

Michael Kors Holdings Ltd
Form 10-Q
August 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 27, 2015

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-35368

Michael Kors Holdings Limited
(Exact Name of Registrant as Specified in Its Charter)

British Virgin Islands
(State or other jurisdiction of
incorporation or organization)

33 Kingsway
London, United Kingdom
WC2B 6UF

(Address of Principal Executive Offices)

N/A
(I.R.S. Employer
Identification No.)

(Registrant's telephone number, including area code: 44 207 632 8600)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on which Registered |
|--|--|
| Ordinary Shares, no par value | New York Stock Exchange |
| Securities registered or to be registered pursuant to Section 12(g) of the Act: | |
| None | |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|--|--|
| Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). " Yes ☐ No ☒

As of July 30, 2015, Michael Kors Holdings Limited had 193,421,983 ordinary shares outstanding.

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Table of Contents**MICHAEL KORS HOLDINGS LIMITED AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)****(Unaudited)**

| | June 27, 2015 | March 28, 2015 |
|---|------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 808,540 | \$ 978,922 |
| Receivables, net | 252,502 | 363,419 |
| Inventories | 606,450 | 519,908 |
| Deferred tax assets | 28,214 | 27,739 |
| Prepaid expenses and other current assets | 118,145 | 127,443 |
| Total current assets | 1,813,851 | 2,017,431 |
| Property and equipment, net | 624,194 | 562,934 |
| Intangible assets, net | 68,899 | 61,541 |
| Goodwill | 14,005 | 14,005 |
| Deferred tax assets | 4,627 | 2,484 |
| Other assets | 31,092 | 33,498 |
| Total assets | \$ 2,556,668 | \$ 2,691,893 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 172,123 | \$ 142,818 |
| Accrued payroll and payroll related expenses | 38,706 | 62,869 |
| Accrued income taxes | 29,679 | 25,507 |
| Deferred tax liabilities | 3,585 | 3,741 |
| Accrued expenses and other current liabilities | 94,907 | 95,146 |
| Total current liabilities | 339,000 | 330,081 |
| Deferred rent | 94,843 | 88,320 |
| Deferred tax liabilities | 13,769 | 10,490 |
| Other long-term liabilities | 19,867 | 22,037 |
| Total liabilities | 467,479 | 450,928 |
| Commitments and contingencies | | |
| Shareholders' equity | | |
| Ordinary shares, no par value; 650,000,000 shares authorized; 207,184,790 shares issued and 193,372,032 outstanding at June 27, 2015; 206,486,699 shares issued and | | |

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| | | |
|--|--------------|--------------|
| 199,656,833 outstanding at March 28, 2015 | | |
| Treasury shares, at cost (13,812,758 shares at June 27, 2015 and 6,829,866 shares at March 28, 2015) | (848,819) | (497,724) |
| Additional paid-in capital | 662,516 | 636,732 |
| Accumulated other comprehensive loss | (67,624) | (66,804) |
| Retained earnings | 2,343,116 | 2,168,761 |
| Total shareholders' equity | 2,089,189 | 2,240,965 |
| Total liabilities and shareholders' equity | \$ 2,556,668 | \$ 2,691,893 |

See accompanying notes to consolidated financial statements.

Table of Contents**MICHAEL KORS HOLDINGS LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(In thousands, except share and per share data)****(Unaudited)**

| | Three Months Ended | |
|---|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Net sales | \$ 947,259 | \$ 887,037 |
| Licensing revenue | 38,716 | 32,117 |
| Total revenue | 985,975 | 919,154 |
| Cost of goods sold | 382,340 | 347,521 |
| Gross profit | 603,635 | 571,633 |
| Selling, general and administrative expenses | 313,459 | 265,864 |
| Depreciation and amortization | 41,553 | 28,998 |
| Total operating expenses | 355,012 | 294,862 |
| Income from operations | 248,623 | 276,771 |
| Other expense (income), net | 825 | (343) |
| Interest expense (income), net | 109 | (41) |
| Foreign currency losses | 677 | 1,153 |
| Income before provision for income taxes | 247,012 | 276,002 |
| Provision for income taxes | 72,657 | 88,286 |
| Net income | \$ 174,355 | \$ 187,716 |
| Weighted average ordinary shares outstanding: | | |
| Basic | 196,977,021 | 203,749,572 |
| Diluted | 200,054,494 | 207,176,243 |
| Net income per ordinary share: | | |
| Basic | \$ 0.89 | \$ 0.92 |
| Diluted | \$ 0.87 | \$ 0.91 |
| Statements of Comprehensive Income: | | |
| Net income | \$ 174,355 | \$ 187,716 |
| Foreign currency translation adjustments | 9,814 | 3,067 |
| Net gains (losses) on derivatives | (10,634) | 1,464 |

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| | | | | |
|----------------------|----|---------|----|---------|
| Comprehensive income | \$ | 173,535 | \$ | 192,247 |
|----------------------|----|---------|----|---------|

See accompanying notes to consolidated financial statements.

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MICHAEL KORS HOLDINGS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

| | Ordinary Shares | Additional Paid-in Capital | Treasury Shares | Accumulated Other Comprehensive Loss | Retained Earnings | Total | |
|---|-----------------|----------------------------------|-----------------|---|----------------------|--------------|--------------|
| Balance at March 28, 2015 | 206,486,699 | \$ 636,732 | (6,829,866) | \$ (497,724) | \$ (66,804) | \$ 2,168,761 | \$ 2,240,965 |
| Net income | | | | | 174,355 | | 174,355 |
| Comprehensive income | | | | | (820) | | (820) |
| Total comprehensive income | | | | | | | 173,535 |
| Forfeitures of restricted shares | (8,252) | | | | | | |
| Exercise of employee share options | 706,343 | 4,946 | | | | | 4,946 |
| Equity compensation expense | | 12,506 | | | | | 12,506 |
| Tax benefits on exercise of share options | | 8,332 | | | | | 8,332 |
| Purchase of treasury shares | | | (6,982,892) | (351,095) | | | (351,095) |
| Balance at June 27, 2015 | 207,184,790 | \$ 662,516 | (13,812,758) | \$ (848,819) | \$ (67,624) | \$ 2,343,116 | \$ 2,089,189 |

See accompanying notes to consolidated financial statements.

Table of Contents**MICHAEL KORS HOLDINGS LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

| | Three months Ended | |
|---|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Cash flows from operating activities | | |
| Net income | \$ 174,355 | \$ 187,716 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 41,553 | 28,998 |
| Equity compensation expense | 12,506 | 8,154 |
| Deferred income taxes | 1,623 | (905) |
| Amortization of deferred rent | 502 | 1,537 |
| Loss on disposal of fixed assets | 631 | 738 |
| Amortization of deferred financing costs | 187 | 187 |
| Tax benefits on exercise of share options | (8,332) | (18,686) |
| Foreign currency losses | 624 | 305 |
| Loss (income) earned on joint venture | 907 | (203) |
| Change in assets and liabilities: | | |
| Receivables, net | 112,510 | 85,970 |
| Inventories | (80,627) | (99,958) |
| Prepaid expenses and other current assets | (5,393) | (4,020) |
| Other assets | 2,030 | (190) |
| Accounts payable | 29,174 | 10,186 |
| Accrued expenses and other current liabilities | (6,063) | 13,950 |
| Other long-term liabilities | 3,484 | 8,606 |
| Net cash provided by operating activities | 279,671 | 222,385 |
| Cash flows from investing activities | | |
| Capital expenditures | (105,998) | (73,187) |
| Purchase of intangible assets | (7,399) | (4,504) |
| Equity method investments | (907) | |
| Net cash used in investing activities | (114,304) | (77,691) |
| Cash flows from financing activities | | |
| Repurchase of treasury shares | (351,095) | (1,037) |
| Tax benefits on exercise of share options | 8,332 | 18,686 |
| Exercise of employee share options | 4,946 | 5,173 |

| | | |
|--|------------------|----------------|
| Net cash (used in) provided by financing activities | (337,817) | 22,822 |
| Effect of exchange rate changes on cash and cash equivalents | 2,068 | 3,060 |
| Net (decrease) increase in cash and cash equivalents | (170,382) | 170,576 |
| Beginning of period | 978,922 | 971,194 |
| End of period | \$ 808,540 | \$ 1,141,770 |

Supplemental disclosures of cash flow information

| | | |
|----------------------------|-----------|-----------|
| Cash paid for interest | \$ 190 | \$ 173 |
| Cash paid for income taxes | \$ 61,351 | \$ 51,170 |

Supplemental disclosure of noncash investing and financing activities

| | | |
|------------------------------|-----------|-----------|
| Accrued capital expenditures | \$ 25,610 | \$ 24,212 |
|------------------------------|-----------|-----------|

See accompanying notes to consolidated financial statements.

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MICHAEL KORS HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Basis of Presentation

Michael Kors Holdings Limited (MKHL, and together with its subsidiaries, the Company) was incorporated in the British Virgin Islands (BVI) on December 13, 2002. The Company is a leading designer, marketer, distributor and retailer of branded women s apparel and accessories and men s apparel bearing the Michael Kors tradename and related trademarks MICHAEL KORS, MICHAEL MICHAEL KORS, and various other related trademarks and logos. The Company s business consists of retail, wholesale and licensing segments. Retail operations consist of collection stores and lifestyle stores, including concessions and outlet stores, located primarily in the United States, Canada, Europe and Japan, as well as e-commerce. Wholesale revenues are principally derived from major department and specialty stores located throughout the United States, Canada and Europe. The Company licenses its trademarks on products such as fragrances, beauty, eyewear, leather goods, jewelry, watches, coats, men s suits, swimwear, furs and ties, as well as through geographic licenses.

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements as of June 27, 2015, and for the three months ended June 27, 2015 and June 28, 2014, are unaudited. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The interim financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, necessary for a fair presentation in conformity with U.S. GAAP. The interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended March 28, 2015, as filed with the Securities and Exchange Commission on May 27, 2015, in the Company s Annual Report on Form 10-K. The results of operations for the interim periods should not be considered indicative of results to be expected for the full fiscal year.

