

Capri Holdings Ltd
Form 10-Q
February 07, 2019

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 December 29, 2018

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

(Exact Name of Registrant as Specified in Its Charter)

British Virgin Islands N/A
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

33 Kingsway
London, United Kingdom
WC2B 6UF

(Address of principal executive offices)

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

Michael Kors Holdings Limited

(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the

extended transition period for complying with any
new or revised financial accounting standards
provided pursuant to Section 13(a) of the Exchange
Act.

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

As of January 31, 2019, Capri Holdings Limited had 150,708,513 ordinary shares outstanding.

TABLE OF CONTENTS

	Page No.
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	3
<u>Consolidated Balance Sheets (unaudited) as of December 29, 2018 and March 31, 2018</u>	<u>3</u>
<u>Consolidated Statements of Operations and Comprehensive Income (unaudited) for the three months and nine months ended December 29, 2018 and December 30, 2017</u>	<u>4</u>
<u>Consolidated Statements of Shareholders' Equity (unaudited) for the nine months ended December 29, 2018</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (unaudited) for the nine months ended December 29, 2018 and December 30, 2017</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
Item 4. <u>Controls and Procedures</u>	<u>56</u>
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>57</u>
Item 1A. <u>Risk Factors</u>	<u>57</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>57</u>
Item 6. <u>Exhibits</u>	<u>57</u>
<u>Signatures</u>	<u>58</u>

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CAPRI HOLDINGS LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	December 29, 2018	March 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$264.5	\$163.1
Receivables, net	291.2	290.5
Inventories	764.7	660.7
Prepaid expenses and other current assets	2,119.1	147.8
Total current assets	3,439.5	1,262.1
Property and equipment, net	543.6	583.2
Intangible assets, net	1,132.9	1,235.7
Goodwill	780.0	847.7
Deferred tax assets	47.2	56.2
Other assets	85.2	74.1
Total assets	\$6,028.4	\$4,059.0
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$329.0	\$294.1
Accrued payroll and payroll related expenses	99.2	93.0
Accrued income taxes	22.5	77.6
Short-term debt	579.4	200.0
Accrued expenses and other current liabilities	357.3	295.6
Total current liabilities	1,387.4	960.3
Deferred rent	130.6	128.4
Deferred tax liabilities	181.6	186.3
Long-term debt	1,954.7	674.4
Other long-term liabilities	107.0	88.1
Total liabilities	3,761.3	2,037.5
Commitments and contingencies		
Shareholders' equity		
Ordinary shares, no par value; 650,000,000 shares authorized; 213,432,129 shares issued and 148,313,496 outstanding at December 29, 2018; 210,991,091 shares issued and 149,698,407 outstanding at March 31, 2018	—	—
Treasury shares, at cost (65,118,633 shares at December 29, 2018 and 61,292,684 shares at March 31, 2018)	(3,223.1)	(3,015.9)
Additional paid-in capital	892.4	831.1
Accumulated other comprehensive (loss) income	(92.9)	50.5
Retained earnings	4,687.3	4,152.0
Total shareholders' equity of Capri	2,263.7	2,017.7
Noncontrolling interest	3.4	3.8
Total shareholders' equity	2,267.1	2,021.5

Total liabilities and shareholders' equity	\$6,028.4	\$4,059.0
See accompanying notes to consolidated financial statements.		

CAPRI HOLDINGS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In millions, except share and per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 29,	December 30,	December 29,	December 30,
	2018	2017	2018	2017
Total revenue	\$1,438.0	\$ 1,440.1	\$3,894.3	\$ 3,539.1
Cost of goods sold	564.8	556.1	1,507.2	1,389.6
Gross profit	873.2	884.0	2,387.1	2,149.5
Selling, general and administrative expenses	506.1	485.9	1,466.0	1,267.4
Depreciation and amortization	51.5	54.0	160.1	149.9
Impairment of long-lived assets	5.9	2.6	17.2	18.9
Restructuring and other charges ⁽¹⁾	19.7	28.0	49.2	51.3
Total operating expenses	583.2	570.5	1,692.5	1,487.5
Income from operations	290.0	313.5	694.6	662.0
Other income, net	(1.4)	(0.1)	(3.7)	(1.0)
Interest expense, net	7.7	8.3	21.1	10.2
Foreign currency loss (gain)	42.6	27.0	78.5	(14.7)
Income before provision for income taxes	241.1	278.3	598.7	667.5
Provision for income taxes	41.7	58.9	76.0	119.9
Net income	199.4	219.4	522.7	547.6
Less: Net loss attributable to noncontrolling interest	(0.2)	—	(0.9)	(0.2)
Net income attributable to Capri	\$199.6	\$ 219.4	\$523.6	\$ 547.8
Weighted average ordinary shares outstanding:				
Basic	149,183,049	152,047,963	149,420,087	152,772,067
Diluted	150,268,424	154,623,339	151,457,921	155,220,984
Net income per ordinary share attributable to Capri:				
Basic	\$1.34	\$ 1.44	\$3.50	\$ 3.59
Diluted	\$1.33	\$ 1.42	\$3.46	\$ 3.53
Statements of Comprehensive Income:				
Net income	\$199.4	\$ 219.4	\$522.7	\$ 547.6
Foreign currency translation adjustments	(31.7)	41.6	(159.9)	78.7
Net gain (loss) on derivatives	1.7	(0.3)	16.4	(16.4)
Comprehensive income	169.4	260.7	379.2	609.9
Less: Net loss attributable to noncontrolling interest	(0.2)	—	(0.9)	(0.2)
Less: Other comprehensive income (loss) attributable to noncontrolling interest	—	0.1	(0.1)	0.1
Comprehensive income attributable to Capri	\$169.6	\$ 260.6	\$380.2	\$ 610.0

Restructuring and other charges includes store closure costs recorded in connection with the Michael Kors Retail

⁽¹⁾ Fleet Optimization Plan (as defined in Note 9) and other restructuring initiatives, and transaction and transition costs recorded in connection with the acquisitions of Jimmy Choo Group Limited and Gianni Versace S.r.l.

See accompanying notes to consolidated financial statements.

CAPRI HOLDINGS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In millions, except share data which is in thousands)
(Unaudited)

	Ordinary Shares	Additional Paid-in Capital		Treasury Shares	Shares	Amounts	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Equity of Capri	Non-controlling Interests	Total Equity
	Shares	Amount	Shares	Shares	Amounts						
Balance at March 31, 2018, as previously reported	210,991	\$ —	\$ 831.1	(61,293)	\$(3,015.9)		\$ 50.5	\$ 4,152.0	\$ 2,017.7	\$ 3.8	\$ 2,021.5
Adoption of accounting standards (See Note 2)	—	—	—	—	—		—	11.7	11.7	—	11.7
Balance as of April 1, 2018	210,991	—	831.1	(61,293)	(3,015.9)		50.5	4,163.7	2,029.4	3.8	2,033.2
Net income (loss)	—	—	—	—	—		—	523.6	523.6	(0.9)	522.7
Other comprehensive loss	—	—	—	—	—		(143.4)	—	(143.4)	(0.1)	(143.5)
Total comprehensive income (loss)	—	—	—	—	—		—	—	380.2	(1.0)	379.2
Vesting of restricted awards, net of forfeitures	781	—	—	—	—		—	—	—	—	—
Exercise of employee share options	1,660	—	23.0	—	—		—	—	23.0	—	23.0
Equity compensation expense	—	—	38.3	—	—		—	—	38.3	—	38.3
Purchase of treasury shares	—	—	—	(3,826)	(207.2)		—	—	(207.2)	—	(207.2)
Increase in noncontrolling interest	—	—	—	—	—		—	—	—	0.6	0.6
Balance at December 29, 2018	213,432	\$ —	\$ 892.4	(65,119)	\$(3,223.1)		\$(92.9)	\$ 4,687.3	\$ 2,263.7	\$ 3.4	\$ 2,267.1
See accompanying notes to consolidated financial statements.											

See accompanying notes to consolidated financial statements.

CAPRI HOLDINGS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended	
	December 29, 2018	December 30, 2017
Cash flows from operating activities		
Net income	\$522.7	\$ 547.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	160.1	149.9
Equity compensation expense	38.3	29.6
Deferred income taxes	12.1	33.1
Impairment of long-lived assets	17.2	18.9
Tax benefit on exercise of share options	(24.1)	(0.2)
Amortization of deferred financing costs	2.6	2.5
Foreign currency losses (gains)	78.5	(14.7)
Other non-cash charges	2.0	2.6
Change in assets and liabilities:		
Receivables, net	(8.6)	17.1
Inventories	(127.1)	20.8
Prepaid expenses and other current assets	(51.1)	31.9
Accounts payable	52.0	(21.4)
Accrued expenses and other current liabilities	75.1	54.6
Other long-term assets and liabilities	26.0	1.0
Net cash provided by operating activities	775.7	873.3
Cash flows from investing activities		
Capital expenditures	(134.7)	(83.8)
Purchase of intangible assets	(1.7)	(3.2)
Cash paid for business acquisitions, net of cash acquired	(1.8)	(1,414.5)
Realized (loss) gain on hedge related to acquisitions	(77.4)	4.7
Net cash used in investing activities	(215.6)	(1,496.8)
Cash flows from financing activities		
Debt borrowings	3,597.2	2,078.8
Debt repayments	(1,926.3)	(1,222.1)
Debt issuance costs	(15.0)	—
Repurchase of treasury shares	(207.2)	(161.0)
Exercise of employee share options	23.0	5.5
Other financing activities	—	(0.2)
Net cash provided by financing activities	1,471.7	701.0
Effect of exchange rate changes on cash and cash equivalents	(9.1)	10.3
Net increase in cash and cash equivalents and restricted cash	2,022.7	87.8
Beginning of period (including restricted cash of \$0.3 million at March 31, 2018 and \$1.9 million at April 1, 2017)	163.4	229.6
End of period (including restricted cash of \$1,921.6 million and \$0.3 million, respectively, at December 29, 2018 and December 30, 2017)	\$2,186.1	\$ 317.4
Supplemental disclosures of cash flow information		
Cash paid for interest	\$23.7	\$ 6.5

Edgar Filing: Capri Holdings Ltd - Form 10-Q

Cash paid for income taxes	\$128.0	\$ 85.0
Supplemental disclosure of non-cash investing and financing activities		
Accrued capital expenditures	\$23.1	\$ 22.0
See accompanying notes to consolidated financial statements.		

CAPRI HOLDINGS LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Basis of Presentation

The Company was incorporated in the British Virgin Islands (“BVI”) on December 13, 2002 as Michael Kors Holdings Limited and changed its name to Capri Holdings Limited (“Capri,” and together with its subsidiaries, the “Company”) on December 31, 2018. The Company is a holding company that owns brands that are leading designers, marketers, distributors and retailers of branded women’s and men’s accessories, apparel and footwear bearing the Versace, Jimmy Choo and Michael Kors tradenames and related trademarks and logos. The Company’s business consists of four reportable segments: Michael Kors (“MK”) Retail, MK Wholesale, MK Licensing and Jimmy Choo. See Note 18 for additional information.

On November 1, 2017, the Company completed the acquisition of Jimmy Choo Group Limited (“Jimmy Choo”) for a total transaction value of \$1.447 billion. As a result, the Company has consolidated Jimmy Choo into its operations beginning on November 1, 2017, as a separate reporting segment. On December 31, 2018, the Company acquired all outstanding equity interests of Gianni Versace S.r.l. (“Versace”). See Note 4 and Note 20 for additional information. 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 or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The interim consolidated financial statements as of December 29, 2018 and for the three and nine months ended December 29, 2018 and December 30, 2017 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 consolidated 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 consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended March 31, 2018, as filed with the Securities and Exchange Commission on May 30, 2018, 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 and nine months ended December 29, 2018 and December 30, 2017, are based on 13-week and 39-week periods, respectively.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 related to the Company’s customer loyalty program for Michael Kors, estimates of gift card breakage, estimates of inventory recovery, the valuation of share-based compensation, valuation of deferred taxes and the valuation of 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 business. The Company's MK Retail segment generally experiences greater sales during its third fiscal quarter as a result of holiday season sales. The MK Wholesale segment generally experiences the lowest sales in its first fiscal quarter. The Jimmy Choo segment generally experiences greater sales during its first and third fiscal quarters, primarily driven by the product launch calendar and holiday season sales. In the aggregate, the Company's first fiscal quarter typically experiences less sales volume relative to the other three quarters and its third fiscal quarter generally has higher sales volume relative to the other three quarters.

Derivative Financial Instruments

Forward Foreign Currency Exchange Contracts

The Company uses forward currency exchange contracts to manage its exposure to fluctuations in foreign currency for certain 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.

In connection with the September 24, 2018 definitive agreement to acquire all of the outstanding shares of Versace, the Company entered into forward foreign currency exchange contracts with notional amounts totaling €1.680 billion (approximately \$2.001 billion) to mitigate its foreign currency exchange risk through the expected closing date of the acquisition, which were settled on December 21, 2018. Likewise, in connection with the July 25, 2017 cash offer to acquire Jimmy Choo, the Company entered into a forward foreign currency exchange contract with a notional amount of £1.115 billion (approximately \$1.469 billion) to mitigate its foreign currency exchange risk through the expected closing date of the acquisition, which was settled on October 30, 2017. These derivative contracts were not designated as accounting hedges. Therefore, changes in fair value are recorded to foreign currency (gain) loss in the Company's consolidated statements of operations and comprehensive income. The Company's accounting policy is to classify cash flows from derivative instruments in the same category as the cash flows from the items being hedged. Accordingly, during the nine months ended December 29, 2018 and December 30, 2017, the Company classified \$77.4 million of realized losses and \$4.7 million of realized gains, respectively, relating to these derivative instruments within cash flows from investing activities.

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 and the risk being hedged. The 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. 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 and comprehensive income. The Company classifies cash flows relating to its forward foreign currency exchange contracts related to purchase of inventory consistently with the classification of the hedged item, within cash flows 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.

8

Net Investment Hedges

The Company also uses fixed-to-fixed cross currency swap agreements to hedge its net investments in foreign operations against future volatility in the exchange rates between our U.S. Dollars and these foreign currencies. The Company has elected the spot method of designating these contracts under ASU 2017-12, as defined below, and has designated these contracts as net investment hedges. The net gain or loss on net investment hedged is reported within foreign currency translation gains and losses (“CTA”), as a component of accumulated other comprehensive income (loss) on the Company’s consolidated balance sheets. Interest accruals and coupon payments are recognized directly in interest expense in the Company’s statement of operations and comprehensive income. Upon discontinuation of a hedge, all previously recognized amounts remain in CTA until the hedged net investment is sold, diluted, or liquidated.

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 restricted share 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 millions, except share and per share data):

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Numerator:				
Net income attributable to Capri	\$199.6	\$ 219.4	\$523.6	\$ 547.8
Denominator:				
Basic weighted average shares	149,183,152	152,047,963	149,420,182	152,772,067
Weighted average dilutive share equivalents:				
Share options and restricted shares/units, and performance restricted share units	1,085,375	1,575,376	2,037,832	2,448,917
Diluted weighted average shares	150,268,527	153,623,339	151,457,985	155,220,984
Basic net income per share	\$1.34	\$ 1.44	\$3.50	\$ 3.59
Diluted net income per share	\$1.33	\$ 1.42	\$3.46	\$ 3.53

During the three and nine months ended December 29, 2018, share equivalents of 2,022,564 shares and 1,117,277 shares, respectively, have been excluded from the above calculations due to their anti-dilutive effect. Share equivalents of 2,243,436 shares and 2,503,782 shares, respectively, have been excluded from the above calculations during the three and nine months ended December 30, 2017.

See Note 2 in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2018 for a complete disclosure of the Company’s significant accounting policies.

Recently Adopted Accounting Pronouncements

Hedge Accounting

On August 28, 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” The new standard is intended to improve and simplify rules relating to hedge accounting, including the elimination of periodic hedge ineffectiveness, recognition and presentation of components excluded from hedge effectiveness assessment, the ability to elect to perform subsequent effectiveness assessments qualitatively, and other provisions designed to provide more transparency around the economics of a company’s hedging strategy. ASU 2017-12 is effective for the Company in Fiscal 2020, with early adoption permitted. The Company adopted ASU 2017-12 during the three months ended June 30, 2018, which resulted in a net increase to opening retained earnings of less than \$0.1 million as of April 1, 2018, due to the elimination of ineffectiveness for cash flow hedges in effect as of the date of adoption. The Company has applied the spot method of designating its net investment hedges, which were executed during the nine months ended December 29, 2018.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which provides new guidance for revenues recognized from contracts with customers, requiring 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, ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” deferred the effective date of ASU 2014-09 by one year, to interim reporting periods within the annual reporting period beginning after December 15, 2017, or the first quarter of the Company’s Fiscal 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 (“modified retrospective method”).

The FASB issued several additional ASUs to provide implementation guidance on ASU 2014-09, including ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers” in December 2016; ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” in May 2016; ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” in April 2016; and ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” in March 2016. The Company considered this guidance in evaluating the impact of ASU 2014-09 (collectively, “ASC 606”).

On April 1, 2018, the Company adopted ASC 606 using the modified retrospective method and recognized the \$6.7 million (net of a tax of \$1.7 million) cumulative effect of adoption as an adjustment to the opening balance of retained earnings. The below table details the components of the cumulative adjustment recorded on April 1, 2018 (in millions):

	March 31, 2018		April 1, 2018
	As Reported under ASC 605	ASC 606 Adjustments	As Reported Under ASC 606
Receivables, net	\$ 290.5	\$ 3.8	(1) \$ 294.3
Accrued expenses and other current liabilities	295.6	(4.6)	(2) 291.0
Deferred tax liabilities	186.3	1.7	(3) 188.0
Retained earnings	4,152.0	6.7	4,158.7

Includes a \$3.5 million adjustment related to product licensing revenue, which was previously recorded on a one-month lag and \$0.3 million of guaranteed advertising minimums recognized by product licensees on a straight-line basis over the contract year.

(1) Relates to recognition of breakage revenue associated with gift card liabilities not subject to escheatment.

