

COACH

**Asset Management
Dr. Liaw
Spring 2004
Danielle Battista
Bill Knaub
Amanda Prusiecki
Kuan-JuChiu
February 26, 2004**

Table of Contents

Executive Summary

- I. Management**
- II. Key Strategies**
- III. Financial Details**
- IV. Valuation: Absolute and relative**
- V. Comparison with Competitors**
- VI. Important Recent Developments**
- VII. News Items**
- VIII. Correlation with Current Portfolio**
- IX. Conclusions**
- X. Sources**

Executive Summary

Coach (COH) has emerged as a leader in America as a designer, producer and marketer of fine accessories and gifts for women and men including handbags, business cases, luggage and travel accessories, wallets, outerwear, eyewear, gloves, scarves and fine jewelry. Based on our analysis and Coach's increase in market share, it would be a solid contribution to the portfolio. Our recommendation is to purchase 400 shares at \$38.00

Coach

Founded in 1941, Coach started as a family-run workshop in a Manhattan loft. A handcrafted collection of leather goods was created by 6 artisans with skills passed down from generation to generation. Coach has greatly expanded since that time but continues to maintain the highest standards for material and workmanship. The Coach brand has created a unique combination of fine leather goods, custom fabrics, product quality, durability and customer service.

During the last decade, Coach has revamped its image and has become a prominent designer, producer and marketer of fine accessories and gifts for women and men including handbags, business cards, luggage and travel accessories, wallets, outerwear, eyewear, gloves scarves and fine jewelry. With licensing partners, Coach has also broadened its customer base by offering: watches, footwear, and home and office furniture. This has enabled Coach to establish distinct identity of the Coach brand name.

There are over 200 Coach Stores in the US and new stores are expected to open within the year. Coach is prominent in its own boutiques as well as department stores and specialty retailer locations. In 1999, Coach launched its online store at www.coach.com.

Coach has a long term plan to expand into increase presence the international markets. The target is to increase international distribution with emphasis on the Japanese customer. With this outlook in place, Coach operates stores and shops in nearly 200 locations in eighteen countries outside the United States.

Coach's corporate headquarters are located in midtown, Manhattan on 34th Street, in the same location as the former factory lofts. Coach is publicly traded company listed on the New York Stock Exchange and is traded under symbol COH.

I. Management

Lew Frankfort, Chairman and Chief Executive Officer

For over 20 years, Lew Frankfort has been involved with Coach. In 1979, he began his career with Coach as Vice President of New Business Development and was the major factor in growing the number of retail stores and expanding to international markets. In 1985, Coach was acquired by Sara Lee Corporation and he was appointed President of Coach. In 1995, Frankfort was named Chairman and CEO of Coach and was also a Senior Vice President of Sara Lee Corporation. From 1991-1996, in addition to his responsibilities at Coach, Frankfort also served in several group officer positions in Sara Lee Corporation, including Champion U.S. and Europe business, as well as its Intimates & Accessories (North America) business.

Through Frankfort's leadership, Coach has continued to build its market share by offering a broader range of products, modernizing its stores, improving operations, retail expansion domestically as well as internationally. This has contributed to improve sales, net income, and earnings growth. In 1999, Coach was brought into the e-commerce arena with the launch of Coach.com and in addition, Frankfort oversaw Coach's transition to a publicly traded company listed on the New York Stock Exchange.

Prior to his corporate life, Frankfort roles included spending 10 years in the New York City government. For three of those years, he served as Commissioner of the Agency for Child Development.

He holds a Bachelor of Arts degree from Hunter College and an MBA from Columbia University.

Frankfort has considered each mistake he has ever made as a learning experience and thinks that the best managers can be measured by successes and failures. In 1993, Coach acquired the leather goods brand, Mark Cross. He thought it was a good idea to add another label into the already popular Coach brand even though it was a competitive brand. The problem he faced was that the new operation consumed too much of his time and he found himself and his key team members taking focus away from Coach. Internal research showed that Mark Cross was taking away customers from Coach. From this experience he learned that he needed to stay focused to bring Coach to its full potential and that a mono-brand is important. After four years, he discontinued the brand.

Frankfort pays attention to failures more than successes. “I am driven in part by a blend of striving for excellence and the fear of failure,” Frankfort said. He has a recurring nightmare of running around the Columbia University campus during finals without preparing for the exams or attending classes and has no idea where the exams are being held. Having this attitude of excellence, he encourages his team to raise the standards. “Everything we do is under the belief that we can strive to do better,” he said. He surrounds himself with people that are like him, positive thinkers, smart individuals who

are self critical, passionate about their work and believe in creating something that didn't exist before.

In 1996, Frankfort overhauled Coach by broadening its offerings, improving operational efficiency and outsourcing most manufacturing abroad. He expanded international presence and today there are about 99 Coach stores in Japan. Through his insight, in 2000, Coach went public and in 2001, earnings have soared to an annual rate of 40% and sales by 23%.

Reed Krakoff – President, Executive Creative Director

Reed Krakoff has been in the design industry for over thirteen years. Prior to his appointment to President in 1999, Krakoff served as Senior Vice President and Executive Creative Director at Coach for two and a half years. From 1992-1993, he held the position of Head Designer, Sportswear for Tommy Hilfiger USA, Inc. where he was responsible for the worldwide brand positioning and advertising. From 1993-1996, he held the position of Senior Vice President, Marketing, Design and Communications, also for Tommy Hilfiger USA, Inc.

Most recently, he was awarded the American Fashion Award for 2001 Accessories Designer of the Year. He holds an A.A.S. degree in Fashion Design from Parsons School of Design and a Bachelor of Arts degree in Economics and Art History from Tufts University.

Krakoff has a unique strategy when it comes to getting an immediate read on a potential new handbag design, he carries it around the office and if no one reacts, he knows it is isn't likely to sell well in the mass market. He is not developing a new hot item every season; he is more into a foundation of products that a customer can add to. He has changed that way that people view Coach as a staple items and is trying to getting people to add new items to get people to come into the stores more often. According to Krakoff, consumers see Coach bags as an investment and he likes for people to have a "library of things for their life." He feels that with additions or subtracts of current styles, a Coach handbag can be worn season after season.

Keith Monda- President & Chief Operating Officer

Keith Monda was named President in May, 2002. He has been Chief Operation Officer for three years and a member of the board of directors since June 1, 2000. Under his leadership, Coach transformed from a manufacturing company to a marketing company and allowed Coach to expand its product offering globally. He has also led the negotiation in the development of the joint venture of Coach Inc with Sumitomo in Tokyo, Coach Japan Inc., and is Chairman of that entity's Board of Directors. From 1996-1998, Monda was the Senior Vice President, Operations at Timberland and Senior Vice President, Finance and Administration and Chief Financial Officer.

Michael Tucci: President, Retail Division – North America

Tucci joined Coach in January 2002. Prior to his role at Coach, he served as Executive Vice President of Gap Inc. He led the merchandising and retail development of Gap

Body and Gap Kids as well as development of all three of the company's branded e-commerce sites. Tucci holds a Bachelor of Arts degree in English from Trinity College in Hartford, Connecticut.

II. Key Strategies

1. Greater Share

Coach is continuing to build its market share by emphasizing the different usage for its products including gifts, self purchase, evening and weekend. Coach is offering a wider range of products at various price points, enabling a larger portion of the market share.

2. Higher Margins

Coach continues to enhance operation markets by expanding gross margins and cutting expenses. Coach has forecasted to significantly expand its operating margins in each of the next three years. The forecast is based on the mix of the US retail and Coach Japan channels as the primary contributor.

3. Bigger Presence

There are approximately 160 Coach retail stores in the United States today. The strategy is to expand domestically with new openings as well as making further improvements to existing stores. The plan is to open about 20 new stores in existing Coach markets over the next several years.

4. Broader Market

There is a threefold strategy for greatly improving market share in Japan. Coach will continue to open new locations, improve store productivity which will drive sales and expand the most productive Coach selections in Japan's high end department stores. There is anticipation to double current Japanese market share with the recent opening of another flagship store in the Shibuya, to compliment the Ginza store.

III. Financial Details

Ratio Analysis

Now, we will take a look at the ratios for Coach compared to an average based on Coach's competitors: Louis Vuitton (LVMUY), Gucci (GUC) & Wilsons (WLSN). We've chosen these companies to compare financial ratios because they are, for the most part, upscale companies selling luxury goods in the apparel/accessories industry.

First, we will take a look at liquidity ratios.

| Coach Inc. | Fiscal Year Ending | | | | | | |
|---------------------------|---------------------------|-------------|-------------|-------------|-------------|-------------|-----------------|
| Liquidity Ratios | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | Industry |
| Current Ratio | 2.78 | 1.80 | 1.45 | 1.68 | 1.69 | 2.43 | 2.39 |
| Acid Test | 1.89 | 0.95 | 0.44 | 0.40 | 0.34 | 0.45 | 1.44 |
| Liquid Assets/Total Liab | 1.81 | 0.91 | 0.42 | 0.38 | 0.32 | 0.42 | 0.67 |
| AR Turnover | 28.71 | 27.92 | 33.20 | 39.27 | 40.15 | NA | 32.66 |
| Inventory Turnover | 1.97 | 1.95 | 2.11 | 2.16 | 1.93 | NA | 2.28 |
| Days Sales in Receivables | 13.40 | 15.48 | 12.35 | 10.42 | 8.49 | 9.05 | 29.28 |
| Days Sales In Inventories | 54.31 | 68.26 | 63.05 | 68.36 | 72.87 | 91.27 | 79.58 |
| Liquidity Index | 18.47 | 34.04 | 45.42 | 53.42 | 59.14 | 75.11 | 38.64 |
| Days Purchases in A/P | 33.86 | 34.78 | 23.26 | 12.83 | 18.67 | NA | 114.68 |
| Avg Net Trade Cycle | 33.85 | 48.96 | 52.15 | 65.95 | 62.69 | NA | (5.81) |
| Cash Produced by Ops | 60.21% | 49.16% | 87.17% | 65.27% | 66.18% | NA | 0.05 |
| Working Capital (000) | 287,077 | 128,160 | 47,119 | 54,089 | 51,685 | 95,554 | |

Current ratio: (Current Assets / Current Liabilities). Coach's current Ratio has been increasing since 2001, and is well above the accepted threshold of 2:1. In addition, it is also above the industry average. This is due to Coach's tremendous increase in sales, current assets (cash and marketable securities) have increased dramatically.

