

**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 28, 2019

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

CAPRI
HOLDINGS LIMITED

(Exact Name of Registrant as Specified in Its Charter)

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

N/A
(I.R.S. Employer
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)

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

| <u>Title of Each Class</u> | <u>Trading Symbol(s)</u> | <u>Name of Each Exchange on which Registered</u> |
|-------------------------------|--------------------------|--|
| Ordinary Shares, no par value | CPRI | New York Stock Exchange |

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 | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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 Act). Yes No

As of January 31, 2020, Capri Holdings Limited had 149,365,397 ordinary shares outstanding.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CAPRI HOLDINGS LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

| | December 28, 2019 | March 30, 2019 |
|---|----------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 237 | \$ 172 |
| Receivables, net | 321 | 383 |
| Inventories, net | 960 | 953 |
| Prepaid expenses and other current assets | 263 | 221 |
| Total current assets | 1,781 | 1,729 |
| Property and equipment, net | 596 | 615 |
| Operating lease right-of-use assets | 1,665 | — |
| Intangible assets, net | 2,225 | 2,293 |
| Goodwill | 1,681 | 1,659 |
| Deferred tax assets | 165 | 112 |
| Other assets | 212 | 242 |
| Total assets | \$ 8,325 | \$ 6,650 |
| Liabilities, Redeemable Noncontrolling Interest and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 375 | \$ 371 |
| Accrued payroll and payroll related expenses | 110 | 133 |
| Accrued income taxes | 30 | 34 |
| Short-term operating lease liabilities | 406 | — |
| Short-term debt | 1,031 | 630 |
| Accrued expenses and other current liabilities | 353 | 374 |
| Total current liabilities | 2,305 | 1,542 |
| Long-term operating lease liabilities | 1,751 | — |
| Deferred rent | — | 132 |
| Deferred tax liabilities | 440 | 438 |
| Long-term debt | 1,085 | 1,936 |
| Other long-term liabilities | 133 | 166 |
| Total liabilities | 5,714 | 4,214 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interest | — | 4 |
| Shareholders' equity | | |
| Ordinary shares, no par value; 650,000,000 shares authorized; 216,906,643 shares issued and 149,012,245 outstanding at December 28, 2019; 216,050,939 shares issued and 150,932,306 outstanding at March 30, 2019 | — | — |
| Treasury shares, at cost (67,894,398 shares at December 28, 2019 and 65,118,633 shares at March 30, 2019) | (3,325) | (3,223) |
| Additional paid-in capital | 1,080 | 1,011 |
| Accumulated other comprehensive loss | (29) | (66) |
| Retained earnings | 4,883 | 4,707 |
| Total shareholders' equity of Capri | 2,609 | 2,429 |
| Noncontrolling interest | 2 | 3 |
| Total shareholders' equity | 2,611 | 2,432 |
| Total liabilities and shareholders' equity | \$ 8,325 | \$ 6,650 |

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 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Total revenue | \$ 1,571 | \$ 1,438 | \$ 4,359 | \$ 3,894 |
| Cost of goods sold | 639 | 565 | 1,719 | 1,507 |
| Gross profit | 932 | 873 | 2,640 | 2,387 |
| Selling, general and administrative expenses | 630 | 507 | 1,851 | 1,466 |
| Depreciation and amortization | 63 | 51 | 188 | 160 |
| Impairment of long-lived assets | 19 | 6 | 220 | 17 |
| Restructuring and other charges ⁽¹⁾ | 15 | 19 | 37 | 49 |
| Total operating expenses | 727 | 583 | 2,296 | 1,692 |
| Income from operations | 205 | 290 | 344 | 695 |
| Other income, net | (1) | (2) | (4) | (4) |
| Interest expense, net | 3 | 7 | 19 | 21 |
| Foreign currency (gain) loss | (2) | 43 | 4 | 79 |
| Income before provision for income taxes | 205 | 242 | 325 | 599 |
| (Benefit from) provision for income taxes | (4) | 42 | (2) | 76 |
| Net income | 209 | 200 | 327 | 523 |
| Less: Net loss attributable to noncontrolling interest and redeemable noncontrolling interest | (1) | — | (1) | (1) |
| Net income attributable to Capri | \$ 210 | \$ 200 | \$ 328 | \$ 524 |
| Weighted average ordinary shares outstanding: | | | | |
| Basic | 150,826,196 | 149,183,049 | 151,159,423 | 149,420,087 |
| Diluted | 152,154,372 | 150,268,424 | 152,354,936 | 151,457,921 |
| Net income per ordinary share attributable to Capri: | | | | |
| Basic | \$ 1.39 | \$ 1.34 | \$ 2.17 | \$ 3.50 |
| Diluted | \$ 1.38 | \$ 1.33 | \$ 2.15 | \$ 3.46 |
| Statements of Comprehensive Income: | | | | |
| Net income | \$ 209 | \$ 200 | \$ 327 | \$ 523 |
| Foreign currency translation adjustments | 78 | (32) | 40 | (160) |
| Net (loss) gain on derivatives | (4) | 1 | (3) | 16 |
| Comprehensive income | 283 | 169 | 364 | 379 |
| Less: Net loss attributable to noncontrolling interest and redeemable noncontrolling interest | (1) | — | (1) | (1) |
| Comprehensive income attributable to Capri | \$ 284 | \$ 169 | \$ 365 | \$ 380 |