(3) Relates to income tax effect of the above adjustments.

In addition, while the Company has previously recorded the right of return asset and liability on a gross basis, in connection with its adoption of ASC 606, it has reclassified the return liability of \$16.2 million from receivables, net to accrued expenses and other current liabilities in its consolidated balance sheets as of December 29, 2018.

Otherwise, the adoption of this standard did not have a material impact on the Company's consolidated financial statements as of and for the three and nine months ended December 29, 2018, or any individual line items therein. See Note 3 for additional disclosures related to the Company's revenue recognition accounting policy.

Share-Based Compensation

In May 2017, the FASB issued ASU 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting”, which simplifies modification accounting for entities that change the terms or conditions of share-based awards. ASU 2017-09 was adopted during the first quarter of Fiscal 2019, as required, on a prospective basis. The adoption of this standard did not have an impact on the Company's consolidated financial statements. The Company will apply ASU 2017-09 to any future changes to the terms and conditions of its share-based compensation awards.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory”, which requires recognition of income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Company adopted ASU 2016-16 in the beginning of Fiscal 2019, as required, using the modified retrospective method. On April 1, 2018, the Company recorded the \$4.9 million cumulative effect of adoption as an adjustment to the opening balance of retained earnings.

Recently Issued Accounting Pronouncements

We have considered all new accounting pronouncements and, other than the recent pronouncements discussed below, have concluded that there are no new pronouncements that may have a material impact on our results of operations, financial condition or cash flows based on current information.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which requires lessees to recognize a lease liability and a right-to-use asset on the balance sheet for all leases, except certain short-term leases. ASU 2016-02 is effective beginning with the Company's Fiscal 2020, with early adoption permitted. The Company plans to apply the package of three practical expedients, allowing it to carry forward its previous lease classification and embedded lease evaluations and not to reassess initial direct costs as of the date of adoption, as well as the practical expedient allowing it to combine lease and non-lease components. The Company also plans on adopting the practical expedient from ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” allowing it to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without restating the comparative prior year periods. The Company's existing lease obligations, which relate to stores, corporate locations, warehouses, and equipment, will be subject to the new standard and will result in recording a lease liability and right-to-use asset for operating leases on the Company's consolidated balance sheet. Accordingly, adoption of this standard is expected to significantly increase the Company's total assets and total liabilities.

The FASB has issued several additional ASUs to provide implementation guidance relating to ASU 2016-02, including ASU 2018-01, “Land Easement Practical Expedient for Transition to Topic 842” in January 2018, ASU 2018-10, “Codification Improvements to Topic 842, Leases” and ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” both issued in July 2018, and ASU 2018-20, “Leases (Topic 842) - Narrow-Scope Improvements for Lessors” issued in December 2018. The Company will consider this guidance in evaluating the impact of ASU 2016-02.

Intangibles

In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,” which reduces the complexity for the accounting for costs of implementing a cloud computing service arrangement. The standard aligns the accounting for capitalizing implementation costs of hosting arrangements, regardless of whether or not the contract conveys a license to the hosted software. ASU 2018-15 is effective beginning with the Company's Fiscal 2021, with early adoption permitted, and can either be presented prospectively or retrospectively. The Company is currently evaluating the impact of ASU 2018-15 on its consolidated financial statements.

3. Revenue Recognition

The Company accounts for contracts with its customers when there is approval and commitment from both parties, the rights of the parties and payment terms have been identified, the contract has commercial substance and collectability of consideration is probable. Revenue is recognized when control of the promised goods or services is transferred to

the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for goods or services.

The Company sells its products through three primary channels of distribution: retail, wholesale and licensing. Within the retail and wholesale channels, substantially all of the Company's revenues consist of sales of products that represent a single performance obligation, where control transfers at a point in time to the customer. For licensing arrangements, royalty and advertising revenue is recognized over time based on access provided to Michael Kors and Jimmy Choo trademarks.

The Company has chosen to apply the practical expedient allowing it not to disclose the amount of the transaction price allocated to the remaining performance obligations that have an expected duration of 12 months or less.

Retail

Michael Kors generates sales through four primary retail store formats: "Collection" stores, "Lifestyle" stores, outlet stores and e-commerce. Michael Kors sells its own products and licensed products bearing the Michael Kors name, directly to the end consumer throughout the Americas (U.S., Canada and Latin America, excluding Brazil), Europe and certain parts of Asia. Jimmy Choo generates sales through directly operated stores and e-commerce throughout the Americas, EMEA (Europe, Middle East, and Africa) and certain parts of Asia. In addition to these retail formats, the Company operates concessions in a select number of department stores.

Retail revenue is recognized when control of the product is transferred at the point of sale at Company owned stores, including concessions. For e-commerce transactions, control is transferred when products are delivered to the customer, net of estimated returns. To arrive at net sales for retail, gross sales are reduced by actual customer returns, as well as by a provision for estimated future customer returns.

Sales taxes collected from retail customers are presented on a net basis and, as such, are excluded from revenue.

Shipping and handling costs that are billed to customers are included in net sales, with the related costs recorded in cost of goods sold. Shipping and handling costs that are not billed to customers are accounted for as fulfillment costs.

Gift Cards. The Company sells gift cards that can be redeemed for merchandise, resulting in a contract liability recorded upon issuance. Revenue is recognized when the gift card is redeemed or upon "breakage" for the estimated portion of gift cards that are not expected to be redeemed. "Breakage" revenue is calculated under the proportional redemption methodology, which considers the historical patterns of redemption in jurisdictions where the Company is not required to remit the value of the unredeemed gift cards as unclaimed property. The Company anticipates that substantially all of its outstanding gift cards will be redeemed within the next 12 months. The contract liability related to gift cards, net of estimated "breakage," was \$11.8 million as of December 29, 2018, and is included in accrued expenses and other current liabilities in the Company's consolidated balance sheet.

Loyalty Program. The Company offers a loyalty program, which allows its Michael Kors customers to earn points on qualifying purchases toward monetary and non-monetary rewards, which may be redeemed for purchases at Michael Kors retail stores and e-commerce sites. The Company defers a portion of the initial sales transaction based on the estimated relative fair value of the benefits based on projected timing of future redemptions and historical activity. These amounts include estimated "breakage" for points that are not expected to be redeemed. The contract liability, net of an estimated "breakage," of \$7.5 million as of December 29, 2018 is recorded as a reduction to revenue in the consolidated statements of income and comprehensive income and within accrued expenses and other current liabilities in the Company's consolidated balance sheet and is expected to be recognized within the next 12 months.

Wholesale

Michael Kors products are sold primarily to major department stores, specialty stores and travel retail shops throughout the Americas, EMEA and Asia. Jimmy Choo luxury products are sold throughout North America, EMEA, and certain parts of Asia. The Company also has arrangements where Michael Kors and Jimmy Choo products are sold to our geographic licensees in certain parts of EMEA and Asia, as well as in Brazil. Products sold through the wholesale channel include accessories (which include handbags and small leather goods such as wallets), footwear and women's and men's apparel.

Wholesale revenue is recognized net of estimates for sales returns, discounts, markdowns and allowances, after merchandise is shipped and control of the underlying product is transferred to the Company's wholesale customers. To arrive at net sales for wholesale, gross sales are reduced by provisions for estimated future returns, as well as trade discounts, markdowns, allowances, operational chargebacks, and certain cooperative selling expenses. These estimates are developed based on the most likely amount using historical trends, actual and forecasted performance and market

conditions, and are reviewed by management on a quarterly basis. Unfulfilled, noncancelable purchase orders for products from wholesale customers (including the Company's geographic licensees) are expected to be fulfilled within the next 12 months.

Licensing

The Company provides its third-party licensees with the right to access its Michael Kors and Jimmy Choo trademarks under product and geographic licensing arrangements. Under product licensing arrangements, the Company allows third parties to manufacture and sell luxury goods, including watches and jewelry, fragrances, sunglasses and eyewear, using the Company's trademarks. Under geographic licensing arrangements, third party licensees receive the right to distribute and sell products bearing the Company's trademarks in retail and/or wholesale channels within certain geographical areas, including Brazil, the Middle East, Eastern Europe, South Africa, certain parts of Asia and Australia.

The Company recognizes royalty revenue and advertising contributions based on the percentage of sales made by the licensees. Advertising contributions are received to support the Company's branded advertising and marketing campaigns and are viewed as part of a single performance obligation with the right to access the Company's trademarks. Royalty revenue generated from licenses, which includes contributions for advertising, may be subject to contractual minimum levels, as defined in the contract. Such minimums are generally fixed annually, based on the previous year's sales. Licensing revenue is based on reported current period sales of licensed products at rates that are specified in the license agreements for contracts that are expected to exceed the related guaranteed minimums. If the Company expects the minimum guaranteed amounts to exceed amounts calculated based on actual sales, the guaranteed minimums are recognized ratably over the contractual year to which they relate. As of December 29, 2018, guaranteed minimum royalty amounts due from licensees relate to contractual periods that do not exceed 12 months.

Sales Returns

For the sale of goods with a right of return, the Company recognizes revenue for the consideration to which it expects to be entitled and a refund liability for the amount it expects to refund to its customers within accrued expenses and other current liabilities. The refund liability is determined based on the most likely amount and is based on management's review of historical and current customer returns for its retail and wholesale customers, estimated future returns, adjusted for non-resalable products. The Company also considers its product strategies, as well as the financial condition of its customers, store closings by wholesale customers, changes in the retail environment and other macroeconomic factors. The Company recognizes an asset with a corresponding adjustment to cost of sales for the right to recover the products from its retail and wholesale customers, net of any costs to resell. The refund liability recorded as of December 29, 2018 was \$42.1 million and the related asset for the right to recover returned product as of December 29, 2018 was \$11.5 million.

Contract Balances

The Company's contract liabilities, which are recorded within accrued expenses and other current liabilities in its consolidated balance sheets, primarily consist of gift card liabilities, loyalty program liabilities and advanced payments from product licensees. Total contract liabilities were \$25.1 million and \$23.3 million as of December 29, 2018 and March 31, 2018, respectively. Contract liabilities decreased \$4.6 million as a result of the adoption of ASC 606 on April 1, 2018, due to recognition of gift card breakage revenue (see Note 2). For three and nine months ended December 29, 2018, the Company recognized \$2.3 million and \$13.6 million, respectively, in revenue which related to contract liabilities that existed at March 31, 2018. There were no contract assets recorded as of December 29, 2018 and April 1, 2018.

There were no changes in historical variable consideration estimates that were materially different from actual results.

Disaggregation of Revenue

The following table presents the Company's segment revenues disaggregated by geographic location (in millions):

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
MK Retail revenue - the Americas	\$557.1	\$558.0	\$1,354.2	\$1,335.6
MK Retail revenue - Europe	163.9	168.0	422.6	444.3
MK Retail revenue - Asia	117.0	120.3	344.6	331.3
Total MK Retail	838.0	846.3	2,121.4	2,111.2
MK Wholesale revenue - the Americas	311.4	338.2	940.8	905.8
MK Wholesale revenue - EMEA ⁽¹⁾	66.3	81.2	215.6	250.7
MK Wholesale revenue - Asia	17.2	11.4	59.1	41.5
Total MK Wholesale	394.9	430.8	1,215.5	1,198.0
MK Licensing revenue - the Americas	29.2	29.4	67.6	70.2
MK Licensing revenue - EMEA ⁽¹⁾	14.3	18.9	38.8	45.0
Total MK Licensing	43.5	48.3	106.4	115.2
Total Michael Kors	1,276.4	1,325.4	3,443.3	3,424.4
Jimmy Choo revenue - the Americas	29.1	21.0	75.1	21.0
Jimmy Choo revenue - EMEA ⁽¹⁾	89.7	65.0	248.2	65.0
Jimmy Choo revenue - Asia	42.8	28.7	127.7	28.7
Total Jimmy Choo	161.6	114.7	451.0	114.7
Total revenue - the Americas	926.8	946.6	2,437.7	2,332.6
Total revenue - EMEA ⁽¹⁾	334.2	333.1	925.2	805.0
Total revenue - Asia	177.0	160.4	531.4	401.5
Total revenue	\$1,438.0	\$1,440.1	\$3,894.3	\$3,539.1

⁽¹⁾ EMEA is comprised of Europe, the Middle East and Africa.

4. Acquisitions

Acquisition of Jimmy Choo Group Limited

On November 1, 2017, the Company completed the acquisition of Jimmy Choo, whereby the Company acquired all of Jimmy Choo's issued and to be issued shares at a purchase price of 230 pence per share in cash, for a total transaction value of \$1.447 billion, including the repayment of existing debt obligations, which was funded through a combination of borrowings under the Company's previous \$1.0 billion term loan facility and the issuance of the Senior Notes, as defined in Note 10.

Jimmy Choo's results of operations have been included in our consolidated financial statements beginning on November 1, 2017. Jimmy Choo contributed revenue of \$161.6 million and \$451.0 million, respectively, and net income (after amortization of non-cash purchase accounting adjustments and transition costs) of \$3.6 million and \$0.6 million, respectively, for the three and nine months ended December 29, 2018. For the period from the date of acquisition through December 30, 2017, Jimmy Choo contributed revenue of \$114.7 million and net income (after amortization of non-cash purchase accounting adjustments and transition costs) of \$8.1 million.

The following table summarizes the unaudited pro-forma consolidated results of operations for the three and nine months ended December 30, 2017 as if the acquisition had occurred on April 3, 2016, the beginning of Fiscal 2017 (in millions):

	Three Months Ended December 30, 2017	Nine Months Ended December 30, 2017
Pro-forma total revenue	\$ 1,478.5	\$ 3,832.6
Pro-forma net income	242.8	574.2
Pro-forma net income per ordinary share attributable to Capri:		
Basic	\$ 1.60	\$ 3.76
Diluted	\$ 1.57	\$ 3.70

The unaudited pro-forma consolidated results above are based on the historical financial statements of the Company and Jimmy Choo and are not necessarily indicative of the results of operations that would have been achieved if the acquisition was completed at the beginning of Fiscal 2017 and are not indicative of the future operating results of the combined company. The financial information for Jimmy Choo prior to the acquisition has been included in the pro-forma results of operations on a calendar-year basis and includes certain adjustments to Jimmy Choo's historical consolidated financial statements to align with U.S. GAAP and the Company's accounting policies. The pro-forma consolidated results of operations also include the effects of purchase accounting adjustments, including amortization charges related to the finite-lived intangible assets acquired, fair value adjustments relating to leases and fixed assets, and the related tax effects assuming that the business combination occurred on April 3, 2016. Purchase accounting amortization of the inventory step-up adjustment has been excluded from the above pro-forma amounts due to the short-term nature of this adjustment. The pro-forma consolidated financial statement also reflects the impact of debt repayment and borrowings made to finance the acquisition and exclude historical interest expense for Jimmy Choo. Transaction costs of \$22.2 million and \$39.6 million for the three and nine months ended December 30, 2017, which have been recorded within restructuring and other charges in the Company's consolidated statements of operations and comprehensive income, have been excluded from the above pro-forma consolidated results of operations due to their non-recurring nature.

See Note 20 for additional information related to the Company's acquisition of Versace, as well as Note 3 in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018 for additional disclosures relating to the Company's acquisitions.

5. Receivables, net

Receivables, net, consist of (in millions):

	December 29, 2018	March 31, 2018
Trade receivables ⁽¹⁾	\$ 364.7	\$ 383.3
Receivables due from licensees	34.5	15.8
	399.2	399.1
Less: allowances	(108.0)	(108.6)
	\$ 291.2	\$ 290.5

(1) As of December 29, 2018 and March 31, 2018, \$261.6 million and \$296.2 million, respectively, of trade receivables were insured.

Receivables are presented net of allowances for discounts, markdowns, operational chargebacks and doubtful accounts. Discounts are based on open invoices where trade discounts have been extended to customers. Allowances are based on wholesale customers' 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 revenues.

15

The Company's allowance for doubtful accounts is determined through analysis of periodic aging of receivables that are not covered by insurance and assessments of collectability based on an evaluation of historic and anticipated trends, the financial condition 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. Allowance for doubtful accounts was \$6.0 million and \$5.1 million, respectively, as of December 29, 2018 and March 31, 2018. The Company had provisions for bad debt of \$0.3 million and \$1.3 million for the three months ended December 29, 2018 and December 30, 2017, respectively, and \$1.3 million and \$5.7 million for the nine months ended December 29, 2018 and December 30, 2017, respectively.

6. Property and Equipment, net

Property and equipment, net, consists of (in millions):

	December 29, 2018	March 31, 2018
Leasehold improvements	\$ 582.7	\$ 551.0
Furniture and fixtures	276.9	270.9
Computer equipment and software	275.3	266.3
In-store shops	269.7	273.9
Equipment	119.6	116.7
Building	43.2	51.6
Land	15.0	16.2
	1,582.4	1,546.6
Less: accumulated depreciation and amortization	(1,083.0)	(1,001.6)
	499.4	545.0
Construction-in-progress	44.2	38.2
	\$ 543.6	\$ 583.2

Depreciation and amortization of property and equipment for the three months ended December 29, 2018 and December 30, 2017 was \$44.1 million and \$46.9 million, respectively, and was \$136.1 million and \$132.7 million, respectively, for the nine months ended December 29, 2018 and December 30, 2017. During the three and nine months ended December 29, 2018, the Company recorded fixed asset impairment charges of \$5.9 million and \$15.3 million, respectively, of which \$5.4 million and \$13.5 million, respectively, were related to underperforming Michael Kors retail store locations, some of which will be closed as part of the Company's previously announced Retail Fleet Optimization Plan, as defined in Note 9. Fixed asset impairment charges recorded during the three and nine months ended December 29, 2018, also included \$0.5 million and \$1.8 million, respectively, related to Jimmy Choo retail store locations. During the three and nine months ended December 30, 2017, the Company recorded fixed asset impairment charges of \$2.6 million and \$14.5 million, respectively, which were related to underperforming Michael Kors retail store locations, some of which related to the Retail Fleet Optimization Plan.

