RTW, shoes get bigger role at Capri as Versace and Choo balance Kors label

By Sandra Halliday – 31 May 2019

Michael Kors, Versace and Jimmy Choo owner Capri Holdings wants to reshape itself less as an accessories-focused business and more as one that’s also about ready-to-wear and footwear.

That was one takeaway from the company’s analyst conference call late Wednesday as chairman and CEO John D Idol said that “we would like to see the North American accessories market contract a little bit more for us.” He wants to “go after even more heavily” the women’s RTW, footwear, and the men’s business that’s “starting to get some nice traction.” And he added: “We want to take the pressure off of everything having to be around women’s accessories. We think that's a healthier long-term road for us.”

Added to that will be a determination to be “less promotional than we've been in the past” in order to “create health for the brand[s].”

It’s a sensible strategy, especially in the key North American market that has faced accessories weakness some time. Idol doesn’t see “the North American marketplace returning to any type of significant growth in the category in the near term.”

The conference call came after the company had said Q4 results “exceeded our expectations on both top and bottom lines,” despite weaker profits. Revenues rose 14% to $1.3bn and constant currency revenue increased 16.5%. Gross profit was up to $793m from $710m but gross margin fell to 59%, from 60.2%. And net income fell to $19m from $44m while adjusted net income dipped to $95m from $97m.
By brand, Versace revenue rose in high-single-digits to $137m, but the operating loss was $11m and the operating margin -8%. Operating margins company-wide are usually lower in Q4.

Jimmy Choo revenue surged 28.7% to $139m. Comp sales rose in mid-single-digits but the operating loss was $8m (after -$18m a year earlier) and the operating margin was a better -5.8%, compared to -16.7%.

The giant Michael Kors business saw revenue of $1.068bn, down 0.4% but up 1.8% constant currency, although comp sales fell 1%. Operating income was down to $166m and the operating margin was 15.5%, compared to $195m and 18.2% in the prior year.

The group continues to focus on growing revenue from $6bn annually to $8bn long term, with Versace targeted to go from $900m to $2bn, Jimmy Choo from nearly $600m to $1bn and Michael Kors from $4.5bn to $5bn.

BRAND PERFORMANCE

The company said Versace’s “apparel store sales grew in the high-single-digits, driven by strength in ready-to-wear and footwear.” In women's RTW, “Versace spring themes resonated with customers,” with logo pieces and its menswear Kith collaboration proving popular.

In footwear, continued expansion of the Fashion Active category was key. In its core active offering, the Chain Reaction line remained its bestseller and was added to with new products and capsule collections.

The company also launched a new Versace handbag offer, Virtus with a central V design feature, and that went down well too. It was heavily marketed through social media and with Versace's Instagram followers rising 45%, that made good commercial sense.

Meanwhile, the CEO added that Jimmy Choo “is now positioned to accelerate its accessories expansion” although its comp sales performance was driven by continued strength in footwear, partially offset by softer handbag performance, “as we continue to transition to our new accessories platform.”
In footwear, several new fashion collections showed strong performance, including Bing a luxury mule with crystal detailing. Romy remained a bestseller.

In Fashion Active, the new Raine sneaker highlighted in its Kaia Gerber spring campaign quickly became a bestseller. Its recently-launched Diamond sneaker “was also an instant success and quickly sold out in many styles.” Sales of Raine and Diamond are both exceeding expectations.

The company marketed Choo heavily, again driving its social media engagement much higher, particularly in the key Japanese market.

Meanwhile, Michael Kors comp sales dipped slightly due to “headwinds from our watch and jewellery categories.” But in accessories, the Bancroft group “remains a customer favourite particularly in colour-blocking styles.” The men’s accessories collection “continued to show strong growth” led by the pebbled leather Grayson group. Backpacks were its top sellers in the quarter and it expanded its signature product representations including a signature athletic capsule that performed well.

SYNERGIES AND GEOGRAPHIES

Given the major acquisitions it has made recently, it’s no surprise that the group is moving fast on maximising synergies. It’s in the process of buying factories and building a new centre in Florence to handle its Choo, Versace and some of the Kors ‘made in Italy’ production groups. Design development will happen there too.

Idol also said that both the luxury accessories and accessible luxury accessories businesses have huge potential in Asia, with Europe also strengthening.

“In Europe we had a very strong performance, [with the] second quarter in a row showing very nice comp store increases. We’re really pleased with how that business has returned to health,” Idol explained.

But he said that in North America, “the market is weak, the accessible or luxury market is about flat to maybe slightly down.” He explained that the market there has been price-driven with some rivals being “very aggressive in price and that seems to drive down more of the transaction value.” That’s why “we want to continue to take product out of the marketplace.”

Globally, the company has been closing under-performing stores and working to make the most of the online opportunity, but it’s also opening strategic stores, about which Idol said he’s “really excited”. That’s especially the case for Versace where he wants to take it from around 200 stores to 300 “in the best cities.” That number is also a target for the Jimmy Choo brand.

But the company will tread carefully with store openings and only go where the opportunity is big enough. For the Kors brand. That will mean fewer openings. “I think we’re in a good place to really manage the fleet that we have today and to optimise that fleet and really create some opportunity for increased profitability in those stores,” he said.

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