dark green and comes in several distinct silhouettes. Initial customer response to this collection has been very positive.

VARENNE joins the recently introduced Madeline and Helia groups and together these new collections have already delivered comparable sales growth in handbags in Americas, EMEA and Mainland China. We are excited about the future prospects for building accessories momentum supported by these new introductions.

In terms of brand awareness and engagement, Jimmy Choo supported the launch of VARENNE collection with a broad marketing and social media campaign, featuring Supermodel Kaia Gerber who was also featured in our fall winter advertising campaign. Kaia's authenticity transcends generations and is the perfect representation of the dynamic energy of the brand.

Jimmy Choo continued to dominate the Red Carpet with celebrities such as Kate Hudson, Priyanka Chopra, Bella Hadid, Sienna Miller, Victoria Song Qian, Camila Cabello and Halsey wearing our shoes and handbags. During the quarter, Jimmy Choo's Instagram followers grew to 11 million, an increase of over 20% versus last year.

Overall, we continue to drive footwear innovation, accelerate accessories product development and expand the brand's retail store fleet. We remain confident in our long-term ability to grow Jimmy Choo's revenue to $1 billion.

Turning to Michael Kors brand. Second quarter revenue declined 4% on a reported basis and 3% on a constant currency basis, in line with our expectations. During the quarter, we were pleased with a return to comparable store sales growth, which increased in the low single digits and were ahead of our expectations.

Positive comparable store sales reflects continued growth in Asia and Europe, while trends improved to flat in the Americas driven by sequential improvement in accessories performance. In the wholesale channel, revenue at the point of sale trended below our retail stores, in part due to lower signature inventories.

Moving to our product performance. In accessories, Michael Kors collection Bancroft group continues to be a top performer. The recently introduced MKC Monogramme adds a luxury signature touch to several new collection offerings, and has been well received.

In our Michael Kors line, we re-launched two of our iconic handbag groups; the Hamilton and Bedford, bringing back core elements of the brand. The new Hampton has been modernized with sleeker proportions and updated functionality, while still offering a nod to the original version with an updated Hamilton lock and belting detail.

The Bedford legacy offers a sophisticated silhouette with a more casual softer luxury presence. Both of these groups quickly became bestsellers. The recently introduced Cece and Manhattan collections also continued to perform well globally, as we build a core of strong differentiated collections.

Additionally, we launched and expanded travel collection during the quarter. This builds on the jet-set lifestyle Michael Kors has become so well-known for and now includes a full line of luggage and travel accessories. Overall, our global accessories category delivered improved results in second quarter led by the success of Michael Kors signature styles.

In our retail channel, we saw continued strong comparable sales growth in signature styles driven by improved inventory position, with penetration increasing to nearly 30% of retail sales in the quarter.

While we have reached our 30% goal, we now see potential to rapidly increase the mix to 40% due to the strong consumer response. Additionally, we are auctioning increased signature inventory levels in our wholesale channel to take advantage of this strong selling trend.

Moving to footwear. Performance continues to be driven by fashion active which was led by the Georgie, Irving, Billie, and Olympic sneakers. Seasonal updates resonated with our customers, including new woven fabric techniques, metallic detailing and mixed materials with hair-cap [ph] highlights.

Signature continued to perform well across all classifications with our updated MK Charm helping propel the newly launched newly Lillie moccasin to become one of the most popular casual items. Additionally, we have seen strong sales of emerging fall fashion including Moto, Combat and hiking boots.

In women's ready-to-wear, dress sales were driven by exotic animal prints and logo details. It was highlighted prominently in our fall ad campaign, featuring Bella Hadid. Bestsellers included leopard print, wrap dresses and sweater dresses with MK logo trim.

We saw continued strong consumer response to fashion outerwear with bestsellers such as Crop Denim Jacket with removable faux fur collars and cuffs, a leopard print down puffer and MK signature print trench.

In our men's business, we remain strategically focused on expanding the accessories collection and continue to see strong consumer response. Growth was led by backpacks including the recently introduced Brooklyn silhouette across fashion and sports executions.

Updated signature offerings also performed well. In sportswear, we saw strength from our top-selling Greenwich Polo in fall colors as well as our MKGO capsule collection, featuring technical fabrics in sport-inspired silhouettes.

Additionally, we have seen a strong response to our newly introduced sneaker collection with bestsellers crafted with mixed materials of leather, suede and mesh, while sporting our signature logo print.