7. Intangible Assets and Goodwill

The following table details the carrying values of the Company's intangible assets other than goodwill (in millions):

	December 29, 2018	March 31, 2018
Definite-lived intangible assets:		
Reacquired Rights	\$400.4	\$400.4
Trademarks	23.0	23.0
Lease Rights	71.6	80.1
Customer Relationships	210.2	⁽¹⁾ 231.3
Total definite-lived intangible assets	705.2	734.8
Less: accumulated amortization	(129.4)	(113.2)
Net definite-lived intangible assets	575.8	621.6
Indefinite-lived intangible assets:		
Jimmy Choo brand	557.1	⁽¹⁾ 614.1
Total intangible assets, excluding goodwill	\$1,132.9	\$1,235.7
Goodwill	\$780.0	⁽¹⁾ \$847.7

⁽¹⁾ The change in the carrying values since March 31, 2018 reflects currency translation.

Amortization expense for the Company's definite-lived intangible assets for the three months ended December 29, 2018 and December 30, 2017 was \$7.4 million and \$7.1 million, respectively, and was \$24.0 million and \$17.2 million, respectively, for the nine months ended December 29, 2018 and December 30, 2017. During the nine months ended December 29, 2018, the Company recorded impairment charges of \$1.9 million relating to its intangible assets within MK Retail segment. For the nine months ended December 30, 2017, the Company recorded impairment charges of \$4.4 million relating to its intangible assets (See Note 12 for further information). There were no goodwill impairment charges recorded during any of the periods presented.

8. Current Assets and Current Liabilities

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

	December 29, 2018	March 31, 2018
Restricted Cash	\$1,921.6 ⁽¹⁾	\$0.3
Prepaid taxes	\$114.8	\$78.5
Prepaid rent	23.0	22.7
Leasehold incentive receivable	10.9	9.4
Unrealized gains on forward foreign currency exchange contracts	5.3	—
Prepaid duties	—	7.0
Other	43.5	29.9
	\$2,119.1	\$147.8

⁽¹⁾ Primarily consists of cash placed in escrow in connection with the acquisition of Versace, which was paid on December 31, 2018.

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

	December 29, 2018	March 31, 2018
Other taxes payable	\$ 63.2	\$54.3
Accrued rent	46.3	34.5
Return liabilities	42.1	12.1
Restructuring liability	38.3	44.8
Accrued capital expenditures	23.1	26.4
Professional services	21.1	14.1
Accrued advertising and marketing	16.3	22.6
Gift cards and retail store credits	11.8	16.0
Accrued samples	10.0	2.5
Deferred loyalty program liabilities	7.5	2.2
Accrued interest	5.8	8.7
Advance royalties	5.8	4.1
Deferred income	3.3	4.3
Unrealized loss on forward foreign currency exchange contracts	0.2	7.7
Other	62.5	41.3
	\$ 357.3	\$295.6

9. Restructuring and Other Charges

Retail Fleet Optimization Plan

On May 31, 2017, the Company announced that it plans to close between 100 and 125 of its Michael Kors retail stores in order to improve the profitability of its retail store fleet (“Retail Fleet Optimization Plan”). The Company anticipates finalizing the remainder of the planned store closures under the Retail Fleet Optimization Plan by the end of Fiscal 2020. The Company expects to incur approximately \$100 - \$125 million of one-time costs associated with these store closures. Collectively, the Company anticipates ongoing annual savings of approximately \$60 million as a result of store closures and lower depreciation and amortization expense as a result of the impairment charges recorded once these initiatives are completed.

During the nine months ended December 29, 2018, the Company closed 24 of its Michael Kors retail stores under the Retail Fleet Optimization Plan, for a total of 71 stores closed since plan inception. Restructuring charges recorded in connection with the Retail Fleet Optimization Plan during the three and nine months ended December 29, 2018 were \$4.1 million and \$9.5 million, respectively. The below table presents a summary of charges recorded in connection with this plan for the MK Retail segment and the Company’s remaining restructuring liability (in millions):

	Severance and benefit costs	Lease-related costs	Total
Balance at March 31, 2018	\$ 0.2	\$ 44.6	\$44.8
Additions charged to expense	0.2	9.3	9.5
Balance sheet reclassifications ⁽¹⁾	—	2.1	2.1
Payments	(0.3)	(20.7)	(21.0)
Balance at December 29, 2018	\$ 0.1	\$ 35.3	\$35.4

⁽¹⁾ Primarily consists of reclassification of deferred rent for locations subject to closure to a restructuring liability.

During the three months ended December 30, 2017, the Company recorded restructuring charges of \$2.4 million under the Retail Fleet Optimization Plan relating to lease-related charges. During the nine months ended December 30, 2017, the Company recorded restructuring charges of \$8.3 million under the Retail Fleet Optimization Plan, which

were comprised of lease-related charges of \$7.7 million and severance and benefit costs of \$0.6 million.

Other Restructuring Charges

In addition to the restructuring charges related to the Retail Fleet Optimization Plan, the Company incurred charges of \$3.4 million and \$4.4 million, respectively, relating to Jimmy Choo lease-related charges during the three and nine months ended December 29, 2018.

Transaction and Transition Costs

During the three months ended December 29, 2018, the Company recorded transaction and transition costs of \$12.2 million, which included \$6.3 million in connection with the Jimmy Choo acquisition and \$5.9 million in connection with the acquisition of Versace. During the nine months ended December 29, 2018, the Company recorded transaction and transition costs of \$35.3 million, which included \$20.2 million in connection with the Jimmy Choo acquisition and \$15.1 million in connection with the acquisition of Versace.

During the three and nine months ended December 30, 2017, the Company recorded transaction and transition costs of \$25.6 million and \$43.0 million, respectively, in connection with the Jimmy Choo acquisition.

10. Debt Obligations

The following table presents the Company's debt obligations (in millions):

	December 29, 2018	March 31, 2018
Term Loan ⁽¹⁾	\$ 1,600.0	\$ 229.8
Revolving Credit Facilities	500.0	200.0
4.000% Senior Notes due 2024	450.0	450.0
Other	0.9	0.9
Total debt	2,550.9	880.7
Less: Unamortized debt issuance costs	15.0	4.2
Less: Unamortized discount on long-term debt	1.8	2.1
Total carrying value of debt	2,534.1	874.4
Less: Short-term debt	579.4	200.0
Total long-term debt	\$ 1,954.7	\$ 674.4

During the three months ended December 29, 2018, the Company repaid the remaining \$59.0 million of

⁽¹⁾ borrowings outstanding under the previous Term Loan Facility entered into in connection with the Jimmy Choo acquisition.

Senior Unsecured Revolving Credit Facility

On November 15, 2018, the Company entered into a third amended and restated senior unsecured credit facility (the "2018 Credit Facility") with, among others, JPMorgan Chase Bank, N.A., as administrative agent, which replaced its prior 2017 senior unsecured revolving credit facility (the "2017 Credit Facility"). The Company and its U.S., Canadian, Dutch and Swiss subsidiaries are the borrowers under the 2018 Credit Facility. The borrowers and certain material subsidiaries of the Company provide unsecured guarantees of the 2018 Credit Facility. The 2018 Credit Facility provides for a \$1.0 billion revolving credit facility (the "Revolving Credit Facility"), which may be denominated in U.S. Dollars and other currencies, including Euros, Canadian Dollars, Pounds Sterling, Japanese Yen and Swiss Francs. The Revolving Credit Facility also provides sub-facilities for the issuance of letters of credit of up to \$75.0 million and swing line loans of up to \$75.0 million. The 2018 Credit Facility also provides for a \$1.6 billion term loan facility (the "2018 Term Loan Facility") to finance a portion of the purchase price of the Company's acquisition of Versace. The 2018 Term Loan Facility is divided into two tranches, an \$800.0 million tranche that matures on the second anniversary of the initial borrowing of the term loans and an \$800.0 million tranche that matures on the fifth anniversary of the initial borrowing of the term loans. The \$800.0 million tranche that matures on the fifth anniversary is required to be repaid on the last business day of March, June, September and December of each year, commencing after the last business day of the first full fiscal quarter after the initial borrowing, in installments equal to 2.50% of the aggregate original principal amount of the term loans. The Company has the right to prepay its borrowings under the 2018 Term Loan Facility at any time in whole or in part. The Revolving Credit Facility expires on November 15, 2023. The Company has the ability to expand its borrowing availability

under the 2018 Credit Facility in the form of revolving commitments or term loans by up to an additional \$500.0 million, subject to the agreement of the participating lenders and certain other customary conditions.

Borrowings under the Revolving Credit Facility bear interest, at the Company's option, at the following rates:

- for any loans (except loans denominated in Canadian Dollars), the greater of Adjusted LIBOR for the applicable interest period and zero, plus an applicable margin based on the Company's public debt rating;
- for loans denominated in U.S. Dollars, an alternate base rate, which is the greatest of: (a) the prime rate publicly announced from time to time by JPMorgan Chase, (b) the greater of the federal funds effective rate and the Federal Reserve Bank of New York overnight bank funding rate and zero, plus 50 basis points, and (c) the greater of the one-month London Interbank Offered Rate adjusted for statutory reserve requirements for Eurocurrency liabilities ("Adjusted LIBOR") and zero, plus 100 basis points, in each case, plus an applicable margin based on the Company's public debt ratings;
- for loans denominated in Canadian Dollars, the Canadian prime rate, which is the greater of the PRIMCAN Index rate and the rate applicable to one-month Canadian Dollar banker's acceptances quoted on Reuters ("CDOR"), plus 100 basis points, plus an applicable margin based on the Company's public debt ratings; or
- for loans denominated in Canadian Dollars, the average CDOR rate for the applicable interest period, plus 10 basis points per annum, plus an applicable margin based on the Company's public debt ratings.

Borrowings under the 2018 Term Loan Facility bear interest, at the Company's option, at (a) the alternate base rate plus an applicable margin based on the Company's public debt ratings; or (b) the greater of Adjusted LIBOR for the applicable interest period and zero, plus an applicable margin based on the Company's public debt ratings.

The Revolving Credit Facility also provides for an annual administration fee and a commitment fee equal to 0.10% to 0.25% per annum, based on the Company's public debt ratings, applied to the average daily unused amount of the Revolving Credit Facility. The 2018 Term Loan Facility provides for a commitment fee equal to 0.10% to 0.25% per annum, based on the Company's public debt ratings, applied to the undrawn amount of the 2018 Term Loan Facility, from January 6, 2019 until the term loans are fully drawn or the commitments under the 2018 Term Loan Facility terminate or expire. Loans under the 2018 Credit Facility may be repaid and commitments may be terminated or reduced by the borrowers without premium or penalty other than the customary breakage costs with respect to loans bearing interest based on Adjusted LIBOR or the CDOR rate.

The 2018 Credit Facility requires the Company to maintain a leverage ratio as of the end of each fiscal quarter of no greater than 3.75 to 1. Such leverage ratio is calculated as the ratio of the sum of total indebtedness as of the date of the measurement plus six times the consolidated rent expense for the last four consecutive fiscal quarters, to Consolidated EBITDAR (as defined below) for the last four consecutive fiscal quarters. Consolidated EBITDAR is defined as consolidated net income plus income tax expense, net interest expense, depreciation and amortization expense, consolidated rent expense and other non-cash charges, subject to certain additions and deductions. The 2018 Credit Facility also includes covenants that limit additional indebtedness, guarantees, liens, acquisitions and other investments and cash dividends that are customary for financings of this type. As of December 29, 2018, the Company was in compliance with all covenants related to this agreement.

The 2018 Credit Facility contains events of default customary for financings of this type, including, but not limited to, payment of defaults, material inaccuracy of representations and warranties, covenant defaults, cross-defaults to certain indebtedness, certain events of bankruptcy or insolvency, certain events under The Employee Retirement Income Security Act, material judgments, actual or asserted failure of any guaranty supporting the 2018 Credit Facility to be in full force and effect, and changes of control. If such an event of default occurs, the lenders under the 2018 Credit Facility would be entitled to take various actions, including, but not limited to, terminating the commitments and accelerating amounts outstanding under the 2018 Credit Facility, subject to "certain funds" limitations in connection with the transaction governing the 2018 Term Loan Facility.

In connection with the acquisition of Versace, on December 21, 2018 the Company borrowed \$1.6 billion in term loans under the 2018 Term Loan Facility and \$350.0 million under its \$1.0 billion Revolving Credit Facility provided for under the 2018 Credit Facility, to pay a portion of the acquisition consideration and other related fees and expenses. As of December 29, 2018 and March 31, 2018, the Company had borrowings of \$500.0 million and \$200.0 million outstanding under the 2018 Revolving Credit Facility and its prior 2017 Revolving Credit Facility, respectively, which were recorded within short-term debt in its consolidated balance sheets. In addition, stand-by letters of credit of \$17.0 million were outstanding as of December 29, 2018. At December 29, 2018, the amount available for future borrowings under the 2018 Revolving Credit Facility was \$483.0 million. As of December 29, 2018, the carrying value of borrowings outstanding under the 2018 Term Loan Facility was \$1.588 billion, net of debt issuance costs of \$11.9 million, of which \$79.4 million was recorded within short-term debt and \$1.509 billion was recorded within long-term debt in its consolidated balance sheets.

See Note 10 to the Company's Fiscal 2018 Annual Report on Form 10-K for additional information regarding the Company's credit facilities and debt obligations.

11. 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.

Please refer to the Contractual Obligations and Commercial Commitments disclosure within the Liquidity section of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018 for a detailed disclosure of other commitments and contractual obligations as of March 31, 2018.

12. Fair Value Measurements

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 December 29, 2018 and March 31, 2018, the fair values of the Company's forward foreign currency exchange contracts and net investment hedges 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. The fair values of net investment hedges are included in other assets, as detailed in Note 13.

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 millions):

	Fair value at December 29, 2018 using:		Fair value at March 31, 2018 using:	
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Derivative assets:				
Forward foreign currency exchange contracts	\$ —	\$ 5.3	\$ —	\$ —
Net investment hedges	—	15.4	—	—
Total derivative assets	\$ —	\$ 20.7	\$ —	\$ —
Derivative liabilities:				
Forward foreign currency exchange contracts	\$ —	\$ 0.2	\$ —	\$ 7.7
Net investment hedges	—	—	—	—
Total derivative liabilities	\$ —	\$ 0.2	\$ —	\$ 7.7

The Company's long-term debt obligations are recorded in its consolidated balance sheets at carrying values, which may differ from the related fair values. The fair value of the Company's long-term debt is estimated using external pricing data, including any available quoted market prices and based on other debt instruments with similar characteristics. Borrowings under revolving credit agreements, if outstanding, are recorded at carrying value, which approximates fair value due to the short-term nature of such borrowings. See Note 10 for detailed information relating to carrying values of the Company's outstanding debt. The following table summarizes the carrying values and estimated fair values of the Company's short- and long-term debt, based on Level 2 measurements (in millions):

	December 29, 2018		March 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
4.000% Senior Notes	\$445.1	\$423.0	\$444.5	\$448.1
Term Loan	\$1,588.1	\$1,595.0	\$229.0	\$231.2
Revolving Credit Facilities	\$500.0	\$500.0	\$200.0	\$200.0

The Company's cash and cash equivalents, accounts receivable and accounts payable, are recorded at carrying value, which approximates fair value.

Non-Financial Assets and Liabilities

The Company's non-financial assets include goodwill, intangible assets and property and equipment. Such assets are reported at their carrying values and are not subject to recurring fair value measurements. The Company's goodwill and its indefinite-lived intangible asset (Jimmy Choo brand) are assessed for impairment at least annually during the fourth quarter of each fiscal year, while its other long-lived assets, including fixed assets and definite-lived intangible assets, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The fair values of these assets were determined based on Level 3 measurements using the Company's best estimates of the amount and timing of future discounted cash flows, based on historical experience, market conditions, current trends and performance expectations.

The following tables detail the carrying values and fair values of the Company's long-lived assets that have been impaired (in millions):

	Three Months Ended December 29, 2018			Nine Months Ended December 29, 2018		
	Carrying Value	Fair Value	Impairment Charge	Carrying Value	Fair Value	Impairment Charge
Fixed Assets	\$6.1	\$ 0.2	\$ 5.9	\$20.3	\$ 5.0	\$ 15.3
Lease Rights	—	—	—	3.4	1.5	1.9
Total	\$6.1	\$ 0.2	\$ 5.9	\$23.7	\$ 6.5	\$ 17.2

	Three Months Ended December 30, 2017			Nine Months Ended December 30, 2017		
	Carrying Value	Fair Value	Impairment Charge	Carrying Value	Fair Value	Impairment Charge
Fixed Assets	\$3.5	\$ 0.9	\$ 2.6	\$16.9	\$ 2.4	\$ 14.5
Lease Rights	—	—	—	3.6	0.2	3.4
Customer Relationships	—	—	—	1.0	—	1.0
Total	\$3.5	\$ 0.9	\$ 2.6	\$21.5	\$ 2.6	\$ 18.9

See Note 6 and Note 7 for additional information.

13. Derivative Financial Instruments

During the first quarter of Fiscal 2019, the Company early-adopted the new hedge accounting guidance prescribed by ASU 2017-12. The cumulative impact of adoption, which related to elimination of ineffectiveness for the Company's designated forward foreign currency exchange contracts, was recorded within retained earnings as of the beginning of Fiscal 2019. See Note 2 for additional information.

Forward Foreign Currency Exchange Contracts

The Company uses forward foreign 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 forward foreign currency exchange contracts. The Company only enters into derivative instruments with highly credit-rated counterparties. The Company does not enter into derivative contracts for trading or speculative purposes.

On September 24, 2018, in connection with the acquisition of Versace, the Company entered into forward foreign currency exchange contracts with a total notional amount of €1.680 billion (approximately \$2.001 billion) to mitigate its foreign currency exchange risk through the expected closing date of the acquisition. These derivative contracts were not designated as accounting hedges and were settled on December 21, 2018 as a result of the debt issued in connection with the acquisition of Versace (see Note 10 for further information). Changes in fair value were recorded to foreign currency (gain) loss in the Company's consolidated statement of operations and comprehensive income for the three and nine months ended December 29, 2018.

