Sneakers, logos and accessories power Capri Holdings, despite some Q2 challenges

By Sandra Halliday - 7 November 2019

The headline news from the Capri Holdings Q2 results was largely about Michael Kors returning to comparable sales growth and Versace being hurt by the Hong Kong protests and some negative publicity in China.

But the conference call linked to the results had a lot more to say. Group chairman and CEO John D Idol said the Kors business has reached “an inflection point” and that its Signature (ie logo-driven) product is a sales driver; that Versace’s e-commerce platform expansion is accelerating, as is its growth in accessories and footwear; and that Jimmy Choo is powering ahead in active footwear, with encouraging results from the addition of more accessories.

Looking at the firm's basic figures, adjusted net income fell 7.8% to $177m in the quarter to September 28. Total revenue rose 15.1% to $1.44bn and gross profit was $874m with gross margin at 60.6%, compared to $763m and 60.9% in the prior year.
Versace revenue was $228m ("ahead of our expectations reflecting higher contributions from new stores and strong wholesale performance"), while comps were flat on a constant currency basis. It saw double-digit comp sales growth in the Americas and EMEA, but declines in Asia, hurt more than expected by the Hong Kong downturn "and consumer reaction in China to an incorrectly labelled product." Operating income was $9m and the operating margin 3.9%.

Idol said “customers were particularly enthusiastic about our new seasonal offerings, which epitomised Versace’s rock and roll legacy”. And ‘heritage’ offerings were "well received across all lines". In women's ready to wear, "new groups, incorporating updated house codes performed well, led by a broad offering featuring the variation of Versace's famous safety pin".

In footwear, “growth in the fashion active category continued to drive performance led by the best-selling Chain Reaction line”.

The brand also boosted its profile generally through the SS20 runway show featuring Jennifer Lopez and through lots of other red carpet mentions. This helped it in digital and boosted its Instagram followers 40% to 20 million. In fact, generally in digital, Idol said its “brand momentum is higher than that of its much larger luxury peers” and the company is really powering ahead with the label's e-tail development.

**JIMMY CHOO**

Jimmy Choo revenue rose 7.8% to $125m in Q2, but comps declined in mid-single-digits, hurt by Hong Kong and tough comparisons in Japan. Excluding this, comps would have been flat. The higher total revenue figure reflected both new store openings, and higher wholesale shipments. The operating loss was $10m and the operating margin was -8%, worse than $9m loss and -7.8% margin in the prior year.

Jimmy Choo may have its challenges on the profits front but it’s “seeing positive trends for active footwear, a key growth category”. And its strategy to expand accessories “remains on track with very encouraging results from new groups including [the] recently introduced Varenne JC Signature collection,” Idol said.

In footwear, it continued to deliver strong comps growth in fashion active, further proving how important sneakers are to luxury labels. Its Raine and Diamond lines were strong. In accessories, “new collections have already delivered comparable sales growth in handbags in the Americas, EMEA and mainland China. We are excited about the future prospects for building accessories momentum supported by these new introductions,” Idol explained.

And ongoing store expansion means Jimmy Choo has a new global store target of 300 with the firm "making significant progress towards" that goal.

**MICHAEL KORS**

Meanwhile, Michael Kors revenue fell 4.2% to $1.089bn and comps rose in the low-single-digits. Operating income fell to $222m and the operating margin to 20.4% from $248m and 21.8% in the prior year.

Idol said the positive comps reflected “continued growth in Asia and Europe while trends improved to flat in the Americas,” and he’s “extremely pleased to see an inflection point in our business".
Its all-important accessories category "has seen a sequential improvement. We are successfully executing against the brand's repositioning efforts to attract and engage millennials and Generation Z consumers with Michael's optimistic design vision and energetic marketing".

That said, in the wholesale channel revenue trended below its retail stores in part due to lower Signature inventories. But Idol said the company has started to see an inflection point in wholesale too in the last 60 days "where the declines are beginning to slow and we are seeing our full-price business expanding and growing and that's being absolutely driven by Signature".

Overall, its global accessories category delivered improved results, led by the success of those Signature styles. In its own retail channel, Signature helped drive sales and its penetration increased to nearly 30% of retail sales. Its new goal is 40% and it wants more Signature product in wholesale too.

And like its portfolio-mates, Kors also saw a strong reaction to its fashion active footwear offer. But Idol also said it has "seen strong sales of emerging fall fashion including moto combat and hiking boots," while in RTW, dress sales have been driven by exotic animal prints and logo details.

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