The Company utilizes a 52 to 53 week fiscal year ending on the Saturday closest to March 31. As such, the term Fiscal Year or Fiscal refers to the 52-week or 53-week period, ending on that day. The results for the three months ended June 27, 2015 and June 28, 2014, are based on 13-week periods.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to use judgment and make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The level of uncertainty in estimates and assumptions increases with the length of time until the underlying transactions are completed. The most significant assumptions and estimates involved in preparing the financial statements include allowances for customer deductions, sales returns, sales discounts and doubtful accounts, estimates of inventory recovery, the valuation of share-based compensation, valuation of deferred taxes and the estimated useful lives used for amortization and depreciation of intangible assets and property and equipment. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior periods' financial information in order to conform to the current period's presentation.

Seasonality

The Company experiences certain effects of seasonality with respect to its wholesale and retail segments. The Company's wholesale segment generally experiences its greatest sales in our third and fourth fiscal quarters while its first fiscal quarter experiences the lowest sales. The Company's retail segment generally experiences greater sales during our third fiscal quarter as a result of Holiday season sales. In the aggregate, the Company's first fiscal quarter typically experiences significantly less sales volume relative to the other three quarters and its third fiscal quarter generally has higher sales volume relative to other three quarters. However, given the Company's recent growth, the effects of any seasonality are further muted by incremental sales related to its new retail stores, wholesale doors and shop-in-shops.

Table of Contents***Derivative Financial Instruments***

The Company uses forward currency exchange contracts to manage its exposure to fluctuations in foreign currency for certain of its transactions. The Company in its normal course of business enters into transactions with foreign suppliers and seeks to minimize risks related to these transactions. The Company employs these forward currency contracts to hedge the Company's cash flows, as they relate to foreign currency transactions. Certain of these contracts are designated as hedges for accounting purposes, while others remain undesignated. All of the Company's derivative instruments are recorded in the Company's consolidated balance sheets at fair value on a gross basis, regardless of their hedge designation.

The Company designates certain contracts related to the purchase of inventory that qualify for hedge accounting as cash flow hedges. Formal hedge documentation is prepared for all derivative instruments designated as hedges, including description of the hedged item and the hedging instrument, the risk being hedged, and the manner in which hedge effectiveness will be assessed prospectively and retrospectively. The effective portion of changes in the fair value for contracts designated as cash flow hedges is recorded in equity as a component of accumulated other comprehensive income (loss) until the hedged item affects earnings. When the inventory related to forecasted inventory purchases that are being hedged is sold to a third party, the gains or losses deferred in accumulated other comprehensive income (loss) are recognized within cost of goods sold. The Company uses regression analysis to assess effectiveness of derivative instruments that are designated as hedges, which compares the change in the fair value of the derivative instrument to the change in the related hedged item. Effectiveness is assessed on a quarterly basis and any portion of the designated hedge contracts deemed ineffective is recorded to foreign currency gain (loss). If the hedge is no longer expected to be highly effective in the future, future changes in the fair value are recognized in earnings. For those contracts that are not designated as hedges, changes in the fair value are recorded to foreign currency gain (loss) in the Company's consolidated statements of operations. The Company classifies cash flows relating to its derivative instruments consistently with the classification of the hedged item, within cash from operating activities.

The Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. In order to mitigate counterparty credit risk, the Company only enters into contracts with carefully selected financial institutions based upon their credit ratings and certain other financial factors, adhering to established limits for credit exposure. The aforementioned forward contracts generally have a term of no more than 12 months. The period of these contracts is directly related to the foreign transaction they are intended to hedge.

Net Income per Share

The Company's basic net income per ordinary share is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period. Diluted net income per ordinary share reflects the potential dilution that would occur if share option grants or any other potentially dilutive instruments, including restricted shares and units (RSUs), were exercised or converted into ordinary shares. These potentially dilutive securities are included in diluted shares to the extent they are dilutive under the treasury stock method for the applicable periods. Performance-based RSUs are included in diluted shares if the related performance conditions are considered satisfied as of the end of the reporting period and to the extent they are dilutive under the treasury stock method.

The components of the calculation of basic net income per ordinary share and diluted net income per ordinary share are as follows (in thousands except share and per share data):

| | Fiscal Years Ended | |
|--|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Numerator: | | |
| Net income | \$ 174,355 | \$ 187,716 |
| Denominator: | | |
| Basic weighted average shares | 196,977,021 | 203,749,572 |
| Weighted average dilutive share equivalents: | | |
| Share options and restricted shares/units | 3,077,473 | 3,426,671 |
| Diluted weighted average shares | 200,054,494 | 207,176,243 |
| Basic net income per share | \$ 0.89 | \$ 0.92 |
| Diluted net income per share | \$ 0.87 | \$ 0.91 |

Share equivalents of 1,811,380 shares and 39,546 shares for the three months ended June 27, 2015 and June 28, 2014, respectively, have been excluded from the above calculation due to their anti-dilutive effect.

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Recent Accounting Pronouncements The Company has considered all new accounting pronouncements and has concluded that, with the exception of the below, there are no new pronouncements that are currently expected to have a material impact on results of operations, financial condition, or cash flows.

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 requires that a performance target under stock-based compensation arrangements that could be achieved after the service period is treated as a performance condition and not reflected in the grant-date fair value of the award. Rather, the related compensation cost should be recognized when it becomes probable that the performance targets will be achieved. ASU 2014-12 is effective beginning with the Company's fiscal year 2017, with early adoption and retrospective application permitted. The Company does not expect that ASU 2014-12 will have a significant impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides new guidance for revenues recognized from contracts with customers, and will replace the existing revenue recognition guidance. ASU No. 2014-09 requires that revenue is recognized at an amount the company is entitled to upon transferring control of goods or services to customers, as opposed to when risks and rewards transfer to a customer. In July 2015, the FASB approved a one-year deferral of the effective date for this standard and to make it effective for the interim reporting periods within the annual reporting period beginning after December 15, 2017, or beginning with the Company's fiscal year 2019. This standard may be applied retrospectively to all prior periods presented, or retrospectively with a cumulative adjustment to retained earnings in the year of adoption. The Company is currently evaluating the adoption method and the impact that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

3. Receivables, net

Receivables, net consist of (in thousands):

| | June 27, 2015 | March 28, 2015 |
|--|------------------|-------------------|
| Trade receivables: | | |
| Credit risk assumed by factors/insured | \$ 261,934 | \$ 374,150 |
| Credit risk retained by Company | 62,504 | 67,530 |
| Receivables due from licensees | 13,228 | 11,763 |
| | 337,666 | 453,443 |
| Less allowances: | (85,164) | (90,024) |
| | \$ 252,502 | \$ 363,419 |

Receivables are presented net of allowances for sales returns, discounts, markdowns, operational chargebacks and doubtful accounts. Sales returns are determined based on an evaluation of current market conditions and historical returns experience. Discounts are based on open invoices where trade discounts have been extended to customers. Markdowns are based on retail sales performance, seasonal negotiations with customers, historical deduction trends and an evaluation of current market conditions. Operational chargebacks are based on deductions taken by customers, net of expected recoveries. Such provisions, and related recoveries, are reflected in net sales.

The allowance for doubtful accounts is determined through analysis of periodic aging of receivables for which credit risk is not assumed by the factors, or which are not covered by insurance, and assessments of collectability based on an evaluation of historic and anticipated trends, the financial conditions of the Company's customers and the impact of general economic conditions. The past due status of a receivable is based on its contractual terms. Amounts deemed uncollectible are written off against the allowance when it is probable the amounts will not be recovered. Allowances for doubtful accounts were \$1.0 million and \$0.7 million, at June 27, 2015 and March 28, 2015, respectively.

Table of Contents**4. Property and Equipment, net**

Property and equipment, net consist of (in thousands):

| | June 27, 2015 | March 28, 2015 |
|---|------------------|-------------------|
| Leasehold improvements | \$ 331,531 | \$ 294,225 |
| In-store shops | 202,977 | 189,308 |
| Furniture and fixtures | 174,438 | 160,178 |
| Computer equipment and software | 121,043 | 104,372 |
| Equipment | 75,034 | 73,609 |
| Land | 15,099 | |
| | 920,122 | 821,692 |
| Less: accumulated depreciation and amortization | (369,760) | (337,755) |
| | 550,362 | 483,937 |
| Construction-in-progress | 73,832 | 78,997 |
| | \$ 624,194 | \$ 562,934 |

Depreciation and amortization of property and equipment for the three-month periods ended June 27, 2015 and June 28, 2014 was \$39.7 million and \$27.4 million, respectively.

5. Current Assets and Current Liabilities

Prepaid expenses and other current assets consist of the following (in thousands):

| | June 27, 2015 | March 28, 2015 |
|--|------------------|-------------------|
| Prepaid taxes | \$ 65,475 | \$ 60,637 |
| Unrealized gains on forward foreign exchange contracts | 8,928 | 25,004 |
| Leasehold incentive receivable | 8,573 | 12,289 |
| Prepaid rent | 13,868 | 11,681 |
| Other | 21,301 | 17,832 |
| | \$ 118,145 | \$ 127,443 |

Accrued expenses and other current liabilities consist of the following (in thousands):

| June 27, 2015 | March 28, 2015 |
|------------------|-------------------|
|------------------|-------------------|

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| | | |
|---|-----------|-----------|
| Other taxes payable | \$ 23,210 | \$ 20,202 |
| Accrued rent | 22,750 | 27,058 |
| Advance royalties | 7,382 | 5,081 |
| Accrued litigation | 6,254 | 5,539 |
| Accrued advertising | 6,035 | 5,653 |
| Professional services | 4,372 | 7,347 |
| Accrued samples | 469 | 816 |
| Unrealized loss on forward foreign exchange contracts | 157 | 600 |
| Other | 24,278 | 22,850 |
| | \$ 94,907 | \$ 95,146 |

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6. Credit Facilities

Senior Unsecured Revolving Credit Facility

On February 8, 2013, the Company entered into a senior unsecured credit facility (2013 Credit Facility). Pursuant to the agreement, the 2013 Credit Facility provides for up to \$200.0 million of borrowings, and expires on February 8, 2018. The agreement also provides for loans and letters of credit to the Company's European subsidiaries of up to \$100.0 million. The 2013 Credit Facility contains financial covenants, such as requiring an adjusted leverage ratio of 3.5 to 1.0 (with the ratio being total consolidated indebtedness plus 8.0 times consolidated rent expense to EBITDA plus consolidated rent expense) and a fixed charge coverage ratio of 2.0 to 1.0 (with the ratio being EBITDA plus consolidated rent expense to the sum of fixed charges plus consolidated rent expense), restricts and limits additional indebtedness, and restricts the incurrence of additional liens and cash dividends. As of June 27, 2015, the Company was in compliance with all covenants related to this agreement.