⁽¹⁾ Restructuring and other charges includes store closure costs recorded in connection with the Retail Fleet Optimization Plan (as defined in Note 10) and other restructuring initiatives, and costs recorded in connection with the acquisitions of Gianni Versace S.r.l and Jimmy Choo Group Limited.

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)

| | Ordinary Shares | | | Treasury Shares | | Accumulated Other Comprehensive Loss (Income) | Retained Earnings | Total Equity of Capri | Non- controlling Interests | Total Equity |
|--|-----------------|-------------|----------------------------------|-----------------|-------------------|--|----------------------|-----------------------------|----------------------------------|-----------------|
| | | | Additional Paid-in Capital | | | | | | | |
| | Shares | Amounts | | Shares | Amounts | | | | | |
| Balance at September 28, 2019 | 216,815 | \$ — | \$ 1,060 | (65,182) | \$ (3,225) | \$ (103) | \$ 4,673 | \$ 2,405 | \$ 3 | \$ 2,408 |
| Net income (loss) | — | — | — | — | — | — | 210 | 210 | (1) | 209 |
| Other comprehensive income | — | — | — | — | — | 74 | — | 74 | — | 74 |
| Total comprehensive income (loss) | — | — | — | — | — | — | — | 284 | (1) | 283 |
| Vesting of restricted awards, net of forfeitures | 87 | — | — | — | — | — | — | — | — | — |
| Exercise of employee share options | 5 | — | — | — | — | — | — | — | — | — |
| Equity compensation expense | — | — | 16 | — | — | — | — | 16 | — | 16 |
| Purchase of treasury shares | — | — | — | (2,712) | (100) | — | — | (100) | — | (100) |
| Adjustment of redeemable non-controlling interests to redemption value | — | — | 4 | — | — | — | — | 4 | — | 4 |
| Balance at December 28, 2019 | <u>216,907</u> | <u>\$ —</u> | <u>\$ 1,080</u> | <u>(67,894)</u> | <u>\$ (3,325)</u> | <u>\$ (29)</u> | <u>\$ 4,883</u> | <u>\$ 2,609</u> | <u>\$ 2</u> | <u>\$ 2,611</u> |

| | Ordinary Shares | | | Treasury Shares | | Accumulated Other Comprehensive Loss (Income) | Retained Earnings | Total Equity of Capri | Non- controlling Interests | Total Equity |
|--|-----------------|-------------|----------------------------------|-----------------|-------------------|--|----------------------|-----------------------------|----------------------------------|-----------------|
| | | | Additional Paid-in Capital | | | | | | | |
| | Shares | Amounts | | Shares | Amounts | | | | | |
| Balance at March 30, 2019, as previously reported | 216,051 | \$ — | \$ 1,011 | (65,119) | \$ (3,223) | \$ (66) | \$ 4,707 | \$ 2,429 | \$ 3 | \$ 2,432 |
| Adoption of accounting standards (See Note 2) | — | — | — | — | — | — | (152) | (152) | — | (152) |
| Balance as of March 31, 2019 | 216,051 | — | 1,011 | (65,119) | (3,223) | (66) | 4,555 | 2,277 | 3 | 2,280 |
| Net income (loss) | — | — | — | — | — | — | 328 | 328 | (1) | 327 |
| Other comprehensive income | — | — | — | — | — | 37 | — | 37 | — | 37 |
| Total comprehensive income (loss) | — | — | — | — | — | — | — | 365 | (1) | 364 |
| Vesting of restricted awards, net of forfeitures | 851 | — | — | — | — | — | — | — | — | — |
| Exercise of employee share options | 5 | — | — | — | — | — | — | — | — | — |
| Equity compensation expense | — | — | 65 | — | — | — | — | 65 | — | 65 |
| Purchase of treasury shares | — | — | — | (2,775) | (102) | — | — | (102) | — | (102) |
| Adjustment of redeemable non-controlling interests to redemption value | — | — | 4 | — | — | — | — | 4 | — | 4 |
| Balance at December 28, 2019 | <u>216,907</u> | <u>\$ —</u> | <u>\$ 1,080</u> | <u>(67,894)</u> | <u>\$ (3,325)</u> | <u>\$ (29)</u> | <u>\$ 4,883</u> | <u>\$ 2,609</u> | <u>\$ 2</u> | <u>\$ 2,611</u> |