In our watch category, we continued to innovate with our smartwatches and are very excited about our next generation MKGO watch which retails at $295. Our next generation smartwatches feature new technology that gives iPhone users the ability to place and receive calls through any of our watches that have speakers.

While we continue to innovate in this classification, the overall watch category remains challenged with declines similar to prior quarters. We remain focused on accelerating the distribution of our fine jewelry line to offset watch declines long term. During the quarter, we saw a sequential improvement in jewelry sales in our retail channel.

With respect to brand awareness and customer engagement, Michael Kors fashion innovation was highlighted in the Spring/Summer 2020 Collection Runway Show which drew inspiration from the 1940s and celebrated America's unique role supporting diversity and inclusion as a melting pot for the world.

Michael Kors was the number one engaged brand on social media in New York Fashion Week, and for the first time Michael Kors ranked number one every day during New York Fashion Week.

During the quarter, we also launched our MICHAEL Michael Kors fall campaign featuring Supermodel Bella Hadid. Amplified across digital print, outdoor and in-store, Bella continues to drive engagement and traffic for the brand and broadened our customer reach.

Turning to China, we launched the Qixi capsule collection for Chinese Valentine's Day featuring our new Michael Kors brand ambassadors; Leo Wu and Lareina Song, combined with a broad social media campaign and further expanding the brand’s exposure in China.

In Japan, we collaborated with artist Masami Yanagida and launched a limited edition accessories collection that was available exclusively in Japan. His illustrations were inspired by vintage Harajuku Street style were featured on numerous iconic signature logo items. Both of these initiatives drove strong sales results.

Michael dressed a wide array of celebrities during the quarter including Jennifer Lopez, Nicole Kidman, Kate Hudson, Gigi Hadid and Billy Porter, among many others. We continued to expand our global social media presence by approximately 10% to over 47 million followers and expanded our database by 25% to approximately 40 million customers.

Overall, we are very pleased that the Michael Kors brand returned to comparable store sales growth during the quarter. We saw significant inflection in our accessories sales driven by our signature fashion styles. Our new fashion product initiatives and our renewed jet-set marketing are helping to drive our growth.

In conclusion, we are pleased with the progress we are making developing our founder-led fashion luxury houses. Growth initiatives for our recent acquisitions, Versace and Jimmy Choo, are gaining traction.

For Michael Kors, a return to comparable store sales growth and our sequential improvement in accessories sales support our future return to growth for the brand. Combined, we believe the power of our three fashion luxury houses keep us on track to accelerate growth over the long-term.

Now let me turn the call over to Tom.

Thomas Edwards

Thank you, John. Starting with second quarter results. Revenue of 1.44 billion increased 15% compared to last year, in line with our expectations. Revenue growth was driven by the addition of Versace and growth from Jimmy Choo, partially offset by anticipated lower revenue in Michael Kors. Additionally, revenues were impacted by unfavorable foreign exchange translation as well as greater than anticipated impact on developments in Hong Kong.

Net income was 177 million, resulting in diluted earnings per share of a $1.16, which was below our expectations. Our earnings were negatively impacted by higher than anticipated expenses in the quarter due to timing as well as greater than anticipated impact from developments in Hong Kong. Second quarter earnings per share included $0.01 of dilution from Versace.

Looking at revenue performance by brand, Versace revenues were 228 million and comparable store sales were flat compared to prior year. Total revenue was ahead of our expectations, reflecting higher contribution from new stores and greater wholesale shipments, partially offset by lower than anticipated comparable sales.

Comparable sales increased double digits in the Americas and EMEA, but declined in Asia primarily reflecting greater than anticipated challenges related to the situation in Hong Kong and consumer reaction in China to an incorrectly labeled product. Versace ended the quarter with a global luxury fleet of 198 retail stores, a net increase of two from prior quarter.

Turning to Jimmy Choo. Revenues during the quarter were 125 million, an 8% increase compared to prior year. On a constant currency basis, total revenue increased 10% versus prior year. These results were in line with our expectations, reflecting higher contribution from new stores and greater wholesale shipments offset by a mid-single digit decline in comparable store sales.

Comparable store sales were impacted by significantly weaker than expected performance in Hong Kong and declines in Japan, as we lapped a highly successful 10th anniversary marketing campaign and product launch in the prior year. Excluding Hong Kong and Japan, comparable store sales would have been flat. Jimmy Choo ended the quarter with a global fleet of 216 retail stores, a net increase of 12 from prior year.