Borrowings under the 2013 Credit Facility accrue interest at the rate per annum announced from time to time by the agent based on the rates applicable for deposits in the London interbank market for U.S. dollars or the applicable currency in which the loans are made (the Adjusted LIBOR) plus an applicable margin. The applicable margin may range from 1.25% to 1.75%, and is based, or dependent upon, a particular threshold related to the adjusted leverage ratio calculated during the period of borrowing. The 2013 Credit Facility requires an annual facility fee of \$0.1 million and an annual commitment fee of 0.25% to 0.35% on the unused portion of the available credit under the facility.

As of June 27, 2015 and March 28, 2015, there were no borrowings outstanding under the 2013 Credit Facility. At June 27, 2015, stand-by letters of credit of \$10.9 million were outstanding. The amount available for future borrowings under the agreement was \$189.1 million as of June 27, 2015.

7. Commitments and Contingencies

In the ordinary course of business, the Company is party to various legal proceedings and claims. Although the outcome of such items cannot be determined with certainty, the Company's management does not believe that the outcome of all pending legal proceedings in the aggregate will have a material adverse effect on its cash flow, results of operations or financial position.

8. Fair Value of Financial Instruments

Financial assets and liabilities are measured at fair value using the three-level valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy of a particular asset or liability depends on the inputs used in the valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs based on a company's own assumptions about market participant assumptions developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2 Valuations based on quoted inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

At June 27, 2015 and March 28, 2015, the fair values of the Company's foreign currency forward contracts, the Company's only derivative instruments, were determined using broker quotations, which were calculations derived from observable market information: the applicable currency rates at the balance sheet date and those forward rates particular to the contract at inception. The Company makes no adjustments to these broker obtained quotes or prices, but assesses the credit risk of the counterparty and would adjust the provided valuations for counterparty credit risk when appropriate. The fair values of the forward contracts are included in prepaid expenses and other current assets, and in accrued expenses and other current liabilities in the consolidated balance sheets, depending on whether they represent assets or (liabilities) to the Company, as detailed in Note 9. All contracts are measured and recorded at fair value on a recurring basis and are categorized in Level 2 of the fair value hierarchy, as shown in the following table (in thousands):

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| | Fair value at June 27, 2015, using: | | | Fair value at March 28, 2015, using: | | |
|---|--|---|---|--|---|---|
| | Quoted prices in active markets for identical assets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Quoted prices in active markets for identical assets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Foreign currency forward contracts- Euro | \$ | \$ 8,546 | \$ | \$ | \$ 23,590 | \$ |
| Foreign currency forward contracts- Canadian Dollar | | 382 | | | 1,404 | |
| Foreign currency forward contracts- U.S. Dollar | | (157) | | | (590) | |
| Total | \$ | \$ 8,771 | \$ | \$ | \$ 24,404 | \$ |

The Company's cash and cash equivalents, accounts receivable and accounts payable, are recorded at carrying value, which approximates fair value. Borrowings under the 2013 Credit Facility, if outstanding, are recorded at carrying value, which resembles fair value due to the short-term nature of the revolving 2013 Credit Facility.

9. Derivative Financial Instruments

The Company uses forward currency exchange contracts to manage its exposure to fluctuations in foreign currency for certain of its transactions. The Company in its normal course of business enters into transactions with foreign suppliers and seeks to minimize risks related to certain forecasted inventory purchases by using foreign currency forward exchange contracts. The Company only enters into derivative instruments with highly credit-rated counterparties. The Company's derivative financial instruments are not currently subject to master netting arrangements. The Company does not enter into derivative contracts for trading or speculative purposes.

The following table details the fair value of the Company's derivative contracts, which are recorded on a gross basis in the consolidated balance sheets as of June 27, 2015 and March 28, 2015 (in thousands):

| | Notional Amounts | | Fair Values | | | |
|--|------------------|----------------|-------------------------------------|----------------|--|----------------|
| | June 27, 2015 | March 28, 2015 | Current Assets (1) June 27, 2015 | March 28, 2015 | Current Liabilities (2) June 27, 2015 | March 28, 2015 |
| Designated forward currency exchange contracts | \$ 295,785 | \$ 226,090 | \$ 8,546 | \$ 23,590 | \$ 137 | \$ 522 |
| Undesignated forward currency exchange contracts | 12,264 | 25,788 | 382 | 1,414 | 20 | 78 |
| Total | \$ 308,049 | \$ 251,878 | \$ 8,928 | \$ 25,004 | \$ 157 | \$ 600 |

- (1) Recorded within prepaid expenses and other current assets in the Company's audited consolidated balance sheets.
- (2) Recorded within accrued expenses and other current liabilities in the Company's audited consolidated balance sheets.

Changes in the fair value of the effective portion of the Company's forward foreign currency exchange contracts that are designated as accounting hedges are recorded in equity as a component of accumulated other comprehensive income, and are reclassified from accumulated other comprehensive income into earnings when the items underlying the hedged transactions are recognized into earnings, as a component of cost of sales within the Company's consolidated statements of operations. The following table summarizes the impact of the effective portion of gains and losses of the forward contracts designated as hedges for the three-month periods ended June 27, 2015 and June 28, 2014 (in thousands):

| | Three Months Ended | |
|-------------------------------------|--------------------|------------------------|
| | June 27, 2015 | June 28, 2014 |
| Pre-Tax Loss | | |
| Reclassified from Accumulated OCI | | |
| Pre-Tax Loss | | |
| Recognized into Earnings | | |
| in OCI | | |
| (Effective Portion) | | |
| Forward currency exchange contracts | (11,706) | (48) \$ 539 \$ (1,134) |

Amounts related to ineffectiveness were not material during all periods presented. The Company expects that substantially all of the amounts currently recorded in accumulated other comprehensive loss will be reclassified into earnings during the next twelve months, based upon the timing of inventory purchases and turns. These amounts are subject to fluctuations in the applicable currency exchange rates.

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During the three-month periods ended June 27, 2015 and June 28, 2014, the Company recognized \$1.0 million and \$0.8 million, respectively, in losses related to the change in the fair value of undesignated forward currency exchange contracts within foreign currency gains (losses) in the Company's consolidated statement of operations.

10. Shareholders' Equity***Share Repurchase Program***

On October 30, 2014, the Company's Board of Directors authorized a \$1.0 billion share repurchase program, which authorized the repurchase of the Company's shares for a period of two years. On May 20, 2015, the Company's Board of Directors authorized the repurchase of up to an additional \$500 million under the Company's existing share repurchase program and extended the program through May 2017. During the three months ended June 27, 2015, the Company repurchased 6,960,352 shares at a cost of \$350.0 million under its current share-repurchase program through open market transactions. As of June 27, 2015, the remaining availability under the Company's share repurchase program was \$658.1 million.

The Company also has in place a withhold to cover repurchase program, which allows the Company to withhold ordinary shares from certain executive officers to satisfy minimum tax withholding obligations relating to the vesting of their restricted share awards. During the three-month periods ended June 27, 2015 and June 28, 2014, the Company withheld 22,540 shares and 11,022 shares, respectively, at a cost of \$1.1 million and \$1.0 million, respectively, in satisfaction of minimum tax withholding obligations relating to the vesting of restricted share awards.

11. Accumulated Other Comprehensive Income

The following table details changes in the components of accumulated other comprehensive income, net of taxes for the three-month periods ended June 27, 2015 and June 28, 2014, respectively (in thousands):

| | Foreign Currency Translation Income (Loss) | Net Gains (Losses) on Derivatives ⁽¹⁾ | Total Accumulated Other Comprehensive Income (Loss) |
|---|---|--|--|
| Balance at March 29, 2014 | \$ (4,775) | \$ (1,598) | \$ (6,373) |
| Other comprehensive income before reclassifications | 3,067 | 468 | 3,535 |
| Less: amounts reclassified from AOCI to earnings ⁽²⁾ | | (996) | (996) |
| Other comprehensive income net of tax | 3,067 | 1,464 | 4,531 |
| Balance at June 28, 2014 | \$ (1,708) | \$ (134) | \$ (1,842) |
| Balance at March 28, 2015 | \$ (96,068) | \$ 29,264 | (66,804) |
| Other comprehensive income (loss) before reclassifications | 9,814 | (10,642) | (828) |
| Less: amounts reclassified from AOCI to earnings ⁽²⁾ | | (8) | (8) |
| Other comprehensive income (loss) net of tax | 9,814 | (10,634) | (820) |

| | | | | | | |
|--------------------------|----|----------|----|--------|----|----------|
| Balance at June 27, 2015 | \$ | (86,254) | \$ | 18,630 | \$ | (67,624) |
|--------------------------|----|----------|----|--------|----|----------|

- (1) Accumulative other comprehensive income balance related to net gains on derivative financial instruments as of June 27, 2015 and March 28, 2015 is net of tax provisions of \$2.3 million and \$3.3 million, respectively. Other comprehensive loss before reclassification related to derivative financial instruments for the three months ended June 27, 2015 is net of a tax benefit of \$1.0 million. Tax effects related to all other amounts were not material.
- (2) Reclassified amounts relate to the Company's forward foreign currency exchange contracts for inventory purchases and are recorded within Cost of goods sold in the Company's consolidated statements of operations. The related tax effects recorded within income tax expense in the Company's consolidated statements of operations were not material.

12. Share-Based Compensation

The Company issues equity grants to certain employees and directors of the Company at the discretion of the Company's Compensation Committee. The Company has two equity plans, one adopted in Fiscal 2008, the Michael Kors (USA), Inc. Stock Option Plan (as amended and restated, the 2008 Plan), and the other adopted in the third fiscal quarter of Fiscal 2012, the Michael Kors Holdings Limited Omnibus Incentive Plan (the 2012 Plan). The 2008 Plan only provided for grants of share options and was authorized to issue up to 23,980,823 ordinary shares. As of June 27, 2015, there were no shares available to grant equity awards under the 2008 Plan. The 2012 Plan allows for grants of share options, restricted shares and restricted share units, and other equity awards, and authorizes a total issuance of up to 15,246,000 ordinary shares. At June 27, 2015, there were 9,170,884 ordinary shares available for future grants of equity awards under the 2012 Plan. Option grants issued from the 2008 Plan generally expire ten years from the date of the grant, and those issued under the 2012 Plan generally expire seven years from the date of the grant.