Acid-test (quick ratio): (Cash + Cash Equivalents+ Market sec+ Acct Receivables / Current Liabilities). This ratio is a more stringent version of the Current ratio. Again, due to the tremendous increase in cash flow, Coach's acid test ratio reveals an increasing score higher than the industry average.

Ability to pay of total debts: (Liquid Assets/Total Liabilities). Although this ratio is not standard, it shows Coach's ability to pay off all liabilities (current & long term) almost 2 times in 2003. This is well above the industry average, and shows tremendous liquidity.

Accounts receivable turnover : (Nets Sales/Average Accounts receivable). This ratio reveals the quickness with which credit sales are collected. Coach's ratio shows that they collect their receivables at a decreasing rate since 1999. Currently at 28.71, Coach is slightly below the industry average of 32.66. This is not alarming since the ratio is close to the industry average.

Inventory turnover: (Cost of Products Sold / Average Inventory). The inventory turnover ratio measures the speed that at which inventories move through and out of a

company. Coach's ratio at 1.97, is a little below the average of the industry at 2.28. At 1.97, Coach appears to turn their inventory approximately 2 times per year.

Days' sales in receivables: $(\text{Ending accounts receivable} / \text{Sales} / 360)$. This ratio states the number of days of sales that have not been collected at a point in time. Coach's collection rate is far better than the industry average, and has shown improvement over the last year.

Days' sales in inventory: $(\text{Ending Inventory} / \text{Cost of products sold} / 360)$. This ratio states the number of days of sales based on an average rate of sales that a company is holding in inventory. Due to increasing sales, this number has been declining since 1998 and is lower than the industry average. Currently at 54.31 days, Coach looks significantly better than the industry average at 79.58 days.

Liquidity index: The liquidity index is a relative index used to compare a firm's liquidity over a period of time or to compare a firm's liquidity versus other firms. In Coach's case its liquidity index has trended downward significantly since 1998 which is great. This is due to the increasing cash on Coach's balance sheet. In addition, at 38.64 days, the industry at is a lot higher than Coach's 18.47 days. This means Coach is a lot less likely to have a cash crunch.

Days' purchases in accounts payable: $(\text{Accounts Payable} / \text{Purchases per day})$. This is a measure of the number of days that a company has to payoff its purchases. Coach pays

its accounts payable within 33.86 days, while the industry is over 114 days. Coach is obviously paying off its accounts payable a lot quicker than the combined average of Louis Vuitton (LVMUY), Gucci (GUC) & Wilsons (WLSN).

Average net trade cycle: (Days' sales in receivables+ Days' sales in inventory- Days' purchases in accounts payable). This cycle provides a measure of the working capital requirements for the company. Coach has had a steady improvement in its average net trade cycle. It has decreased from 62.69 in 1999 to 33.85 in 2003. This means that Coach has to tie up less of its working capital to pay off bills.

Cash produced by operations to average current liabilities :(Cash from operations / average current liabilities). This ratio looks at a firm's cash versus liabilities since liabilities have to be paid for with cash. Coach looks good at 60.21%, significantly above the threshold of 40% for healthy companies.

Working Capital: (Current Assets – Current Liabilities). This is just a simple calculation to find out how much more cash and short term assets a company has than current liabilities. Coach's working capital has increased from \$47 million in 2001 to \$287 million in 2003. This increase is due to the significant increase in cash flows since 2001. It appears that Coach is holding onto enough cash to possibly make a buy out offer on another company.

Next, we will take a look at Coach's leverage ratios.

| Coach Inc. | Fiscal Year Ending | | | | | | |
|---------------------------|---------------------------|-------------|-------------|-------------|-------------|-------------|-----------------|
| Leverage Ratios | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | Industry |
| Total Debt to Equity | 0.39 | 0.64 | 0.74 | 0.39 | 0.39 | 0.38 | 1.18 |
| Total Debt Ratio | 0.27 | 0.38 | 0.43 | 0.28 | 0.28 | 0.27 | 0.50 |
| CL to Total Liabilites | 0.96 | 0.96 | 0.95 | 0.95 | 0.95 | 0.94 | 0.48 |
| Earnings to Fixed Charges | 353.26 | 119.63 | 39.79 | 133.45 | 47.04 | 49.90 | 1.07 |
| Cash Flow to Fixed Chgs | 449.22 | 138.13 | 62.32 | 242.81 | 236.73 | 42.04 | 1.54 |
| Total Financial Lvg Ratio | 1.45 | 1.69 | 1.74 | 1.39 | 1.39 | 1.38 | 2.27 |
| Financial Leverage Index | 1.54 | 1.71 | 1.54 | 1.39 | 1.38 | NA | 2.27 |
| Altman Z Score | 4.46 | 3.63 | 4.25 | 4.19 | NA | NA | |

Total debt to equity: This ratio measures the ratio of debt to equity. In Coach's case, the ratio has been decreasing since 2001. This means less and less of the company is being financed by creditors. This makes sense since Coach has a low debt load and increasing cash. In comparison, Coach's ratio of .39 looks a lot better than the industry average at 1.18.

Total debt ratio (Total Debt / Total Assets). This indicates that debt constitutes a smaller and smaller portion of Coach's capital structure. Since 2001, it's gone from .43 to .27. Coach also looks better than the industry, which finances .50 with debt.

Current liabilities to total liabilities: (Current Liabilities / Total liabilities). This ratio measures the amount of current versus total liabilities. A higher ratio indicates a lower amount of long term debt. In Coach's case this ratio has increased from .95 to .96, indicating very little need for long term debt. In comparison the industry, at .48 has a more of a need for long term debt.

Earnings to fixed charges: $(\text{Pretax income} + \text{Interest Expense} + \text{Interest portion of rent exp} - \text{undistributed equity in affiliates} / \text{interest incurred} + \text{interest portion of rent expenses})$. Earnings to fixed charges measure the ability of a firm to service its debt. A ratio lower than 1 indicates that a firm is in trouble. In Coach's case its ratio is proof of its financial strength. Coach's ratio has been increasing since 2001. In comparison, the industry doesn't look all that good at 1.07. This is due to Wilson's earnings being negative.

Cash flow to fixed charges: $(\text{Cash flow from operations} + \text{Current tax expense} + \text{interest expense} + \text{interest portion of rent expense} / \text{Interest incurred} + \text{Interest portion of rent expense})$. Cash flow to fixed charges is a less stringent measure of the ability of a firm to service its debt. A ratio lower than 1 indicates that a firm is in trouble. Again, Coach looks great compared to the industry.

Total Financial Leverage Ratio (Total Assets / Total stockholders equity- preferred stock): The financial leverage ratio is a measure of the proportion of assets financed by common equity capital. A higher ratio is considered an indication of greater risk / use of leverage. Coach's ratio has been moving down since 2001, and looks much better than the industry.

Financial leverage index (ROCE/ROA): measures the effect of financial leverage. A financial leverage index greater than 1.0 indicates favorable effects from leverage. A

value less than 1.0 suggests unfavorable effects from leverage, and a value exactly 1.0 suggests neither favorable nor unfavorable effects. Coach's financial leverage index is 1.54 for fiscal 2003, since return on equity exceeds return on assets, implying favorable effects of leverage and re-echo's Coach using its debt effectively. In comparison , the industry doesn't look as good at 2.27.

Altman Z Score: The Altman Z score is a measure of the firm's financial distress. A score of less than 1.2 implies a high probability of bankruptcy. A score of 1.2-2.9 indicate an ambiguous area whereas a score over 2.9 indicates a low probability of bankruptcy. Coach is safely above 2.9 at 4.46.

Next, we will take a look at the asset utilization ratios for Coach and the industry.

| Coach Inc. | Fiscal Year Ending | | | | | | |
|---------------------------------|---------------------------|-------------|-------------|-------------|-------------|-------------|-----------------|
| Asset Utilization Ratios | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | Industry |
| Sales to Receivables | 28.7 | 27.9 | 33.2 | 39.3 | 40.2 | NA | 32.66 |
| Sales to inventories | 6.8 | 6.0 | 5.8 | 5.3 | 4.3 | NA | 4.83 |
| Sales to working capital | 4.6 | 8.2 | 11.9 | 10.2 | 6.8 | NA | 5.21 |
| Sales to fixed assets | 9.1 | 8.8 | 8.7 | 4.4 | 2.8 | NA | 4.52 |
| Sales to total assets | 1.8 | 2.1 | 2.2 | 1.9 | 1.9 | NA | 0.96 |

Sales to Receivables Ratio: Sales to receivables measures net sales verses receivables. Coach's sales to receivables number had been trending down since 1999. This basically means that Coach's receivables as a percent of net sales are increasing as the company grows. This is probably due to the fact that Coach has been selling an increased amount of inventory to retail stores. In addition, it's possible the credit policy has become a little lax since Coach has been experiencing tremendous growth. Needless to say, Coach's sales to receivables ratio of 28.7 in 2003 is fairly close to the industry average of 32.66.