Turning to Michael Kors. Total revenue of 1.1 billion was in line with our expectations and declined 4% compared to last year on a reported basis and 3% on a constant currency basis. Compared to prior year, revenue performance was driven by an increase in comparable store sales in the low-single digits which was ahead of our expectations, offset by unfavorable foreign currency translation and the anticipated lower wholesale shipments.

Comparable sales reflected continued growth in Asia and EMEA and an improvement in the Americas to flat, driven by a sequential improvement in accessories. The headwind from watches in the quarter was approximately 130 basis points and global e-commerce benefited comparable sales by 220 basis points. Michael Kors ended the quarter with a global fleet of 850 retail stores, a net decrease of four compared to prior year.

Now turning to total company margin performance. Gross margin was 61%, approximately flat compared to prior year. This primarily reflects a lower Michael Kors brand gross margin which was in line with our expectations, partially offset by a benefit from the inclusion of Versace.

Total company operating expense increased 129 million compared to prior year. The increase reflected 139 million of expense related to the addition of Versace. We also incurred 12 million of unanticipated expenses related to timing. As a percentage of revenue, operating expense increased 320 basis points to 47% reflecting the addition of Versace.

Total company operating margin of 14.0% was below our expectations due to higher expenses. This compares to 17.4% last year reflecting the addition of the Versace business and anticipated lower operating margin for Michael Kors.

Versace’s operating margin of 6.1% was in line with our expectations. Jimmy Choo's operating margin was negative 8.1% during the quarter compared to last year's margin of negative 6.3%, in line with our expectations. Michael Kors’ operating margin of 20.4% declined 130 basis points versus the prior year, reflecting anticipated lower gross margin and higher than expected SG&A due to timing.

From a channel perspective, retail operating margins expanded in the quarter driven by stronger accessories performance. Operating margins declined in wholesale, primarily as a result of deleverage on lower revenue.

Our tax rate for the quarter was 10% compared to 8.6% in the prior year, primarily reflecting lapping the benefit related to employee equity compensation recorded in the prior-year quarter.

Turning to our balance sheet. We ended the quarter with 179 million in cash and cash equivalents and 2.4 billion of debt. We ended the quarter with inventory of 1.1 billion compared to 768 million last year with the increase primarily reflecting the addition of Versace inventory of 185 million.

Jimmy Choo inventory increased 15% compared to the prior year reflecting inventory to support our growing accessories category and new store expansion. Michael Kors inventory increased 16%, lapping an 11% decline in the prior year and reflected an increase in signature and core accessories products as we build these classifications to higher mix levels. Over the next few quarters, we expect smaller increases but continue to anticipate inventory will be above prior year.

Now, I would like to turn to our guidance. For full year fiscal 2020 for Capri Holdings, we are reiterating our expectation for revenue of approximately 5.8 billion, including improved comparable sales performance for Michael Kors retail, offset by a greater than anticipated impact from developments in Hong Kong.

We now anticipate an operating margin of approximately 15.0%, primarily reflecting lower operating income from Hong Kong which is one of our highest margin regions. We now expect Hong Kong will represent approximately 1.5% of group revenue in fiscal 2020 compared to prior expectations of 2.5%.

We expect interest expense of 15 million to 25 million and effective tax rate of approximately 11%, and weighted average shares outstanding of 153 million. We continue to forecast diluted earnings per share of approximately $4.95 reflecting a lower operating income in Hong Kong offset by the benefit of a lower tax rate. Guidance continues to include Versace dilution of approximately $0.20.

Now turning to capital allocation. Capital expenditures are now forecast at approximately 275 million and we continue to expect to repay approximately 500 million of debt during the fiscal year.

Turning to third quarter guidance. We expect total company revenue of approximately 1.53 billion, a mid-single digit increase from prior year. We forecast Versace revenue of approximately 180 million and comparable sales to be flat for the quarter.

For Jimmy Choo, we expect revenue of approximately 165 million and comparable sales to be flat for the quarter. For Michael Kors, we expect revenue of slightly below 1.2 billion and comparable sales growth in the low-single digit range for the quarter.

Our third quarter operating margin is expected to be approximately 17.5%. For Versace, we expect a slightly negative operating margin reflecting seasonality and increased investments to support our growth initiatives.

