

APPAREL AND ACCESSORIES

Michael Kors plans wholesale reduction for 2017 fiscal year

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Michael Kors spring/summer 2016

By STAFF REPORTS

U.S. fashion brand Michael Kors has reported a total revenue increase of 10.9 percent to \$1.2 billion for the fourth fiscal quarter of 2016, up from \$1.1 billion in the year-ago period.

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Michael Kors saw retail net sales increase 22 percent to \$572.6 million in the quarter ending April 2, driven mainly by its digital flagships and 142 net new stores. The brand's wholesale business' net sales increased 3.5 percent to \$590.5 million, but its licensing revenue decreased 13.6 percent to \$35.6 million.

What's ahead

For the fourth quarter, Michael Kors' recorded a total revenue of \$879.1 million in the Americas, an increase of 4.6 percent. In Europe its revenues grew 15.6 percent to \$254.1 million, while Asia saw a 216.4 percent increase to \$65.5 million in total revenue.

Overall, for the fiscal year, also ending April 2, Michael Kors' total revenue increased 7.8 percent to \$4.7 billion, up from \$4.4 billion in fiscal 2015.

The fashion brand recorded a retail net sales increase of 12.2 percent to \$2.4 billion, but comparable sales decreased 4.2 percent. Michael Kors' net sales increased 3.8 percent to \$2.1 billion while licensing revenue rose a slight 0.9 percent to \$173.3 million despite the fourth quarter drop.

Also for the fiscal year, Michael Kors had a gross profit increase of 5.6 percent to \$2.8 billion, with a total revenue percentage of 59.4 percent. For fiscal 2015, the brand's percentage of total revenue was slightly higher, at 60.6 percent.



Michael Kors spring/summer 2016

Regarding the results, John D. Idol, CEO/chairman of Michael Kors, said in a statement, "We are pleased with our financial and operational accomplishments during the fourth quarter and fiscal year 2016, as we delivered continued growth across regions despite the challenging retail environment.

"In addition, we elevated our product offerings and refreshed our marketing campaigns, both of which were met with positive response from our customers. We also continued to make strategic investments in our business that will pay meaningful dividends for years to come," he said. "As these initiatives began to take hold, we ended the year on a strong note, with revenue and earnings per share ahead of our expectations in the fourth quarter, as well as for the full year."

Alongside its financial results, Michael Kors announced the acquisition of Michael Kors (HK) Limited, the brand's exclusive licensee in China and other jurisdictions in Asia. The acquisition was finalized May 31 for \$500 million in cash.

Michael Kors' Greater China business generated a total revenue of \$197 million for the year ending March 31, and operated 91 branded retail stores and six travel retail locations across China, Hong Kong, Macau and Taiwan.

For the fiscal year ahead, Michael Kors' business in Greater China is expected to contribute approximately \$200 million to retail net sales.

"[Michael Kors Holdings Limited is] very excited about the acquisition of our Greater China licensee. As you know, we have worked diligently over the past several years, with our licensed partner in this region, to build the infrastructure, establish the brand and grow acceptance of Michael Kors in the Chinese market," Mr. Idol said.

"We believe that our brand is gaining strong momentum in Greater China, making it the ideal time for us to integrate this territory into our business and capitalize on the enormous growth potential in this region."



Michael Kors spring/summer 2016

To express its brand confidence further, Michael Kors also repurchased 3,690,685 ordinary shares for about \$200 million during the fourth quarter. The program began in 2014 with Michael Kors repurchasing 31,516,857 shares worth approximately \$1.6 billion.

As of April 2, 2016, Michael Kors' remaining availability under the share repurchasing program was \$358.1 million. The brand is continuing to look ahead toward the first quarter of fiscal 2017, with total revenue expected to be between \$940 million and \$950 million. For this, Michael Kors has planned a reduction in its wholesale shipments and expects comparable sales to decrease to mid-single digits.

Michael Kors also expects increased operating expenses as it invests in digital flagships, corporate talent, new stores, shop-in-shops, infrastructure and distribution. This also includes a \$15 million one-time transaction related to the Greater China licensee acquisition and a one-time \$3 million allocated toward boutique closures in Latin America.

In November 2015, Michael Kors announced its plans to scale back department store retailing to protect the brand's overall image and profits. The brand decided to pull back its inventory in department stores mainly to avoid its merchandise being placed on sale by its retail partners ([see story](#)).

Fiscal 2017's total revenue is expected to be "flat" compared to fiscal 2016, with comparable sales set to decrease in the low single digits.

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