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

| | Ordinary Shares | | | Treasury Shares | | Accumulated Other Comprehensive Loss | Retained Earnings | Total Equity of Capri | Non- controlling Interests | Total Equity |
|--|-----------------|-------------|----------------------------------|-----------------|-------------------|---|----------------------|-----------------------------|----------------------------------|-----------------|
| | Shares | Amounts | Additional Paid-in Capital | Shares | Amounts | | | | | |
| Balance at September 29, 2018 | 213,209 | \$ — | \$ 877 | (63,059) | \$ (3,123) | \$ (62) | \$ 4,488 | \$ 2,180 | \$ 4 | \$ 2,184 |
| Net income | — | — | — | — | — | — | 200 | 200 | — | 200 |
| Other comprehensive loss | — | — | — | — | — | (31) | — | (31) | — | (31) |
| Total comprehensive income | — | — | — | — | — | — | — | 169 | — | 169 |
| Vesting of restricted awards, net of forfeitures | 84 | — | — | — | — | — | — | — | — | — |
| Exercise of employee share options | 139 | — | 3 | — | — | — | — | 3 | — | 3 |
| Equity compensation expense | — | — | 12 | — | — | — | — | 12 | — | 12 |
| Purchase of treasury shares | — | — | — | (2,060) | (100) | — | — | (100) | — | (100) |
| Increase in noncontrolling interest | — | — | — | — | — | — | — | — | (1) | (1) |
| Balance at December 29, 2018 | <u>213,432</u> | <u>\$ —</u> | <u>\$ 892</u> | <u>(65,119)</u> | <u>\$ (3,223)</u> | <u>\$ (93)</u> | <u>\$ 4,688</u> | <u>\$ 2,264</u> | <u>\$ 3</u> | <u>\$ 2,267</u> |

| | Ordinary Shares | | | Treasury Shares | | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Equity of Capri | Non- controlling Interests | Total Equity |
|--|-----------------|-------------|----------------------------------|-----------------|-------------------|--|----------------------|-----------------------------|----------------------------------|-----------------|
| | Shares | Amounts | Additional Paid-in Capital | Shares | Amounts | | | | | |
| Balance at March 31, 2018, as previously reported | 210,991 | \$ — | \$ 831 | (61,293) | \$ (3,016) | \$ 51 | \$ 4,152 | \$ 2,018 | \$ 4 | \$ 2,022 |
| Adoption of accounting standard (ASC 606) | — | — | — | — | — | — | 12 | 12 | — | 12 |
| Balance as of April 1, 2018 | 210,991 | — | 831 | (61,293) | (3,016) | 51 | 4,164 | 2,030 | 4 | 2,034 |
| Net income (loss) | — | — | — | — | — | — | 524 | 524 | (1) | 523 |
| Other comprehensive loss | — | — | — | — | — | (144) | — | (144) | — | (144) |
| Total comprehensive income (loss) | — | — | — | — | — | — | — | 380 | (1) | 379 |
| Vesting of restricted awards, net of forfeitures | 781 | — | — | — | — | — | — | — | — | — |
| Exercise of employee share options | 1,660 | — | 23 | — | — | — | — | 23 | — | 23 |
| Equity compensation expense | — | — | 38 | — | — | — | — | 38 | — | 38 |
| Purchase of treasury shares | — | — | — | (3,826) | (207) | — | — | (207) | — | (207) |
| Balance at December 29, 2018 | <u>213,432</u> | <u>\$ —</u> | <u>\$ 892</u> | <u>(65,119)</u> | <u>\$ (3,223)</u> | <u>\$ (93)</u> | <u>\$ 4,688</u> | <u>\$ 2,264</u> | <u>\$ 3</u> | <u>\$ 2,267</u> |

See accompanying notes to consolidated financial statements.