For Jimmy Choo, we expect a positive operating margin in line with normal seasonality. Michael Kors brand operating margin is expected to be lower than prior year. Consistent with our second quarter performance, in Q3 we expect retail margin expansion and lower margin in wholesale due to deleverage.

Interest expense is expected to be approximately 5 million. Our effective tax rate is expected to be approximately 8%. We forecast weighted average shares outstanding of 153 million resulting in diluted earnings per share in the range of a $1.55 to $1.60 including Versace dilution of approximately $0.15.

For the fourth quarter, we forecast earnings per share to be double the prior year driven primarily by approximately 500 basis points of operating margin expansion for Capri, reflecting higher operating margins across all three brands.

Versace will benefit from an additional month in the quarter, December, which is their single most profitable month of the year. For Jimmy Choo, we anticipate operating margin will inflect as we realize the benefits our strategic investments.

Lastly, at Michael Kors, we anticipate a significant increase in operating margin driven by comparable store sales growth as well as cost reduction from our fleet optimization program. Looking ahead, we believe our expectations for sequential improvement in results in the third and fourth quarters position Capri for improved performance in fiscal 2021.

We remain focused on executing against our strategic initiatives to continue to improve underlying performance for each of our global fashion luxury houses and believe these efforts will continue to position our global luxury group to achieve meaningful long-term revenue and accelerated earnings growth.

Now, I will open the line up for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. Our first question will come from Randy Konik of Jefferies.

Randy Konik

Thanks a lot. Good morning, everybody. So I guess, Tom, I want to ask you a couple of questions; very helpful detail both you and John. Just on the watch headwind, you said 130 basis points. If I recall last quarter, the watch headwind I believe was 200 basis points. So that 70 basis point reduction in headwind, should we assume that kind of trajectory going forward on a sequential basis? Just trying to get a sense of when that headwind starts to absolutely subside from the watch category.

And second, you gave us some really good prospective on Kors margins by channel distribution. It sounds like very nice inflection in the retail channel operating margin that's going to continue going forward. Just curious of how much – since that's come down a lot over the years and you're now starting to comp positive and we assume the watch headwind starts to abate, how much room or expansion do we think we can kind of get towards with the retail side of the fence within Kors? And then on the wholesale, should we expect the reduction in operating margins in that channel to start to kind of flatten out as we get into next calendar year? Thanks.

John Idol

Hi, Randy. Good morning. It's John Idol. I'm going to take the first part of the question regarding watches and Tom will discuss the margins in the second part. First off, we were extremely pleased in the quarter to see Michael Kors retail business globally return to low-single digit growth, which was ahead of our expectations. And as we mentioned in our prepared remarks, our international business both in Asia and in Europe saw very, very healthy growth for us which has been a continuation of what we've seen. But what was most exciting is that the Americas returned to a flat comp and really that was driven by the sequential improvement in our accessories and again even further led by our signature initiatives, which is something that we I think told you a few years ago.

We kind of made a mistake. We had pulled back from that classification and really had tried to make that less meaningful to our assortments, and that was wrong. So we've course corrected and in our own retail we've seen some very strong selling that we're extremely pleased with. And we're seeing that resonate across other products beyond accessories as well. So that's really what kind of drove the positive for Michael Kor. And again, even more importantly we saw that in the face of headwinds for both FX and for what you saw in Hong Kong. The watches continued to decelerate. Again, it's becoming unfortunately every quarter a smaller percent of our overall business. It's still meaningful, but it is continuing to in effect shrink.

I don't think we can sit here and tell you whether we think the deceleration in a quarter will be 100 basis points or 200 basis points. That's really driven more by consumer demand. And there's no question that the – in particular the Apple watch has really taken a significant piece of market share globally from the fashion watch business. And we actually don't see that subsiding. So it's going to be very hard for us to forecast what the delta is on a quarter-to-quarter basis. What we are really excited about is what we're seeing happening in our accessories. We also saw sequential traffic improvement across the globe and that really – again, that's telling us that the brand was resonating.

We talked about our initiatives around our kind of new jet-set image. Our marketing teams and public relation teams are doing a fantastic job. We've talked about Michael's leadership in design and I think you're really starting to see that resonate, so super proud of what we're doing there. And I also want to put a very big callout to – I think we've got one of the best teams out in the retail field and I think they're really making this happen for us. And then top that off with improvement in traffic and we're feeling quite good about that, and see opportunity for that to continue to grow. I'll turn it over to Tom to talk about the margins.