On July 25, 2017, in connection with the acquisition of Jimmy Choo, which closed on November 1, 2017, the Company entered into a forward foreign currency exchange contract with a notional amount of £1.115 billion (approximately \$1.469 billion) to mitigate its foreign currency exchange risk through the date of the acquisition. This derivative contract was not designated as an accounting hedge and was settled on October 30, 2017. Changes in fair value were recorded to foreign currency (gain) loss in the Company's consolidated statement of operations and comprehensive income for the three and nine months ended December 30, 2017.

Net Investment Hedges

During the nine months ended December 29, 2018, the Company entered into fixed-to-fixed cross-currency swap agreements with aggregate notional amounts of \$390.0 million to hedge its net investment in Euro-denominated subsidiaries and \$44.0 million to hedge its net investment in Japanese Yen-denominated subsidiaries against future volatility in the exchange rates between U.S. Dollar and these currencies. Under the terms of these contracts, which mature in November 2024, the Company will exchange the semi-annual fixed rate payments made under its Senior Notes for fixed rate payments of 1.472% to 1.585% in Euros and 0.89% in Japanese Yen. These contracts have been designated as net investment hedges.

When a cross-currency swap is used as a hedging instrument in a net investment hedge assessed under the spot method, the cross-currency basis spread is excluded from the assessment of hedge effectiveness and is recognized as a reduction in interest expense in the Company's consolidated statements of operations and comprehensive income. Accordingly, the Company recorded a reduction in interest expense of \$2.8 million and \$6.7 million, respectively, during the three and nine months ended December 29, 2018.

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 December 29, 2018 and March 31, 2018 (in millions):

	Fair Values					
	Notional Amounts		Assets		Liabilities	
	December 29, 2018	March 31, 2018	December 29, 2018	March 31, 2018	December 29, 2018	March 31, 2018
Designated forward currency exchange contracts	\$153.6	\$161.7	\$3.5 ⁽¹⁾	\$ —	\$0.2 ⁽²⁾	\$ 7.7 ⁽²⁾
Designated net investment hedge	434.0	—	15.4 ⁽³⁾	—	—	—
Total designated hedges	\$587.6	\$161.7	\$18.9	\$ —	\$0.2	\$ 7.7
Undesignated forward currency exchange contracts	20.5	—	1.8 ⁽¹⁾	—	—	—
Total	\$608.1	\$161.7	\$20.7	\$ —	\$0.2	\$ 7.7

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

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

(3) Recorded within other assets in the Company's consolidated balance sheets.

The Company records and presents the fair values of all of its derivative assets and liabilities in its consolidated balance sheets on a gross basis, as shown in the above table. However, if the Company were to offset and record the asset and liability balances for its derivative instruments on a net basis in accordance with the terms of its master netting arrangements, which provide for the right to setoff amounts for similar transactions denominated in the same currencies, the resulting impact as of December 29, 2018 and March 31, 2018 would be as follows (in millions):

	Forward			
	Currency Exchange Contracts		Net Investment Hedges	
	December 29, 2018	March 31, 2018	December 29, 2018	March 31, 2018
Assets subject to master netting arrangements	\$5.3	\$ —	\$ 15.4	\$ —
Liabilities subject to master netting arrangements	\$0.2	\$ 7.7	\$ —	\$ —
Derivative assets, net	\$5.3	\$ —	\$ 15.4	\$ —
Derivative liabilities, net	\$0.2	\$ 7.7	\$ —	\$ —

The Company's master netting arrangements do not require cash collateral to be pledged by the Company or its counterparties.

Changes in the fair value 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 (loss), and are reclassified from accumulated other comprehensive income (loss) 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 and comprehensive income (loss). The net gain or loss on net investment hedges are reported within foreign currency translation gains and losses ("CTA") as a component of accumulated other comprehensive income (loss) on the Company's consolidated balance sheets. Upon discontinuation of the hedge, such amounts remain in CTA until the related investment is sold or liquidated.

The following table summarizes the pre-tax impact of the gains and losses on the Company's designated forward foreign currency exchange contracts and net investment hedges (in millions):

	Three Months Ended December 29, 2018		Nine Months Ended December 30, 2017	
	Pre-Tax	PG&T Loss	Pre-Tax	PG&T Loss
	Recognized in OCI	Recognized in OCI	Recognized in OCI	Recognized in OCI
Designated forward foreign currency exchange contracts	\$2.5	\$ (2.4)	\$12.2	\$ (17.7)
Designated net investment hedges	\$10.8	\$ —	\$15.4	\$ —

The following tables summarize the impact of the gains and losses within the consolidated statements of operations and comprehensive income related to the designated forward foreign currency exchange contracts for the three and nine months ended December 29, 2018 and December 30, 2017 (in millions):

	Three Months Ended			Total Cost of Sales	
	Pre-Tax (Gain) Loss		Location of		
	Reclassified from		(Gain)		
	Accumulated OCI		Loss		
	December 31,	December 31,	recognized	December 31,	December 31,
	2018	2017		2018	2017
Designated forward currency exchange contracts	\$(0.6)	\$ 2.2	Cost of Sales	\$564.8	\$ 556.1

	Nine Months Ended			Total Cost of Sales	
	Pre-Tax (Gain)		Location of		
	Loss		(Gain)		
	Reclassified from		Loss		
	Accumulated OCI		Loss		
	December 31,	December 31,	recognized	December 31,	December 31,
	2018	2017		2018	2017
Designated forward currency exchange contracts	\$6.3	\$ (1.0)	Cost of Sales	\$1,507.2	\$ 1,389.6

The Company expects that substantially all of the amounts currently recorded in accumulated other comprehensive income (loss) for its forward foreign currency exchange contracts will be reclassified into earnings during the next 12 months, based upon the timing of inventory purchases and turnover.

Undesignated Hedges

During the three and nine months ended December 29, 2018, the Company recognized a net loss of \$46.8 million and \$75.7 million, respectively, related to changes in the fair value of undesignated forward foreign currency exchange contracts within foreign currency loss (gain) in the Company's consolidated statement of operations and comprehensive income. These amounts were primarily comprised of \$47.0 million and \$77.4 million losses during the three and nine months ended December 29, 2018, respectively, related to the derivative contracts entered into on

September 25, 2018 to mitigate foreign currency exchange risk associated with the Versace acquisition that were settled on December 21, 2018.

During the three and nine months ended December 30, 2017, the Company recognized a net loss of \$31.8 million and a net gain of \$3.4 million, respectively, related to changes in the fair value of undesignated forward foreign currency exchange contracts within foreign currency loss (gain) in the Company's consolidated statement of operations and comprehensive income. These amounts were primarily comprised of a \$32.0 million loss and a \$4.7 million gain during the three and nine months ended December 30, 2017, respectively, related to the derivative contract entered into on July 25, 2017 to mitigate foreign currency exchange risk associated with the Jimmy Choo acquisition that was settled on October 30, 2017.

14. Shareholders' Equity

Share Repurchase Program

During the nine months ended December 29, 2018 and December 30, 2017, the Company repurchased 3,718,237 shares and 4,543,500 shares, respectively, at a cost of \$200.0 million and \$157.8 million, respectively, under its \$1.0 billion share-repurchase program through open market transactions. As of December 29, 2018, the remaining availability under the Company's share repurchase program was \$442.2 million. Share repurchases may be made in open market or privately negotiated transactions, subject to market conditions, applicable legal requirements, trading transactions under the Company's insider trading policy and other relevant factors. The program may be suspended or discontinued at any time.

The Company also has in place a "withhold to cover" repurchase program, which allows the Company to withhold ordinary shares from certain executive officers and directors to satisfy minimum tax withholding obligations relating to the vesting of their restricted share unit awards. During the nine month periods ended December 29, 2018 and December 30, 2017, the Company withheld 107,712 shares and 92,536 shares, respectively, with a fair value of \$7.2 million and \$3.2 million, respectively, in satisfaction of minimum tax withholding obligations relating to the vesting of restricted share unit awards.

15. Accumulated Other Comprehensive (Loss) Income

The following table details changes in the components of accumulated other comprehensive income (loss) ("AOCI"), net of taxes for the nine months ended December 29, 2018 and December 30, 2017, respectively (in millions):

	Foreign Currency Translation (Losses) Gains ⁽¹⁾	Net Gains (Losses) Derivatives (2)	Other Comprehensive (Loss) Income Attributable to Capri	Other Comprehensive (Loss) Income Attributable to Noncontrolling Interest	Total Accumulated Other Comprehensive (Loss) Income
Balance at April 1, 2017	\$ (86.1)	\$ 5.5	\$ (80.6)	\$ (0.3)	\$ (80.9)
Other comprehensive income (loss) before reclassifications	78.6	(15.4)	63.2	0.1	63.3
Less: amounts reclassified from AOCI to earnings	—	1.0	1.0	—	1.0
Other comprehensive income (loss), net of tax	78.6	(16.4)	62.2	0.1	62.3
Balance at December 30, 2017	\$ (7.5)	\$ (10.9)	\$ (18.4)	\$ (0.2)	\$ (18.6)
Balance at March 31, 2018	\$ 61.2	\$ (10.7)	\$ 50.5	\$ (0.2)	\$ 50.3
Other comprehensive (loss) income before reclassifications	(159.8)	10.9	(148.9)	(0.1)	(149.0)
Less: amounts reclassified from AOCI to earnings	—	(5.5)	(5.5)	—	(5.5)
Other comprehensive (loss) income, net of tax	(159.8)	16.4	(143.4)	(0.1)	(143.5)
Balance at December 29, 2018	\$ (98.6)	\$ 5.7	\$ (92.9)	\$ (0.3)	\$ (93.2)

Foreign currency translation gains and losses for the nine months ended December 29, 2018 and December 30, 2017 include net gains of \$9.5 million and net losses of \$4.4 million, respectively, on intra-entity transactions that are of a long-term investment nature. Foreign currency translation losses for the nine months ended December 29, 2018 include a \$139.3 million translation loss related to the Jimmy Choo business and a \$12.8 million gain, net of taxes of \$2.6 million relating to the Company's net investment hedges. Foreign currency translation gain for the nine months ended December 30, 2017 include a \$35.2 million translation gain related to the Jimmy Choo business.

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 and comprehensive income. Accumulated other comprehensive income related to net gains (losses) on derivative financial instruments as of December 29, 2018 and March 31, 2018 is net of a tax provision of \$0.7 million and a tax benefit of \$1.4 million, respectively. The amount reclassified from other comprehensive income (loss) for the nine months ended December 29, 2018 is net of a tax benefit of \$0.8 million. Other comprehensive income (loss) before reclassifications related to derivative financial instruments for the nine months ended December 29, 2018 and December 30, 2017 is net of a tax provision of \$1.3 million and \$2.3 million, respectively.

16. Share-Based Compensation

The Company issues equity grants to certain employees and directors of the Company at the discretion of the Company's Compensation and Talent Committee. The Company has two equity plans, one stock option plan adopted in Fiscal 2008 (as amended and restated, the "2008 Plan"), and the Omnibus Incentive Plan other adopted in the third fiscal quarter of Fiscal 2012 and amended and restated with shareholder approval in May 2015 (the "Incentive 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 December 29, 2018, there were no shares available to grant equity awards under the 2008 Plan. The Incentive 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 December 29, 2018, there were 6,250,146 ordinary shares available for future grants of equity awards under the Incentive Plan. Option grants issued from the 2008 Plan generally expire ten years from the date of the grant, and those issued under the Incentive Plan generally expire seven years from the date of the grant.

The following table summarizes the Company's share-based compensation activity during the nine months ended December 29, 2018:

	Options	Restricted Shares	Service-Based RSUs	Performance-Based RSUs
Outstanding/Unvested at March 31, 2018	3,796,620	64,148	2,127,517	657,532
Granted	224,582	—	839,392	166,617
Exercised/Vested	(1,659,918)	(63,719)	(675,649)	(105,900)
Decrease due to performance condition	—	—	—	(101,744)
Canceled/forfeited	(25,507)	(429)	(129,817)	(29,477)
Outstanding/Unvested at December 29, 2018	2,335,777	—	2,161,443	587,028

The weighted average grant date fair value for options granted during the nine months ended December 29, 2018 and December 30, 2017 was \$24.49 and \$11.62, respectively. The weighted average grant date fair value of service-based and performance-based RSUs granted during the nine months ended December 29, 2018 was \$67.03 and \$67.52, respectively, and \$37.33 and \$34.68, respectively, during the nine months ended December 30, 2017.

The Company uses the Black-Scholes valuation model to estimate the grant date fair value of its share option awards. The following table presents assumptions used to estimate the fair value of options granted during the nine months ended December 29, 2018 and December 30, 2017:

	Nine Months Ended			
	December		December	
	29,		30,	
	2018		2017	
Expected dividend yield	0.0	%	0.0	%
Volatility factor	36.9	%	36.3	%
Weighted average risk-free interest rate	2.8	%	1.8	%
Expected life of option	4.85 years		4.69 years	

Share-Based Compensation Expense

The following table summarizes compensation expense attributable to share-based compensation for the three and nine months ended December 29, 2018 and December 30, 2017 (in millions):

	Three Months		Nine Months	
	Ended		Ended	
	December		December	
	29,		29,	
	2018		2018	
Share-based compensation expense	\$11.9	\$ 8.5	\$38.3	\$ 29.6
Tax benefit (deficit) related to share-based compensation expense	\$2.0	\$ (0.6)	\$7.0	\$ 6.2

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 December 29, 2018 is approximately \$10.6 million.

See Note 16 in the Company's Fiscal 2018 Annual Report on Form 10-K for additional information relating to the Company's share-based compensation awards.

17. Income Taxes

The Company's effective tax rates for the three and nine months ended December 29, 2018 are 17.3% and 12.7%, respectively. Such rates differ from the United Kingdom ("U.K.") federal statutory rate of 19% primarily due to the favorable effects of global financing arrangements, partially offset by earnings generated in higher tax jurisdictions and the impact of uncertain tax positions. The decrease in the effective tax rate for the nine months ended December 29, 2018 was also due to excess tax benefits related to share-based compensation awards. The global financing activities are related to the Company's 2014 move of its principal executive office from Hong Kong to the U.K. and decision to become a U.K. tax resident. In connection with this decision, the Company funded its international growth strategy through intercompany debt financing arrangements between certain of our U.S., U.K. and Switzerland subsidiaries in December 2015. Due to the difference in the statutory income tax rates between these jurisdictions, the Company realized a lower effective tax rate. The Company's effective tax rates for the three and nine months ended December 30, 2017 were 21.2% and 18.0%, respectively.

As of December 29, 2018 and March 31, 2018, the Company has liabilities related to its uncertain tax positions, including accrued interest, of approximately \$126.6 million and \$107.4 million, respectively, which are included in other long-term liabilities in the Company's consolidated balance sheets. The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing tax audits and assessments and the expiration of applicable statutes of limitations. The Company anticipates that the balance of gross unrecognized tax benefits, excluding interest and penalties, will be reduced by approximately \$37.8 million during the next 12 months, primarily due to an anticipated tax ruling regarding the deductibility of certain capital losses and anticipated audit closures. The outcomes and timing of such events are highly uncertain and changes in the occurrence, expected outcomes and timing of such events could cause the Company's current estimate to change materially in the future.

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act includes significant changes to the U.S. corporate income tax system including, among other things, lowering U.S. statutory federal tax rate and implementing a territorial tax system. The U.S. statutory federal tax rate has been decreased to 21% for Fiscal 2019 and thereafter. The Tax Act also added many new provisions, including changes to bonus depreciation, limits on the deductions for executive compensation and interest expense, a tax on global intangible low-taxed income, the base erosion anti-abuse tax and a deduction for foreign derived intangible income.

In December 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin 118 to provide guidance for companies that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. Subsequently, as a result of finalizing its full Fiscal 2018 operating results, the issuance of new interpretive guidance, and other analyses performed, the Company finalized its accounting related to the impacts of the Tax Act and recorded immaterial measurement period adjustments in the period ending December 29, 2018.

18. Segment Information

The Company operates its business through four operating segments—MK Retail, MK Wholesale, MK Licensing and Jimmy Choo—which are based on its business activities and organization. The reportable segments are segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by the Company’s chief operating decision maker in deciding how to allocate resources, as well as in assessing performance. The primary key performance indicators are revenue 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 four reportable segments are as follows:

MK Retail — segment includes sales through Michael Kors operated stores, including “Collection,” “Lifestyle” including “concessions,” and outlet stores located throughout the Americas (U.S., Canada and Latin America, excluding Brazil), Europe and certain parts of Asia, as well as Michael Kors e-commerce sales. Products sold through the MK Retail segment include women’s apparel, accessories (which include handbags and small leather goods such as wallets), men’s apparel, footwear and licensed products, such as watches, jewelry, fragrances and beauty, and eyewear.

MK Wholesale — segment includes sales primarily to major department stores and specialty shops throughout the Americas, Europe and Asia. Products sold through the MK Wholesale segment include accessories (which include handbags and small leather goods such as wallets), footwear and women’s and men’s apparel. The Company also has wholesale arrangements pursuant to which it sells products to Michael Kors geographic licensees in certain parts of EMEA and Asia, as well as in Brazil.

MK Licensing — segment includes royalties and other contributions earned on licensed products and use of the Michael Kors trademarks and rights granted to third parties for the right to operate retail stores and/or sell the Company’s products in certain geographic regions such as Brazil, the Middle East, South Africa, Eastern Europe, certain parts of Asia and Australia.

Jimmy Choo — segment includes revenue generated from sales of luxury footwear, handbags and small leather goods through directly operated Jimmy Choo stores throughout the Americas, EMEA and certain parts of Asia, as well as through Jimmy Choo e-commerce sites. In addition, revenue is generated through wholesale sales to distribution partners (including geographic licensing arrangements), multi-brand department stores and specialty stores worldwide, as well as through product license agreements in connection with the manufacturing and sale of fragrance, sunglasses and eyewear.

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 revenue or other allocation methods.