Sales to Inventories: Sales to inventories measures sales divided by the average inventories over the past 2 years. Coach's sales to inventories have been trending upward since 1999, and look better than ever. In fact, Coach's sales to inventories at 6.8 in 2003 beat the industry average of 4.83. This is due to a decline in inventory vs. total assets and a dramatic increase in net sales over the last 3 years.

Sales to Working Capital: Sales to working capital is calculated by taking sales and dividing by working capital. Coach's sales to working capital have been decreasing since 2001. This is due to the increase in working capital due to a dramatic increase in profits and Coach has kept a large portion of its profits in cash. Coach's ratio at 4.6 looks a little bit better when compared to the industry's ratio of 5.21.

Sales to Fixed Assets: Sales to fixed assets is used to measure how efficiently a company is using its fixed assets. Coach's sales to fixed asset ratio have increased from 2.8 in 1999 to 9.1 in 2003. This means Coach is using its fixed assets very efficiently. They have been able to obtain more sales with out increasing fixed assets very much. In addition Coach looks great compared to the industry average of 4.52.

Sales to Total Assets: Sales to total assets can help to measure how efficiently a company is using all of its assets. Coach's sales to total assets have been decreasing since 2001. This means that Coach is not using all of it's assets as efficiently has it has in 2001 & 2002. Although this number has been decreasing, Coach's assets are currently generating \$1.8 in sales while the industry average is \$.96. Thus we can say that Coach

is using its assets efficiently as compared to its competitors, although not quite as efficiently as the previous 2 years. The main reason in the decline of this ratio is because Coach has increased its cash significantly since 2001. As per Coach's common size statement, Coach's cash as a percent of total assets has gone from 1.43% to 37.1%. In conclusion, although Coach's sales to total assets ratio looks good against its competitors, it has been declining and may continue to decline with increasing profits and decreased re-investment in the company.

Now, we will take a look at Coach's profit margins.

| Profit Margins | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | Industry | GUC |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------|------------|
| Gross profit margin | 71.07% | 67.19% | 63.61% | 59.07% | 54.85% | 54.90% | 53.93% | 68.48% |
| Operating profit margin | 25.57% | 18.58% | 16.93% | 10.42% | 3.89% | 4.79% | 9.44% | 12.02% |
| Net profit margin | 15.38% | 11.93% | 10.66% | 7.18% | 3.34% | 3.96% | -0.29% | 8.91% |

Gross Profit Margin: Gross profit margin is computed by subtracting cost of goods sold from net sales and dividing by net sales. Over the last 4 years, the gross profit margin has trended upward from 54.85% in 1999 to 71.07% in 2003, while its competitors remained around 54%. Needless to say, Coach's gross profit margins are excellent!

Operating Profit Margin: Operating profit margin is calculated by taking operating income and dividing by net sales. Just as the gross profit margin, the operating margins have increased since 1999, but a bit more significantly. The operating profit margin was 3.89% in 1999 while the operating profit margin by 2003 was 25.57%. This represents an increase of 557% since 1999. This is a substantial increase in margins! This is due to a decrease, on a % basis, of SGA and COGS. Lastly, when compared to the industry's average of 9.44% and Gucci's 12.02%, Coach's operating margins look excellent!

Net Profit Margin: Net profit margin is calculated by taking the firm's net income and dividing by net sales. Again, the net profit margin is increasing as are the operating and gross profit margins. After all is said and done, Coach's net profit margin of 15.38% is significantly better than the industry average of -0.29%. Although the industry average is distorted by Wilson's net profit margin, Coach still looks great when compared to Gucci's ratio of 8.91%.

| Coach Inc. | Fiscal Year Ending | | | | | | | |
|--------------------------|---------------------------|-------------|-------------|-------------|-------------|-------------|-----------------|------------|
| ROI Ratios | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | Industry | GUC |
| ROCE | 0.43 | 0.42 | 0.35 | 0.19 | 0.09 | NA | (0.15) | 0.05 |
| ROA | 0.28 | 0.25 | 0.23 | 0.13 | 0.06 | NA | (0.07) | 0.03 |
| Ret on LT Debt & Equity | 33.8% | 32.2% | 41.5% | 17.8% | 8.1% | 10.8% | -11.7% | 3.8% |
| Financial Leverage Index | 1.54 | 1.71 | 1.54 | 1.39 | 1.38 | NA | 2.27 | 1.65 |
| Equity Growth Rate | 42.67% | 42.00% | 35.46% | 18.56% | 8.57% | NA | -13.58% | 4.91% |
| Adj Net Profit Margin | 15.38% | 11.93% | 10.66% | 7.18% | 3.34% | 3.96% | -0.29% | 8.91% |
| Asset turnover | 1.80 | 2.06 | 2.16 | 1.86 | 1.86 | NA | 0.96 | 0.33 |
| Fin. Leverage ratio | 1.54 | 1.71 | 1.54 | 1.39 | 1.38 | | 2.27 | 1.67 |
| Dis Of Ret on CE | 0.43 | 0.42 | 0.35 | 0.19 | 0.09 | | (0.15) | 0.05 |

Return on Common Equity (ROCE): ROCE is the stockholder's return on investment. Coach has exceeded the Return on common equity from both from its industry and competitors. In 2003, Coach generated 43% return on common equity for its shareholders. This is due to its tremendous growth in sales and net income over the last 3 years. In addition, Coach has a limited share repurchase program that saw Coach repurchase 1,929 of its common shares. As of June 28, 2003 the current share repurchase program had \$120,000 left to purchase common shares.

Return on Assets: A measure of how effectively company's assets are used to generate a return. Coach's ROA has been increasing since 1999, and currently stands at 28%, while

the industry lags significantly. Thus, as mentioned in the asset utilization section, Coach is definitely using its assets efficiently.

Return on Long-term Debt & Equity: In 2003 Coach's return on long term debt and equity increased to 33.8%, from 32.2% in 2002. This compares favorably with Coach's competitors. Coach return on long-term debt and equity confirms that Coach utilizes debt and equity profitably.

Financial leverage index (ROCE/ROA): (Refer to the leverage ratio section)

Equity Growth Rate: this ratio emphasizes equity growth without resorting to external financing. Coach's Equity growth rate for Coach is the same as ROCE because no dividend was paid.

Disaggregation of Return On Common Equity: In this calculation, you multiply adjusted profit margin X asset turnover ratio X financial leverage ratio. Due to the mathematics, the result is the same as the return on common equity ratio. The main causes of fluctuations are increased return on adjusted profit margin. As mentioned before, this is due to the increase of sales and profits.

Lastly, we'll take a look at Coach's market valuation ratios. We've taken out Wilson's from this comparison since it distorted the numbers too much.

Coach Inc.**Fiscal Year Ending**

| Market Value Ratios | Proj. 2004 | 2003 | 2002 | 2001 | 2000 | GUC & LVMUY | GUC |
|----------------------------|-----------------------|-------------|-------------|-------------|-------------|----------------------------|------------|
| Diluted EPS | 1.2 | 0.79 | 0.47 | 0.38 | 0.28 | 1.68 | 2.26 |
| EPS % Change | 52% | 67% | 24% | 38% | | | |
| Price per Share | 39* | 24.87 | 13.73 | 9.41 | NA | NA | 93.96 |
| P/E Ratio | 32.50 | 31.52 | 29.10 | 24.78 | | 24.71 | 41.53 |
| Price/Book | NA | 7.76 | 5.97 | 6.49 | | NA | NA |
| Price/Sales | NA | 4.85 | 3.47 | 2.64 | | 1.34 | 3.70 |
| Dividend per Share | NA | 0 | 0 | 0 | 0 | | |

Earning Per Share (EPS): EPS tells us how much profit was generated on a per share basis. In fiscal 2003, Coach is earning .79 cents per common share. In addition, Coach's growth in EPS has been incredible over the last 3 years. The growth in EPS between 2002 and 2003 was 67%, while the estimated growth in 2004 is at 52%. This is stellar growth!

Price-to-Earning Ratio: In general, a high P/E ratio means high projected earnings in the future and firm's ability to generate cash flows in the future. A low P/E ratio means that the company's earnings are flat or growing slowly, or they could also be in financial trouble. Coach's P/E ratio in FY 2003 was 31.52, which is higher than the industry average of 24.71. A company with a P/E ratio higher than 20 can be called overvalued, but in Coach's situation, this is surely not the case. As mentioned above, Coach's 2004 earnings are expected to grow 52% over 2003. High growth companies command a higher P/E ratio since earnings are expected to increase faster than the average company.

| Market Value Ratios | Proj. 2004 | 2003 | 2002 | 2001 | 2000 |
|----------------------------|-------------------|-------------|-------------|-------------|-------------|
| Diluted EPS | 1.2 | 0.79 | 0.47 | 0.38 | 0.28 |
| Prices: High | | 40.84 | 17.85 | 10.68 | 7.34 |
| Prices: Low | | 14.51 | 8.59 | 5.00 | 4.00 |
| P/E Ratio: High | 39** | 52 | 38 | 28 | 36 |
| P/E Ratio: Low | 17** | 18 | 18 | 13 | 20 |