Thomas Edwards

Hi, Randy. So from a margin perspective, I think we had previously discussed Michael Kors as being stable over time when we had provided a little longer-term guidance. And what we're seeing now is extremely encouraging as we look forward and see what is happening in the quarter. As I mentioned, the retail operating margins already has started to inflect and to be positive and expand in Q2.

We expect that to continue into Q3 and beyond. And that's really supported by the growth in accessories – an improvement in accessories. Longer term retail operating margins are also supported by our growth in Asia which is a higher margin region for us. And of course the store fleet optimization that we're going through where we noticed that we were closing 50 stores this year, unprofitable stores and opening profitable stores. So that will help us.

In addition, we're going to be generating cost savings and ultimately synergies across our portfolio. So that will support both retail and wholesale. On the wholesale side, what we believe will help longer term and near term will be improving the signature mix in that channel which we'll be doing as quickly as possible through this quarter and holiday season and beyond. And as that business begins to stabilize, deleverage will also moderate. So we do believe that this sets up Michael Kors brand very nicely for Q4 expansion in margin.

John Idol

Thank you, Randy.

Randy Konik

Very helpful. Thank you.

Operator

[Operator Instructions]. And our next question will come from Erinn Murphy of Piper Jaffray.

Erinn Murphy

Great. Thanks. Good morning to you all. John, I guess my question is on the Versace business. Could you help us and just break out what you saw between Hong Kong versus Mainland China in the quarter? And then how are you planning that region for the balance of the year? And then specifically in the Mainland, now that you've removed that mislabeled product, are you seeing any signs of improvement? Thanks.

John Idol

Good morning, Erinn. Thanks. So Versace, I want to start out by saying that the integration is going very, very smoothly. I think you saw the integration that we had with Jimmy Choo went very smoothly. We're seeing the same exact thing in Versace. I also want to remind everyone that we have been in a process and are almost through shutting down two of the lines in the company; one was called Collection and the other one was called Versus and that was almost $100 million in revenue that we are exiting in order to focus on the Versace collection, which we think is the right way to position this company from a luxury standpoint.

I also want to add that the new store renovations that we have seen, we talked about that on the last call, are really performing at very high double digit rates after we renovate these stores. So we're extremely pleased. And we have an intent to renovate most of the store fleet globally over the next few years to really position the brand for a more modernized look and Donatella has been really leading that not only with the design vision but also product innovation and really getting some incredible stories for our associates inside the stores to really work with.

And again, I have to give a big callout to – we have an incredibly talented group of people inside of our stores who have been working very, very strong in clienteling and engaging with our customers. So we've seen double digit growth in North America, double digit growth in EMEA and in Asia unfortunately there was first this situation that started to happen in Hong Kong which as we said before I don't think any of us thought would reach the levels that it has reached today. And so that has had a material impact on the Versace business in Hong Kong.

And then secondly, there was a T-shirt that was mislabeled and we publicly apologized for that, including Donatella making a public apology and apologizing to the Chinese citizens which I think was the right thing for us to do. We initially saw a negative consumer reaction to that product and what on the Mainland it represented, the people. I think we're slowly seeing that subside. So we've got a very cautious view of how we're planning the greater China business in total for Versace for the balance of the year. I think we're going to see recovery from the T-shirt situation more in the fourth quarter and probably the first quarter of next year.

But we've taken a very, very conservative point of view across the whole company for Hong Kong while we hope that that situation gets resolved. We don't see any end in sight. We don't know what that means. Though in Tom's prepared remarks, he talked to you about for the company we're taking a position that that was 2.5% of revenues going down to 1.5%, so that's a significant revenue decline that we're going to make up in some other areas of the company, in particular with Michael Kors with its better comp store performance. So there's always going to be some ebbs and flows as we go through the years in building the various brands.

The situation with Versace is unfortunate but I think we feel very confident in the fact that the consumer continues to engage with us and the brand just continues to get more and more powerful. So I think if we remain focused on our initiatives, I think we'll see some very strong results. And I also might say we just reopened our flagship in Chengdu and the results are double digit growth from that. So again, I think it goes to show that if we're doing the right things, staying focused on the consumer and their experience with the brand that we'll continue to be able to grow and meet our long-term targets.

