

ness cases, luggage, leather outerwear, gloves, scarves, and personal planning products. Also licenses watches, footwear, and home and office furniture. Operates 441 North American stores (in-

Off./dir. own 5.1% of common shares (10/09 Proxv). Chairman and CEO: Lew Frankfort. Inc.: MD. Add.: 516 W. 34th St.. New York. NY. 10001. Tel.: 212-594-1850. Internet: www.coach.com.

ANNUAL RATES Past Est'd '07-'09 Past 5 Yrs. 27.0% 33.5% of change (per sh) 10 Yrs. to '12-'14 11.0% 8.0% Sales 'Cash Flow' Earnings 7.5% - -34.0% Dividends 30.5% Book Value 13 0%

315.9

450.9

356.2

459.7

457.6

578.5

Debt Due

Current Liab.

Other

Fiscal Year Ends			ALES (\$ mi Mar.Per		Full Fiscal Year
2006	449.0	650.3	497.9	514.3	2111.5
2007	529.5	805.6	625.3	652.1	2612.5
2008	676.7	978.1	744.5	781.5	3180.8
2009	752.5			777.7	3230.5
2010	761.4	1065.0	803.6	850	3480
Fiscal	EARNINGS PER SHARE A B				<u>_F</u> ull _
Year Ends	Sep.Per	Dec.Per	Mar.Per	Jun.Per	Fiscal Year
2006	.24	.45	.28	.30	1.27
2007	.31	.57	.39	.42	1.69
2008	.41	.69	.46	.50	2.06
2009	.44	.67	.38	.43	1.91
2010	.44	.75	.43	.50	2.12
Cal-	QUARTERLY DIVIDENDS PAID Ful				
endar	Mar.31	Jun.30	Sep.30	Dec.31	Year
2006					
2007					
2008					
2009		.075	.075	.075	.225
2010					

Wall Street did not appear to be impressed with Coach's second-quarter results (fiscal year ends July 3rd). Indeed, the stock gave back most of the earlier gains enioved since our November report despite the company's 12% earnings advance and 11% sales improvement. Investors seemed to be disappointed by the handbag and accessories maker's North American same-store sales, which, although up 3% from the year before level. came up short of expectations despite greater promotional and discount activity.

Still. we've raised our full-vear es**timates.** Although management seemed a bit conservative looking ahead and current inventory levels (down 30% from the year before) do not suggest that an uptick in demand trends are expected, we think that the earlier decision to revise the average selling price downward by 10%-15% ought to help COH continue to increase market share and drive relatively healthy top- and bottom-line gains regardless of the economic climate. Specifically, we look for sales and earnings growth of 9% and 15%. respectively in the second half of the year.

China is to become a bigger part of

the **puzzle.** Coach announced that it was accelerating its growth strategy in China. with the latest plan calling for the chain to open 15 stores there this year, up from the originally slated 10. Chinese same-store sales growth far exceeded that of its more mature U.S. and Japanese counterparts. and should continue to do so given the areas' population and thirst for Western fashions. In that vein, management believes that China could turn profitable next vear and command 10% of the overall market within the next five years.

The stock remains on our recommended list. It is ranked 1 (Highest) for Timeliness and stands out for 3- to 5-vear appreciation potential at the current quotation. We believe that expansion into China will be a catalyst going forward. picking up the slack of any potential slowdown in the U.S. and/or Japan due to market saturation. A healthy cash reserve and strong cash flow will fund the investment as well as enable management to boost shareholder returns until these stores are up and running via share repurchases and dividend increases. February 5, 2010 Andre J. Costanza

(A) Fiscal year ends Sat. closest to June 30th. **(B)** Diluted eas. Includes the expensing of stock options beginning in fiscal 2007. Reflects discontinuation of corporate accounts business

beginning 2006. Excludes \$0.12 of nonrecurring items in '08. Next eas. report due mid-April. May not add due to rounding. (C) Store count only reflects North American retail on record as of 6/8/09.

and factory stores. Excludes 200 locations in Japan and China. (D) In mill.. adi. for splits. (E) Initial dividend paid on 6/29/09 to stockholders

Company's Financial Strength Stock's Price Stability 55 Price Growth Persistence 85 Earnings Predictability