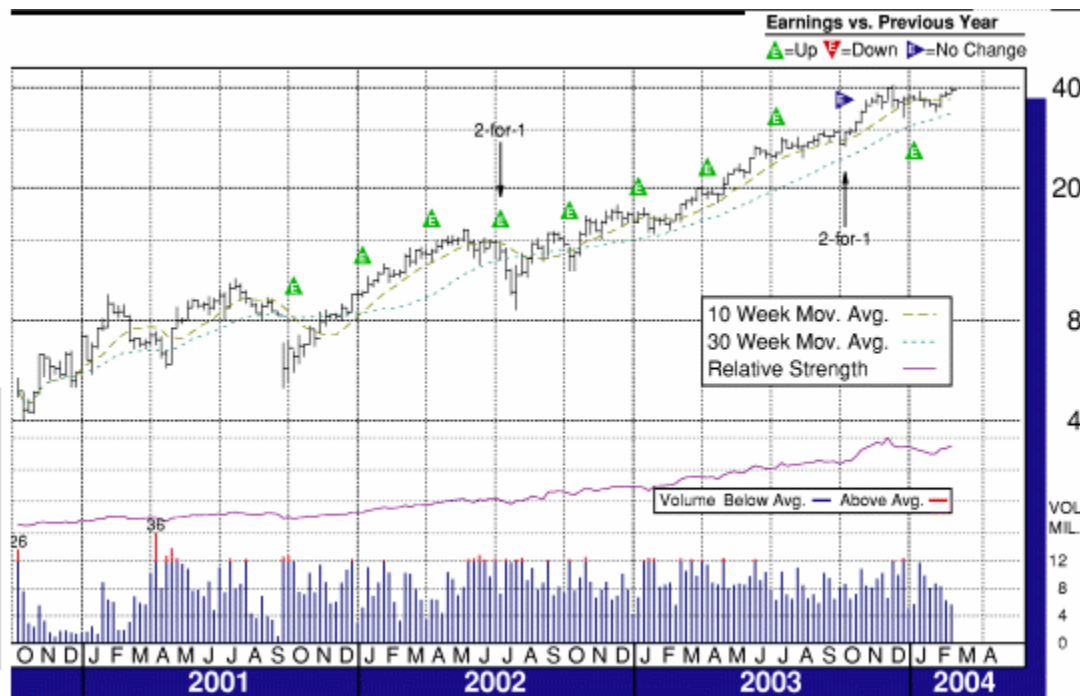
A closer look at the highs and lows of Coach's P/E ratio reveals a low of 13 and a high of 52 over the last 4 years, based on the Standard & Poor's website. This gives Coach an average high P/E ratio of 39 and an average low of 17. Although these numbers are a decent gauge to find out Coach's P/E ratio range, it is slightly distorted since the ratio uses the year's high price and FY EPS. Although a better calculation would be to use the rolling 12 months EPS, this still gives us a good range for the high end of the P/E ratio.

Price to Book ratio: is used to compare stock market value to its book value. A lower price to book ratio means that the stock is undervalued. But it could also mean that something is fundamentally wrong with the company. This ratio also gives some idea of whether you're paying too much for what would be left if the company went bankrupt immediately. Coach's par Price to book ratio for fiscal 2003 is 7.76, an increase from 5.97 in 2002. Based on this ratio, Coach is valued more highly this year than last.

Price to Sales ratio: Calculated by dividing stock current price by its annual sales (or revenue) per share. What this means is that Wall Street is valuing Coach at 4.85 times its annual sales while Gucci is at 3.70 times its annual sales. It means Coach can generate a lot of profit from every dollar in sales therefore it has a higher valuation per sales dollar than the industry.

Dividend per Share: Coach has no dividends.

Overall, Coach's ratios look excellent! They have excellent profit margins, increasing sales, increasing earnings per share, excellent liquidity, great asset utilization, etc..... In addition, shareholders have been rewarded handsomely for this.



Coach's stock has been increasing since its IPO year in 2000. If you bought Coach at its low of \$4.38 in 2000, and sold today at \$39.00, you would have gained 790%. This is due to excellent fundamentals, increasing sales, increasing profits, and beating the estimated earnings per share. As you can see from the chart above, Coach has beat estimated earnings per share every quarter since September 2001 except for one quarter. The street loves this type of stock, and as long as earnings keep rolling in, this stock will continue its uphill climb.

IV. Technical Analysis

Now, we'll take a look at some technical analysis. This type of analysis helps to find possible short term buying and selling opportunities. The chart below, from Sharp Charts, contains 3 different technical charts. These include: Bollinger Bands, Moving Average Convergence Divergence (MACD), and Chaikin Money Flow (CMF).



Bollinger Bands: Standard bollinger bands are basically moving averages 2 standard deviations from the 20day simple moving average. As the stock becomes more volatile in one direction the difference between the upper and lower band expand. Although the bands are constantly moving, stocks tend to go up and down with in these bands. Buying opportunities tend to be created when the stock hits the lower end of the bollinger band,

while selling opportunities occur at the top of the bollinger band. As one can see, Coach's price hit the lower bollinger band 5 times since September of 2003. Each of the 5 times, the stock turned back around to go up a good percentage. In addition to buying opportunities being created when a stock hits the lower bollinger band, a buying opportunity is sometimes created when it hits the 20day simple moving average. This happened 3 times between August and October. After which, the stock continued its upward momentum. Currently the stock has some downward momentum along with the general market. We expect the stock to go down a bit more before turning back up. Since Coach just announced an increase in estimated EPS for the quarter, we'd expect Coach not to go down too much past \$37/share. Based solely on the Bollinger bands, a price of \$35-\$37 would be a good entry point.

Moving Average Convergence Divergence (MACD): The MACD is basically the difference between the stocks 26-day and 12-day exponential moving averages with more weight to recent data. The 9-day exponential moving average (line labeled .00) acts as a trigger line. Generally, it is bullish when the bars are above the line, and bearish when the bars are below the line. Currently, Coach is above the line while the bars are trending down, which gives the stock a bearish tone. As mentioned above, it may be good to buy in the \$35-\$37 range.

Chaikin Money Flow (CMF): The CMF is calculated with the cumulative total of the accumulation/distribution values for 21 latest periods divided by the total of volume for 21 periods. The accumulation/distribution measures the buying and selling pressure based

on the location of the close multiplied by the volume, and is best used with other technical analysis. A stock is considered to have buying pressure when the stock closes at the upper half of the candlestick, while a close in the lower half of the candlestick is considered selling pressure. Generally, the CMF is considered Bullish when it's above .00 and bearish when it's below .00. But like the MACD, it's considered somewhat bearish when the CMF has reached a high point and is trending down. Coach looks like it is still in bullish mode, but based on the above analysis this may not necessarily be the case.

Overall, based on our technical analysis, it may be best to buy the stock when it goes below \$37/share.

V. Valuation

Earning Discount Model

Since Coach didn't have any dividend paid out, Dividend Discount Model (DDM) is not appropriate to evaluate Coach's value. As a result, we use Earning Discount Model to estimate its fair value.

CAPM

We calculated expected rate of return as discount rate by using Capital Asset Pricing Model (CAPM):

| | | | | | | |
|--------------|------------|-------------------------------|----------------------------------|------------|---|--------|
| | Rf+ | β_s^* | $[E_{(Rm)}^-]$ | Rf] | | |
| CAPM= | 4% | 1.314 | 10.37% | 4.00% | = | 12.37% |

We used 10-year government bond yield, derived from Bloomberg.com, as risk free rate.

Beta of the stock was obtained from Yahoo Finance. We used 11-year S&P 500 monthly returns to calculate expected average monthly return, and then we annualized the average monthly return for expected market return. Finally, we put those parameters into CAPM formula to get the result of 12.37%.

Calculation of estimated P/E ratio

| | 2001 | 2002 | 2003 | 2004 | Average | Estimated |
|---------------------|--------|--------|--------|---------|---------|-----------|
| Coach high P/E | 25.32 | 31.85 | 33.47 | 32.19 | | 31.71 |
| Coach low P/E | 11.03 | 11.66 | 11.48 | 20.52 | | 14.06 |
| S&P500 high P/E | 29 | 46 | 47 | 31 | 38.25 | |
| S&P500 low P/E | 24 | 23 | 28 | 21.5 | 24.13 | |
| Coach high/S&P high | 87.30% | 69.24% | 71.21% | 103.85% | 82.90% | |
| Coach low/S&P low | 45.94% | 50.69% | 41.005 | 95.42% | 58.27% | |

S&P500 P/E ratio: source from http://www.vtoreport.com/pe_ratio.htm

We used four-year historical data for P/E ratio calculation. Coach's high and low P/E ratios were calculated by using announced EPS and historical stock prices over last four years. The average ratios of Coach's high P/E to S&P500 high P/E and Coach's low P/E to S&P500's low P/E are 82.90% and 58.27%, respectively. We then obtained Coach's estimated high P/E ratio of 31.71 (S&P500 high P/E multiple by the average ratio of Coach's high P/E to S&P500 high P/E) and low P/E ratio of 14.06(S&P500 low P/E multiple by the average ratio of Coach's low P/E to S&P500 low P/E)

Main parameters in Coach's Income Statement

We chose three major parameters, growth rate in revenue, growth rate in G&A expense, and profit margin, to forecast Coach's future EPS. In order to project Coach's future net income, we derive six-year financial data, including growth rate in revenue, growth rate in general & administrative expense, and profit margin, from the company's annual reports. Additionally, we assume other minor components in Income Statements will remain the same level as year of 2003. We also assume a 35% tax rate for our scenarios.