The following table presents the key performance information of the Company's reportable segments (in millions):

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Total revenue:				
MK Retail	\$838.0	\$846.3	\$2,121.4	\$2,111.2
MK Wholesale	394.9	430.8	1,215.5	1,198.0
MK Licensing	43.5	48.3	106.4	115.2
Michael Kors	1,276.4	1,325.4	3,443.3	3,424.4
Jimmy Choo	161.6	114.7	451.0	114.7
Total revenue	\$1,438.0	\$1,440.1	\$3,894.3	\$3,539.1

Income from operations:

MK Retail	\$149.9	\$180.4	\$310.3	\$341.6
MK Wholesale	108.6	100.5	336.2	263.6
MK Licensing	26.0	26.9	44.9	51.1
Michael Kors	284.5	307.8	691.4	656.3
Jimmy Choo	5.5	5.7	3.2	5.7
Income from operations	\$290.0	\$313.5	\$694.6	\$662.0

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

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Depreciation and amortization:				
MK Retail	\$30.8	\$33.7	\$95.4	\$98.8
MK Wholesale	11.5	13.9	38.0	43.5
MK Licensing	0.6	0.6	1.7	1.8
Michael Kors	42.9	48.2	135.1	144.1
Jimmy Choo	8.6	5.8	25.0	5.8
Total depreciation and amortization	\$51.5	\$54.0	\$160.1	\$149.9

Total revenue (based on country of origin), and long-lived assets by geographic location are as follows (in millions):

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Total revenue:				
The Americas (U.S., Canada and Latin America) ⁽¹⁾	\$926.8	\$946.6	\$2,437.7	\$2,332.6
EMEA	334.2	333.1	925.2	805.0
Asia	177.0	160.4	531.4	401.5
Total revenue	\$1,438.0	\$1,440.1	\$3,894.3	\$3,539.1

	As of December 2018	March 29, 31, 2018
Long-lived assets, excluding goodwill:		
The Americas (U.S., Canada and Latin America) ⁽¹⁾	\$ 300.9	\$ 327.3
EMEA	936.2	1,050.3
Asia	439.4	441.3
Total long-lived assets, excluding goodwill	\$1,676.5	\$1,818.9

Total revenue earned in the U.S. were \$868.9 million and \$2.274 billion for the three and nine months ended December 29, 2018 and \$883.2 million and \$2.164 billion for the three and nine months ended December 30, 2017. Long-lived assets located in the U.S. as of December 29, 2018 and March 31, 2018 were \$277.1 million and \$303.3 million, respectively.

The following table presents the Company's goodwill by reportable segment (in millions):

	As of December 2018	March 29, 31, 2018
MK Retail	\$91.9	\$91.9
MK Wholesale	25.9	25.9
MK Licensing	1.9	1.9
Jimmy Choo	660.3	728.0
Total goodwill	\$780.0	\$847.7

19. Non-cash Investing Activities

Significant non-cash investing activities during the nine months ended December 30, 2017 included non-cash allocations of the fair values of the net assets acquired in connection with the Company's acquisition of the Jimmy Choo business on November 1, 2017. See Note 3 in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018 for additional information.

There were no other significant non-cash investing or financing activities during the fiscal periods presented.

20. Subsequent Events

Acquisition of Versace

On December 31, 2018, the Company completed the acquisition of Versace for a total enterprise value of approximately €1.753 billion (or approximately \$2.005 billion), giving effect to an equity investment made by the Versace family at acquisition of 2.4 million shares. The acquisition was funded through a combination of borrowings under the Company's 2018 Term Loan Facility, drawings under the Company's Revolving Credit Facility and cash on hand (see Note 10 for additional information). The Company believes that this acquisition will expand its global luxury group to include three iconic founder-led brands defined by luxury products with a reputation for world-class design and innovation. The Company will account for this acquisition as a business combination and is in the process of aggregating information required to support purchase accounting, as well as to prepare business combination disclosures. The Company will include all of the required business combination disclosures in its Form 10-K for the fiscal year ended March 30, 2019.

As previously mentioned in Note 1, in connection with the closing of the acquisition of Versace, the Company changed its name to Capri Holdings Limited on December 31, 2018 and began trading on the New York Stock Exchange under the ticker "CPRI" on January 2, 2019.

Net Investment Hedges

During the fourth quarter of Fiscal 2019, the Company entered into multiple fixed-to-fixed cross currency swap agreements with an aggregate notional amount of \$1.500 billion to hedge its net investments in Euro-denominated

subsidiaries against future volatility in the exchange rates between the U.S. Dollar and the Euro. These contracts have been designated as net investment hedges.

ITEM 2.

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 our ability to execute on our future growth strategies, our ability to achieve intended benefits from acquisitions, future revenue sources and concentration, gross profit margins, selling and marketing expenses, capital expenditures, general and administrative expenses, capital resources, new stores, retail fleet optimization plan and anticipated cost savings, share buybacks, additional financings or borrowings and additional losses and future prospects of the Company, as supplemented by the risk factor set forth in our Form 10-Q for the quarterly period ended June 30, 2018, 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 for the year ended March 31, 2018, filed with the Securities and Exchange Commission on May 30, 2018.

Overview

Our Business

Capri Holdings Limited is a global fashion luxury group, consisting of iconic brands that are industry leaders in design, style and craftsmanship, led by a world-class management team and renowned designers. Its brands cover the full spectrum of fashion luxury categories including women's and men's accessories, footwear and ready-to-wear as well as wearable technology, watches, jewelry, eyewear and a full line of fragrance products. The Company's goal is to continue to extend the global reach of its brands while ensuring that they maintain their independence and exclusive DNA.

The Michael Kors ("MK") brand was launched over 35 years ago by Michael Kors, whose vision has taken the Company from its beginnings as an American luxury sportswear house to a global accessories, footwear and apparel company with a global distribution network that has presence in over 100 countries through Company-operated retail stores and e-commerce sites, leading department stores, specialty stores and select licensing partners. Michael Kors is a highly recognized luxury fashion brand in the Americas and Europe with accelerating brand awareness in other international markets. The Michael Kors brand features distinctive designs, materials and craftsmanship with a jet-set aesthetic that combines stylish elegance and a sporty attitude. Michael Kors offers three primary collections: the Michael Kors Collection luxury line, the MICHAEL Michael Kors accessible luxury line and the Michael Kors Mens line. The Michael Kors Collection establishes the aesthetic authority of the 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. MICHAEL Michael Kors has a strong focus on accessories, in addition to offering footwear and apparel, and addresses the significant demand opportunity in accessible luxury goods. We have also been developing our men's business in recognition of the significant opportunity afforded by the Michael Kors brand's established fashion authority and the expanding men's market. Taken together, our Michael Kors collections target a broad customer base while retaining our premium luxury image.

On November 1, 2017, we completed the acquisition of Jimmy Choo Group Limited and its subsidiaries (collectively, "Jimmy Choo"). The combination of Michael Kors and Jimmy Choo brought together two iconic brands that are industry leaders in style and trend and created a global fashion luxury group with a diversified geographic and product portfolio, strengthening the Company's future revenue growth opportunities. Jimmy Choo offers a distinctive, glamorous and fashion-forward product range, enabling it to develop into a leading global luxury accessories brand, whose core product offering is women's luxury shoes, complemented by accessories, including handbags, small leather goods, scarves and belts, as well as a growing men's luxury shoe business. In addition, certain products such as fragrances, sunglasses and eyewear are produced under product licensing agreements. Jimmy Choo's design team is

led by Sandra Choi, who has been the Creative Director for the brand since its inception in 1996. Jimmy Choo products are unique, instinctively seductive and chic. The brand offers classic and timeless luxury products, as well as innovative products that are intended to set and lead fashion trends. The Jimmy Choo brand is represented through its global store network, its e-commerce sites, as well as through the most prestigious department and specialty stores worldwide.

On December 31, 2018, we completed the acquisition of Versace for an aggregate purchase price based on an enterprise value of approximately €1.753 billion (or approximately \$2.005 billion), giving effect to an equity investment made by the Versace family at acquisition. The acquisition was funded through a combination of debt and cash on hand. We believe that this acquisition further expanded our global luxury group to include three iconic founder-led brands defined by luxury products with a reputation for world-class design and innovation.

As of December 29, 2018, we operated in four reportable segments, which are as follows:

MK Retail — includes sales of Michael Kors products from 401 retail stores in the Americas (including concessions) and 469 international retail stores (including concessions) throughout Europe and certain parts of Asia as of December 29, 2018, as well as from Michael Kors e-commerce sites.

MK Wholesale — includes wholesale sales of Michael Kors products through 1,276 department store doors and 840 specialty store doors in the Americas and through 1,086 specialty store doors and 212 department store doors internationally as of December 29, 2018. MK Wholesale also includes revenues from sales of Michael Kors products to geographic licensees.

MK Licensing — includes royalties and other contributions earned on licensed products and use of the Michael Kors trademarks and rights granted to third parties for the right to operate retail stores and/or sell the Company's products in certain geographic regions.

Jimmy Choo — includes worldwide sales of Jimmy Choo products from 206 retail stores (including concessions) and Jimmy Choo e-commerce sites, through 592 wholesale doors, as well as through product and geographic licensing arrangements, as of December 29, 2018.

Seasonality

We experience certain effects of seasonality with respect to our business. Our MK Retail segment generally experiences greater sales during its third fiscal quarter as a result of holiday season sales. Our MK Wholesale segment generally experiences the lowest sales in its first fiscal quarter. Our Jimmy Choo segment generally experiences greater sales during its first and third fiscal quarters, primarily driven by the product launch calendar and holiday season sales. In the aggregate, our first fiscal quarter typically experiences less sales volume relative to the other three quarters and our third fiscal quarter generally has higher sales volume relative to the other three quarters.

Certain Factors Affecting Financial Condition and Results of Operations

Establishing brand identity and enhancing global presence. We intend to grow our international presence through our global fashion luxury group, bringing together industry-leading fashion luxury brands.

As mentioned above, on November 1, 2017, we acquired Jimmy Choo for a total transaction value of \$1.447 billion. Jimmy Choo has a rich history as a leading global luxury house, renowned for its glamorous and fashion-forward footwear, and is an excellent complement to the Michael Kors brand. Additionally, on December 31, 2018 we completed the acquisition of Versace who is one of the leading international fashion design houses and a symbol of Italian luxury worldwide. Versace designs, manufactures, distributes and retails fashion and lifestyle products including haute couture, apparel, accessories, jewelry, watches, eyewear, fragrances, and home furnishings. We believe that these combinations significantly strengthen our future growth opportunities, while also increasing both product and geographic diversification. However, there are risks associated with new acquisitions and the anticipated benefits of acquisitions on our financial results may not be in line with our expectations.

We also intend to continue to increase our international presence and global brand recognition by growing our existing international operations, through acquisitions, 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. In addition, our growth strategy includes assuming direct control of certain licensed international operations to better manage our growth opportunities in the related regions.

See Note 4 to the accompanying consolidated financial statements for additional information regarding our recent acquisitions.

Channel Shift and 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. Although the overall consumer spending for personal luxury products has recently increased, consumer shopping preferences have continued to shift from physical stores to on-line shopping. We currently expect that this trend will continue in the foreseeable future. We continue to adjust our operating strategy to the changing business environment. We are continuing to make progress toward our previously announced plan to close between 100 and 125 of our Michael Kors retail stores in order to improve the profitability of our Michael Kors retail store fleet (“Retail Fleet Optimization Plan”), with 71 stores closed since the plan's inception. We continue to expect to incur a total of approximately \$100 - \$125 million of one-time costs associated with these store closures. During the nine months ended December 29, 2018, we closed 24 of our Michael Kors retail stores under the Retail Fleet Optimization Plan and recorded related restructuring charges of \$9.5 million during the nine months ended December 29, 2018. We currently anticipate finalizing the remainder of the planned store closures under the Retail Fleet Optimization Plan by the end of Fiscal 2020. Collectively, we continue to anticipate ongoing annual savings of approximately \$60 million as a result of the store closures and lower depreciation and amortization associated with the impairment charges recorded once these initiatives are completed.

Foreign currency fluctuation. 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. We continue to expect volatility in the global foreign currency exchange rates, which may have a negative impact on the reported results of certain of our non-U.S. subsidiaries in the future, when translated to U.S. Dollars. 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. Any future disruptions in our shipping and distribution network 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. In addition, our costs may be impacted by tariffs imposed on our products and increased duties due to changes in trade terms. These factors may have a material impact on our revenues, 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.

U.S. Tax Reform. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act includes significant changes to the U.S. corporate income tax system including, among other things, lowering U.S. statutory federal tax rate and implementing a territorial tax system. The U.S. statutory federal tax rate has been decreased to 21% for Fiscal 2019 and thereafter. The Tax Act also added many new provisions, including changes to bonus depreciation, limits on the deductions for executive compensation and interest expense, a tax on global intangible low-taxed income, the base erosion anti-abuse tax and a deduction for foreign derived intangible income.

In December 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin 118 to provide guidance for companies that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. Subsequently, as a result of finalizing its full Fiscal 2018 operating results, the issuance of new interpretive guidance, and other analyses performed, the Company finalized its accounting related to the impacts of the Tax Act and recorded immaterial measurement period adjustments in the six-month period ending December 29, 2018.

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 results of operations and financial condition 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 on our informed judgments, assessments of probability and best estimates. Estimates, by their nature, are subjective and are based on analysis of available information, including current and historical factors and the experience and judgment of management. We evaluate our assumptions and estimates on an ongoing basis. During the first quarter of Fiscal 2019, we adopted the new accounting guidance related to revenue recognition, as described in Note 2 and Note 3 to the accompanying consolidated financial statements. Under this guidance, the timing of revenue recognition for royalty and advertising revenue under certain of our licensing agreements may shift among fiscal quarters. In addition, we eliminated a one-month reporting lag for one of our licensees, and began to recognize revenue for the unredeemed portion of our gift cards that are not required to be remitted as unclaimed property proportionally over the estimated customer redemption period. Our critical accounting policies are disclosed in full in the MD&A section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2018. There have been no significant changes in our critical accounting policies since March 31, 2018, other than described above.

Segment Information

We generate revenue through four business segments: MK Retail, MK Wholesale, MK Licensing and Jimmy Choo. The following table presents our total revenue and income from operations by segment for the three and nine months ended December 29, 2018 and December 30, 2017 (in millions):

	Three Months Ended December 29, 2018		Nine Months Ended December 30, 2017	
	2018	2017	2018	2017
Total revenue:				
MK Retail	\$838.0	\$ 846.3	\$2,121.4	\$ 2,111.2
MK Wholesale	394.9	430.8	1,215.5	1,198.0
MK Licensing	43.5	48.3	106.4	115.2
Michael Kors	1,276.4	1,325.4	3,443.3	3,424.4
Jimmy Choo	161.6	114.7	451.0	114.7
Total revenue	\$1,438.0	\$ 1,440.1	\$3,894.3	\$ 3,539.1

Income from operations:

MK Retail	\$149.9	\$ 180.4	\$310.3	\$ 341.6
MK Wholesale	108.6	100.5	336.2	263.6
MK Licensing	26.0	26.9	44.9	51.1
Michael Kors	284.5	307.8	691.4	656.3
Jimmy Choo	5.5	5.7	3.2	5.7
Income from operations	\$290.0	\$ 313.5	\$694.6	\$ 662.0

MK Retail

We have four primary Michael Kors retail store formats: “Collection” stores, “Lifestyle” stores, outlet stores and e-commerce, through which we sell our products, as well as licensed products bearing our name, directly to the end consumer throughout the Americas (United States (“U.S.”), Canada and Latin America, excluding Brazil), Europe and certain parts of Asia. In addition to these four retail formats, we operate concessions in a select number of department stores. Michael Kors “Collection” stores are located in highly prestigious shopping areas, while Michael Kors “Lifestyle” stores are located in well-populated commercial shopping locations and leading regional shopping centers. Michael Kors outlet stores, which are generally in outlet centers, extend our reach to additional consumer groups. Michael

Kors e-commerce business includes e-commerce sites in the U.S., Canada, certain parts of Europe, China, Japan and South Korea.

The following table presents the change in our global network of Michael Kors retail stores and revenue for the MK Retail segment by geographic location for the three and nine months ended December 29, 2018 and December 30, 2017 (dollars in millions):

	Three Months Ended December 29, 2018		Nine Months Ended December 30, 2017	
Full price retail stores including concessions:				
Number of stores	606	616	606	616
Increase (decrease) during period	12	(4)	10	2
Percentage (decrease) increase vs. prior year	(1.6)%	1.7%	(1.6)%	1.7%
Total gross square footage	1,366,362	1,421,384	1,366,362	1,421,384
Average square footage per store	2,255	2,307	2,255	2,307
Outlet stores:				
Number of stores	264	232	264	232
Increase during period	4	9	31	19
Percentage increase vs. prior year	13.8%	10.5%	13.8%	10.5%
Total gross square footage	1,140,456	943,895	1,140,456	943,895
Average square footage per store	4,320	4,069	4,320	4,069
MK Retail revenue - the Americas	\$557.1	\$ 558.0	\$1,354.2	\$ 1,335.6
MK Retail revenue - Europe	163.9	168.0	422.6	444.3
MK Retail revenue - Asia	117.0	120.3	344.6	331.3
Total MK Retail	\$838.0	\$ 846.3	\$2,121.4	\$ 2,111.2

The following table presents our Michael Kors retail stores by geographic location:

	As of December 29, 2018		December 30, 2017	
Store count by region:				
The Americas	401	395		
Europe	198	202		
Asia	271	251		
Total	870	848		

MK Wholesale

Michael Kors products are sold directly to department stores, primarily located across the Americas 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, as well as to travel retail shops in the Americas, Europe and Asia. We also have wholesale arrangements pursuant to which we sell Michael Kors products to our geographic licensees in certain parts of EMEA (Europe, Middle East and Africa) and Asia, as well as in Brazil. We continue to focus our sales efforts and drive sales in existing locations by enhancing presentation with our specialized 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.