Table of Contents***Share Options***

Share options are generally exercisable at no less than the fair market value on the date of grant. The Company has issued two types of option grants, those that vest based on the attainment of a performance target and those that vest based on the passage of time. Performance-based share options may vest based upon the attainment of one of two performance measures. One performance measure is an individual performance target, which is based upon certain performance targets unique to the individual grantee, and the other measure is a company-wide performance target, which is based on a cumulative minimum growth requirement in consolidated net equity. The individual performance target vests 20% of the total option grant each year the target is satisfied. The individual has ten years in which to achieve five individual performance vesting tranches. The company-wide performance target must be achieved over the ten-year term. Performance is measured at the end of the term, and any unvested options vest if the target is achieved. The Company-wide performance target is established at the time of the grant. The target metrics underlying individual performance vesting requirements are established for each recipient each year up until such time as the grant is fully vested. Options subject to time-based vesting requirements become vested in four equal increments on each of the first, second, third and fourth anniversaries of the date on which such options were awarded.

The following table summarizes the share option activity during the three months ended June 27, 2015:

| | Number of Options | Weighted Average Exercise price |
|-------------------------------|----------------------|---------------------------------------|
| Outstanding at March 28, 2015 | 7,187,003 | \$ 23.14 |
| Granted | 511,281 | \$ 47.12 |
| Exercised | (706,343) | \$ 6.79 |
| Canceled/forfeited | (22,955) | \$ 49.27 |
| Outstanding at June 27, 2015 | 6,968,986 | \$ 26.47 |

The weighted average grant date fair value for options granted during the three months ended June 27, 2015 and June 28, 2014 was \$14.37 and \$29.20 respectively. The following table represents assumptions used to estimate the fair value of options:

| | Three Months Ended | |
|--|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Expected dividend yield | 0.0% | 0.0% |
| Volatility factor | 31.1% | 33.3% |
| Weighted average risk-free interest rate | 1.6% | 1.5% |
| Expected life of option | 4.75 years | 4.75 years |

Restricted Shares and Restricted Share Units

The Company grants restricted shares and restricted share units at the fair market value on the date of the grant. Expense for restricted share awards is based on the closing market price of the Company's shares on the date of grant and is recognized ratably over the vesting period, which is generally three to four years from the date of the grant, net

of expected forfeitures.

Restricted share grants generally vest in equal increments on each of the four anniversaries of the date of grant. In addition, the Company grants two types of restricted share unit (RSU) awards: time-based RSUs and performance-based RSUs. Time-based RSUs generally vest in full either on the first anniversary of the date of the grant, or in equal increments on each of the four anniversaries of the date of grant. Performance-based RSUs vest in full on the three-year anniversary of the date of grant, subject to the employee s continued employment during the vesting period and only if certain pre-established cumulative performance targets are met at the end of the three-year performance period. Expense related to performance-based RSUs is recognized ratably over the three-year performance period, net of forfeitures, based on the probability of attainment of the related performance targets. The potential number of shares that may be earned ranges between 0%, if the minimum level of performance is not attained, and 150%, if the level of performance is at or above the pre-determined maximum achievement level.

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The following table summarizes the restricted share activity during the three months ended June 27, 2015:

| | Restricted Shares | |
|----------------------------|--------------------------------------|--|
| | Number of Unvested Restricted Shares | Weighted Average Grant Date Fair Value |
| Unvested at March 28, 2015 | 770,592 | \$ 68.77 |
| Granted | | \$ |
| Vested | (132,565) | \$ 80.64 |
| Canceled/forfeited | (8,252) | \$ 77.29 |
| Unvested at June 27, 2015 | 629,775 | \$ 66.16 |

The following table summarizes the restricted share unit activity during the three months ended June 27, 2015:

| | Service-based | | Performance-based | |
|----------------------------|----------------------------------|--|----------------------------------|--|
| | Number of Restricted Share Units | Weighted Average Grant Date Fair Value | Number of Restricted Share Units | Weighted Average Grant Date Fair Value |
| Unvested at March 28, 2015 | 35,940 | \$ 66.26 | 317,201 | \$ 76.69 |
| Granted | 801,751 | \$ 47.57 | 287,476 | \$ 47.10 |
| Vested | | \$ | | \$ |
| Canceled/forfeited | (318) | \$ 47.10 | | \$ |
| Unvested at June 27, 2015 | 837,373 | \$ 48.37 | 604,677 | \$ 62.62 |

Compensation expense attributable to share-based compensation for the three months ended June 27, 2015 and June 28, 2014 was \$12.5 million and \$8.2 million, respectively. The associated tax benefits recognized during the three months ended June 27, 2015 and June 28, 2014 were \$5.0 million and \$3.0 million, respectively. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company estimates forfeitures based on its historical forfeiture rate to date. The estimated value of future forfeitures for equity grants as of June 27, 2015 is approximately \$2.6 million.

13. Segment Information

The Company operates its business through three operating segments Retail, Wholesale and Licensing which are based on its business activities and organization. The operating segments are segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources, as well as in assessing performance. The primary key performance indicators are net sales or revenue (in the case of Licensing) and operating income for each segment. The Company's reportable segments represent channels of distribution that offer similar merchandise, customer experience and sales/marketing strategies. The Company's Retail segment includes sales through the Company owned stores, including Collection, Lifestyle including concessions, and outlet stores located throughout North America, Europe, and Japan, as well as the

Company's e-commerce sales. Products sold through the Retail segment include women's apparel, accessories (which include handbags and small leather goods such as wallets), footwear and licensed products, such as watches, jewelry, fragrances and beauty, and eyewear. The Wholesale segment includes sales primarily to major department stores and specialty shops throughout North America, Europe and Asia. Products sold through the Wholesale segment include accessories (which include handbags and small leather goods such as wallets), footwear and women's and men's apparel. We also have wholesale arrangements pursuant to which we sell products to certain of our licensees, including our licensees in Asia (which were previously reported within our North American wholesale operations). The Licensing segment includes royalties earned on licensed products and use of the Company's trademarks, and rights granted to third parties for the right to sell the Company's products in certain geographic regions such as the Middle East, Eastern Europe, Latin America and the Caribbean, throughout all of Asia (excluding Japan), as well as Australia. All intercompany revenues are eliminated in consolidation and are not reviewed when evaluating segment performance. Corporate overhead expenses are allocated to the segments based upon specific usage or other allocation methods.

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The Company has allocated \$12.1 million and \$1.9 million of its recorded goodwill to its Wholesale and Licensing segments, respectively. The Company does not have identifiable assets separated by segment. The following table presents the key performance information of the Company's reportable segments (in thousands):

| | Three Months Ended | |
|--------------------------------|--------------------|-------------------|
| | June 27, 2015 | June 28, 2014 |
| Revenue: | | |
| Net sales: Retail | \$ 523,300 | \$ 480,242 |
| Wholesale | 423,959 | 406,795 |
| Licensing | 38,716 | 32,117 |
| Total revenue | \$ 985,975 | \$ 919,154 |
| Income from operations: | | |
| Retail | \$ 120,874 | \$ 142,689 |
| Wholesale | 106,310 | 117,652 |
| Licensing | 21,439 | 16,430 |
| Income from operations | \$ 248,623 | \$ 276,771 |

Depreciation and amortization expense for each segment are as follows (in thousands):

| | Three Months Ended | |
|--|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Depreciation and amortization: | | |
| Retail | \$ 25,091 | \$ 17,965 |
| Wholesale | 16,102 | 10,775 |
| Licensing | 360 | 258 |
| Total depreciation and amortization | \$ 41,553 | \$ 28,998 |

Total revenue (as recognized based on country of origin), and long-lived assets by geographic location of the consolidated Company are as follows (in thousands):

| | Three Months Ended | |
|--|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Revenues: | | |
| North America (U.S. and Canada) ⁽¹⁾ | \$ 727,295 | \$ 718,889 |
| Europe | 216,813 | 185,497 |

| | | |
|-----------------------|-------------------|-------------------|
| Other regions | 41,867 | 14,768 |
| Total revenues | \$ 985,975 | \$ 919,154 |

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| | June 27, 2015 | As of March 28, 2015 |
|--|-------------------|----------------------------|
| Long-lived assets: | | |
| North America (U.S. and Canada) ⁽¹⁾ | \$ 468,355 | \$ 443,816 |
| Europe | 208,348 | 169,243 |
| Other regions | 16,390 | 11,416 |
| Total Long-lived assets | \$ 693,093 | \$ 624,475 |

- ⁽¹⁾ Net revenues earned in the U.S. during the three months ended June 27, 2015 and June 28, 2014 were \$684.8 million and \$674.3 million, respectively. Long-lived assets located in the U.S. as of June 27, 2015 and March 28, 2015 were \$441.9 million and \$418.8 million, respectively.

14. Agreements with Shareholders and Related Party Transactions

The Company's Chief Creative Officer, Michael Kors, and the Company's Chief Executive Officer, John Idol, have an ownership interest in Michael Kors Far East Holdings Limited, a BVI company. On April 1, 2011, the Company entered into certain licensing agreements with certain subsidiaries of Michael Kors Far East Holdings Limited (the Licensees), which provide the Licensees with certain exclusive rights for use of the Company's trademarks within China, Hong Kong, Macau and Taiwan, and to import, sell, advertise and promote certain of the Company's products in these regions, as well as to own and operate stores which bear the Company's tradenames. The agreements between the Company and the licensees expire on March 31, 2041, and may be terminated by the Company at certain intervals if certain minimum sales benchmarks are not met. During the three months ended June 27, 2015 and June 28, 2014, there were approximately \$1.7 million and \$0.8 million, respectively, of royalties earned under these agreements. These royalties were driven by Licensee sales (of the Company's goods) to their customers of approximately \$38.3 million and \$19.6 million for the three months ended June 27, 2015 and June 28, 2014, respectively. In addition, the Company sells certain inventory items to the Licensees through its wholesale segment at terms consistent with those of similar licensees in the region. During the three months ended June 27, 2015 and June 28, 2014, amounts recognized as net sales in the Company's consolidated statements of operations and comprehensive income related to these sales were approximately \$16.0 million and \$6.2 million, respectively. As of June 27, 2015 and March 28, 2015, the Company's total accounts receivable from this related party were \$16.5 million and \$6.5 million, respectively.