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | Average | STD DEV |
|--------------------|--------|--------|--------|--------|--------|--------|---------|---------|
| Growth in revenue | -3.36% | -4.07% | 7.34% | 11.68% | 19.80% | 32.50% | 10.65% | 14.05% |
| Profit margin | 54.90% | 54.85% | 59.07% | 63.61% | 67.19% | 71.07% | 61.24% | 6.245% |
| Growth in G&A exp. | -2.72% | -5.17% | 5.41% | 5.40% | 25.61% | 25.21% | 8.96% | 13.44% |

The least favorable scenario

| | Growth in revenue | Profit margin | Growth in G&A exp | P/E |
|--------------------------|-------------------|---------------|-------------------|-------|
| Least favorable scenario | 10.65% | 61.24% | 8.96% | 14.06 |

We use 6-year average data to estimate Coach's future EPS since the average numbers are a lot less than numbers in recent two years. We believe these average numbers are

appropriate to be used for calculation of the least favorable scenario since they underestimate Coach's future profitability. Also, we use estimated low P/E ratio, which we calculated before, for terminal value's calculation. In addition, since we already knew the company's first two quarters actual EPS for 2004, and the company estimated reasonable EPS, 1.24, for year 2004, we will use this estimated EPS for every scenario.

| Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Terminal |
|-------------------------------------|--------|--------|--------|--------|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|
| | | | | | Estimates | Estimates | Estimates | Estimates | Estimates | Estimates | Estimates | Estimates | Value |
| EPS growth | | | | | 56.96% | -40.55% | 15.95% | 15.57% | 15.24% | 14.95% | 14.69% | 14.46% | 14% |
| EPS | 0.28 | 0.38 | 0.47 | 0.79 | 1.24 | 0.74 | 0.85 | 0.99 | 1.14 | 1.31 | 1.50 | 1.72 | 27.59 |
| | actual | actual | actual | actual | | | | | | | | | |
| Actuals | | | | | | | | | | | | | |
| EPS growth | 35.71% | 23.68% | 68.09% | | | | | | | | | | |
| PV Factor 12.371% using CAPM | | | | | | | | | | | | | |
| | | | | | 0.88991 | 0.7919 | 0.7048 | 0.6272 | 0.5581 | 0.4967 | 0.4420 | 0.3933 | 0.3933 |
| | | | | | 1.1035 | 0.5838 | 0.6023 | 0.6195 | 0.6353 | 0.6499 | 0.6634 | 0.6757 | 10.8536 |
| Total Present Value | | | | | \$ 16.39 | | | | | | | | |

| Terminal Value | |
|---------------------|-------|
| 11 EPS Est. Assumed | 1.963 |
| P/E end '11 Target | 14.06 |
| Price | 27.59 |

As shown above, the stock price should be \$16.39 under this scenario. We believe this is not likely to happen.

The most favorable scenario

| | Growth in revenue | Profit margin | Growth in G&A exp | P/E |
|----------------------|-------------------|---------------|-------------------|-------|
| Average | 10.65% | 61.24% | 8.96% | 31.71 |
| Average+/- 1 STD DEV | 24.69% | 67.48% | -4.48% | |

In this scenario, we use average numbers of profit margin and growth rate in revenue plus one standard deviation between 2005 and 2009, while we use average number of growth

rate minus one standard deviation for the same period of time. We think it's unpredictable after year 2009, so we use average numbers to estimate the rest years. For terminal value, we calculate it by using estimated high P/E ratio, 31.71.

| Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Terminal |
|----------------------------|---------|--------|--------|--------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|
| | | | | | Estimates | Estimates | Estimates | Estimates | Estimates | Estimates | Estimates | Estimates | Value |
| EPS growth | | | | | 56.96% | 33.75% | 56.30% | 44.03% | 37.53% | 33.62% | -4.27% | 7.53% | 7% |
| EPS | 0.28 | 0.38 | 0.47 | 0.79 | 1.24 | 1.66 | 2.59 | 3.73 | 5.14 | 6.86 | 6.57 | 7.06 | 239.82 |
| | actual | actual | actual | actual | | | | | | | | | |
| Actuals | | | | | | | | | | | | | |
| EPS growth | | 35.71% | 23.68% | 68.09% | | | | | | | | | |
| Estimates | | | | | | | | | | | | | |
| growth | | | | | | | | | | | | | |
| PV Factor | 12.371% | | | | 0.88991 | 0.7919 | 0.7048 | 0.6272 | 0.5581 | 0.4967 | 0.4420 | 0.3933 | 0.3933 |
| using CAPM | | | | | | | | | | | | | |
| | | | | | 1.1035 | 1.3135 | 1.8269 | 2.3417 | 2.8660 | 3.4080 | 2.9032 | 2.7781 | 94.3324 |
| Total Present Value | | | | | | | | | | | | | \$112.87 |

| Terminal Value | |
|----------------|--------|
| 11 EPS Est. | 7.563 |
| Assumed | |
| P/E end '11 | 31.71 |
| Target | |
| Price | 239.82 |

As the spreadsheet calculated above, the stock price should be \$112.87 under this scenario. We think this is also unlikely to happen.

The most likely scenario

In order to get our price target, we projected Coach's future income statements (see following chart) to derive future estimated EPS.

| Income Statement | | | | | | | | | | |
|----------------------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| FISCAL YEAR | 2003A | 2004E | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E |
| NET SALES | 953,226 | 1,188,577 | 1,482,037 | 1,847,952 | 2,304,212 | 2,225,869 | 2,462,924 | 2,725,225 | 3,015,461 | 3,336,608 |
| % CHANGE | 32.50% | 24.69% | 24.69% | 24.69% | 24.69% | -3.40% | 10.65% | 10.65% | 10.65% | 10.65% |
| COST OF GOODS SOLD | 275,797 | 310,089 | 348,644 | 391,993 | 440,732 | 495,531 | 557,144 | 626,417 | 704,304 | 791,874 |
| % CHANGE | 16.84% | 12.43% | 12.43% | 12.43% | 12.43% | 12.43% | 12.43% | 12.43% | 12.43% | 12.43% |
| PROFIT MARGIN | 71.07% | 73.91% | 76.48% | 78.79% | 80.87% | 77.74% | 77.38% | 77.01% | 76.64% | 76.27% |
| GROSS PROFIT | 677,429 | 878,489 | 1,133,393 | 1,455,959 | 1,863,480 | 1,730,337 | 1,905,780 | 2,098,808 | 2,311,158 | 2,544,734 |
| GEN & ADMIN EXP | 433,667 | 487,659 | 531,353 | 578,962 | 630,837 | 687,360 | 656,566 | 627,152 | 599,056 | 572,218 |
| % CHANGE | 25.21% | 12.45% | 8.96% | 8.96% | 8.96% | 8.96% | -4.48% | -4.48% | -4.48% | -4.48% |
| INC BEF DEP & AMORT | 243,762 | 390,830 | 602,041 | 876,997 | 1,232,643 | 1,042,977 | 1,249,213 | 1,471,656 | 1,712,102 | 1,972,516 |
| Reorganization Costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Income | 243,762 | 390,830 | 602,041 | 876,997 | 1,232,643 | 1,042,977 | 1,249,213 | 1,471,656 | 1,712,102 | 1,972,516 |
| NON-OPERATING INC | 1,754 | 451 | 451 | 451 | 451 | 451 | 451 | 451 | 451 | 451 |
| INTEREST EXPENSE | 695 | 888 | 888 | 888 | 888 | 888 | 888 | 888 | 888 | 888 |
| INCOME BEFORE TAX | 244,821 | 390,394 | 601,604 | 876,561 | 1,232,206 | 1,042,541 | 1,248,777 | 1,471,219 | 1,712,102 | 1,972,516 |
| PROV FOR INC TAXES | 90,585 | 136,638 | 210,561 | 306,796 | 431,272 | 364,889 | 437,072 | 514,927 | 599,236 | 690,381 |
| MINORITY INT (INC) | 7,608 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NET INCOME | 146,628 | 253,756 | 391,043 | 569,764 | 800,934 | 677,652 | 811,705 | 956,292 | 1,112,866 | 1,282,135 |
| Diluted Outstanding Shares | 185,842 | 204,668 | 225,401 | 248,234 | 273,380 | 301,073 | 331,572 | 365,160 | 402,151 | 442,889 |
| Diluted EPS | \$ 0.79 | \$ 1.24 | \$ 1.73 | \$ 2.30 | \$ 2.93 | \$ 2.25 | \$ 2.45 | \$ 2.62 | \$ 2.77 | \$ 2.89 |

We then use Earnings Discount Model to obtain our price target. As we calculated in spreadsheet below by using our projection, the stock price of Coach should be traded at \$46.70. Coach was traded recently around 40. Therefore, we believe the stock price is undervalued currently based on our model.

| Year | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Terminal |
|----------------------------|---------|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|
| | | Estimates | Estimates | Estimates | Estimates | Estimates | Estimates | Estimates | Estimates | Value |
| EPS growth | | 56.96% | 39.52% | 32.95% | 27.39% | -23.21% | 8.89% | 6.94% | 5.73% | 4.33% |
| EPS | | 1.24 | 1.73 | 2.30 | 2.93 | 2.25 | 2.45 | 2.62 | 2.77 | 2.89 |
| Actuals | | | | | | | | | | |
| EPS growth | | | | | | | | | | |
| PV Factor | 12.371% | 0.88991 | 0.7919 | 0.7048 | 0.6272 | 0.5581 | 0.4967 | 0.4420 | 0.3933 | 0.3933 |
| using CAPM | | | | | | | | | | |
| | | 1.1035 | 1.3701 | 1.6209 | 1.8376 | 1.2558 | 1.2169 | 1.1581 | 1.0896 | 36.0471 |
| Total Present Value | | \$ 46.70 | | | | | | | | |

| | |
|-----------------------|-------|
| Terminal value | |
| 11 EPS Est. | 2.890 |
| Assumed | |
| P/E end '11 | 31.71 |
| Target | |
| Price | 91.64 |

VI. Comparisons with Competitors

With in Coach's industry there is some tough competition. Coach operates and thrives in the Consumers Products Manufacturers Apparel and Accessories. With in this industry Coach has some competitors that they need to keep a watch on. Three of these competitors are Gucci, Wilsons Leather, and Louis Vuitton.