CAPRI HOLDINGS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

| | Nine Months Ended | |
|---|----------------------|----------------------|
| | December 28, 2019 | December 29, 2018 |
| Cash flows from operating activities | | |
| Net income | \$ 327 | \$ 523 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 188 | 160 |
| Equity compensation expense | 65 | 38 |
| Deferred income taxes | — | 12 |
| Impairment of long-lived assets | 220 | 17 |
| Changes to lease related balances, net | (47) | — |
| Tax deficit (benefit) on exercise of share options | 2 | (24) |
| Amortization of deferred financing costs | 6 | 3 |
| Foreign currency losses | 4 | 79 |
| Other non-cash charges | 1 | 2 |
| Change in assets and liabilities: | | |
| Receivables, net | 11 | (9) |
| Inventories, net | (8) | (127) |
| Prepaid expenses and other current assets | (72) | (51) |
| Accounts payable | 6 | 52 |
| Accrued expenses and other current liabilities | 24 | 75 |
| Other long-term assets and liabilities | 25 | 26 |
| Net cash provided by operating activities | <u>752</u> | <u>776</u> |
| Cash flows from investing activities | | |
| Capital expenditures | (164) | (135) |
| Purchase of intangible assets | — | (2) |
| Cash paid for business acquisitions, net of cash acquired | (1) | (2) |
| Realized loss on hedge related to Versace acquisition | — | (77) |
| Settlement of a net investment hedges | 32 | — |
| Net cash used in investing activities | <u>(133)</u> | <u>(216)</u> |
| Cash flows from financing activities | | |
| Debt borrowings | 1,844 | 3,597 |
| Debt repayments | (2,296) | (1,926) |
| Debt issuance costs | — | (15) |
| Purchase of treasury shares | (102) | (207) |
| Exercise of employee share options | — | 23 |
| Net cash (used in) provided by financing activities | <u>(554)</u> | <u>1,472</u> |
| Effect of exchange rate changes on cash and cash equivalents | — | (9) |
| Net increase in cash and cash equivalents | 65 | 2,023 |
| Beginning of period | 172 | 163 |
| End of period (including restricted cash of \$1.922 billion at December 29, 2018) | <u>\$ 237</u> | <u>\$ 2,186</u> |
| Supplemental disclosures of cash flow information | | |
| Cash paid for interest | \$ 67 | \$ 24 |
| Cash paid for income taxes | \$ 75 | \$ 128 |
| Supplemental disclosure of non-cash investing and financing activities | | |
| Accrued capital expenditures | \$ 27 | \$ 23 |

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 completed the acquisition of Gianni Versace S.r.l. (“Versace”) on December 31, 2018. As a result, the Company operates in three reportable segments: Versace, Jimmy Choo and Michael Kors. See Note 18 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 28, 2019 and for the three and nine months ended December 28, 2019 and December 29, 2018 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 30, 2019, as filed with the Securities and Exchange Commission on May 29, 2019, 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 28, 2019 and December 29, 2018, 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 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, including the realignment of the Company’s segment reporting structure in the fourth quarter of Fiscal 2019, as further described in Note 18.

Seasonality

The Company experiences certain effects of seasonality with respect to its business. The Company generally experiences greater sales during its third fiscal quarter, primarily driven by holiday season sales, and the lowest sales during its first fiscal quarter.

Inventories, net

Inventories mainly consist of finished goods with the exception of raw materials of \$20 million and \$25 million, respectively, recorded on the Company's consolidated balance sheets as of December 28, 2019 and March 30, 2019.

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 in September 2018 with notional amounts totaling €1.680 billion (approximately \$2.001 billion) to mitigate its foreign currency exchange risk through the closing date of the acquisition, which were settled on December 21, 2018. These derivative contracts were not designated as accounting hedges. Therefore, changes in fair value were 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 that are accounted for as cash flow hedges in the same category as the cash flows from the items being hedged. Accordingly, the Company classified the unrealized gains and losses 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 a 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, 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.

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 its U.S. Dollars and these foreign currencies. The Company has elected the spot method of designating these contracts under ASU 2017-12 and has designated these contracts as net investment hedges. The net gain or (loss) on the net investment hedge 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 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Numerator: | | | | |
| Net income attributable to Capri | \$ 210 | \$ 200 | \$ 328 | \$ 524 |
| Denominator: | | | | |
| Basic weighted average shares | 150,826,196 | 149,183,049 | 151,159,423 | 149,420,087 |
| Weighted average dilutive share equivalents: | | | | |
| Share options and restricted shares/units, and performance restricted share units | 1,328,176 | 1,085,375 | 1,195,513 | 2,037,834 |
| Diluted weighted average shares | 152,154,372 | 150,268,424 | 152,354,936 | 151,457,921 |
| Basic net income per share ⁽¹⁾ | \$ 1.39 | \$ 1.34 | \$ 2.17 | \$ 3.50 |
| Diluted net income per share ⁽¹⁾ | \$ 1.38 | \$ 1.33 | \$ 2.15 | \$ 3.46 |

⁽¹⁾ Basic and diluted net income per share are calculated using unrounded numbers.

