BetterInvesting Adding Judgment Series

Research and YOUR Stock Selection Guide

Ann Cuneaz, Education Program Manager, BetterInvesting
Ken Kavula, President, Mid-Michigan Chapter

October 10, 2012

Disclaimer

• The information in this presentation is for educational purposes only and is not intended to be a recommendation to purchase or sell any of the stocks, mutual funds, or other securities that may be referenced. The securities of companies referenced or featured in the seminar materials are for illustrative purposes only and are not to be considered endorsed or recommended for purchase or sale by BetterInvesting™ National Association of Investors Corporation ("BI"). The views expressed are those of the instructors, commentators, guests and participants, as the case may be, and do not necessarily represent those of BetterInvesting™. Investors should conduct their own review and analysis of any company of interest before making an investment decision.

• Securities discussed may be held by the instructors in their own personal portfolios or in those of their clients. BI presenters and volunteers are held to a strict code of conduct that precludes benefiting financially from educational presentations or public activities via any BetterInvesting programs, events and/or educational sessions in which they participate. Any violation is strictly prohibited and should be reported to the CEO of BetterInvesting or the Director of Chapter Relations.

• This presentation may contain images of websites and products or services not endorsed by BetterInvesting. The presenter is not endorsing or promoting the use of these websites, products or services.

• This session is being recorded for future use.
WHY DO RESEARCH?

- Add to your factual knowledge
- Collect opinions
- Refine your own opinions
- Confirm your results
- Validate your reasoning

STANDARD SOURCES

- Value Line Investment Survey
- Morningstar Investment Research Center
- S&P Stock Reports
- Yahoo.finance
- Company specific websites
- Additional websites or printed materials where appropriate
CLASS MATERIALS

• Includes ALL standard sources specific to Coach, Inc. (COH)
• Download from: www.BetterInvesting.org/AddingJudgment
Stock Research Form

- Make it YOURS
- Use it consistently
- Think about the numbers you collect
- Remember that not all data exists or is easy to uncover for all stocks
- Form available to download at: www.BetterInvesting.org/AddingJudgment
4.0 CONCLUDING DIALOGUE (STOCK SELECTION REPORT)

To complete, make selections from choices presented in each statement below.

1. The company is well-established (new) and operates (internationally) (nationally) (regionally)
2. The product line or service is (diversified) (limited) and sold to (consumers) (manufacturers) (other companies) (government)
3. Business cycles affect sales and earnings (minimally) (moderately) (severely)
4. Interest rates for T-bills are historically (low) (average) (high) and seem to be (trending upward) (steady) (trending downward)
5. Current inflation rates are (low) (average) (high) and seem to be (trending upward) (steady) (trending downward)
6. In its industry, the company is the (largest player) (in the top five) (an average or smaller size) in the industry
7. The company has a (continuous dividend record for ______) years (an inconsistent dividend record) (no dividend record)
8. The business cycle seems to be (trending upward) (steady) (trending downward)
9. The current stage of the business cycle tends to (help) (not affect) (hurt) the profits of the company which suggests (no concern) (caution) (optimism) for the company under review

4.1 YOUR PROJECTIONS ON THE SSG (SUMMARY)

<table>
<thead>
<tr>
<th>Value</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Growth</td>
<td></td>
</tr>
<tr>
<td>EPS Growth</td>
<td></td>
</tr>
<tr>
<td>High P/E</td>
<td></td>
</tr>
<tr>
<td>Low P/E</td>
<td></td>
</tr>
<tr>
<td>Low Price</td>
<td></td>
</tr>
<tr>
<td>% Equity</td>
<td></td>
</tr>
</tbody>
</table>

4.2 YOUR FINAL RECOMMENDATION (BUY, SELL, HOLD) WITH RATIONALE
Remember…

- The goal is not to fill out the form.
- The judgments you make are yours.
- Your judgments are not right or wrong.
- You are trying to use the form to make more informed, better judgments.
- The form should help expand, refine, validate and/or confirm your judgments.
### BetterInvesting Adding Judgment Series