15. Subsequent Events

The Company has historically accounted for its investment in its Latin American joint venture, MK (Panama) Holdings, S.A. and subsidiaries (MK Panama), under the equity method of accounting. In July 2015, the Company made a capital contribution to the joint venture, obtaining a controlling interest in MK Panama. As such, the Company will consolidate MK Panama into its operations beginning with the second quarter of Fiscal 2016. The Company is currently in the process of finalizing the new ownership structure and accounting.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis (MD&A) of our Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and notes thereto included as part of this interim report. This discussion contains forward-looking statements that are based upon current expectations. We sometimes identify forward-looking statements with such words as may, expect, anticipate, estimate, seek, intend, believe or similar words concerning future events. The forward-looking statements contained herein, include, without limitation, statements concerning future revenue sources and concentration, gross profit margins, selling and marketing expenses, capital expenditures, general and administrative expenses, capital resources, new stores, additional financings or borrowings and additional losses and are subject to risks and uncertainties including, but not limited to, those discussed in this report that could cause actual results to differ materially from the results contemplated by these forward-looking statements. We also urge you to carefully review the risk factors set forth under Risk Factors in our Annual report on Form 10-K (File No. 001-35368), filed on May 27, 2015, with the Securities and Exchange Commission.

Overview

Our Business

We are a growing global luxury lifestyle brand led by a world-class management team and a renowned, award-winning designer. Since launching his namesake brand over 30 years ago, Michael Kors has featured distinctive designs, materials and craftsmanship with a jet-set aesthetic that combines stylish elegance and a sporty attitude. Mr. Kors' vision has taken the Company from its beginnings as an American luxury sportswear house to a global accessories, footwear and apparel company with a presence in over 100 countries. As a highly recognized luxury lifestyle brand in North America, with accelerating awareness in targeted international markets, we have experienced exceptional sales momentum and intend to continue along this course as we grow our business.

We operate our business in three segments—retail, wholesale and licensing—and we have a strategically controlled global distribution network focused on company-operated retail stores, leading department stores, specialty stores and select licensing partners. As of June 27, 2015, our retail segment included 354 North American retail stores (including concessions), 196 international retail stores (including concessions) throughout Europe and Japan and our e-commerce sites in the United States (U.S.) and Canada. As of June 27, 2015, our wholesale segment included wholesale sales through approximately 2,283 department store doors and 261 specialty store doors in North America and wholesale sales through approximately 1,269 specialty store doors and 263 department store doors internationally. Our remaining revenue is generated through our licensing segment, through which we license to third parties certain production, sales and/or distribution rights. During the three months ended June 27, 2015, our licensing segment accounted for approximately 3.9% of our total revenue and consisted of royalties earned on licensed products and our geographic licenses.

We offer two primary collections: the *Michael Kors* luxury collection and the *MICHAEL Michael Kors* accessible luxury collection. The *Michael Kors* collection establishes the aesthetic authority of our entire brand and is carried by many of our retail stores, our e-commerce sites, as well as in the finest luxury department stores in the world. In 2004, we introduced the *MICHAEL Michael Kors* collection, which has a strong focus on accessories, in addition to offering footwear and apparel, and addresses the significant demand opportunity in accessible luxury goods. Taken together, our two collections target a broad customer base while retaining a premium luxury image.

Certain Factors Affecting Financial Condition and Results of Operations

Demand for Our Accessories and Related Merchandise. Our performance is affected by trends in the luxury goods industry, as well as shifts in demographics and changes in lifestyle preferences. While the luxury retail industry has been recently challenged by lower consumer traffic trends resulting from a decrease in tourist travel and restrained consumer spending, we expect that the demand for our products will continue to grow.

Currency fluctuation and the Strengthening U.S. Dollar. Our consolidated operations are impacted by the relationships between our reporting currency, the U.S. dollar, and those of our non-U.S. subsidiaries whose functional/local currency is other than the U.S. dollar. The recent decline in the value of the Euro relative to the U.S. Dollar has impacted the conversion of the results of our European operations, as they are reported, which represent approximately 22% of our consolidated revenue. During the three months ended June 27, 2015, the Euro experienced an approximate 20% decline in value relative to the U.S. Dollar, compared to the same prior year period. Our results have also been negatively impacted by an approximate decline of 11% in the Canadian Dollar and an approximate decline of 16% in Japanese Yen relative to the U.S. Dollar during the three months ended June 27, 2015, compared to the same prior year period. We believe that these trends may continue for the remainder of the Fiscal 2016.

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Disruptions in shipping and distribution. Our operations are subject to the impact of shipping disruptions as a result of changes or damage to our distribution infrastructure, as well as due to external factors. During the fourth quarter of Fiscal 2015, our U.S. third party operated e-commerce fulfillment center was impacted by structural damage, which resulted in shipping delays to consumers who ordered merchandise through our e-commerce website. In addition, we were impacted by the work slowdowns and stoppages resulting from the labor dispute at the U.S. west coast ports during our Fiscal 2015, which created a backlog of containers at the ports and resulted in inventory delivery delays, which continued into Fiscal 2016. Any future disruptions could have a negative impact on our results of operations.

Costs of Manufacturing. Our industry is subject to volatility in costs related to certain raw materials used in the manufacturing of our products. This volatility applies primarily to costs driven by commodity prices, which can increase or decrease dramatically over a short period of time. These fluctuations may have a material impact on our sales, results of operations and cash flows to the extent they occur. We use commercially reasonable efforts to mitigate these effects by sourcing our products as efficiently as possible. In addition, manufacturing labor costs are also subject to degrees of volatility based on local and global economic conditions. We use commercially reasonable efforts to source from localities that suit our manufacturing standards and result in more favorable labor driven costs to our products.

Establishing brand identity and enhancing global presence. We intend to continue to increase our international presence and global brand recognition through the formation of various joint ventures with international partners, and continuing with our international licensing arrangements. We feel this is an efficient method for continued penetration into the global luxury goods market, especially for markets where we have yet to establish a substantial presence.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Critical accounting policies are those that are the most important to the portrayal of our financial condition and results of operations, and that require our most difficult, subjective and complex judgments to make estimates about the effect of matters that are inherently uncertain. In applying such policies, we must use certain assumptions that are based upon our informed judgments, assessments of probability and best estimates. Estimates, by their nature, are subjective and are based upon analysis of available information, including historical factors, current circumstances and the experience and judgment of management. Our critical accounting policies are disclosed in full in the MD&A section of our Fiscal 2015 Annual Report on Form 10-K. There have been no significant changes in our critical accounting policies since March 28, 2015.

Segment Information

We generate revenue through three business segments: retail, wholesale and licensing. The following table presents our revenue and income from operations by segment for the three months ended June 27, 2015 and June 28, 2014 (in thousands):

| | Three Months Ended | |
|-----------------|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Revenue: | | |

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| | | |
|-------------------|------------|------------|
| Net sales: Retail | \$ 523,300 | \$ 480,242 |
| Wholesale | 423,959 | 406,795 |
| Licensing | 38,716 | 32,117 |

| | | |
|----------------------|-------------------|-------------------|
| Total revenue | \$ 985,975 | \$ 919,154 |
|----------------------|-------------------|-------------------|

Income from operations:

| | | |
|-----------|------------|------------|
| Retail | \$ 120,874 | \$ 142,689 |
| Wholesale | 106,310 | 117,652 |
| Licensing | 21,439 | 16,430 |

| | | |
|-------------------------------|-------------------|-------------------|
| Income from operations | \$ 248,623 | \$ 276,771 |
|-------------------------------|-------------------|-------------------|

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We sell our products, as well as licensed products bearing our name, directly to the end consumer through our retail stores and concessions throughout North America, Europe, and Japan, as well as through our e-commerce sites, including our new U.S. e-commerce platform launched during Fiscal 2015 and our new e-commerce site in Canada launched in April 2015. We have four primary retail store formats: collection stores, lifestyle stores, outlet stores and e-commerce. Our collection stores are located in highly prestigious shopping areas, while our lifestyle stores are located in well-populated commercial shopping locations and leading regional shopping centers. Our outlet stores, which are generally in outlet centers, extend our reach to additional consumer groups. In addition to these three retail store formats, we operate concessions in a select number of department stores in North America, Europe and Japan.

The following table presents the growth in our network of retail stores for the three months ended June 27, 2015 and June 28, 2014:

| | Three Months Ended | |
|---|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Full price retail stores including concessions: | | |
| Number of stores | 392 | 307 |
| Increase during period | 19 | 28 |
| Percentage increase vs. prior year | 27.7% | 40.2% |
| Total gross square footage | 916,973 | 635,852 |
| Average square footage per store | 2,339 | 2,071 |
| Outlet stores: | | |
| Number of stores | 158 | 136 |
| Increase during period | 5 | 10 |
| Percentage increase vs. prior year | 16.2% | 24.8% |
| Total gross square footage | 545,203 | 427,791 |
| Average square footage per store | 3,451 | 3,146 |

The following table presents our retail stores by geographic location:

| | Three Months Ended | |
|------------------------|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Store count by region: | | |
| North America | 354 | 301 |
| Europe | 143 | 101 |
| Japan | 53 | 41 |
| Total | 550 | 443 |

Wholesale

We sell our products directly to department stores primarily located across North America and Europe to accommodate consumers who prefer to shop at major department stores. In addition, we sell to specialty stores for those consumers who enjoy the boutique experience afforded by such stores. We also have wholesale arrangements pursuant to which we sell products to certain of our licensees, including our licensees in Asia (which were previously reported within our North American wholesale operations). We continue to focus our sales efforts and drive sales in existing locations by enhancing presentation, primarily through the creation of more shop-in-shops with our proprietary fixtures that effectively communicate our brand and create a more personalized shopping experience for consumers. We tailor our assortments through wholesale product planning and allocation processes to better match the demands of our department store customers in each local market.

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The following table presents the growth in our network of wholesale doors during the three months ended June 27, 2015 and June 28, 2014:

| | Three Months Ended | |
|--------------------------------------|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Number of full-price wholesale doors | 4,076 | 3,862 |
| Increase during period | 38 | 134 |
| Percentage increase vs. prior year | 5.5% | 18.9% |

Licensing

We generate revenue through product and geographic licensing arrangements. Our product license agreements allow third parties to use our brand name and trademarks in connection with the manufacturing and sale of a variety of products, including watches, fragrances and beauty, eyewear and jewelry. In our product licensing arrangements, we take an active role in the design process, marketing and distribution of products under our brands. Our geographic licensing arrangements allow third parties to use our tradenames in connection with the retail and/or wholesale sales of our branded products in specific geographic regions.