During the three and nine months ended December 28, 2019, share equivalents of 2,264,959 shares and 3,487,241 shares, respectively, have been excluded from the above calculations due to their anti-dilutive effect. Share equivalents of 2,022,564 shares and 1,117,277 shares, respectively, have been excluded from the above calculations during the three and nine months ended December 29, 2018.

See Note 2 in the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 2019 for a complete disclosure of the Company's significant accounting policies.

Recently Adopted Accounting Pronouncements

Lease Accounting

On March 31, 2019, the Company adopted ASU 2016-02, "Leases (Topic 842)," which requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet for all leases, except certain short-term leases. In evaluating the impact of ASU 2016-02, the Company considered guidance provided by several additional ASUs issued by the FASB, 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. In connection with its implementation of ASU 2016-02, the Company adopted 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. The Company also adopted the practical expedient allowing it to combine lease and non-lease components for its real estate leases. Lastly, the Company adopted the practical expedient provided by 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, are subject to the new standard and resulted in recording of lease liabilities and right-of-use assets for operating leases on the Company's consolidated balance sheet.

The below table details the balance sheet adjustments recorded on March 31, 2019 in connection with the Company's adoption of ASU 2016-02 (in millions):

| | March 30, 2019 As Reported under ASC 840 | ASC 842 Adjustments | March 31, 2019 As Reported Under ASC 842 |
|--|--|------------------------|--|
| Assets | | | |
| Prepaid expenses and other current assets | \$ 221 | \$ (23) ⁽¹⁾ | \$ 198 |
| Operating lease right-of-use assets | — | 1,856 ⁽²⁾ | 1,856 |
| Intangible assets, net | 2,293 | (20) ⁽³⁾ | 2,273 |
| Deferred tax assets | 112 | 38 ⁽⁴⁾ | 150 |
| Liabilities | | | |
| Current portion of operating lease liabilities | — | 386 ⁽⁵⁾ | 386 |
| Accrued expenses and other current liabilities | 374 | (72) ⁽⁶⁾ | 302 |
| Long-term portion of operating lease liabilities | — | 1,828 ⁽⁵⁾ | 1,828 |
| Deferred Rent | 132 | (132) ⁽⁷⁾ | — |
| Deferred tax liabilities | 438 | (7) ⁽⁴⁾ | 431 |
| Shareholders' Equity | | | |
| Retained earnings | 4,707 | (152) ⁽⁴⁾ | 4,555 |

(1) Represents the reclassification of rent paid in advance to current operating lease liabilities.

(2) Represents the recognition of operating lease right-of-use assets, reflecting the reclassifications of deferred rent, sublease liabilities, tenant allowances and favorable and unfavorable lease rights. This balance also reflects the initial impairments of the operating lease right-of-use assets recorded through retained earnings, as described below.

(3) Represents the reclassifications of favorable and unfavorable lease rights for leases recorded in conjunction with the Company's acquisitions to operating lease right-of-use assets.

(4) Represents the initial impairment recognized through retained earnings for certain underperforming retail store locations for which property and equipment were previously impaired, net of associated deferred taxes.

(5) Represents the recognition of current and non-current lease liabilities for fixed payments associated with the Company's operating leases.

(6) Represents the reclassification of \$54 million in sublease liabilities, primarily related to Michael Kors retail stores closed under the Retail Fleet Optimization Plan as defined in Note 10, as well as the reclassification of \$18 million of deferred rent and tenant allowances to operating lease right-of-use assets.

(7) Represents the reclassification of noncurrent deferred rent and tenant improvement allowances to operating lease right-of-use assets.

See Note 4 for additional disclosures related to the Company's lease accounting policy.

Recently Issued Accounting Pronouncements

The Company has considered all new accounting pronouncements and 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.

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 are transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those 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 the Company's brands.

Retail

The Company generates sales through directly operated stores and e-commerce throughout the Americas (U.S., Canada and Latin America), EMEA (Europe, Middle East and Africa) and certain parts of Asia.

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 contract liability related to gift cards, net of estimated "breakage," was \$13 million as of both December 28, 2019 and March 30, 2019, respectively, 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 \$4 million and \$3 million as of December 28, 2019 and March 30, 2019, respectively, is recorded as a reduction to revenue in the consolidated statements of operations 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

The Company's products are sold primarily to major department stores, specialty stores and travel retail shops throughout the Americas, EMEA and Asia. The Company also has arrangements where its products are sold to geographic licensees in certain parts of EMEA, Asia and South America.