#### ANNUAL RATES of change (per sh) Past 10 Yrs. Past 5 Yrs. Est’d ’09-’11 to ’15-’17

<table>
<thead>
<tr>
<th></th>
<th>Past 10 Yrs</th>
<th>Past 5 Yrs</th>
<th>Est’d ’09-’11 to ’15-’17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>20.5%</td>
<td>22.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>“Cash Flow”</td>
<td>28.5%</td>
<td>20.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Earnings</td>
<td>30.5%</td>
<td>19.5%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Dividends</td>
<td>- -</td>
<td>- -</td>
<td>32.0%</td>
</tr>
<tr>
<td>Book Value</td>
<td>24.5%</td>
<td>15.0%</td>
<td>16.0%</td>
</tr>
</tbody>
</table>

---

### BetterInvesting Adding Judgment Series

#### Value Line

DATA GRID

---

Adding Judgment to the Stock Selection Guide Series

www.BetterInvesting.org/AddingJudgment
Coach continues to impress despite a still tough operating environment. The company reported a 2.4% share-net advance in the third quarter (fiscal year ends June 30th), in spite of weak global economies and lofty costs. However, share repurchases padded EPS growth. The real catalyst remained momentum at the top line, a testament to many of management’s earlier initiatives. The decision to lower price points on certain lines in an attempt to keep registers ringing at traditional stores looks to have been the right move, aiding sales and reducing discounts. We have bumped up already healthy fiscal fourth-quarter top- and bottom-line estimates. Domestic sales ought to continue benefitting from the repositioning of Coach’s women’s lines, but will likely also get a significant boost from the expansion of its men’s offerings. Men are undoubtedly becoming more fashion conscious, a trend that the rollout of men’s stores should profit from. Coach has already introduced flagship stores in China, and believes that the men’s business could top $400 million this year and eventually become a $1 billion operation.

These investments come at a cost, and will likely weigh on margins, but should help Coach achieve 25% share-net and 16% core growth in the June period. Our fiscal 2013 estimates assume continued success on the global stage. Management has successfully developed its brand in Japan, and is now implementing a similar strategy in China. China represents tremendous opportunity, given its vast population and love for Western goods. The country’s low labor costs also promise higher margins. Plus, Coach is also testing the European market, opening its second flagship store in London. Expansion into these areas ought to make 15% share-net growth feasible next year. Yet, the stock appears a tad too pricey in our eyes. It has continued to gain momentum since our February report (COH is up about 25% over the past 52 weeks), discounting a fair portion of the gains we envision out to 2015-2017. Investors should note, though, the company’s strong finances and recent willingness to reward shareholders. The quarterly dividend to be paid in July was raised 33%.

Andre J. Costanza
May 4, 2012
Adding Judgment to the Stock Selection Guide Series

www.BetterInvesting.org/AddingJudgment
**Thesis** Apr. 27, 2012

With such historically strong financial metrics, investors may worry how sustainable Coach’s record is. Fashion-driven companies can often seem like high-return companies when products and styles are popular, and fade quickly when tastes and preferences change. In our view, Coach has developed a narrow economic moat through a brand that commands pricing power, sourcing and distribution advantages, and attention on capital.

Comprehensive report is broken down into sections. It helps to read entire report.

---

The report frequently mentions and compares featured company to competitors.

<table>
<thead>
<tr>
<th>Close Competitors</th>
<th>Currency(All)</th>
<th>Market Cap</th>
<th>TTM Sales</th>
<th>Opn Income</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coach, Inc.</td>
<td>USD</td>
<td>19,297</td>
<td>4840</td>
<td>1,472</td>
<td>960</td>
</tr>
<tr>
<td>LVMH Moet Hennessy Louis Vuitton S A</td>
<td>USD</td>
<td>—</td>
<td>78,330</td>
<td>4,548</td>
<td>2,460</td>
</tr>
<tr>
<td>Compagnie Financiere Richemont SA</td>
<td>USD</td>
<td>3,837</td>
<td>873</td>
<td>300</td>
<td>227</td>
</tr>
<tr>
<td>Hermes International</td>
<td>USD</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

*Market data as of May 14, 2012.*
^^^
Morningstar reports data but does not make significant numbers of long-term projections.
### Key Stock Statistics