The following table presents the change in our global network of Michael Kors wholesale doors, as well as revenue for our MK Wholesale segment by geographic location during the three and nine months ended December 29, 2018 and December 30, 2017 (dollars in millions):

	Three Months Ended December 29, 2018		Nine Months Ended December 30, 2017	
	2018	2017	2018	2017
Number of full-price wholesale doors	3,414	3,531	3,414	3,531
Decrease during period	(99	) (87	) (130	) (76
MK Wholesale revenue - the Americas	\$311.4	\$ 338.2	\$940.8	\$ 905.8
MK Wholesale revenue - EMEA	66.3	81.2	215.6	250.7
MK Wholesale revenue - Asia	17.2	11.4	59.1	41.5
Total MK Wholesale	\$394.9	\$ 430.8	\$1,215.5	\$ 1,198.0

MK Licensing

We generate licensing revenue through product and geographic licensing arrangements. Our Michael Kors product license agreements allow third parties to use the Michael Kors brand name and trademarks in connection with the manufacturing and sale of a variety of products, including watches, jewelry, fragrances and beauty, and eyewear. In Michael Kors product licensing arrangements, we take an active role in the design, marketing and distribution of products under the Michael Kors brand. Our geographic licensing arrangements allow third parties to use our Michael Kors tradenames in connection with the retail and/or wholesale sales of our Michael Kors branded products in specific geographic regions, such as Brazil, the Middle East, South Africa, Eastern Europe, certain parts of Asia and Australia.

Jimmy Choo

The Jimmy Choo business was acquired and consolidated beginning on November 1, 2017. We generate revenue through the sale of Jimmy Choo luxury goods to end clients through directly operated Jimmy Choo stores throughout the Americas, EMEA and certain parts of Asia, through our e-commerce sites, as well as through wholesale sales of luxury goods to distribution partners (including geographic licensing arrangements that allow third parties to use the Jimmy Choo tradenames in connection with retail and/or wholesale sales of Jimmy Choo branded products in specific geographic regions), multi-brand department stores and specialty stores worldwide. In addition, revenue is generated through product licensing agreements, which allow third parties to use the Jimmy Choo brand name and trademarks in connection with the manufacturing and sale of fragrances, sunglasses and eyewear, as well as through geographic licensing arrangements, which allow third parties to use the Jimmy Choo tradenames in connections with the retail and/or wholesale sales of our Jimmy Choo branded products in specific geographic regions.

The following table presents our global network of Jimmy Choo retail stores and wholesale doors:

	As of December 29, 2018		December 30, 2017	
Store count:				
Full-price retail stores including concessions	168	158		
Outlet stores	38	21		
Total stores	206	179		
Number of full-price wholesale doors	592	619		

The following table presents Jimmy Choo revenue by geographic location (in millions):

	Three Months Ended December 29, 2018		Nine Months Ended December 30, 2017	
		(1)		(1)
Jimmy Choo revenue:				
The Americas	\$29.1	\$ 21.0	\$75.1	\$ 21.0
EMEA	89.7	65.0	248.2	65.0
Asia	42.8	28.7	127.7	28.7
Total Jimmy Choo revenue	\$161.6	\$ 114.7	\$451.0	\$ 114.7

(1) The amounts reflected represent revenue included in the Company's results of operations from November 1, 2017 through December 30, 2017.

Key Consolidated Performance Indicators and Statistics

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

	Three Months Ended December 29, 2018		Nine Months Ended December 30, 2017	
Total revenue	\$1,438.0	\$1,440.1	\$3,894.3	\$3,539.1
Decrease in Michael Kors comparable store sales	(2.4)%	(3.2)%	(1.5)%	(3.5)%
Gross profit as a percent of total revenue	60.7%	61.4%	61.3%	60.7%
Income from operations	\$290.0	\$313.5	\$694.6	\$662.0
Income from operations as a percent of total revenue	20.2%	21.8%	17.8%	18.7%

General Definitions for Operating Results

Total revenue consists of sales from comparable retail stores and e-commerce sites and non-comparable retail stores and e-commerce sites, net of returns and markdowns, as well as those made to our wholesale customers, net of returns, discounts, markdowns and allowances. Additionally, revenue includes royalties and other contributions earned on sales of licensed products by our licensees as well as contractual royalty rates for the use of our trademarks in certain geographic territories.

Comparable store sales include sales from a retail store or an e-commerce site that has been operating for one full year after the end of the first month of its operation under our ownership. For stores that are closed, sales that were made in the final month of their operations (assuming closure prior to the fiscal month's 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. Comparable store sales are reported on a global basis, which 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. Cost of goods sold includes the cost of inventory sold, freight-in on merchandise and foreign currency exchange gains/losses related to designated forward contracts for purchase commitments. All retail 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 minus cost of goods sold. As a result of retail operating and occupancy costs being excluded from our cost of goods sold, 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, 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.

Impairment of long-lived assets consists of charges to write-down fixed assets and finite-lived intangible assets to fair value.

Restructuring and other charges includes store closure costs recorded in connection with the Retail Fleet Optimization Plan and other restructuring initiatives, as well as transaction and transition costs recorded in connection with our acquisition of Jimmy Choo and our agreement to acquire Versace (see Note 1, Note 4 and Note 9 to the accompanying consolidated financial statements for additional information).

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

Other (income) expense, net includes insurance settlements, proceeds received related to our anti-counterfeiting efforts and rental income from our owned distribution center in Europe. In future periods, it may include any other miscellaneous activities not directly related to our operations.

Interest expense, net represents interest and fees on our revolving credit facilities, senior notes, term loan 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 and original issue discount, offset by interest earned on highly liquid investments (investments purchased with an original maturity of three months or less, classified as cash equivalents) and interest on cross-currency swaps designated as net investment hedges (see Note 13 to the accompanying consolidated financial statements for additional information).

Foreign currency loss (gain) includes net gains or losses related to the mark-to-market (fair value) on our forward currency contracts not designated as accounting hedges, including acquisition-related contracts, 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.

Noncontrolling interest represents the portion of the equity ownership in the Michael Kors Latin American joint venture, MK (Panama) Holdings, S.A. and subsidiaries (“MK Panama”), as well as the portion of the equity ownership in the Jimmy Choo Middle East Joint Venture, JC Industry S.r.L (“JCI”), and JC Gulf Trading LLC (“JC Gulf”), which is not attributable to our Company.

Results of Operations

Comparison of the three months ended December 29, 2018 with the three months ended December 30, 2017

The following table details the results of our operations for the three months ended December 29, 2018 and December 30, 2017, and expresses the relationship of certain line items to total revenue as a percentage (dollars in millions):

	Three Months Ended			\$	%	% of Total Revenue for the Three Months Ended		
	December 29, 2018	December 30, 2017	Change	Change		December 29, 2018	December 30, 2017	
Statements of Operations Data:								
Total revenue	\$1,438.0	\$ 1,440.1	\$(2.1)	(0.1)	%			
Cost of goods sold	564.8	556.1	8.7	1.6	%	39.3%	38.6	%
Gross profit	873.2	884.0	(10.8)	(1.2)	%	60.7%	61.4	%
Selling, general and administrative expenses	506.1	485.9	20.2	4.2	%	35.2%	33.7	%
Depreciation and amortization	51.5	54.0	(2.5)	(4.6)	%	3.6	% 3.7	%
Impairment of long-lived assets	5.9	2.6	3.3	126.9	%	0.4	% 0.2	%
Restructuring and other charges ⁽¹⁾	19.7	28.0	(8.3)	(29.6)	%	1.4	% 1.9	%
Total operating expenses	583.2	570.5	12.7	2.2	%	40.6%	39.6	%
Income from operations	290.0	313.5	(23.5)	(7.5)	%	20.2%	21.8	%
Other income, net	(1.4)	(0.1)	(1.3)	NM		0.1	% —	%
Interest expense, net	7.7	8.3	(0.6)	(7.2)	%	0.5	% 0.6	%
Foreign currency loss	42.6	27.0	15.6	57.8	%	3.0	% 1.9	%
Income before provision for income taxes	241.1	278.3	(37.2)	(13.4)	%	16.8%	19.3	%
Provision for income taxes	41.7	58.9	(17.2)	(29.2)	%	2.9	% 4.1	%
Net income	199.4	219.4	(20.0)	(9.1)	%			
Less: Net loss attributable to noncontrolling interest	(0.2)	—	(0.2)	NM				
Net income attributable to Capri	\$199.6	\$ 219.4	\$(19.8)	(9.0)	%			

NM Not meaningful

Includes store closure costs recorded in connection with the Michael Kors retail fleet optimization Plan (as defined in Note 9) and other restructuring initiatives, and transaction and transition costs recorded in connection with our acquisitions of Jimmy Choo and Versace.

Total Revenue

Total revenue decreased \$2.1 million, or 0.1%, to \$1.438 billion for the three months ended December 29, 2018, compared to \$1.440 billion for the three months ended December 30, 2017, which included net unfavorable foreign currency effects of approximately \$18.4 million, primarily related to the weakening of the Euro, the British Pound, the Chinese Renminbi and the Canadian Dollar against the U.S. Dollar during the three months ended December 29, 2018 as compared to the same prior year period. Total revenue for the three months ended December 29, 2018 includes approximately \$39.3 million of incremental revenue attributable to Jimmy Choo, which was acquired and consolidated into the Company's results of operations effective November 1, 2017. In addition, the decrease in total revenue for the three months ended December 29, 2018 was due to lower revenue from our Michael Kors businesses.

The following table details revenues for our four business segments (dollars in millions):

	Three Months Ended		% Change		% of Total Revenue for the Three Months Ended	
	December 29, 2018	December 30, 2017	\$ Change	As Reported	Constant Currency	December 29, 2018
Total revenue:						
MK Retail	\$838.0	\$ 846.3	\$ (8.3)	(1.0)%	0.3 %	58.3 %
MK Wholesale	394.9	430.8	(35.9)	(8.3)%	(7.8)%	27.5 %
MK Licensing	43.5	48.3	(4.8)	(9.9)%	(9.9)%	3.0 %
Michael Kors	1,276.4	1,325.4	(49.0)	(3.7)%	(2.7)%	88.8 %
Jimmy Choo	161.6	114.7	46.9	NM	NM	11.2 %
Total revenue	\$ 1,438.0	\$ 1,440.1	\$ (2.1)	(0.1)%	1.1 %	8.0 %

MK Retail

Revenue from our Michael Kors retail stores decreased \$8.3 million, or 1.0%, to \$838.0 million for the three months ended December 29, 2018, compared to \$846.3 million for the three months ended December 30, 2017, which included net unfavorable foreign currency effects of \$10.9 million.

During the three months ended December 29, 2018, our comparable store sales decreased \$17.5 million, or 2.4%, primarily attributable to lower sales from our watches, women's accessories and jewelry product categories, offset in part by higher sales from women's footwear and apparel. Our comparable store sales benefited approximately 290 basis points from the inclusion of e-commerce sales in comparable store sales. Our comparable store sales included net unfavorable foreign currency effects of approximately \$10.0 million. On a constant currency basis, our comparable store sales decreased \$7.5 million, or 1.0%.

Our non-comparable store sales increased \$9.2 million during the three months ended December 29, 2018. The increase in non-comparable store sales was primarily attributable to a net increase of 22 stores to 870 Michael Kors retail stores as of December 29, 2018, as compared to prior year, as well as due to newly renovated and expanded stores.

MK Wholesale

Revenue from our Michael Kors wholesale customers decreased \$35.9 million, or 8.3%, to \$394.9 million for the three months ended December 29, 2018, compared to \$430.8 million for the three months ended December 30, 2017. The decrease in our wholesale revenue was primarily attributable to lower sales of women's accessories during the three months ended December 29, 2018, compared to the three months ended December 30, 2017.

MK Licensing

Royalties earned on our Michael Kors licensing agreements decreased \$4.8 million, or 9.9%, to \$43.5 million for the three months ended December 29, 2018, compared to \$48.3 million for the three months ended December 30, 2017. This decrease was primarily attributable to lower licensing revenues related to the sales of fashion watches and jewelry, offset in part by higher licensing revenues related to sales of outerwear.

Jimmy Choo

Revenue earned from Jimmy Choo increased \$46.9 million to \$161.6 million for the three months ended December 29, 2018, compared to \$114.7 million for the three months ended December 30, 2017, which included net unfavorable foreign currency effects of \$5.0 million. The three month period ended December 29, 2018 included incremental revenue of \$39.3 million due to the inclusion of the Jimmy Choo business acquired on November 1, 2017 for the entire third quarter of the current fiscal year. The remaining increase was primarily attributable to higher retail sales of the footwear product category.

Gross Profit

Gross profit decreased \$10.8 million, or 1.2%, to \$873.2 million for the three months ended December 29, 2018, compared to \$884.0 million for the three months ended December 30, 2017, which included net unfavorable foreign currency effects of \$11.6 million. Gross profit as a percentage of total revenue decreased 70 basis points to 60.7% during the three months ended December 29, 2018, compared to 61.4% during the three months ended December 30, 2017. The decrease in our gross profit margin was primarily attributable to a decrease in gross profit margin from our MK Retail Segment of 280 basis points, primarily driven by increased markdowns during three months ended December 29, 2018, as compared to the three months ended December 30, 2017. The decrease in our gross profit margin was offset in part by an increase in gross profit margin from our MK Wholesale Segment of 120 basis points, primarily due to favorable channel mix in Europe. In addition, Jimmy Choo benefited our gross profit margin 50 basis points.

Total Operating Expenses

Total operating expenses increased \$12.7 million, or 2.2%, to \$583.2 million during the three months ended December 29, 2018, compared to \$570.5 million for the three months ended December 30, 2017, which included incremental operating expenses of \$30.8 million associated with the recently acquired Jimmy Choo business. Our operating expenses included a net favorable foreign currency impact of approximately \$9.2 million. Total operating expenses increased to 40.6% as a percentage of total revenue for the three months ended December 29, 2018, compared to 39.6% for the three months ended December 30, 2017. The components that comprise total operating expenses are explained below.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$20.2 million, or 4.2%, to \$506.1 million during the three months ended December 29, 2018, compared to \$485.9 million for the three months ended December 30, 2017. The increase in selling, general and administrative expenses was primarily due to the following:

- incremental costs of \$21.3 million associated with the recently acquired Jimmy Choo business, which has been consolidated in our operations beginning on November 1, 2017; and
- increased retail store and e-commerce related costs of \$15.3 million, primarily comprised of increased occupancy costs, increased salaries and increased advertising costs.

These increases were partially offset by:

- decreased selling costs of \$7.5 million; and
- decreased advertising and marketing costs of \$8.1 million.

Selling, general and administrative expenses as a percentage of total revenue increased to 35.2% for the three months ended December 29, 2018, compared to 33.7% for the three months ended December 30, 2017, primarily due to increased retail store and e-commerce related costs, partially offset by lower selling costs as a percentage of total revenue during the three months ended December 29, 2018, as compared to the three months ended December 30, 2017.

Depreciation and Amortization

Depreciation and amortization decreased \$2.5 million, or 4.6%, to \$51.5 million during the three months ended December 29, 2018, compared to \$54.0 million for the three months ended December 30, 2017. The decrease in depreciation and amortization expense was primarily attributable to lower depreciation due to previously recorded fixed asset impairment charges, partially offset by incremental depreciation and amortization expense of \$2.7 million attributable to our Jimmy Choo business (including amortization of purchase accounting adjustments). Depreciation and amortization decreased to 3.6% as a percentage of total revenue during the three months ended December 29, 2018, compared to 3.7% for the three months ended December 30, 2017.

Impairment of Long-Lived Assets

During the three months ended December 29, 2018, we recognized long-lived asset impairment charges of \$5.9 million, which were primarily comprised of \$5.4 million of impairment charges related to underperforming Michael Kors retail store locations, some of which will be closed as part of our previously announced Retail Fleet Optimization Plan (see Note 9 and Note 12 to the accompanying consolidated financial statements for additional information). During the three months ended December 30, 2017, we recognized long-lived asset impairment charges of

approximately \$2.6 million, which were related to underperforming Michael Kors retail store locations, some of which related to closures as part of our Retail Fleet Optimization Plan.

Restructuring and Other Charges

During the three months ended December 29, 2018, we recognized restructuring and other charges of \$19.7 million, which included transaction and transition costs of \$12.2 million and restructuring charges of \$7.5 million, of which \$4.1 million was recorded in connection with our Retail Fleet Optimization Plan and \$3.4 million related to Jimmy Choo lease termination charges (see Note 9 to the accompanying consolidated financial statements for additional information). The transaction and transition costs recorded during the three months ended December 29, 2018 included \$6.3 million in connection with the Jimmy Choo acquisition and \$5.9 million related to the acquisition of Versace.

During the three months ended December 30, 2017, we recognized restructuring and other charges of \$28.0 million, which were comprised of \$25.6 million of transaction and transition costs in connection with the Jimmy Choo acquisition and restructuring charges of \$2.4 million recorded in connection with our Retail Fleet Optimization Plan.

Income from Operations

As a result of the foregoing, income from operations decreased \$23.5 million, or 7.5%, to \$290.0 million during three months ended December 29, 2018, compared to \$313.5 million for the three months ended December 30, 2017. Income from operations as a percentage of total revenue decreased to 20.2% during the three months ended December 29, 2018, compared to 21.8% for the three months ended December 30, 2017.

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

	Three Months Ended				% of Total Revenue for			
	December 29, 2018	December 30, 2017	\$ Change	% Change	December 29, 2018	December 30, 2017		
Income from operations:								
MK Retail	\$ 149.9	\$ 180.4	\$(30.5)	(16.9)%	17.9%	21.3%		
MK Wholesale	108.6	100.5	8.1	8.1%	27.5%	23.3%		
MK Licensing	26.0	26.9	(0.9)	(3.3)%	59.8%	55.7%		
Michael Kors	284.5	307.8	(23.3)	(7.6)%	22.3%	23.2%		
Jimmy Choo	5.5	5.7	(0.2)	NM	3.4%	5.0%		
Income from operations	\$ 290.0	\$ 313.5	\$(23.5)	(7.5)%	20.2%	21.8%		
MK Retail								

Income from operations for our MK Retail segment decreased \$30.5 million, or 16.9%, to \$149.9 million during the three months ended December 29, 2018, compared to \$180.4 million for the three months ended December 30, 2017. Income from operations as a percentage of retail revenue decreased 340 basis points from 21.3% for the three months ended December 30, 2017, to 17.9% during the three months ended December 29, 2018. The decrease in income from operations as a percentage of retail revenue was primarily due to a decrease in gross profit margin of 280 basis points, as previously discussed, as well as an increase in operating expenses of 60 basis points. The increase in operating expenses as a percentage of total revenue was primarily due to increased retail store related and e-commerce costs, partially offset by decreased marketing and depreciation expenses.