Licensing

The Company provides its third-party licensees with the right to access its Versace, Jimmy Choo and Michael Kors trademarks under product and geographic licensing arrangements. 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. Generally the Company's guaranteed minimum royalty amounts due from licensees relate to contractual periods that do not exceed 12 months, however, some of our guaranteed minimums for Versace are multi-year based. As of December 28, 2019, contractually guaranteed minimum fees from our license agreements expected to be recognized as revenue during future periods were as follows (in millions):

| | Contractually Guaranteed Minimum Fees |
|----------------------------|---|
| Remainder of Fiscal 2020 | \$ 7 |
| Fiscal 2021 | 27 |
| Fiscal 2022 | 27 |
| Fiscal 2023 | 23 |
| Fiscal 2024 | 21 |
| Fiscal 2025 and thereafter | 100 |
| Total | \$ 205 |

Sales Returns

The refund liability recorded as of December 28, 2019 and March 30, 2019 was \$51 million and \$35 million, respectively, and the related asset for the right to recover returned product as of December 28, 2019 and March 30, 2019 was \$16 million and \$12 million, respectively.

Contract Balances

Total contract liabilities were \$19 million and \$31 million as of December 28, 2019 and March 30, 2019, respectively. For the three and nine months ended December 28, 2019, the Company recognized \$2 million and \$19 million, respectively, in revenue which related to contract liabilities that existed at March 30, 2019. For the three and nine months ended December 29, 2018, the Company recognized \$3 million and \$14 million, respectively, in revenue which related to contract liabilities that existed at April 1, 2018. There were no contract assets recorded as of December 28, 2019 and March 30, 2019.

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 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Versace revenue - the Americas | \$ 41 | \$ — | \$ 133 | \$ — |
| Versace revenue - EMEA | 98 | — | 311 | — |
| Versace revenue - Asia | 56 | — | 186 | — |
| Total Versace | 195 | — | 630 | — |
| Jimmy Choo revenue - the Americas | 34 | 29 | 85 | 75 |
| Jimmy Choo revenue - EMEA | 85 | 90 | 228 | 248 |
| Jimmy Choo revenue - Asia | 46 | 43 | 135 | 128 |
| Total Jimmy Choo | 165 | 162 | 448 | 451 |
| Michael Kors revenue - the Americas | 834 | 898 | 2,222 | 2,363 |
| Michael Kors revenue - EMEA | 239 | 244 | 652 | 677 |
| Michael Kors revenue - Asia | 138 | 134 | 407 | 403 |
| Total Michael Kors | 1,211 | 1,276 | 3,281 | 3,443 |
| Total revenue - the Americas | 909 | 927 | 2,440 | 2,438 |
| Total revenue - EMEA | 422 | 334 | 1,191 | 925 |
| Total revenue - Asia | 240 | 177 | 728 | 531 |
| Total revenue | \$ 1,571 | \$ 1,438 | \$ 4,359 | \$ 3,894 |

See Note 3 in the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 2019 for a complete disclosure of the Company's revenue recognition policy.

4. Leases

The Company leases retail stores, office space and warehouse space under operating lease agreements that expire at various dates through September 2043. The Company's leases generally have terms of up to 10 years, generally require a fixed annual rent and may require the payment of additional rent if store sales exceed a negotiated amount. Although most of the Company's equipment is owned, the Company has limited equipment leases that expire on various dates through February 2024. The Company acts as sublessor in certain leasing arrangements, primarily related to closed stores under its Retail Fleet Optimization Plan, as defined in Note 10. Fixed sublease payments received are recognized on a straight-line basis over the sublease term. The Company determines the sublease term based on the date it provides possession to the subtenant through the expiration date of the sublease.

The Company recognizes operating lease right-of-use assets and lease liabilities at lease commencement date, based on the present value of fixed lease payments over the expected lease term. The Company uses its incremental borrowing rates to determine the present value of fixed lease payments based on the information available at the lease commencement date, as the rate implicit in the lease is not readily determinable for the Company's leases. The Company's incremental borrowing rates are based on the term of the leases, the economic environment of the leases, and reflect the rate it would pay to borrow on a secured basis. Certain leases include one or more renewal options, generally for the same period as the initial term of the lease. The exercise of lease renewal options is generally at the Company's sole discretion and as such, the Company typically determines that exercise of these renewal options is not reasonably certain. As a result, the Company generally does not include the renewal option period in the expected lease term and the associated lease payments are not included in the measurement of the operating lease right-of-use asset and lease liability. Certain leases also contain termination options with an associated penalty. Generally, the Company is reasonably certain not to exercise these options and as such, they are not included in the determination of the expected lease term. The Company recognizes operating lease expense on a straight-line basis over the lease term.