Gucci Group

Gucci Group is an Italian company, with headquarters in the Netherlands that sell French Fashion designed by Texas-born creative director, Tom Ford. Gucci Group offers consumers a line of products that include handbags and other leather goods, shoes, ready-to-wear clothing, ties, and watches. Approximately 30% of their sales are attributable to handbags and other leather goods. Currently, Gucci has about 200 company-owned and franchised stores worldwide. A few of these worldwide stores are located in Asia,

specifically Japan. Gucci does rather well with its Japanese and other Asian locations. Their Asian locations contribute approximately one third of Gucci's sales.

Currently French conglomerate retailer, Pinault- Printemps- Redoute (PPR), owns 68% of Gucci's stock. At one point Gucci had plans of expanding through acquisitions, which they accomplished. After these acquisitions Gucci had 55 new store projects going, and its capital expenditure soared to \$350 million. They opened 47 new stores for the loss-making Yves St Laurent, which now has 59 worldwide. Their shopping spree cost some \$2.5 billion in total. To finance their shopping spree, Gucci exchanged shares of their company stock for cash to PPR. This arrangement allowed PPR to gain a majority stake in Gucci, while at the same time thwarting LVMH (Moet Hennessey Louis Vuitton) from taking the opportunity.

Gucci and Coach share the industry in which they both operate. But not only that, they also share the same primary focus of accessories. Their accessories line offer similar products, both companies focus on handbags and leather goods as well as scarves, men's accessories, footwear, and watches. Coach is not only facing some tough competition at home. Gucci also operates stores in Japan, a market in which Coach is now thriving. With the many similarities between Coach and Gucci, Coach must continue to watch its competitors in order to stay on top of the Consumers Products Manufacturers Apparel and Accessories game.

Wilson's the Leather Experts Inc

Wilson's is the leading leather retailer in the US, selling men's and women's outerwear, apparel, and accessories. Wilson's operates and maintains its leading leather retailer title in the Retail Apparel and Accessories industry. Wilson's accomplishes this with the help of three other brand name line merchandise, M. Julian, Maxima, and Pelle Studio.

Currently, Wilson's operates about 620 stores in the US and Canada, with about 480 mall locations, 110 outlets, and 25 airport shops. During the holiday season, the company operates about 285 temporary stores and kiosks. However this is soon to change. Forthcoming this year, 2004, Wilson's has plans to close some 100 stores and eliminate up to 1,000 jobs. In the mean time Wilson's plans to return to focusing on its leather goods segment of business.

While Wilson's may not operate in the same industry as Coach, they are definitely close enough to be worthwhile to watch. Wilson's offers a product line that is similar to Coach and Gucci, however they lack some of the high-end brand image that is associated with both Coach and Gucci. Wilson's currently offers outerwear, gloves, handbags, leather goods and accessories, as does Coach.

Watch the Competition!!

Wilsons Leather Makes Headlines

As Coach is growing strong and expanding with many opportunities to seize on the horizon, some of their competitors are not performing as well. One of their top three competitors is facing some serious situations that are holding them back.

Wilsons Leather, like Coach, has recently made headlines. Unfortunately for them, the headlines have not been positive. Wilsons Leather is the leading specialty retailer of leather outerwear, accessories, and apparel in the United States. As of January 31, 2004, they operated 460 stores located in forty-five states and the District of Columbia.

With 460 stores, Wilsons Leather has not been performing up to shareholders expectations. Sales were reported to have fallen .8 percent as of February 5, 2004. These falling sales included approximately 3.3 million in liquidation sales resulting from the transfer of inventory to an independent liquidator. This decrease in sales sent shares down as much as 28 percent. Earlier this month, Wilsons' shares hit a record low at \$2.14, a level not seen in at least seven years.

What happened that sent Wilsons spiraling downwards. Analysts say they aimed for a high price point that just did not appeal to their market. Now Wilsons has to come up with a strategy to reverse their downward spiral and push them forward. To do this they are planning on closing at least 100 stores and cutting about 1,000 jobs. Chief Executive Joel Waller of Wilsons Leather feels that the "cost reduction initiative will enable Wilsons to reduce our working capital needs and strengthen our business. Concurrently, we are continuing to focus our efforts on analyzing and improving our merchandise

performance and establishing an appropriate financial structure.” But nonetheless, while Wilsons shrinks, Coach grows.

Louis Vuitton

The Louis Vuitton brand operates under the title Moët Hennessy Louis Vuitton (LVMH). They are the world's largest luxury goods company, with brands that are intended to reach a high-end consumer market. LVMH makes wines and spirits (Dom Pérignon, Moët & Chandon, Veuve Clicquot, Hennessy, and Hine), perfumes (Christian Dior, Guerlain, and Givenchy), cosmetics (Bliss, Fresh, and BeneFit), fashion and leather goods (Christian Lacroix, Donna Karan, Givenchy, Kenzo, and Louis Vuitton), and watches and jewelry (TAG Heuer, Ebel, Chaumet, and Fred). LVMH's retail division includes Sephora cosmetics stores, Le Bon Marché Paris department stores, and 61% of DFS Group (duty-free shops). LVMH has more than 1,500 retail outlets, including 280-plus Vuitton stores that sell the high end Louis Vuitton handbags and accessories.

LVMH operates, primarily, in the Consumers Products Manufacturers Apparel Industry. However some of its brands and products reach into the Retail Apparel and Accessories Industry. They began in 1854 offering luggage to their customers. By 1896 Louis Vuitton had already introduced its infamous LV monogram fabric. This design that was created in 1896 is still in use today. It is unmistakably a Louis Vuitton trademark. Currently, Chairman Bernard Arnault and his family own 48% of LVMH.

Over the years LVMH has been acquiring many different brand name products that have allowed LVMH to diversify its wide product line. Intensifying the already tough competition with in the apparel and accessories industry, LVMH had set its sights on competitor Gucci Group. Interestingly, LVMH was able to accumulate a 34% stake in the Italian luxury goods maker Gucci in early 1999 with plans to buy all of it. However this buyout attempt was thwarted by a French conglomerate Pinault-Printemps-Redoute (PPR) when they purchased 42% of Gucci.

LVMH has also set its sights on Fendi. Through its LV Capital unit, in 1999 LVMH began a joint venture with fashion company Prada to buy 51% of design house Fendi. This arrangement was completed. Then in November 2001, LVMH bought Prada's 25.5% stake for \$265 million. This allowed LVMH to take control of the entire 51% stake in Fendi. They have since upped their Fendi stake to about 70%.

With LVMH on the loose buying up designer brand name lines, Coach needs to beware. Coach operates with in the same industry as Louis Vuitton and also sells many similar products. These products include handbags and scarves, as well as other products under the other LVMH brand names. One major difference is that while Louis Vuitton has had its LV print in existence for some 146 years, Coach has only recently developed their Signature Line with C print fabric. With the introduction of a consistent image for their products Coach may be on their way to developing the brand awareness that Louis Vuitton has already created for themselves.

This season, the advertising campaign will replace Jennifer Lopez with the more traditional method of using models. Marc Jacobs, artistic director of Louis Vuitton, claims that the star of the campaign is the products themselves. Jacobs says that the designs this year are focused on Cleopatra-esque styles and the stores will feature rich turquoises, golds, bronze sandals and brocaded hand bags. He said there is not truth to the rumors that Jennifer Lopez was replaced because her and her entourage helped themselves to every item in the studio. "We gave those clothes to her? Who wouldn't want Jennifer Lopez running around in their clothes?" exclaimed Jacobs to her defense

Watch the Competition!!

Louis Vuitton Makes Headlines

As Coach expands and hopefully increases its New York market share, Louis Vuitton is close behind. Coach has recently opened a new location in Time Warner Center, but they are not the only ones who are interested in locations that promise to increase their New York market share. Louis Vuitton has recently opened its biggest store, a four-story emporium, on New York's Fifth Avenue in February 2004 on a premise that was acquired from Time Warner. After some 40 billion dollars of renovations the premises is finely up to par for Louis Vuitton products and is open for business as of February 16, 2004.

Similar to Coach, Louis Vuitton is seeking to increase their American presence. To accomplish this Vuitton has been using advertising and own- brand boutiques. These efforts seem to be working well for the company. The latest studies show that 90% of

Vuitton's US sales are attributable to purchases made by local customers. Historically, Vuitton's US sales were driven by tourists.

While more US locals are buying Louis Vuitton products, this only accounts for 18% of their three billion Euro sales. This 18% is after a 38% increase in the fourth quarter of 2003. Louis Vuitton has high hopes of increasing this percent further. Hopefully their new store will help. Louis Vuitton expects that their 40 billion dollar investment should start paying off in approximately eight months. They expect a return of at least one billion dollars in the medium term.

Louis Vuitton and Coach are now both competing with in the same city. Both are strong companies with strong brand awareness. Coach must maintain its uniqueness and continue to increase its strengths, while keeping a close watch on its competition in order to stay in and move forward from its current market position.

VII. Important Recent Developments

January 19, 2004:

Coach plans on opening three more stores in Marunouchi, Chiyoda Ward, and Tokyo this spring. Coach has experienced sustained momentum in Japan through their second quarter, which ended on December 27.

Also this spring Coach intends to broaden the firm's customer base. To do so they are planning to launch a new line of bright flowerlike color products just in time for spring.

November 16, 2003:

Since the early 1990's the wardrobes of many were moving toward casual. A very popular attribute to clothing that fits this casual wardrobe is fur-trimmed pieces. So recently this fall Coach has taken note and created some fur trimmed and accented pieces. Such pieces include little mink pompom key fobs as well as a hobo handbag with rabbit fur trim and nylon fabric.