MK Wholesale

Income from operations for our MK Wholesale segment increased \$8.1 million, or 8.1%, to \$108.6 million during the three months ended December 29, 2018, compared to \$100.5 million for the three months ended December 30, 2017. Income from operations as a percentage of wholesale revenue increased approximately 420 basis points from 23.3% for the three months ended December 30, 2017 to 27.5% during the three months ended December 29, 2018, which was attributable to a 300 basis point decrease in operating expenses as a percentage of wholesale revenue, as well as an increase in our wholesale gross profit margin of approximately 120 basis points, as previously discussed. The decrease in operating expenses as a percentage of total revenue was largely due to decreased corporate allocated expenses, selling costs and distribution costs.

MK Licensing

Income from operations for our MK Licensing segment decreased \$0.9 million, or 3.3%, to \$26.0 million during the three months ended December 29, 2018, compared to \$26.9 million for the three months ended December 30, 2017. Income from operations as a percentage of licensing revenue increased approximately 410 basis points from 55.7% during the three months ended December 30, 2017 to 59.8% during the three months ended December 29, 2018, primarily due to decreased advertising costs, selling costs and corporate allocated expenses as a percentage of licensing revenue.

Jimmy Choo

Income from operations for our Jimmy Choo segment decreased \$0.2 million to \$5.5 million during the three months ended December 29, 2018, compared to \$5.7 million for the period from the date of acquisition through December 30, 2017. Income from operations as a percentage of Jimmy Choo revenue decreased from 5.0% for the period from the date of acquisition through December 30, 2017 to 3.4% during the three months ended December 29, 2018, primarily due to an operating loss for the incremental period in Fiscal 2019 of \$3.7 million, reflecting our investments in the Jimmy Choo business and transition and integration costs, which negatively impacted income from operations as a percentage of Jimmy Choo revenue by 410 basis points. This decrease was partially offset by an increase in gross profit margin of approximately 220 basis points, reflecting lower cost of goods and a decrease in purchase accounting adjustments, as well as lower operating expenses of approximately 30 basis points.

Interest Expense, net

Interest expense, net decreased \$0.6 million to \$7.7 million during the three months ended December 29, 2018, compared to \$8.3 million for the three months ended December 30, 2017, as the \$2.8 million reduction to interest expense related to the cross-currency swap used in the net investment hedge during the three months ended December 29, 2018 (see Note 13 to the accompanying consolidated financial statements for additional information) more than offset the increased interest expense attributable to higher borrowings than in prior year (see Note 10 to the accompanying consolidated financial statements for additional information).

Foreign Currency Loss

During the three months ended December 29, 2018, we recognized a net foreign currency loss of \$42.6 million, primarily attributable to a \$47.0 million loss related to forward foreign currency exchange derivative contracts to hedge the transaction price of the Versace acquisition (see Note 13 and Note 20 to the accompanying consolidated financial statements for additional information).

During the three months ended December 30, 2017, we recognized a net foreign currency loss of \$27.0 million, which primarily included a \$32.0 million loss related to a forward foreign currency exchange derivative contract to hedge the Jimmy Choo transaction price.

Provision for Income Taxes

We recognized \$41.7 million of income tax expense during the three months ended December 29, 2018, compared to \$58.9 million for the three months ended December 30, 2017. Our effective tax rate for the three months ended December 29, 2018, was 17.3%, compared to 21.2% for the three months ended December 30, 2017. The decrease in our effective tax rate was primarily due to the favorable impact of the Tax Cuts and Jobs Act, certain income tax credits claimed in the current year, as well as an increase in the proportion of earnings generated in lower tax jurisdictions during the three months ended December 29, 2018. These decreases were partially offset by a lower favorable effect of our global financing activities during the three months ended December 29, 2018, compared to three months ended December 30, 2017. The global financing activities are related to our previously disclosed 2014 move of our principal executive office from Hong Kong to the United Kingdom (“U.K.”) and decision to become a U.K. tax resident. In connection with this decision, we funded our international growth strategy through intercompany debt financing arrangements between certain of our U.S., U.K. and Switzerland subsidiaries in December 2015. Accordingly, due to the difference in the statutory income tax rates between these jurisdictions, we realized a lower effective tax rate.

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 Loss Attributable to Noncontrolling Interest

During the three months ended December 29, 2018, we recorded a net loss attributable to the noncontrolling interest in our joint ventures of \$0.2 million. This loss represents the share of income that is not attributable to the Company.

Net Income Attributable to Capri

As a result of the foregoing, our net income decreased \$19.8 million, or 9.0%, to \$199.6 million during the three months ended December 29, 2018, compared to \$219.4 million for the three months ended December 30, 2017.

Results of Operations

Comparison of the nine months ended December 29, 2018 with the nine months ended December 30, 2017

The following table details the results of our operations for the nine months ended December 29, 2018 and December 30, 2017, and expresses the relationship of certain line items to total revenue as a percentage (dollars in millions):

	Nine Months Ended		\$	%		% of Total Revenue for the Nine Months Ended		
	December 29, 2018	December 30, 2017	Change	Change		December 29, 2018	December 30, 2017	
Statements of Operations Data:								
Total revenue	\$3,894.3	\$ 3,539.1	\$355.2	10.0	%			
Cost of goods sold	1,507.2	1,389.6	117.6	8.5	%	38.7%	39.3	%
Gross profit	2,387.1	2,149.5	237.6	11.1	%	61.3%	60.7	%
Selling, general and administrative expenses	1,466.0	1,267.4	198.6	15.7	%	37.6%	35.8	%
Depreciation and amortization	160.1	149.9	10.2	6.8	%	4.1	% 4.2	%
Impairment of long-lived assets	17.2	18.9	(1.7	(9.0	)%	0.4	% 0.5	%
Restructuring and other charges ⁽¹⁾	49.2	51.3	(2.1	(4.1	)%	1.3	% 1.4	%
Total operating expenses	1,692.5	1,487.5	205.0	13.8	%	43.5%	42.0	%
Income from operations	694.6	662.0	32.6	4.9	%	17.8%	18.7	%
Other income, net	(3.7	(1.0	(2.7	NM		0.1	% —	%
Interest expense, net	21.1	10.2	10.9	NM		0.5	% 0.3	%
Foreign currency loss (gain)	78.5	(14.7	) 93.2	NM		2.0	% (0.4)%
Income before provision for income taxes	598.7	667.5	(68.8	(10.3	)%	15.4%	18.9	%
Provision for income taxes	76.0	119.9	(43.9	(36.6	)%	2.0	% 3.4	%
Net income	522.7	547.6	(24.9	(4.5)%			
Less: Net loss attributable to noncontrolling interest	(0.9	(0.2	(0.7	NM				
Net income attributable to Capri	\$523.6	\$ 547.8	\$(24.2	(4.4)%			

NM Not meaningful

Includes store closure costs recorded in connection with the Michael Kors retail fleet optimization Plan (as defined ⁽¹⁾ in Note 9) and other restructuring initiatives, and transaction and transition costs recorded in connection with our acquisitions of Jimmy Choo and Versace.

Total Revenue

Total revenue increased \$355.2 million, or 10.0%, to \$3.894 billion for the nine months ended December 29, 2018, compared to \$3.539 billion for the nine months ended December 30, 2017, which included net unfavorable foreign currency effects of approximately \$4.4 million, primarily related to the weakening of the Canadian Dollar and the British Pound against the U.S. Dollar. Total revenue for the nine months ended December 29, 2018 includes approximately \$328.7 million of incremental revenue attributable to Jimmy Choo, which was acquired and consolidated into the Company's results of operations effective November 1, 2017. The increase in revenue was also due to higher revenue from our Michael Kors businesses.

The following table details revenues for our four business segments (dollars in millions):

	Nine Months Ended		% Change		% of Total Revenue for the Nine Months Ended	
	December 29, 2018	December 30, 2017	\$	As Reported	Constant Currency	December 29, 2018
Total revenue:						
MK Retail	\$2,121.4	\$2,111.2	\$10.2	0.5 %	0.5 %	54.5 %
MK Wholesale	1,215.5	1,198.0	17.5	1.5 %	1.4 %	31.2 %
MK Licensing	106.4	115.2	(8.8)	(7.6) %	(7.6) %	2.7 %
Michael Kors	3,443.3	3,424.4	18.9	0.6 %	0.5 %	88.4 %
Jimmy Choo	451.0	114.7	336.3	NM	NM	11.6 %
Total revenue	\$3,894.3	\$3,539.1	\$355.2	10.0 %	10.2 %	

MK Retail

Revenue from our Michael Kors retail stores increased \$10.2 million, or 0.5%, to \$2.121 billion for the nine months ended December 29, 2018, compared to \$2.111 billion for the nine months ended December 30, 2017.

During the nine months ended December 29, 2018, our comparable store sales decreased \$27.9 million, or 1.5%, primarily attributable to lower sales from our watches, women's accessories and jewelry product categories, offset in part by higher sales from women's footwear and apparel. Our comparable store sales benefited approximately 250 basis points from the inclusion of e-commerce sales in comparable store sales. Our comparable store sales included net unfavorable foreign currency effects of approximately \$1.4 million. On a constant currency basis, our comparable store sales decreased \$26.5 million, or 1.5%.

Our non-comparable store sales increased \$38.1 million during the nine months ended December 29, 2018. The increase in non-comparable store sales was primarily attributable to operating an additional 22 stores to 870 Michael Kors retail stores as of December 29, 2018, as compared to prior year, as well as due to newly renovated and expanded stores.

MK Wholesale

Revenue from our Michael Kors wholesale customers increased \$17.5 million, or 1.5%, to \$1.216 billion for the nine months ended December 29, 2018, compared to \$1.198 billion for the nine months ended December 30, 2017. The increase in our wholesale revenue was primarily attributable to higher sales of footwear and women's accessories, partially offset by decreased sales of women's apparel during the nine months ended December 29, 2018, as compared to the nine months ended December 30, 2017.

MK Licensing

Royalties earned on our Michael Kors licensing agreements decreased \$8.8 million, or 7.6%, to \$106.4 million for the nine months ended December 29, 2018, compared to \$115.2 million for the nine months ended December 30, 2017.

This decrease was primarily attributable to lower licensing revenues related to the sales of fashion watches and jewelry, offset in part by higher licensing revenues related to sales of outerwear.

Jimmy Choo

Revenue earned from Jimmy Choo increased \$336.3 million to \$451.0 million for the nine months ended December 29, 2018, compared to \$114.7 million for the nine months ended December 30, 2017, which included net unfavorable foreign currency effects of \$5.0 million. The nine month period ended December 29, 2018 included incremental revenue of \$328.7 million due to the inclusion of the Jimmy Choo business acquired on November 1, 2017 for the entire nine month period in the current year. The remaining increase was primarily attributable to higher retail sales of footwear product category.

Gross Profit

Gross profit increased \$237.6 million, or 11.1%, to \$2.387 billion for the nine months ended December 29, 2018, compared to \$2.150 billion for the nine months ended December 30, 2017. Gross profit as a percentage of total revenue increased 60 basis points to 61.3% during the nine months ended December 29, 2018, compared to 60.7% during the nine months ended December 30, 2017. The increase in our gross profit margin was primarily attributable to the inclusion of Jimmy Choo, which benefited our gross margin 60 basis points, as well as an increase in gross profit margin from our MK Wholesale Segment of 230 basis points, primarily driven by lower costs of goods during the nine months ended December 29, 2018, as compared to the nine months ended December 30, 2017. The increase in our gross profit margin was offset in part by a 120 basis point decrease in our gross profit margin from our MK Retail Segment, primarily driven by increased markdowns.

Total Operating Expenses

Total operating expenses increased \$205.0 million, or 13.8%, to \$1.693 billion during the nine months ended December 29, 2018, compared to \$1.488 billion for the nine months ended December 30, 2017, which included incremental operating expenses of \$227.7 million associated with the recently acquired Jimmy Choo business. Total operating expenses increased to 43.5% as a percentage of total revenue for the nine months ended December 29, 2018, compared to 42.0% for the nine months ended December 30, 2017. The components that comprise total operating expenses are explained below.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$198.6 million, or 15.7%, to \$1.466 billion during the nine months ended December 29, 2018, compared to \$1.267 billion for the nine months ended December 30, 2017. The increase in selling, general and administrative expenses was primarily due to the following:

- incremental costs of \$186.9 million associated with the recently acquired Jimmy Choo business, which has been consolidated in our operations beginning on November 1, 2017; and
- increased retail store and e-commerce related costs of \$35.4 million, primarily comprised of increased occupancy costs, increased advertising costs and increased salaries.

These increases were partially offset by:

- decreased distribution costs of \$11.5 million; and
- decreased selling costs of \$10.1 million.

Selling, general and administrative expenses as a percentage of total revenue increased to 37.6% during the nine months ended December 29, 2018, compared to 35.8% for the nine months ended December 30, 2017, primarily due to the inclusion of expenses associated with the Jimmy Choo business, increased retail store and e-commerce related costs, partially offset by lower selling and distribution costs as a percentage of total revenue during the nine months ended December 29, 2018, as compared to the nine months ended December 30, 2017.

Depreciation and Amortization

Depreciation and amortization increased \$10.2 million, or 6.8%, to \$160.1 million during the nine months ended December 29, 2018, compared to \$149.9 million for the nine months ended December 30, 2017. The increase in depreciation and amortization expense was primarily attributable to incremental depreciation and amortization expense of \$19.1 million attributable to the Jimmy Choo business (including amortization of purchase accounting adjustments), partially offset by lower depreciation due to previously recorded fixed asset impairment charges. Depreciation and amortization decreased to 4.1% as a percentage of total revenue during the nine months ended December 29, 2018, compared to 4.2% for the nine months ended December 30, 2017.

Impairment of Long-Lived Assets

During the nine months ended December 29, 2018, we recognized long-lived asset impairment charges of \$17.2 million, which were primarily comprised of \$15.4 million of impairment charges related to underperforming Michael Kors retail store locations, some of which will be closed as part of our previously announced Retail Fleet Optimization Plan (see Note 9 and Note 12 to the accompanying consolidated financial statements for additional information).

During the nine months ended December 30, 2017, we recognized long-lived asset impairment charges of approximately \$18.9 million, which were related to underperforming Michael Kors retail store locations, some of which related to closures as part of our Retail Fleet Optimization Plan.

Restructuring and Other Charges

During the nine months ended December 29, 2018, we recognized restructuring and other charges of \$49.2 million, which included restructuring charges of \$13.9 million, of which \$9.5 million was recorded in connection with our Retail Fleet Optimization Plan and \$4.4 million related to Jimmy Choo lease-related charges (see Note 9 to the accompanying consolidated financial statements for additional information) and transaction and transition costs of \$35.3 million. The transaction and transition costs recorded during the nine months ended December 29, 2018 included \$20.2 million in connection with the Jimmy Choo acquisition and \$15.1 million related to the acquisition of Versace.

During the nine months ended December 30, 2017, we recognized restructuring and other charges of \$51.3 million, which were comprised of \$43.0 million of transaction and transition costs recorded in connection with the Jimmy Choo acquisition and restructuring charges of \$8.3 million recorded in connection with our Retail Fleet Optimization Plan.

Income from Operations

As a result of the foregoing, income from operations increased \$32.6 million or 4.9%, to \$694.6 million during the nine months ended December 29, 2018, compared to \$662.0 million for the nine months ended December 30, 2017. Income from operations as a percentage of total revenue decreased to 17.8% during the nine months ended December 29, 2018, compared to 18.7% for the nine months ended December 30, 2017.

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

	Nine Months Ended			% Change	% of Total Revenue for the Nine Months Ended		
	December 29, 2018	December 30, 2017	\$ Change		December 29, 2018	December 30, 2017	%
Income from operations:							
MK Retail	\$310.3	\$341.6	\$(31.3)	(9.2)%	14.6%	16.2%	%
MK Wholesale	336.2	263.6	72.6	27.5%	27.7%	22.0%	%
MK Licensing	44.9	51.1	(6.2)	(12.1)%	42.2%	44.4%	%
Michael Kors	691.4	656.3	35.1	5.3%	20.1%	19.2%	%
Jimmy Choo	3.2	5.7	(2.5)	NM	0.7%	5.0%	%
Income from operations	\$694.6	\$662.0	\$32.6	4.9%	17.8%	18.7%	%

MK Retail

Income from operations for our MK Retail segment decreased \$31.3 million, or 9.2%, to \$310.3 million during the nine months ended December 29, 2018, compared to \$341.6 million for the nine months ended December 30, 2017. Income from operations as a percentage of retail revenue decreased 160 basis points from 16.2% for the nine months ended December 30, 2017 to 14.6% during the nine months ended December 29, 2018. The decrease in income from operations as a percentage of retail revenue was primarily due to a decrease in gross profit margin of 120 basis points, as previously discussed, as well as an increase in operating expenses of 40 basis points. The increase in operating expenses as a percentage of total revenue was primarily due to increased retail store related and e-commerce costs, partially offset by lower marketing, distribution and depreciation expenses, as well as lower impairment charges.

MK Wholesale

Income from operations for our MK Wholesale segment increased \$72.6 million, or 27.5%, to \$336.2 million during the nine months ended December 29, 2018, compared to \$263.6 million for the nine months ended December 30, 2017. Income from operations as a percentage of wholesale revenue increased approximately 570 basis points from 22.0% during the nine months ended December 30, 2017 to 27.7% during the nine months ended December 29, 2018, which was attributable to an increase in our wholesale gross profit margin of approximately 230 basis points, as previously discussed, as well as a 340 basis point decrease in operating expenses as a percentage of wholesale revenue. The decrease in operating expenses as a percentage of total revenue was largely due to decreased selling

costs, distribution costs, corporate allocated expenses and depreciation expenses.