Leases with an initial lease term of 12 months or less are not recorded on the balance sheet. The Company recognizes lease expense for its short-term leases on a straight-line basis over the lease term.

The Company's leases generally provide for payments of non-lease components, such as common area maintenance, real estate taxes and other costs associated with the leased property. The Company accounts for lease and non-lease components of its real estate leases together as a single lease component and, as such, includes fixed payments of non-lease components in the measurement of the operating lease right-of-use assets and lease liabilities for its real estate leases. Variable lease payments, such as percentage rentals based on location sales, periodic adjustments for inflation, reimbursement of real estate taxes, any variable common area maintenance and any other variable costs associated with the leased property are expensed as incurred as variable lease costs and are not recorded on the balance sheet. The Company's lease agreements do not contain any material residual value guarantees or material restrictions or covenants.

The following table presents the Company's supplemental balance sheet information related to leases (in millions):

| Balance Sheet Location | | December 28, 2019 |
|------------------------|---|----------------------|
| Assets | | |
| Operating leases | Operating lease right-of-use assets | \$ 1,665 |
| Liabilities | | |
| Current: | | |
| Operating leases | Short-term portion of operating lease liabilities | \$ 406 |
| Non-current: | | |
| Operating leases | Long-term portion of operating lease liabilities | \$ 1,751 |

The components of net lease costs for the three and nine months ended December 28, 2019 were as follows (in millions):

| Statement of Operations and Comprehensive Income Location | | December 28, 2019 | |
|--|--|-----------------------|-------------------|
| | | Three Months Ended | Nine Months Ended |
| Operating lease cost | Selling, general and administrative expenses | \$ 114 | \$ 338 |
| Short-term lease cost | Selling, general and administrative expenses | 5 | 18 |
| Variable lease cost | Selling, general and administrative expenses | 39 | 118 |
| Sublease income | Selling, general and administrative expenses | (2) | (5) |
| Total lease cost | | \$ 156 | \$ 469 |

The following table presents the Company's supplemental cash flow information related to leases (in millions):

| | | Nine Months Ended December 28, 2019 |
|---|--|--|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows used in operating leases | | \$ 372 |
| Non-cash transactions: | | |
| Lease assets obtained in exchange for new lease liabilities | | \$ 270 |

The following tables summarizes the weighted average remaining lease term and weighted average discount rate related to the Company's operating lease right-of-use assets and lease liabilities recorded on the balance sheet as of December 28, 2019:

| | December 28, 2019 |
|---|----------------------|
| Operating leases: | |
| Weighted average remaining lease term (years) | 6.3 |
| Weighted average discount rate | 3.0 % |

At December 28, 2019, the future minimum lease payments under the terms of these noncancelable operating lease agreements are as follows (in millions):

| | December 28, 2019 |
|--------------------------|----------------------|
| Remainder of Fiscal 2020 | \$ 127 |
| Fiscal 2021 | 484 |
| Fiscal 2022 | 425 |
| Fiscal 2023 | 356 |
| Fiscal 2024 | 301 |
| Thereafter | 707 |
| Total lease payments | <u>2,400</u> |
| Less: interest | (243) |
| Total lease liabilities | <u>\$ 2,157</u> |

At December 28, 2019, the future minimum sublease income under the terms of these noncancelable operating lease agreements are as follows (in millions):

| | December 28, 2019 |
|--------------------------|----------------------|
| Remainder of Fiscal 2020 | \$ 1 |
| Fiscal 2021 | 6 |
| Fiscal 2022 | 5 |
| Fiscal 2023 | 5 |
| Fiscal 2024 | 4 |
| Thereafter | 16 |
| Total sublease income | <u>\$ 37</u> |

Additionally, the Company had approximately \$94 million of future payment obligations related to executed lease agreements for which the related lease has not yet commenced as of December 28, 2019.

5. Acquisitions

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 investment made by the Versace family at acquisition of 2.4 million shares of CPRI stock. 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 11 for additional information).

Versace's results of operations have been included in our consolidated financial statements beginning on December 31, 2018. Versace contributed total revenue of \$195 million and \$630 million, respectively, for the three and nine months ended November 30, 2019 and net loss from operations of \$12 million and \$6 million, respectively, after amortization of non-cash purchase accounting adjustments, for the three and nine months ended November 30, 2019 (reflecting a one-month reporting lag).