Key Performance Indicators and Statistics

We use a number of key indicators of operating results to evaluate our performance, including the following (dollars in thousands):

| | Three Months Ended | |
|---|--------------------|------------------|
| | June 27, 2015 | June 28, 2014 |
| Total revenue | \$ 985,975 | \$ 919,154 |
| Gross profit as a percent of total revenue | 61.2% | 62.2% |
| Income from operations | \$ 248,623 | \$ 276,771 |
| Retail net sales - North America | \$ 396,704 | \$ 373,559 |
| Retail net sales - Europe | \$ 107,004 | \$ 91,915 |
| Retail net sales - Japan | \$ 19,592 | \$ 14,768 |
| (Decrease) increase in comparable store net sales | -9.5% | 24.2% |
| Wholesale net sales - North America | \$ 309,062 | \$ 327,043 |
| Wholesale net sales - Europe | \$ 92,621 | \$ 79,752 |
| Wholesale net sales - Asia | \$ 22,276 | \$ |

General Definitions for Operating Results

Net sales consist of sales from comparable retail stores and non-comparable retail stores, net of returns and markdowns, as well as those made to our wholesale customers, net of returns, discounts, markdowns and allowances.

Comparable store sales include sales from a store that has been opened for one full year after the end of the first month of its operations. For stores that are closed, sales that were made in the final month of their operations

(assuming closure prior to the fiscal months end), are excluded from the calculation of comparable store sales. Additionally, sales for stores that are either relocated, or expanded by a square footage of 25% or greater, in any given fiscal year, are also excluded from the calculation of comparable store sales at the time of their move or interruption, until such stores have been in their new location, or are operating under their new size/capacity, for at least one full year after the end of the first month of their relocation or expansion. All comparable store sales are presented on a 52-week basis. Beginning with the first quarter of Fiscal 2016, comparable store sales are reported on a global basis, which better represents management's view of our Company as an expanding global business.

Constant currency effects are non-U.S. GAAP financial measures, which are provided to supplement our reported operating results to facilitate comparisons of our operating results and trends in our business, excluding the effects of foreign currency rate fluctuations. Because we are a global Company, foreign currency exchange rates may have a significant effect on our reported results. We calculate constant currency measures and the related foreign currency impacts by translating the current-year's reported amounts into comparable amounts using prior year's foreign exchange rates for each currency. All constant currency performance measures discussed below should be considered a supplement to and not in lieu of our operating performance measures calculated in accordance with U.S. GAAP.

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Licensing revenue consists of fees charged on sales of licensed products to our licensees as well as contractual royalty rates for the use of our trademarks in certain geographic territories.

Cost of goods sold includes the cost of inventory sold, freight-in on merchandise and foreign currency exchange gains/losses related to forward contracts for purchase commitments. All retail store operating and occupancy costs are included in *Selling, general and administrative expenses* (see below), and as a result our cost of goods sold may not be comparable to that of other entities that have chosen to include some or all of those expenses as a component of their cost of goods sold.

Gross profit is total revenue (net sales plus licensing revenue) minus cost of goods sold. As a result of retail store operating and occupancy costs being excluded from our cost of goods, our gross profit may not be comparable to that of other entities that have chosen to include some or all of those expenses as a component of their gross profit.

Selling, general and administrative expenses consist of warehousing and distribution costs, rent for our distribution centers, store payroll, store occupancy costs (such as rent, common area maintenance, store pre-opening, real estate taxes and utilities), information technology and systems costs, corporate payroll and related benefits, advertising and promotion expense and other general expenses.

Depreciation and amortization includes depreciation and amortization of fixed and definite-lived intangible assets.

Income from operations consists of gross profit minus total operating expenses.

Other expense (income) includes proceeds received related to our anti-counterfeiting efforts and income or loss earned on our joint venture. Future amounts may include any miscellaneous activities not directly related to our operations.

Interest expense (income), net represents interest and fees on our revolving credit facilities and letters of credit (see Liquidity and Capital Resources for further detail on our credit facilities), as well as amortization of deferred financing costs, offset by interest earned on highly liquid investments (investments purchased with an original maturity of six months or less, classified as cash equivalents), as well as interest income earned on the loan to our joint venture.

Foreign currency losses (gains) includes net gains or losses related to the mark-to-market (fair value) on our forward currency contracts not designated as accounting hedges and unrealized income or loss from the re-measurement of monetary assets and liabilities denominated in currencies other than the functional currencies of our subsidiaries.

Table of Contents**Results of Operations*****Comparison of the three months ended June 27, 2015 with the three months ended June 28, 2014***

The following table details the results of our operations for the three months ended June 27, 2015 and for the three months ended June 28, 2014, and expresses the relationship of certain line items to total revenue as a percentage (dollars in thousands):

| | Three Months Ended | | | | % of Total Revenue for the Three Months Ended June 27, 2015 | % of Total Revenue for the Three Months Ended June 28, 2014 |
|--|--------------------|------------------|--------------|----------|--|--|
| | June 27, 2015 | June 28, 2014 | \$ Change | % Change | | |
| Statements of Operations Data: | | | | | | |
| Net sales | \$ 947,259 | \$ 887,037 | \$ 60,222 | 6.8% | | |
| Licensing revenue | 38,716 | 32,117 | 6,599 | 20.5% | | |
| Total revenue | 985,975 | 919,154 | 66,821 | 7.3% | | |
| Cost of goods sold | 382,340 | 347,521 | 34,819 | 10.0% | 38.8% | 37.8% |
| Gross profit | 603,635 | 571,633 | 32,002 | 5.6% | 61.2% | 62.2% |
| Selling, general and administrative expenses | 313,459 | 265,864 | 47,595 | 17.9% | 31.8% | 28.9% |
| Depreciation and amortization | 41,553 | 28,998 | 12,555 | 43.3% | 4.2% | 3.2% |
| Total operating expenses | 355,012 | 294,862 | 60,150 | 20.4% | 36.0% | 32.1% |
| Income from operations | 248,623 | 276,771 | (28,148) | -10.2% | 25.2% | 30.1% |
| Other expense (income), net | 825 | (343) | 1,168 | -340.5% | 0.1% | 0.0% |
| Interest expense (income), net | 109 | (41) | 150 | -365.9% | 0.0% | 0.0% |
| Foreign currency losses | 677 | 1,153 | (476) | -41.3% | 0.1% | 0.1% |
| Income before provision for income taxes | 247,012 | 276,002 | (28,990) | -10.5% | 25.1% | 30.0% |
| Provision for income taxes | 72,657 | 88,286 | (15,629) | -17.7% | 7.4% | 9.6% |
| Net income | \$ 174,355 | \$ 187,716 | \$ (13,361) | -7.1% | | |

Total Revenue

Total revenue increased \$66.8 million, or 7.3%, to \$986.0 million for the three months ended June 27, 2015, compared to \$919.2 million for the three months ended June 28, 2014, which included unfavorable foreign currency effects of \$56.0 million primarily related to the weakening of the Euro, the Canadian Dollar and the Japanese Yen against the U.S. Dollar during the three months ended June 27, 2015 as compared to the prior year period. On a constant currency

basis, our total revenue increased \$122.8 million, or 13.4%. The increase in our revenues was due to an increase in our non-comparable retail store sales, wholesale sales, and licensing revenue. These increases were partially offset by lower comparable retail store sales.

The following table details revenues for our three business segments (dollars in thousands):

| | | Three Months Ended | | % Change | | % of Total Revenue for the Three Months Ended June 27, 2015 | % of Total Revenue for the Three Months Ended June 28, 2014 |
|----------------------|-----------|--------------------|-------------------|------------------|-------------|---|---|
| | | June 27, 2015 | June 28, 2014 | \$ Change | As Reported | Constant Currency | |
| Revenue: | | | | | | | |
| Net sales: | Retail | \$ 523,300 | \$ 480,242 | \$ 43,058 | 9.0% | 16.0% | 53.1% |
| | Wholesale | 423,959 | 406,795 | 17,164 | 4.2% | 9.7% | 43.0% |
| | Licensing | 38,716 | 32,117 | 6,599 | 20.5% | 20.5% | 3.9% |
| Total revenue | | \$ 985,975 | \$ 919,154 | \$ 66,821 | 7.3% | 13.4% | |

Retail

Net sales from our retail stores increased \$43.1 million, or 9.0%, to \$523.3 million the three months ended June 27, 2015, compared to \$480.2 million the three months ended June 28, 2014, which included unfavorable foreign currency effects of \$33.8 million. On a constant currency basis, net sales from our retail stores increased \$76.8 million, or 16.0%. We operated 550 retail stores, including concessions, as of June 27, 2015, compared to 443 retail stores, including concessions, as of June 28, 2014.

During the three months ended June 27, 2015, our comparable store sales declined \$37.9 million, or 9.5%, which included unfavorable foreign currency effects of \$18.0 million. On a constant currency basis, our comparable store sales declined \$19.8 million, or 5.0%, primarily driven by lower comparable store sales from our North American retail business, partially offset by increased comparable store sales from our international businesses, excluding the effect of foreign currency. The decline in our comparable store primarily reflected lower sales of watches and apparel during the three months ended June 27, 2015 compared to the three months ended June 28, 2014.

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Our non-comparable store sales increased \$81.0 million during the three months ended June 27, 2015, which included unfavorable foreign currency effects of \$15.8 million. On a constant currency basis, our non-comparable store sales increased \$96.6 million. This sales growth was primarily attributable to operating 107 additional stores since June 28, 2014 and sales from our North American e-commerce sites.

Wholesale

Net sales to our wholesale customers increased \$17.2 million, or 4.2%, to \$424.0 million for the three months ended June 27, 2015, compared to \$406.8 million for the three months ended June 28, 2014, which included unfavorable foreign currency effects of \$22.2 million. On a constant currency basis, our wholesale net sales increased \$39.4 million, or 9.7%. The increase in our wholesale net sales was primarily driven by increased sales from our accessories and womenswear product lines, partially offset by lower footwear sales during the three months ended June 27, 2015. This sales increase was primarily attributable to the growth in our European wholesale business during the three months ended June 27, 2015 as compared to the prior year quarter.

Licensing

Royalties earned on our licensing agreements increased \$6.6 million, or 20.5%, to \$38.7 million for the three months ended June 27, 2015, compared to \$32.1 million for the three months ended June 28, 2014. This increase was primarily attributable to higher revenues earned on licensing agreements related to the sales of eyewear, jewelry and watches.