I also want to just – I give a quick mention to Donatella, as I think I mentioned to you on the last call, worked very, very quickly in developing the new Barocco V logo and that is in our stores right now, and of course you've seen it on Instagram and you saw what it meant for us in our fashion show. And that is really starting to gain some traction. So we're very encouraged by what we see, and quite frankly I didn't even think we would be at this point that quickly, with that product. But again, that's a big callout to our Versace team and to Donatella. Thank you, Erinn.

Erinn Murphy

Thank you.

Operator

Our next question will come from Matthew Boss of JPMorgan.

Matthew Boss

Thanks and congrats on the return to positive comps at Michael Kors.

John Idol

Thank you, Matt.

Matthew Boss

John, I guess maybe larger picture, are you seeing any improvement in the overall North America accessible luxury handbag category? Maybe if we were thinking about customer traffic, tourism and promotional levels, do you fully attribute this accessories inflection to more company specific products and marketing execution on your side?

John Idol

So, Matthew, I would answer that two ways. Number one, we see the North American consumer as relatively healthy and quite frankly over the last two years I'd say we have two things that happened to us. One is completely self-inflicted and that was the removal of the MK Charm from product that was walking away from our signature categories that was certain design issues where we probably could have been in a better leadership position.

I have to say we have a team in here, a new team working side by side with Michael and it's kind of very exciting what's happening here. The product looks spectacular. The consumers' resonating with it and we talked about certain new products, we have three or four core groups that are starting to really resonate in line, and it's been a while since we've had that type of level of assortment happening.

So I'd put the first category into self inflicted and we need to work more on our design leadership. And Michael has really led the way in the past for us on that and it's been sensational. And the second thing I would say is we needed to refresh our marketing campaigns and again Michael really took that as a vision and has been just sensational. We've obviously been leading that with Bella Hadid and our whole new vision of what jet-set means and it's a more modern vision. So I think those two things are leading to better consumer response for us.

And I put that amongst the backdrop of the American consumer we think is healthy. That being said, you still continue to have the issue of store traffic. We saw an inflection in this quarter where we saw traffic change. That's obviously we think being driven by product and by our marketing initiatives. But it's still challenging in the sense that our e-commerce business continues to grow much, much more rapidly than any other core channel for us.

Tom mentioned before that we're going to see an inflection in Q4 from our fleet optimization program. We're getting pretty close to the end of that initiative. We told you, again, two years ago we were going to close a lot of stores that had become unprofitable and that was really a result of our e-commerce growth. And so we're going to start to see some of the benefits of that. Also we're ending up in North America in some of the better malls where the traffic is healthier versus some of the malls where they are not as healthy. So I think we are feeling good about the way the store fleet looks, the way the American consumer looks and the way that our product and marketing are looking.

And going back to Randy question in terms of the headwind, we don't know when the watch situation is going to kind of turnaround. And that I don't think is actually a consumer-driven issue. We've been disintermediated by a competitor and that's been extraordinarily painful for us over the last couple of years. But that category is getting a little smaller and going to become somewhat less relevant over the next few years. That's a shame. And we're going to keep trying. But we're going to augment that with, in particular, our accessories category. So thank you very much for that question, Matthew.

Operator

Our next question will come from Omar Saad of Evercore ISI.

Omar Saad

Good morning. Thanks for taking my question. John, I wanted to ask a follow up on Versace. I'm trying to understand how big the impact is Hong Kong versus the T-shirt? It looks like when you guys are talking about I think 180 million is the forecast for 3Q and we look at the run rate in 1Q and 2Q, we're well over 200 million. And presumably 3Q given the high DTC percent as normally would be a big quarter for the brand. So maybe you guys could help us understand, kind of bridge those gaps and what the underlying effect is of the Hong Kong versus the T-shirt on the kind of plan for Versace over the next couple of quarters? Thanks.

John Idol

Yes, I'll take part of that and then I'll turn it over to Tom as well. So, again, I want to be very clear that Hong Kong for the company group has had a far more material impact than we had ever thought, in particular I said last call I didn't think it would have a material impact and in fact now here we are sitting on this call saying that it is having a material impact. So we are seeing revenue decline across all three brands in the region north of 50%. So that is incredibly painful for us. And obviously that's going to have an impact on Versace in the region. We're not going to weight the difference between the two separate issues, but I also want to mention that the month of December actually is sitting in Q4 which traditional would be a very large quarter for Versace. So some of that is weighting what you're seeing in the revenues.