December 19, 2003:

New York City is making an effort to crack down on vendors selling counterfeit merchandise. Good news for Coach, whose high-end designer bags have gained a reputation based on their durability and high quality has become a part of the counterfeit portfolio. Some consumers who are purchasing these counterfeit bags may not even know it. This takes away from the sales of Coach, at the very least until the consumer realizes it's fake and again desires a real Coach bag. This may also be an issue for Coach's reputation. If Coach does not educate their consumers on how to detect a fake bag, many unknowing consumers who have fake bags may mistake them for originals. And when these originals fall apart the consumer may attribute it to Coach's poor quality, which simply is not true. But if rumors begin to spread across uneducated consumers and more than one person has the same experience Coach may have a difficult time regaining

consumer trust. Mayor Bloomberg says, “(counterfeiting) hurts legitimate businesses whose original products are ripped off, and floods are streets with phony merchandise.”

The crack down is not just in New York. A woman in Florida was recently (Dec 18, 2003) arrested for selling fake handbags, which she says she obtained in NY. US Customs has seized \$99 million worth of counterfeit merchandise including fake handbags in 2002. Of this 99 million knockoff handbags made up about 3 percent of the total items seized coming to a grand total of 2.9 million.

September 29, 2003:

As of September Coach has decided to take a somewhat cautious approach into a new line of business. That new line is a shift towards making clothing. To help ease their transition into the new line coach has retained Reed Krakoff for no less than five years. He is currently acting as Coach’s executive creative director. Coach currently sells apparel in select stores.

VIII. News Items

January 21, 2004:

Coach recently released that its profit increased fifty- three percent in the latest quarter. They attributed this increase to an increase of sales in its luxury handbags and accessories.

They also reported net income of \$95.4 million, which translates to 50 cents a share, for the fiscal 2004 second quarter that ended December 27. This is a significant increase compared to last year's net income of 62.4 million, or 34 cents a share. Better yet average earnings for Coach are forecasted to be 49 cents per share by analysts surveyed by Thompson First Call.

Net Sales on a whole have increased by 33 percent. Direct to Consumer sales which is mainly comprised of US Coach stores have also increased 24 percent from the prior year. This percent increase is better than comparable stores. These comparable stores include stores that are open for at least a year with in the industry. The increase in sales for these stores was 13.7 percent. Direct to consumer sales at Coach also increased more than sales at retail stores and factory stores, which rose 16.4 and 9.4 respectively.

Indirect sales attributed to sales made by Coach Japan, business to business, international wholesale and US department stores also rose by 49 percent.

Given their past performance, Coach expects to post fiscal 2004 earnings at \$1.20 a share on sales of more than 1.26 billion.

New Arrival to Time Warner Center

Just this month (Feb 4, 2004) Coach has opened a new 5200 square foot store located within the Shops at Columbus Circle. Eventually, if it does not already, this strategic location will add to Coach's competitive advantages. The reason this location is so important to Coach is that Coach wants to expand its market share in New York City. Being located with in the shops at Columbus Circle help them to do so.

It is also predicted that this shopping development will eventually become one of the world's top shopping, dining, and entertainment destinations. This is important for Coach because they have now secured their place in this promising development.

This location also maintains Coach's upscale image. It is a two- story establishment located on the West Side. The store is designed to reflect the style and openness that Coach promotes. In this aspect this new flagship store is similar to Coach's existing New York locations.

The storefront has been designed in such a way that it will portray Coach's 'modern classic' products that are sold inside. To accomplish this, the storefront exists of satin stainless steel and white enameled panels. In accordance with the same theme, the interior is dressed in ebonized mahogany and white lacquer with custom polished terrazzo flowers.

This flagship store is also designed to carry a full line of Coach products, anything from handbags, women's and men's small leather goods, business cases, weekend and travel accessories, footwear, watches, outerwear, jewelry, sun wear, and other related accessories.

If expectations for the Time Warner Center prove to be true, this decision to open a new flagship store here will definitely be beneficial to Coach in many ways. Sales will be boosted as a result of heavy traffic to and through the center. Exposure and brand recognition may also be increased due to the excellent location with heavy consumer traffic. These are only a few benefits that may be realized by getting into this location now before a competitor takes this opportunity.

IX. Correlation with Stock Portfolio

| | Coach |
|---------------------------|--------|
| Kohl's Corporation | 0.4018 |
| Citigroup | 0.3724 |
| Wal-Mart | 0.3166 |
| Dell | 0.2863 |
| Ebay | 0.2407 |
| Pepsi | 0.1884 |
| Forest Laboratories, Inc. | 0.1769 |
| General Dynamics Corp. | 0.0875 |
| Harley-Davidson, Inc. | 0.0619 |

The correlation coefficients were calculated by obtaining the daily returns of Coach and other stocks in our portfolio from November 9th, 2000 to February 4th, 2004. Kohl's Corporation is the highest correlated with Coach among those securities in our portfolio. As the chart shown above, Coach doesn't have high correlation coefficient with those eight stocks we already have. Therefore, diversification benefit will be added into our portfolio, if we buy coach.

X. Conclusion

Coach is a leading designer of modern accessories such as handbags, business cases, luggage, outerwear and gloves as well as shoes, jewelry and watched made by licensing

partners. Coach offers quality for both classic and trendy customers. Coach continues to bring new products and style to the market, renovate its store base and to enter into new markets. The earnings growth due to a significant rise in sales, expanding gross profit margins and operating expense leverage are a few of the reasons that we are placing a “Buy” rating on Coach at \$38.

Although Coach has had substantial growth in the past year, we believe it is well positioned with an outstanding product in the affordable luxury sector of the market. When making comparisons to competitors, it was difficult to find a company with a similar product as Coach because of its distinction in the market place. As a result, we feel there is still room for growth and 400 hundred shares will be a great addition to our existing portfolio.

WORK CITED

Alva, Marilyn. "New Clothing Items Suit Retailer Just Fine" Investor's Business Daily, Section The New America, PG A05, Sept 29, 2003.

Byron, Ellen. "Media & Marketing – Advertising Report: This Coach Star Know Success is in the Bag." Wall Street Journal. pg.B3A. February 4, 2004.

Callaway, Libby. "Pursuing a Purse" The New York Post. All Editions pg 032. Sept 8, 2003.

Chandrasekaran, Anupama. "Wilson's January sales fall, shares tumble" Reuters. Feb 5, 2004

Coach Annual Report (2002-2003). "Coach Annual Report". [Online]. www.coach.com. Accessed January 30, 2004.

Coach Form 10K (2000-2003). "Coach 10K" [Online]. www.coach.com Accessed January 30, 2004.

Coach Form 10Q Q2 (2004). "Coach 10Q" [Online]. www.coach.com Accessed January 30, 2004.

"Coach Japan Bagging New Customers" The Daily Yomiuri. The Yomiuri Shimbun PG 8, January 19, 2004

Derpinghaus, Thomas. "Wilson's Leather Announces Aggressive Cost Reduction Initiative." Dow Jones Newswires, January 22, 2004.

Freeman, Hadley "G2: Style: Bye, bye J-Lo, hello Naomi" The Guardian pg. 10 January 9, 2004.

Hoovers Online, <http://www.hoovers.com/>- Accessed 2/2/04

Interview with Kevin Rex, senior financial counselor. Forbes on Fox recap. Saturday, Jan. 18 [Online]. www.foxnews.com Accessed February 17, 2004.

Jones, Lamont. "Warm and Fuzzy" The Pittsburgh Post Gazette. Lifestyle pg G9, November 16, 2003

Lofton, LouAnn. "Coach's Success Story" The Motley Fool. [Online]. June 12, 2003
www.fool.com Accessed February 17, 2004.

MSN Money, [Online].<http://moneycentral.msn.com/> Accessed February 10, 2004.

Much, Marilyn. "Coach Inc. CEO Lew Frankfort; Trial and Error: Mistakes helped put his company at the top of the handbag heap." Investor's Business Daily [Online].
www.investors.com. Accessed February 2, 2004

Murphy, Tara. "Coach Climbs The Ladder" Forbes. [Online]. 12/20/2001
www.forbes.com Accessed February 17, 2004.

Press Releases [Online]. www.coach.com Accessed February 17, 2004.

"Roaring Japan Unit Helps Handbag Maker Coach post 33 Percent Sales Rise" Kyodo News International, Tokyo Jan 22, 2004.

Sharp Charts, <http://stockcharts.com/> Accessed 02/02/04.

Standard and Poors – Coach Inc (2004)."Coach Company Profile". [Online].
<http://www.standardandpoors.com>. Accessed February 2, 2004.

Thomson Research – Coach Inc (2004)."Coach Inc Company Profile". [Online].
<http://research.thomsonib.com/>. Accessed February 2, 2004.