Gross Profit

Gross profit increased \$32.0 million, or 5.6%, to \$603.6 million for the three months ended June 27, 2015, compared to \$571.6 million for the three months ended June 28, 2014, which included unfavorable foreign currency effects of \$38.3 million. Gross profit as a percentage of total revenue declined 100 basis points to 61.2% during the three months ended June 27, 2015, compared to 62.2% during the three months ended June 28, 2014. This decrease was attributable to gross profit margin declines of 170 basis points from our retail segment and 120 basis points from our wholesale segment. The decrease in gross profit margin from our retail segment was primarily due to an increase in promotional activity by our North American retail business, partially offset by lower promotional activity from our European retail business during the three months ended June 27, 2015, as compared to the three months ended June 28, 2014. The decrease in profit margin on our wholesale segment was primarily due to an increase in wholesale allowances and increased inventory reserves during the three-months ended June 27, 2015, as compared to the quarter ended June 28, 2014, offset in part by a more favorable geographic mix as our European operations typically experience greater gross profit margins than those of our North American wholesale operations.

Total Operating Expenses

Total operating expenses increased \$60.1 million, or 20.4%, to \$355.0 million during the three months ended June 27, 2015, compared to \$294.9 million for the three months ended June 28, 2014. Our operating expenses included a net favorable foreign currency impact of approximately \$24.2 million. Total operating expenses increased to 36.0% as a percentage of total revenue for the three months ended June 27, 2015, compared to 32.1% for the three months ended June 28, 2014. The components that comprise total operating expenses are explained below.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$47.6 million, or 17.9%, to \$313.5 million during the three months ended June 27, 2015, compared to \$265.9 million for the three months ended June 28, 2014. The increase in selling, general and administrative expenses was primarily due to the following:

an increase in retail-related costs, including salary and occupancy cost, of \$27.5 million, primarily attributable to operating 550 retail stores versus 443 retail stores in the prior year period;

an increase in corporate employee-related costs of \$13.4 million, primarily due to an increase in our corporate staff to support our global growth; and

an increase in other corporate operations-related costs of \$5.3 million.

Selling, general and administrative expenses as a percentage of total revenue increased to 31.8% during the three months ended June 27, 2015, compared to 28.9% for the three months ended June 28, 2014. The increase as a percentage of total revenue was primarily due to the increase in our retail store and corporate overhead costs during the three months ended June 27, 2015, as compared to the three months ended June 28, 2014.

Table of Contents*Depreciation and Amortization*

Depreciation and amortization increased \$12.6 million, or 43.3%, to \$41.6 million during the three months ended June 27, 2015, compared to \$29.0 million for the three months ended June 28, 2014, primarily due to an increase in build-out of our new retail stores, new shop-in-shop locations, increase in lease rights related to our new European stores and investments in our corporate facilities and our information systems infrastructure to accommodate our growth. Depreciation and amortization increased to 4.2% as a percentage of total revenue during the three months ended June 27, 2015, compared to 3.2% for the three months ended June 28, 2014.

Income from Operations

As a result of the foregoing, income from operations declined \$28.2 million, or 10.2%, to \$248.6 million during the three months ended June 27, 2015, compared to \$276.8 million for the three months ended June 28, 2014, which included unfavorable foreign currency effects of \$14.1 million. Income from operations as a percentage of total revenue declined to 25.2% during the three months ended June 27, 2015, compared to 30.1% for the three months ended June 28, 2014.

The following table details income from operations for our three business segments (dollars in thousands):

| | Three Months Ended | | | | % of Net Sales/ Revenue for the Three Months Ended June 27, 2015 | % of Net Sales/ Revenue for the Three Months Ended June 28, 2014 |
|--------------------------------|--------------------|-------------------|--------------------|---------------|--|--|
| | June 27, 2015 | June 28, 2014 | \$ Change | % Change | | |
| Income from operations: | | | | | | |
| Retail | \$ 120,874 | \$ 142,689 | \$ (21,815) | -15.3% | 23.1% | 29.7% |
| Wholesale | 106,310 | 117,652 | (11,342) | -9.6% | 25.1% | 28.9% |
| Licensing | 21,439 | 16,430 | 5,009 | 30.5% | 55.4% | 51.2% |
| Income from operations | \$ 248,623 | \$ 276,771 | \$ (28,148) | -10.2% | 25.2% | 30.1% |

Retail

Income from operations for our retail segment declined \$21.8 million, or 15.3%, to \$120.9 million during the three months ended June 27, 2015, compared to \$142.7 million for the three months ended June 28, 2014. Income from operations as a percentage of net retail sales declined by approximately 660 basis points to 23.1% during the three months ended June 27, 2015. The decrease in retail income from operations as a percentage of net retail sales was primarily due to an increase in operating expenses as a percentage of net retail sales of approximately 490 basis points, as well as due to the decrease in gross profit margin, as previously discussed above during the three months ended June 27, 2015, as compared to the three months ended June 28, 2014. The increase in operating expenses as a percentage of net retail sales was largely due to increased retail store-related costs and corporate allocated expenses, as

well as higher depreciation and amortization expense, primarily attributable to new stores and lease rights (key money).

Wholesale

Income from operations for our wholesale segment declined \$11.4 million, or 9.6%, to \$106.3 million during the three months ended June 27, 2015, compared to \$117.7 million for the three months ended June 28, 2014. Income from operations as a percentage of net wholesale sales decreased approximately 380 basis points to 25.1% during the three months ended June 27, 2015. The decrease in wholesale income from operations as a percentage of wholesale net sales was primarily due to a net increase in operating expenses as a percentage of net wholesale sales of approximately 260 basis points, which was primarily due to increased corporate allocated expenses and increased depreciation and amortization expense as a result of the growth in our wholesale doors.

Licensing

Income from operations for our licensing segment increased \$5.0 million, or 30.5%, to \$21.4 million during the three months ended June 27, 2015, compared to \$16.4 million for the three months ended June 28, 2014. Income from operations as a percentage of licensing revenue increased approximately 420 basis points to 55.4% during the three months ended June 27, 2015. The increase in licensing income from operations as a percentage of licensing revenue was due to a decline in operating expenses as a percentage of licensing revenue during the three months ended June 27, 2015, as compared to the three months ended June 28, 2014. This decline was largely due to lower advertising costs, offset in part by an increase in costs related to protection of our intellectual property.

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Other Expense (Income), net

During the three months ended June 27, 2015, other expense of \$0.8 million was comprised of \$0.9 million of losses attributable to our joint venture, partially offset by \$0.1 million of income related to our anti-counterfeiting efforts. During the three months ended June 28, 2014, other income of \$0.3 million included \$0.2 million in income earned on our joint venture and \$0.1 million in income related to our anti-counterfeiting efforts.

Foreign Currency Losses

We recognized a foreign currency losses of \$0.7 million and \$1.2 million, respectively, during the three-month periods ended June 27, 2015 and June 28, 2014. These losses were primarily attributable to mark-to-market of our forward foreign currency contracts not designated as accounting hedges. The foreign currency losses also included gains and losses on the revaluation and settlement of certain of our accounts payable in currencies other than the functional currency of the applicable reporting units, as well the re-measurement of dollar-denominated intercompany loans with certain of our subsidiaries.

Provision for Income Taxes

We recognized \$72.7 million of income tax expense during the three months ended June 27, 2015, compared with \$88.3 million for the three months ended June 28, 2014. Our effective tax rate for the three months ended June 27, 2015, was 29.4%, compared to 32.0% for the three months ended June 28, 2014. The decrease in our effective tax rate was primarily due to the increase in taxable income in certain of our non-U.S. subsidiaries (predominantly European operations) during the three months ended June 27, 2015, which are subject to lower statutory income tax rates. Given that certain of our non-U.S. operations have become consistently profitable, we expect this impact on our combined, consolidated effective rate to continue.

Our effective tax rate may fluctuate from time to time due to the effects of changes in U.S. state and local taxes and tax rates in foreign jurisdictions. In addition, factors such as the geographic mix of earnings, enacted tax legislation and the results of various global tax strategies, may also impact our effective tax rate in future periods.

Net Income

As a result of the foregoing, our net income declined \$13.3 million, or 7.1%, to \$174.4 million during the three months ended June 27, 2015, compared to \$187.7 million for the three months ended June 28, 2014, which included unfavorable foreign currency effects of \$11.9 million.

Liquidity and Capital Resources

Liquidity

Our primary sources of liquidity are the cash flows generated from our operations, along with borrowings available under our 2013 Credit Facility (see below discussion regarding Senior Unsecured Revolving Credit Facility) and available cash and cash equivalents. Our primary use of this liquidity is to fund our ongoing cash requirements, including working capital requirements, global retail store expansion and renovation, construction and renovation of shop-in-shops, investment in information systems infrastructure and expansion of our distribution and corporate facilities. We believe that the cash generated from our operations, together with borrowings available under our revolving credit facility and available cash and cash equivalents, will be sufficient to meet our working capital needs for the next 12 months, including investments made and expenses incurred in connection with our store growth plans,

shop-in-shop growth, investments in corporate and distribution facilities, continued systems development, as well as e-commerce and marketing initiatives. We spent approximately \$106 million on capital expenditures during the three months ended June 27, 2015, and expect to spend approximately \$294 million on capital expenditures during the remainder of Fiscal 2016.

The following table sets forth key indicators of our liquidity and capital resources (in thousands):

| | As of | |
|----------------------------|------------------|-------------------|
| | June 27, 2015 | March 28, 2015 |
| Balance Sheet Data: | | |
| Cash and cash equivalents | \$ 808,540 | \$ 978,922 |
| Working capital | \$ 1,474,851 | \$ 1,687,350 |
| Total assets | \$ 2,556,668 | \$ 2,691,893 |

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| | Three Months Ended | |
|--|---------------------------|--------------------------|
| | June 27, 2015 | June 28, 2014 |
| Cash Flows Provided By (Used In): | | |
| Operating activities ⁽¹⁾ | \$ 279,671 | \$ 222,385 |
| Investing activities | (114,304) | (77,691) |
| Financing activities | (337,817) | 22,822 |
| Effect of exchange rate changes | 2,068 | 3,060 |
| Net (decrease) increase in cash and cash equivalents ⁽¹⁾ | \$ (170,382) | \$ 170,576 |

- (1) The above cash flow information the three months ended June 28, 2014 reflects the reclassification of credit card receivable balances of \$16.7 million and \$16.0 million as of June 28, 2014 and March 29, 2014, respectively, from accounts receivable to cash and cash equivalents to conform to the current-period presentation.