We're still pretty close to our original objectives for the brand for the year. Again, we can't determine to Erinn's question earlier when we will return to a positive comp in the region in Mainland China as it relates to the T-shirt issue. But we definitely see it starting to subside. And again, is that one quarter, two quarters, three quarters, I don't think we can measure that today. But I think we're confident that we will see that return. And as I said, as we're starting – we're just starting our renovation program in China and one of the first stores that we renovated we're seeing very strong double digit comp store growth from that. So I think we're feeling that that will over time mitigate. And I'll turn it over to Tom.

Thomas Edwards

Sure. I'll just add a little color commentary. In addition to December and the overall China impact, be it Hong Kong or Mainland China for Versace in Q3, there are also some FX headwinds that will continue in Q3 through Q4 for that business and then versus prior year for the company as a whole. And as John mentioned earlier, we had exited Versus and Collection which were large wholesale businesses that shipped a lot in those quarters, so we'll be building that up with the luxury line over time with the Versace.

Omar Saad

Thanks.

John Idol

Thank you, Omar.

Operator

Our next question will come from Michael Binetti of Credit Suisse.

Michael Binetti

Hi, guys. Congrats on returning the Kors brand to positive comps, it's nice to see. But I just want to ask you. You've commented on this a little bit, but you beat your plan on Kors same store sales, but total sales were a little below, so wholesale was a miss. You made some comments there. How are you thinking about the wholesale channel, particularly in North America and when do you think that can start to mirror the return to growth you're seeing on the retail side?

I know for a few quarters now you said – and you said in the comments today you're trying to action some accelerated signature into that wholesale channel. I feel like you've been trying to get that up to speed for a while now. Is there anything regulating your speed into that channel and how do you look at the wholesale channel in North America when it could try to pivot to growth and help contribute a little bit more to the brand?

John Idol

Thank you, Michael. Good morning. I'll give you some color on the global wholesale channel and then we'll look at the North America wholesale channel. So on the global channel, there's been some obvious issues with department stores around the world whether there's been closures, whether there's been bankruptcies, they have created disruption. So there's been a fair amount of disruption in the channel itself that we're feeling on the global basis. Also remember, some of our impact that you're hearing about in Hong Kong we will also feel in the wholesale channel because we have partners in that area in particular who are in the duty free retail market. So they're going to be impacted by this as well. In terms of the – so on a global scale, that channel is not particularly healthy. On the North American scale, our partners when you look at our business inside of – whether it's men's wear, footwear and women's ready-to-wear, those businesses are relatively healthy.

So it's been two categories. It's been our accessories business and then of course the watch business. The watch business we don't ship from a wholesale standpoint, but our accessories business we have. And as I said earlier, we've self inflicted many of the issues that have happened in our accessories business. We're starting to see the same thing happen in the wholesale channel that we saw in our retail business. In particular, over the last 60 days, we are starting to see an inflection in that channel where the declines are beginning to slow and we are seeing our full price business expanding and growing and that's been absolutely driven by signature. So the same thing that we are doing in our own channels where we moved much quicker we are now doing in our wholesale channel in North America.

And I think we said in our prepared remarks last quarter on the Q&A that we felt that would be really – you'd see more of an inflection of that in Q4. So we've got the inventory heading into that channel in this quarter and we're going to start to see we believe some change in the results there. So I'd say while the channel itself in North America is not as healthy as it used to be, it's still an opportunity for us to get back to stable. And that was what our original goal was at the beginning of this year. We were not able to achieve that goal as you know and that will be once again our goal for next year is to stabilize our revenues in that channel. And we believe we've got a path to do that in particular given the response that we're seeing from the consumer with our product.

Michael Binetti

Thank you.

Operator

Our next question will come from Kimberly Greenberger of Morgan Stanley.

Kimberly Greenberger

Great. Thank you so much. John, I just wanted to follow up on that last question. So it sounds like you are starting to see some improving North America wholesale traction and I'm wondering is that sufficient to get the wholesale margin to stabilize or do you require some additional cost-cutting efforts there? Is there anything else, any other action you might be able to take to help sort of stabilize that wholesale margin that feels like it's the drag there?

And then I just wanted to follow up on the store closure discussion. John, you said you're getting towards the end of the store closure program for Kors. I'm wondering if you're expecting any additional closures in fiscal 2021. And then Versace, I think you mentioned you're expecting to remodel the global fleet for Versace over the next few years. How many of the existing stores would you expect to be repositioning during that remodel process, meaning moving to a different location as opposed to remodeling in place? Thank you.