48

MK Licensing

Income from operations for our MK Licensing segment decreased \$6.2 million, or 12.1%, to \$44.9 million during the nine months ended December 29, 2018, compared to \$51.1 million for the nine months ended December 30, 2017. Income from operations as a percentage of licensing revenue decreased from 44.4% during the nine months ended December 30, 2017 to 42.2% during the nine months ended December 29, 2018, primarily due to higher advertising costs as a percentage of licensing revenue, partially offset by lower corporate allocated expenses.

Jimmy Choo

Income from operations for our Jimmy Choo segment decreased \$2.5 million to \$3.2 million during the nine months ended December 29, 2018, compared to \$5.7 million for the period from the date of acquisition through December 30, 2017. Income from operations as a percentage of Jimmy Choo revenue decreased from 5.0% for the period from the date of acquisition through December 30, 2017 to 0.7% during the nine months ended December 29, 2018, primarily due to an operating loss of \$6.0 million for the first ten months of Fiscal 2019, reflecting our investments in the Jimmy Choo business and transition and integration costs, which negatively impacted income from operations as a percentage of Jimmy Choo revenue by 680 basis points. This decrease was partially offset by an increase in gross profit margin of approximately 220 basis points, reflecting lower cost of goods and a decrease in purchase accounting adjustments, as well as lower operating expenses of approximately 30 basis points.

Interest Expense, net

Interest expense, net increased \$10.9 million to \$21.1 million during the nine months ended December 29, 2018, compared to \$10.2 million for the nine months ended December 30, 2017, primarily due to increased interest expense attributable to higher borrowings than in prior year (see Note 10 to the accompanying consolidated financial statements for additional information). This increase was partially offset by a \$6.7 million reduction to interest expense related to the cross-currency swap used in the net investment hedge during the nine months ended December 29, 2018 (see Note 13 to the accompanying consolidated financial statements for additional information).

Foreign Currency Loss (Gain)

During the nine months ended December 29, 2018, we recognized a net foreign currency loss of \$78.5 million, primarily attributable to a \$77.4 million realized loss related to forward foreign currency exchange derivative contracts to hedge the transaction price of the Versace acquisition (see Note 13 and Note 20 to the accompanying consolidated financial statements for additional information).

During the nine months ended December 30, 2017, we recognized a net foreign currency gain of \$14.7 million, which included a \$4.7 million realized gain related to a forward foreign currency exchange derivative contract to hedge the transaction price of the Jimmy Choo business, as well as net gains 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 as the remeasurement of dollar-denominated intercompany loans with certain of our subsidiaries.

Provision for Income Taxes

We recognized \$76.0 million of income tax expense during the nine months ended December 29, 2018, compared to \$119.9 million for the nine months ended December 30, 2017. Our effective tax rate for the nine months ended December 29, 2018, was 12.7%, compared to 18.0% for the nine months ended December 30, 2017. The decrease in our effective tax rate was primarily due to tax benefits associated with share-based compensation, the favorable impact of the Tax Cuts and Jobs Act, as well as an increase in the proportion of earnings generated in lower tax jurisdictions during the nine months ended December 29, 2018. These decreases were partially offset by a lower favorable effect of our global financing activities during the nine months ended December 29, 2018, compared to nine months ended December 30, 2017. The global financing activities are related to our previously disclosed 2014 move of our principal executive office from Hong Kong to the United Kingdom ("U.K.") and decision to become a U.K. tax resident. In connection with this decision, we funded our international growth strategy through intercompany debt financing arrangements between certain of our U.S., U.K. and Switzerland subsidiaries in December 2015. Accordingly, due to the difference in the statutory income tax rates between these jurisdictions, we realized a lower effective tax rate.

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 Loss Attributable to Noncontrolling Interest

During the nine months ended December 29, 2018 and December 30, 2017, we recorded net losses attributable to the noncontrolling interest in our joint ventures of \$0.9 million and \$0.2 million, respectively. These losses represent the share of income that is not attributable to the Company.

Net Income Attributable to Capri

As a result of the foregoing, our net income decreased \$24.2 million, or 4.4%, to \$523.6 million during the nine months ended December 29, 2018, compared to \$547.8 million for the nine months ended December 30, 2017.

Liquidity and Capital Resources**Liquidity**

Our primary sources of liquidity are the cash flows generated from our operations, along with borrowings available under our credit facilities (see below discussion regarding “Revolving Credit Facilities”) and available cash and cash equivalents. Our primary use of this liquidity is to fund our ongoing cash requirements, including working capital requirements, acquisitions, debt repayments, investment in information systems infrastructure, global retail store construction, expansion and renovation, distribution and corporate facilities, construction and renovation of shop-in-shops, share repurchases and other corporate activities. 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, e-commerce and marketing initiatives. We spent \$134.7 million on capital expenditures during the nine months ended December 29, 2018, and expect to spend approximately \$90.0 million on capital expenditures during the remainder of Fiscal 2019.

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

	As of	
	December 29, 2018	March 31, 2018
Balance Sheet Data:		
Cash and cash equivalents	\$264.5	\$ 163.1
Working capital	\$2,052.1 ⁽¹⁾	\$ 301.8
Total assets	\$6,028.4	\$4,059.0
Short-term debt	\$579.4	\$ 200.0
Long-term debt	\$1,954.7	\$ 674.4

⁽¹⁾ Includes restricted cash placed in escrow in connection with the acquisition of Versace, which was paid on December 31, 2018.

	Nine Months Ended	
	December 29, 2018	December 30, 2017
Cash Flows Provided By (Used In):		
Operating activities	\$775.7	\$ 873.3
Investing activities	(215.6)	(1,496.8)
Financing activities	1,471.7	701.0
Effect of exchange rate changes	(9.1)	10.3
Net decrease in cash and cash equivalents and restricted cash	\$2,022.7	\$ 87.8

Cash Provided by Operating Activities

Cash provided by operating activities decreased \$97.6 million to \$775.7 million during the nine months ended December 29, 2018, as compared to \$873.3 million for the nine months ended December 30, 2017, which was primarily due to a decrease related to changes in our working capital, partially offset by an increase in our net income after non-cash adjustments. The net decrease related to our working capital was primarily attributable to increased in-transit inventory and inventory purchases, partially offset by the associated increase in accounts payable. In addition, the decrease related to prepaid expenses and other current assets primarily attributable to the timing of receipts.

Cash Used in Investing Activities

Net cash used in investing activities decreased \$1.281 billion to \$215.6 million during the nine months ended December 29, 2018, as compared to \$1.497 billion during the nine months ended December 30, 2017, which was primarily attributable to \$1.415 billion of cash paid, net of cash acquired in connection with our acquisition of the Jimmy Choo business during the nine months ended December 30, 2017. This decrease in cash used in investing activities was partially offset by a \$77.4 million realized loss related to an undesignated derivative contract during the nine months ended December 29, 2018, associated with the anticipated acquisition of Versace and higher capital expenditures of \$50.9 million during the nine months ended December 29, 2018 compared to prior year, primarily attributable to the build-outs for new and renovated retail stores and expenditures related to corporate infrastructure.

Cash Provided by Financing Activities

Net cash provided by financing activities increased \$770.7 million to \$1.472 billion during the nine months ended December 29, 2018, from \$701.0 million during the nine months ended December 30, 2017. The increase in cash from financing activities was primarily due to increased debt borrowings of \$814.2 million, net of debt repayments, primarily attributable to higher term loan borrowings to finance the acquisition of Versace, partially offset by a \$46.2 million increase in cash payments to repurchase our ordinary shares.

Debt Obligations

The following table presents a summary of our borrowing capacity and amounts outstanding as of December 29, 2018 and March 31, 2018 (dollars in millions):

	As of	
	December 29, 2018	March 31, 2018
Senior Unsecured Revolving Credit Facility:		
Revolving Credit Facility (excluding up to a \$500 million accordion feature) ⁽¹⁾		
Total Availability	\$1,000.0	\$1,000.0
Borrowings outstanding ⁽²⁾	500.0	200.0
Letter of credit outstanding	17.0	15.9
Remaining availability	\$483.0	\$784.1
Term Loan Facility (\$1.6 billion) ⁽³⁾		
Borrowings Outstanding, net of debt issuance costs ⁽⁴⁾	\$1,588.1	\$229.0
Remaining availability	\$—	\$—
4.000% Senior Notes		
Borrowings Outstanding, net of debt issuance costs and discount amortization ⁽⁴⁾	\$445.1	\$444.5
Other Borrowings ⁽⁴⁾	\$0.9	\$0.9
Hong Kong Uncommitted Credit Facility:		
Total availability (100.0 million Hong Kong Dollars)	\$12.8	\$12.7
Borrowings outstanding (45.0 million Hong Kong Dollars)	—	—
Bank guarantees outstanding (11.8 million Hong Kong Dollars)	1.5	1.5
Remaining availability	\$11.3	\$11.2
Japan Credit Facility:		
Borrowings outstanding	\$—	\$—
Total and remaining availability (1.0 billion Japanese Yen)	\$9.1	\$9.4
Total borrowings outstanding ⁽¹⁾	\$2,534.1	\$874.4
Total remaining availability	\$503.4	\$804.7

The 2018 Credit Facility contains customary events of default and requires us to maintain a leverage ratio at the end of each fiscal quarter of no greater than 3.75 to 1, calculated as the ratio of the sum of total indebtedness as of the date of the measurement plus 6.0 times the consolidated rent expense for the last four consecutive fiscal quarters, to Consolidated EBITDAR for the last four consecutive fiscal quarters. Consolidated EBITDAR is

- (1) defined as consolidated net income plus income tax expense, net interest expense, depreciation and amortization expense, consolidated rent expense and other non-cash charges, subject to certain deductions. The 2018 Credit Facility also includes other customary covenants that limit additional indebtedness, guarantees, liens, acquisitions and other investments and cash dividends. As of December 29, 2018 and March 31, 2018, we were in compliance with all covenants related to our agreements then in effect governing our debt.
- (2) Recorded as short-term debt in our consolidated balance sheets as of December 29, 2018 and March 31, 2018. The prior \$1.0 billion term loan facility was fully utilized to finance a portion of the purchase price of our
- (3) acquisition of Jimmy Choo on November 1, 2017 and was fully repaid as of December 29, 2018. See Note 4 to the accompanying consolidated financial statements for additional information.

Recorded as long-term debt in our consolidated balance sheets as of December 29, 2018 and March 31, 2018,
(4) except for the current portion of \$79.4 million outstanding under the 2018 Term Loan Facility, which was recorded within short-term debt at December 29, 2018.

We believe that our 2018 Credit Facility is adequately diversified with no undue concentration in any one financial institution. As of December 29, 2018, there were 18 financial institutions participating in the facility, with none maintaining a maximum commitment percentage in excess of 10%. We have no reason to believe that the participating institutions will be unable to fulfill their obligations to provide financing in accordance with the terms of the 2018 Credit Facility.

See Note 10 in the accompanying financial statements and Note 10 in our Fiscal 2018 Annual Report on Form 10-K for detailed information relating to our credit facilities and debt obligations.

Share Repurchase Program

The following table presents our treasury share repurchases during the nine months ended December 29, 2018 and December 30, 2017 (dollars in millions):

	Nine Months Ended	
	December 29, 2018	December 30, 2017
Cost of shares repurchased under share repurchase program	\$200.0	\$ 157.8
Fair value of shares withheld to cover tax obligations for vested restricted share awards	7.2	3.2
Total cost of treasury shares repurchased	\$207.2	\$ 161.0
Shares repurchased under share repurchase program	3,718,237	3,543,500
Shares withheld to cover tax withholding obligations	107,712	92,536
	3,825,949	3,636,036

As of December 29, 2018, the remaining availability under our \$1.0 billion share repurchase program was \$442.2 million. Share repurchases may be made in open market or privately negotiated transactions, subject to market conditions, applicable legal requirements, trading restrictions under our insider trading policy, and other relevant factors. This program may be suspended or discontinued at any time.

See Note 14 to the accompanying consolidated financial statements for additional information.

Contractual Obligations and Commercial Commitments

Please refer to the “Contractual Obligations and Commercial Commitments” disclosure within the “Liquidity and Capital Resources” section of our Fiscal 2018 Form 10-K for a detailed disclosure of our other contractual obligations and commitments as of March 31, 2018.

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. Our off-balance sheet commitments relating to our outstanding letters of credit were \$18.4 million at December 29, 2018, including \$1.4 million in letters of credit issued outside of the 2018 Credit Facility. In addition, as of December 29, 2018, bank guarantees of approximately \$1.5 million were supported by the Hong Kong Credit Facility. 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.

ITEM 3. 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

Forward Foreign Currency Exchange Contracts

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, to manage our exposure to the changes in the value of the Euro and the Canadian Dollar. 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, 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 and comprehensive income, as applicable to the transactions for which the forward currency exchange contracts were established.

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 December 29, 2018, 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 December 29, 2018, would result in a net increase and decrease, respectively, of approximately \$15.9 million in the fair value of these contracts.

Net Investment Hedges

We are exposed to adverse foreign currency exchange rate movements related to interest from our net investment hedges. The net investment hedges have aggregate notional amounts of \$390.0 million to hedge our net investments in Euro-denominated subsidiaries, and \$44.0 million to hedge our net investments in Japanese Yen-denominated subsidiaries against future volatility in the exchange rates between the U.S. Dollar and these currencies. Under the terms of these contracts, which mature in November 2024, we will exchange the semi-annual fixed rate payments made under our Senior Notes for fixed rate payments of 1.472% to 1.585% in Euros and 0.89% in Japanese Yen. Based on all net investment hedges outstanding as of December 29, 2018, 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 December 29, 2018, would result in a net increase or decrease of approximately \$45.3 million in the fair value of these contracts.

Interest Rate Risk

We are exposed to interest rate risk in relation to borrowings outstanding under our 2018 Term Loan Facility, our 2018 Credit Facility, our Hong Kong Credit Facility and our Japan Credit Facility. Our 2018 Term Loan Facility carries interest at a rate that is based on LIBOR. Our 2018 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), as further described in Note 10 to the accompanying consolidated financial statements. Our Hong Kong Credit Facility carries interest at a rate that is tied to the Hong Kong Interbank Offered Rate. Our Japan Credit Facility carries interest at a rate posted by the Mitsubishi UFJ Financial Group. Therefore, our statements of operations and comprehensive income and cash flows are exposed to changes in those interest rates. At December 29, 2018, we had \$500.0 million in short-term borrowings outstanding under our 2018 Credit Facility and \$1.588 billion, net of debt issuance costs, outstanding under our 2018 Term Loan Facility. At March 31, 2018, we had term loans of \$229.8 million and

short-term borrowings of \$200.0 million outstanding under our prior credit facility. These balances are not indicative of future balances that may be outstanding under our revolving credit facilities 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 relative to any outstanding balance at that date.

Credit Risk

We have outstanding \$450.0 million aggregate principal amount of Senior Notes due in 2024. The Senior Notes bear interest at a fixed rate equal to 4.000% per year, payable semi-annually. Our Senior Notes interest rate payable may be subject to adjustments from time to time if either Moody's or S&P (or a substitute rating agency), downgrades (or downgrades and subsequently upgrades) the credit rating assigned to the Senior Notes.

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 December 29, 2018. 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 December 29, 2018 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 December 29, 2018 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

We are involved in various routine legal proceedings incident to the ordinary course of our business. We believe that the outcome of all pending legal proceedings in the aggregate will not have a material adverse effect on our business, results of operations and financial condition.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018, as supplemented by the risk factor set forth in our Form 10-Q for the quarterly period ended June 30, 2018, which could materially and adversely affect our business, financial condition or future results. These risks are not the only risks that we face. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.

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

(c) Issuer Purchases of Equity Securities

The Company’s share repurchases are made under its \$1.0 billion share repurchase program. The Company also has in place a “withhold to cover” repurchase program, which allows the Company to withhold ordinary shares from certain executive officers and directors 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 December 29, 2018:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximated Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (in millions)
September 30 – October 27	975	\$ 68.36	—	\$ 542.2
October 28 – November 24	2,059,031	\$ 48.59	2,058,296	\$ 442.2
November 25 – December 29	—	\$ —	—	\$ 442.2
	2,060,006		2,058,296	

ITEM 6. EXHIBITS

a. Exhibits

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

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 February 7, 2019.

CAPRI HOLDINGS LIMITED

By: /s/ John D. Idol

Name: John D. Idol

Title: Chairman & Chief Executive Officer

By: /s/ Thomas J. Edwards, Jr.

Name: Thomas J. Edwards, Jr.

Title: Executive Vice President, Chief Financial Officer and Chief Operating Officer

INDEX TO EXHIBITS

Exhibit
No. Description

- 2.1 Stock Purchase Agreement, dated as of September 24, 2018 by and among Allegra Donata Versace Beck, Donatella Versace, Santo Versace, Borgo Luxembourg S.À R.L., Blackstone GPV Capital Partners (Mauritius) VI-D FDI Ltd., Blackstone GPV Tactical Partners (Mauritius)—N Ltd. and Capri Holdings Limited (formerly known as Michael Kors Holdings Limited) (included as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-35368), filed on September 25, 2018 and incorporated herein by reference).
- 3.1 Amended and Restated Memorandum and Articles of Association of Capri Holdings Limited (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 31, 2018, and incorporated herein by reference).
- 10.1 Third Amended and Restated Credit Agreement dated as of November 15, 2018 among Michael Kors (USA), Inc., Capri Holdings Limited (formerly known as Michael Kors Holdings Limited), the foreign subsidiary borrowers party hereto, the guarantors party hereto, the lenders party hereto, JPMorgan Chase Bank, N.A., as administrative agent and the issuing banks party hereto (included as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-35368), filed on November 16, 2018 and incorporated herein by reference).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the 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 December 29, 2018, formatted in eXtensible Business Reporting Language: (i) 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.