Yahoo! Finance, [Online]. <http://finance.yahoo.com/> Accessed January 30, 2004

APPENDIX

I- Common-Size Statements

COACH INC

Common-Size Consolidated Balance Sheet

ANNUAL ASSETS (000s)

| FISCAL YEAR ENDING | 6/28/2003 | 6/29/2002 | 6/30/2001 | 7/1/2000 | 7/3/1999 | 6/27/1998 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| CASH | 37.10% | 21.33% | 1.43% | 0.05% | 0.05% | 0.07% |
| MRKTABLE SECURITIES | NA | NA | NA | NA | NA | NA |
| RECEIVABLES | 5.74% | 7.02% | 7.97% | 5.25% | 4.19% | 5.10% |
| INVENTORIES | 23.28% | 30.96% | 40.65% | 34.42% | 35.94% | 51.38% |
| RAW MATERIALS | NA | NA | NA | NA | 5.98% | 8.92% |
| WORK IN PROGRESS | NA | NA | NA | NA | 0.86% | 1.92% |
| FINISHED GOODS | NA | NA | NA | NA | 29.10% | 40.54% |
| NOTES RECEIVABLE | NA | NA | NA | NA | NA | NA |
| OTHER CURRENT ASSETS | 6.49% | 5.97% | 8.54% | 5.35% | 4.70% | 6.50% |
| TOTAL CURRENT ASSETS | 72.62% | 65.28% | 58.59% | 45.07% | 44.89% | 63.04% |
| PROP, PLANT & EQUIP | 19.19% | 20.56% | 27.98% | 21.97% | 64.37% | 68.32% |
| ACCUMULATED DEP | NA | NA | NA | NA | 42.69% | 39.45% |
| NET PROP & EQUIP | 19.19% | 20.56% | 27.98% | 21.97% | 21.68% | 28.87% |
| INVEST & ADV TO SUBS | NA | NA | NA | NA | NA | NA |
| OTHER NON-CUR ASSETS | NA | NA | NA | 21.50% | 19.20% | -4.30% |
| DEFERRED CHARGES | 1.48% | 5.68% | 7.37% | 6.13% | 8.28% | 5.32% |
| INTANGIBLES | 3.63% | 5.08% | 5.53% | 5.33% | 5.95% | 7.07% |
| DEPOSITS & OTH ASSET | 3.09% | 3.40% | 0.53% | NA | NA | NA |
| TOTAL ASSETS | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

ANNUAL LIABILITIES (000S)

| FISCAL YEAR ENDING | 6/28/2003 | 6/29/2002 | 6/30/2001 | 7/1/2000 | 7/3/1999 | 6/27/1998 |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| NOTES PAYABLE | 4.29% | 7.76% | 2.98% | NA | 1.43% | 2.34% |
| ACCOUNTS PAYABLE | 4.31% | 5.86% | 5.53% | 2.65% | 3.59% | 4.67% |
| CUR LONG TERM DEBT | 0.01% | 0.02% | 0.02% | 0.01% | 0.01% | 0.01% |
| CUR PORT CAP LEASES | NA | NA | NA | NA | NA | NA |
| ACCRUED EXPENSES | 17.53% | 22.55% | 31.85% | 24.17% | 16.88% | 13.81% |
| INCOME TAXES | NA | NA | NA | NA | 2.02% | 1.49% |
| OTHER CURRENT LIAB | NA | NA | NA | NA | 2.64% | 3.65% |
| TOTAL CURRENT LIAB | 26.14% | 36.19% | 40.37% | 26.83% | 26.56% | 25.97% |

| | | | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| MORTGAGES | NA | NA | NA | NA | NA | NA |
| DEFERRED CHARGES/INC | NA | NA | NA | NA | NA | NA |
| CONVERTIBLE DEBT | NA | NA | NA | NA | NA | NA |
| LONG TERM DEBT | 0.57% | 0.82% | 1.43% | 1.26% | 1.34% | 1.48% |
| NON-CUR CAP LEASES | NA | NA | NA | NA | NA | NA |
| OTHER LONG TERM LIAB | 0.58% | 0.60% | 0.87% | 0.17% | 0.08% | 0.05% |
| TOTAL LIABILITIES | 27.29% | 37.60% | 42.67% | 28.26% | 27.98% | 27.49% |
| MINORITY INT (LIAB) | 3.59% | 3.30% | NA | NA | NA | NA |
| PREFERRED STOCK | NA | NA | NA | NA | NA | NA |
| COMMON STOCK NET | 0.15% | 0.20% | 0.34% | 0.12% | NA | NA |
| CAPITAL SURPLUS | 34.87% | 35.27% | 48.42% | NA | NA | NA |
| RETAINED EARNINGS | 35.23% | 23.95% | 8.75% | 71.72% | NA | NA |
| TREASURY STOCK | NA | NA | NA | NA | NA | NA |
| OTHER EQUITIES | -1.13% | -0.33% | -0.19% | -0.10% | 72.02% | 72.51% |
| SHAREHOLDER EQUITY | 0.69 | 0.59 | 0.57 | 0.72 | 0.72 | 0.73 |
| TOT LIAB & NET WORTH | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |

COACH INC

Common-Size Income Statement

| FISCAL YEAR ENDING | 6/28/2003 | 6/29/2002 | 6/30/2001 | 7/1/2000 | 7/3/1999 | 6/27/1998 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| NET SALES | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| COST OF GOODS | 28.93% | 32.81% | 36.39% | 40.93% | 45.15% | 45.10% |
| GROSS PROFIT | 71.07% | 67.19% | 63.61% | 59.07% | 54.85% | 54.90% |
| R & D EXPENDITURES | NA | NA | NA | NA | NA | NA |
| SELL GEN & ADMIN EXP | 45.49% | 48.14% | 45.92% | 48.65% | 49.54% | 50.11% |
| INC BEF DEP & AMORT | 25.57% | 19.04% | 17.70% | 10.42% | 5.31% | 4.79% |
| Reorganization Costs | 0.00% | 0.47% | 0.76% | 0.00% | 1.42% | 0.00% |
| Operating Income | 25.57% | 18.58% | 16.93% | 10.42% | 3.89% | 4.79% |
| DEPRECIATION & AMORT | NA | NA | NA | NA | NA | NA |
| NON-OPERATING INC | 0.18% | 0.11% | 0.05% | 0.01% | 0.00% | 0.06% |
| INTEREST EXPENSE | 0.07% | 0.16% | 0.43% | 0.08% | 0.08% | 0.10% |
| INCOME BEFORE TAX | 25.68% | 18.53% | 16.56% | 10.35% | 3.81% | 4.76% |
| PROV FOR INC TAXES | 9.50% | 6.58% | 5.90% | 3.17% | 0.47% | 0.80% |
| MINORITY INT (INC) | 0.80% | 0.03% | NA | NA | NA | NA |
| INVEST GAINS/LOSSES | NA | NA | NA | NA | NA | NA |
| OTHER INCOME | NA | NA | NA | NA | NA | NA |
| NET INC BEF EX ITEMS | 15.38% | 11.93% | 10.66% | 7.18% | 3.34% | 3.96% |
| EX ITEMS & DISC OPS | NA | NA | NA | NA | NA | NA |
| NET INCOME | 15.38% | 11.93% | 10.66% | 7.18% | 3.34% | 3.96% |

COACH INC
Common-Size Statement of Cash
Flows

CASH FLOW PROVIDED BY
OPERATING ACTIVITY (000s)

| Fiscal Year Ending | 6/28/2003 | 6/29/2002 | 6/30/2001 | 7/1/2000 | 7/3/1999 | 6/27/1998 |
|-------------------------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|
| Net Income (Loss) | 39.74% | 39.84% | 25.42% | 64.82% | 34.19% | 43.28% |
| Depreciation/Amortization | 8.19% | 11.83% | 9.58% | 37.99% | 45.53% | 47.73% |
| Net Incr (Decr) Assets/Liabs | -3.29% | -8.00% | 12.06% | 42.67% | 95.60% | -55.88% |
| Cash Prov (Used) by Disc Oper | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other Adjustments, Net | 15.43% | 6.43% | 2.30% | -2.83% | 20.36% | 0.85% |
| Net Cash Prov (Used) by Oper | 60.06% | 50.10% | 49.36% | 142.64% | 195.68% | 35.98% |

CASH FLOW PROVIDED BY
INVESTING ACTIVITY (000s)

| Fiscal Year Ending | 6/28/2003 | 6/29/2002 | 6/30/2001 | 7/1/2000 | 7/3/1999 | 6/27/1998 |
|------------------------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|
| (Incr) Decr in Prop, Plant | -15.47% | -19.11% | -12.33% | -39.23% | -22.24% | -31.79% |
| (Acq) Disp of Subs, Business | 0.00% | -6.87% | 0.00% | 0.00% | -1.83% | 0.00% |
| (Incr) Decr in Securities Inv | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other Cash Inflow (Outflow) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 1.76% |
| Net Cash Prov (Used) by Inv | -15.47% | -25.98% | -12.33% | -39.23% | -24.07% | -30.03% |

CASH FLOW PROVIDED BY
FINANCING ACTIVITY (000s)

| Fiscal Year Ending | 6/28/2003 | 6/29/2002 | 6/30/2001 | 7/1/2000 | 7/3/1999 | 6/27/1998 |
|------------------------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|
| Issue (Purchase) of Equity | -5.84% | 5.08% | 49.24% | -49.48% | 0.00% | 0.00% |
| Issue (Repayment) of Debt | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Incr (Decr) In Borrowing | -2.11% | 6.03% | -84.86% | -53.91% | -171.67% | -14.10% |
| Dividends, Other Distribution | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 2.29% |
| Other Cash Inflow (Outflow) | 0.00% | 6.67% | 0.00% | 0.00% | 0.00% | 5.84% |
| Net Cash Prov (Used) by Finan | -7.95% | 17.78% | -35.62% | -103.39% | -171.67% | -5.97% |
| Effect of Exchg Rate On Cash | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.01% |
| Net Change in Cash or Equiv | 36.64% | 41.90% | 1.40% | 0.02% | -0.07% | -0.01% |
| | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Cash or Equiv at Year Start | 25.46% | 1.71% | 0.06% | 0.25% | 0.37% | 0.39% |
| Cash or Equiv at Year End | 62.11% | 43.61% | 1.47% | 0.27% | 0.30% | 0.38% |

Common Size CF Based on Inflows **368,993** **215,455** **251,904** **59,557** **48,887** **47,739**