Cash Provided by Operating Activities

Cash provided by operating activities increased \$57.3 million to \$279.7 million during the three months ended June 27, 2015, as compared to \$222.4 million for the three months ended June 28, 2014. The increase in cash flows from operating activities is primarily due to an increase related to changes in our working capital, as well as higher net income after non-cash adjustments. The increase in cash flows related to our working capital was driven by: a favorable change in our accounts receivable primarily due to timing of cash collections; a decrease in cash outflows on our inventory primarily attributable to higher beginning inventory in the current year due to the timing of inventory receipts; and an increase in accounts payable due to increased capital expenditures and inventory purchases to support our business growth. These increases were partially offset by a decrease in accrued expenses and other current liabilities primarily due to the timing of payments.

Cash Used in Investing Activities

Net cash used in investing activities increased \$36.6 million to \$114.3 million during the three months ended June 27, 2015, as compared to \$77.7 million during the three months ended June 28, 2014. The increase in cash used in investing activities is primarily due to increased capital expenditures as a result of the build-out of our new retail stores and shop-in-shops, as well as investments in our information technology, distribution system enhancements and various other improvements to our infrastructure.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities was \$337.8 million for the three months ended June 27, 2015, as compared to net cash provided by financing activities of \$22.8 million for the three months ended June 28, 2014. This decline in cash from financing activities was primarily attributable to increased cash payments of \$350.0 million in connection with the repurchase of our ordinary shares, as well as a \$10.6 million decline in proceeds from our share option arrangements.

Revolving Credit Facility*Senior Unsecured Revolving Credit Facility*

On February 8, 2013, we entered into a senior unsecured credit facility (2013 Credit Facility). Pursuant to the agreement, the 2013 Credit Facility provides for up to \$200.0 million of borrowings, and expires on February 8, 2018. The agreement also provides for loans and letters of credit to our European subsidiaries of up to \$100.0 million. The 2013 Credit Facility contains financial covenants, such as requiring an adjusted leverage ratio of 3.5 to 1.0 (with the ratio being total consolidated indebtedness plus 8.0 times consolidated rent expense to EBITDA plus consolidated rent expense) and a fixed charge coverage ratio of 2.0 to 1.0 (with the ratio being EBITDA plus consolidated rent expense to the sum of fixed charges plus consolidated rent expense), restricts and limits additional indebtedness, and restricts the incurrence of additional liens and cash dividends. As of June 27, 2015, we were in compliance with all of our covenants covered under this agreement.

Borrowings under the 2013 Credit Facility accrue interest at the rate per annum announced from time to time by the agent based on the rates applicable for deposits in the London interbank market for U.S. Dollars or the applicable currency in which the loans are made (the Adjusted LIBOR) plus an applicable margin. The applicable margin may range from 1.25% to 1.75%, and is based on, or dependent upon, a particular threshold related to the adjusted leverage ratio calculated during the period of borrowing. The 2013 Credit Facility requires an annual facility fee of \$0.1 million, and an annual commitment fee of 0.25% to 0.35% on the unused portion of the available credit under the facility.

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As of June 27, 2015 and March 28, 2015, there were no borrowings outstanding under the 2013 Credit Facility, and there were no amounts borrowed during the three-month periods ended June 27, 2015 and June 28, 2014. As of June 27, 2015, there were stand-by letters of credit of \$10.9 million outstanding. As of June 27, 2015, the amount available for future borrowings was \$189.1 million.

Contractual Obligations and Commercial Commitments

Refer to the Contractual Obligations and Commercial Commitments disclosure within the *Liquidity and Capital Resources* section of our Fiscal 2015 Form 10-K for a detailed disclosure of our contractual obligations and commitments as of March 28, 2015.

Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. In addition to the commitments in the above table, our off-balance sheet commitments relating to our outstanding letters of credit were \$10.9 million at June 27, 2015. We do not have any other off-balance sheet arrangements or relationships with entities that are not consolidated into our financial statements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Recent Accounting Pronouncements

See Note 2 to the accompanying interim consolidated financial statements for recently issued accounting standards which may have an impact on our financial statements and/or disclosures upon adoption.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks during the normal course of our business, such as risk arising from fluctuations in foreign currency exchange rates, as well as fluctuations in interest rates. In attempts to manage these risks, we employ certain strategies to mitigate the effect of these fluctuations. We enter into foreign currency forward contracts to manage our foreign currency exposure to the fluctuations of certain foreign currencies. The use of these instruments primarily helps to manage our exposure to our foreign purchase commitments and better control our product costs. We do not use derivatives for trading or speculative purposes.

Foreign Currency Exchange Risk

We are exposed to risks on certain purchase commitments to foreign suppliers based on the value of our purchasing subsidiaries local currency relative to the currency requirement of the supplier on the date of the commitment. As such, we enter into forward currency exchange contracts that generally mature in 12 months or less and are consistent with the related purchase commitments. These contracts are recorded at fair value in our consolidated balance sheets as either an asset or liability, and are derivative contracts to hedge cash flow risks. Certain of these contracts are designated as hedges for hedge accounting purposes, while certain of these contracts, currently a relatively small portion, are not designated as hedges for accounting purposes. Accordingly, the changes in the fair value of the majority of these contracts at the balance sheet date are recorded in our equity as a component of accumulated other comprehensive income, and upon maturity (settlement) are recorded in, or reclassified into, our cost of sales or operating expenses, in our consolidated statement of operations, as applicable to the transactions for which the forward currency exchange contracts were established. For those contracts which are designated as hedges for

accounting purposes, any portion of those contracts deemed ineffective would be charged to earnings, in the period the ineffectiveness was determined.

We perform a sensitivity analysis on our forward currency contracts, both designated and not designated as hedges for accounting purposes, to determine the effects of fluctuations in foreign currency exchange rates. For this sensitivity analysis, we assume a hypothetical change in U.S. dollar against foreign exchange rates. Based on all foreign currency exchange contracts outstanding as of June 27, 2015, a 10% appreciation or devaluation of the U.S. dollar compared to the level of foreign currency exchange rates for currencies under contract as of June 27, 2015, would result in a net increase and decrease of approximately \$28 million and \$29 million, respectively, in the fair value of these contracts.

Interest Rate Risk

We are exposed to interest rate risk in relation to our 2013 Credit Facility. Our 2013 Credit Facility carries interest rates that are tied to LIBOR and the prime rate, among other institutional lending rates (depending on the particular origination of borrowing), and therefore our statements of operations and cash flows are exposed to changes in those interest rates. At June 27, 2015 and March 28, 2015, there were no balances outstanding on our 2013 Credit Facility, which is not indicative of future balances that may be subject to fluctuations in interest rates. Any increases in the applicable interest rate(s) would cause an increase to the interest expense on our 2013 Credit Facility relative to any outstanding balance at that date.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")) as of June 27, 2015. This evaluation was performed based on the criteria set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the 2013 Framework. Based on this assessment, our CEO and CFO concluded that our disclosure controls and procedures as of June 27, 2015 are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended June 27, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Please refer to our Annual Report on Form 10-K for the fiscal year ended March 28, 2015, for a detailed discussion of certain risk factors that could materially adversely affect the Company's business, operating results and/or financial condition. There are no material changes to the risk factors previously disclosed, nor has the Company identified any previously undisclosed risks that could materially adversely affect the Company's business, operating results and/or financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Issuer Purchases of Equity Securities

On October 30, 2014, the Company's Board of Directors authorized a \$1.0 billion share repurchase program, which authorized the repurchase of the Company's shares for a period of two years. On May 20, 2015, the Company's Board of Directors authorized the repurchase of up to an additional \$500 million under the Company's existing share repurchase program and extended the program through May 2017. The Company also has in place a "withhold" to cover repurchase program, which allows the Company to withhold ordinary shares from certain executive officers to satisfy minimum tax withholding obligations relating to the vesting of their restricted share awards.

The following table provides information of the Company's ordinary shares repurchased during the three months ended June 27, 2015:

| | | | Total Number of Shares (or Units) | Maximum Number (or Approximated Dollar Value) of Shares (or Units) that may yet be Purchased Under the Plans or Programs |
|---------------------|---|---|--|---|
| | Total Number of Shares Purchased | Average Price Paid per Share | Purchased as Part of Publicly Announced Plans or Programs | |
| March 29 - April 25 | 791,630 | \$ 63.15 | 791,630 | \$ 458,062,218 |
| April 26 - May 23 | 158,598 | \$ 63.13 | 158,598 | \$ 948,050,667 |
| May 23 - June 27 | 6,032,664 ⁽¹⁾ | \$ 48.25 | 6,010,124 | \$ 658,051,191 |
| | 6,982,892 | \$ 50.28 | 6,960,352 | |

- ⁽¹⁾ Includes 22,540 shares withheld to satisfy minimum tax withholding obligations relating to the vesting of certain restricted share awards.

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ITEM 6. EXHIBITS

a. Exhibits

See accompanying Exhibit Index included after the signature page of this report for a list of exhibits filed or furnished with this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on August 6, 2015.

MICHAEL KORS HOLDINGS LIMITED

By: /s/ John D. Idol
Name: John D. Idol
Title: Chairman & Chief Executive Officer

By: /s/ Joseph B. Parsons
Name: Joseph B. Parsons
Title: Executive Vice President, Chief
Financial Officer, Chief Operating
Officer and Treasurer

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INDEX TO EXHIBITS

| Exhibit No. | Description |
|----------------|---|
| 10.1 | Second Amended and Restated Employment Agreement, dated as of May 20, 2015, by and among Michael Kors (USA), Inc., Michael Kors Holdings Limited and Michael Kors (included as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended March 28, 2015 filed on May 27, 2015, and incorporated herein by reference). |
| 10.2 | Second Amended and Restated Employment Agreement, dated as of May 20, 2015, by and among Michael Kors (USA), Inc., Michael Kors Holdings Limited and John D. Idol (included as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended March 28, 2015 filed on May 27, 2015, and incorporated herein by reference). |
| 10.3 | Michael Kors Holdings Limited Amended and Restated Omnibus Incentive Plan (included as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on June 16, 2015, and incorporated herein by reference). |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.1 | The following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 27, 2015, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Shareholders' Equity (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements. |