<table>
<thead>
<tr>
<th>Key Stock Statistics Source: S&amp;P</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>52-Wk Range</strong></td>
<td><strong>$79.70 - 45.39</strong></td>
</tr>
<tr>
<td><strong>P/E (FY 2012E)</strong></td>
<td><strong>3.52</strong></td>
</tr>
<tr>
<td><strong>P/B (FY 2012E)</strong></td>
<td><strong>3.35</strong></td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td><strong>$18.61</strong></td>
</tr>
<tr>
<td><strong>Dividend Rate/Share</strong></td>
<td><strong>1.20</strong></td>
</tr>
<tr>
<td><strong>Dividend Yield (%)</strong></td>
<td><strong>5.39</strong></td>
</tr>
<tr>
<td><strong>Beta</strong></td>
<td><strong>1.60</strong></td>
</tr>
<tr>
<td><strong>S&amp;P 3-Yr. Proj. EPS CAGR (%)</strong></td>
<td><strong>18</strong></td>
</tr>
<tr>
<td><strong>S&amp;P Credit Rating</strong></td>
<td><strong>NA</strong></td>
</tr>
</tbody>
</table>

### Highlights

---

**Adding Judgment to the Stock Selection Guide Series**

www.BetterInvesting.org/Adding Judgment
**Highlights**

- In FY 11, COH estimated the U.S. addressable market for women’s accessories and handbags grew to 10%, to $63 billion; the company grew more rapidly, expanding its U.S. market share. A re-emphasis on Coach Men’s also doubled the business to about $100 million, and a focus on expanding retail distribution increased COH’s market share in China to 6%, or $180 million.

- We forecast sales of $42.9 billion in FY 12. The company intends to expand global retail square footage 12%, concentrating on China, where it projects sales of over $100 million, and on Coach Men’s, which it sees exceeding $400 million in sales. We expect operating margins to widen to 32.5% in FY 12 from an adjusted 32.1% in FY 11, driven by sourcing initiatives, reduced discounting in factory stores, and SG&A expense leverage despite ongoing infrastructure investments. COH will also anniversarize higher sourcing costs (mainly reflecting wage inflation in China) in the second half of FY 12. We project sales of $44.7 billion and an operating margin of 32.2% in FY 13.

- Assuming share repurchases, we see EPS of $3.52 in FY 12 and $4.15 in FY 13.

---

**Investment Rationale/Risk**
**Investment Rationale/Risk** has similarities to Bulls Say/Bears Say from Morningstar.

Business Summary provides insight into how the company makes money and the strategies for future growth.
Adding Judgment to the Stock Selection Guide Series

**Sub-Industry: Apparel, Accessories & Luxury Goods Peer Group**

<table>
<thead>
<tr>
<th>Peer Group</th>
<th>Stock Symbol</th>
<th>PE</th>
<th>Earnings (Q1)</th>
<th>Earnings (Q4)</th>
<th>Revenue (Q1)</th>
<th>Revenue (Q4)</th>
<th>Return on Equity (%)</th>
<th>P/E Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coach Inc</td>
<td>COH</td>
<td>18</td>
<td>8.70</td>
<td>9.20</td>
<td>1,460</td>
<td>1,500</td>
<td>25.2</td>
<td>1.8</td>
</tr>
<tr>
<td>PVH Corp</td>
<td>PVH</td>
<td>21</td>
<td>1.90</td>
<td>1.10</td>
<td>21.60</td>
<td>21.80</td>
<td>26.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Ralph Lauren Corp/A</td>
<td>TRL</td>
<td>21</td>
<td>1.90</td>
<td>1.10</td>
<td>21.60</td>
<td>21.80</td>
<td>26.8</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Note: Not Evaluated/M: Not Ranked/VR: Non-Rated. Peer Group with more than 15 companies or stocks, selection of issues is based on market capitalization.

S&P report always contains very useful section on industry peer group.
Adding Judgment to the Stock Selection Guide Series

BetterInvesting

Page 17
Where's the Investor Relations section?
I was also looking for a PPT presentation. I could not find one for COH.
**ADDING JUDGMENT SERIES GOALS**

- Present and explain the use of standard sources
- Demonstrate one method for collecting and organizing data
- Further explain and refine the judgment process on the Stock Selection Guide

**ADDING JUDGMENT SERIES**

- Adding Judgment 5-Class Series
  - Begins Oct 18th and ends Nov 29th
  - All class sessions are recorded and may be accessed until March 29, 2013
  - For more information visit www.BetterInvesting.org/AddingJudgment
- Class 1, Oct 18th
  - Chart a Course to Better Sales Growth Forecasts
  - Complete page 1 of the Stock Research Form for Coach and project the future sales growth rate
Research and YOUR Stock Selection Guide (SSG)
BetterInvesting

READ
THINK
ANALYZE

Questions or Comments?
anncc@betterinvesting.org
kkavula1@comcast.net