John Idol

Thank you, Kimberly. On the wholesale side, I want to be clear again. We do not see the wholesale business stabilizing this year, so we will continue to see revenue declines in Q3 and Q4. And as we said, Q3 will be the largest, during the year, revenue decline. We said that in our last quarter and we still believe that to be the case. We do think that the inflection that we're seeing with better performance and hopefully we'd see that continue through Q4 will begin to set us up for a better year next year and hopefully a stabilized business in that channel in North America. I don't think we can comment to whether that will be the inflection point that we will be able to create leverage or not in that channel.

I think as Tom said earlier, we're very pleased. We're starting to make progress on operating margin expansion in retail and really the offset to that has been the wholesale margin. At a point in time, retail being larger than wholesale, that inflection will help to potentially drive operating margin expansion for Michael Kors. We're not ready to tell you when that would happen, but that's obviously where we're trying to head. In terms of the Kors store closure program, as I said, the majority of that will be done by the end of this year.

We'll still have more stores that will close next year. It will be small and that will be more or less augmented or offset by our store openings that we continue to do in Asia in particular. But what we're going to see is the fruits of a full year of this store closure program that will help our operating margin next year in terms of cost reduction, and that's something we're very focused on in the company. Because obviously our revenues have declined, so we need to get the cost base more in line with where the revenues were and we're starting to make some good progress with that.

As it relates to Versace, there's a handful of stores that we're actually moving but most of those stores that we're renovating, we're renovating in place. Obviously that will create some noise because when you renovate a store, you take it out of the – sometimes out of the comp base, sometimes you take it out of service for a period of time. So that's going to create some noise as we go through that process over the next two years. But I think the takeaway is the results of what we're seeing.

And then of course you know we're going to open approximately 100 stores in Versace over the next couple of years and we're doing really well. We've got major cities that we'll be announcing probably on the next call that we've needed additional – either additional distribution in or cities that we weren't in that we're able to now be able to action. So the team there is working really quickly on that. And just lastly, I might want to mention Jimmy Choo. When we acquired that company, the leadership there, in particular, Pierre Denis had already renovated most of the stores. So we really acquired a company that does not have to go through that renovation process. And we're really focused there on more of new store openings in that group.

Thomas Edwards

Thomas Edwards

And just one additional comment on Versace. So year-to-date, we've opened, Kimberly, 24 new stores and the closures are really – because the net doesn't appear to be as high, the closures are really the latest at exiting the Versus line and closing those retail locations.

John Idol

Thank you, Kimberly.

Kimberly Greenberger

Great. Thank you both.

Operator

Our final question will come from Oliver Chen of Cowen and Company.

Jungwon Kim

Hi. Thank you for taking our questions. This is Jungwon for Oliver. Could you just provide more color on the pace of getting to that 40% signature penetration rate in retail? And how are you thinking about the right level of signature product penetration in the wholesale side as well? Thank you so much.

John Idol

We're fairly comfortable we're going to reach that 40% rate probably in Q4 – just somewhere between Q4 and Q1 of next year. So we're really positioned in our own stores to get there and the inventory will be there to be able to do that. And I would also tell you it might not stop at that level. When you look at our luxury European competitors, they were in much higher penetrations than that in their assortment. And again, quite frankly, we've been behind, self inflicted, but we're feeling like we're making up some real progress.

And again, I want to give a big acknowledgment to Michael and our design team who are just doing a spectacular job with the product right now and our leadership of that division as well. And as I said, it will take a little longer in the wholesale channel. I think we would be closer to Q4 when we saw that, maybe a little drifting into Q1, but our own stores we're going to be there probably 90 days at least quicker than we will see in the wholesale channel. Thank you for that question.

I'd like to just close on saying that we are very pleased with the results on the initiatives that we have put in place at Versace, at Jimmy Choo and at Michael Kors. And in particular at Versace and at Jimmy Choo we are starting to make significant progress in our accessories initiatives, and as you know those are very important to our long-term success.

We believe that the portfolio of fashion luxury houses that we've assembled are some of the best in the world and that they will give us the opportunity to continue to accelerate our revenues. And as move into fiscal 2021, we think that we will see a lot of initiatives bear fruit that will give us an opportunity to expand our earnings per share growth on a multiyear basis.

Thank you all for joining the call today. I look forward to speaking to you soon.

Operator

That does conclude today's teleconference. Thank you all for your participation. You may now disconnect.