The Company recorded measurement period adjustments during the three months ended December 28, 2019. The measurement period adjustments related to conclusions reached on the ability to utilize certain deferred tax assets based on new facts and circumstances identified which existed at the acquisition date and if known, would have affected the measurement of the amounts recognized as of that date. The net measurement period adjustments increased goodwill by \$23 million. As the Company continues to finalize the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period. See Note 4 in the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 2019 for additional disclosures relating to the Company's acquisitions.

6. Receivables, net

Receivables, net, consist of (in millions):

| | December 28, 2019 | March 30, 2019 |
|----------------------------------|----------------------|-------------------|
| Trade receivables ⁽¹⁾ | \$ 404 | \$ 459 |
| Receivables due from licensees | 31 | 23 |
| | 435 | 482 |
| Less: allowances | (114) | (99) |
| | \$ 321 | \$ 383 |

⁽¹⁾ As of December 28, 2019 and March 30, 2019, \$73 million and \$317 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. Markdowns 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.

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 \$14 million and \$18 million as of December 28, 2019 and March 30, 2019, respectively. The Company had bad debt expense of \$3 million and \$1 million for the nine months ended December 28, 2019 and December 29, 2018, respectively. All other periods presented were immaterial.

7. Property and Equipment, net

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

| | December 28, 2019 | March 30, 2019 |
|---|----------------------|-------------------|
| Leasehold improvements | \$ 686 | \$ 639 |
| Computer equipment and software | 315 | 292 |
| Furniture and fixtures | 316 | 292 |
| In-store shops | 275 | 270 |
| Equipment | 130 | 123 |
| Building | 47 | 47 |
| Land | 18 | 15 |
| | 1,787 | 1,678 |
| Less: accumulated depreciation and amortization | (1,260) | (1,115) |
| | 527 | 563 |
| Construction-in-progress | 69 | 52 |
| | \$ 596 | \$ 615 |

Depreciation and amortization of property and equipment for the three months ended December 28, 2019 and December 29, 2018 was \$50 million and \$44 million, respectively, and was \$149 million and \$136 million, respectively, for the nine months ended December 28, 2019 and December 29, 2018. During the three months ended December 28, 2019, the Company recorded property and equipment impairment charges of \$10 million, primarily related to Michael Kors retail store locations. During the nine months ended December 28, 2019, the Company recorded property and equipment impairment charges of \$33 million, \$11 million of which related to determining asset groups for the Company's premier store locations at an individual store level, \$7 million of which related to Michael Kors and \$4 million related to Jimmy Choo. In addition, during the nine months ended December 28, 2019, the Company recorded property and equipment impairment charges of \$22 million, related to the Company's retail store locations (see Note 13 for additional information). During the three and nine months ended December 29, 2018, the Company recorded property and equipment impairment charges of \$6 million and \$15 million, respectively, of which \$5 million and \$13 million, respectively, were related to underperforming Michael Kors full-price retail store locations, some of which related to the Retail Fleet Optimization Plan, as defined in Note 10.

8. Intangible Assets and Goodwill

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

| | December 28, 2019 | March 30, 2019 |
|---|----------------------|-------------------|
| <i>Definite-lived intangible assets:</i> | | |
| Reacquired Rights | \$ 400 | \$ 400 |
| Trademarks | 23 | 23 |
| Key Money ⁽¹⁾ | 68 | 96 |
| Customer Relationships | 415 | 415 |
| Total definite-lived intangible assets | 906 | 934 |
| Less: accumulated amortization | (181) | (143) |
| Net definite-lived intangible assets | 725 | 791 |
| <i>Indefinite-lived intangible assets:</i> | | |
| Jimmy Choo brand | 574 | 572 |
| Versace brand | 926 | 930 |
| | 1,500 | 1,502 |
| Total intangible assets, excluding goodwill | \$ 2,225 | \$ 2,293 |
| Goodwill ⁽²⁾ | \$ 1,681 | \$ 1,659 |

⁽¹⁾ The March 30, 2019 balance includes certain lease rights that were reclassified to the operating lease right-of-use asset as part of the adoption of ASU 2016-02.

⁽²⁾ The change in the carrying values since March 30, 2019 primarily relates to the goodwill adjustment discussed in Note 5.

Amortization expense for the Company's definite-lived intangible assets for the three months ended December 28, 2019 and December 29, 2018 was \$13 million and \$7 million, respectively, and was \$39 million and \$24 million, respectively, for the nine months ended December 28, 2019 and December 29, 2018. During the three and nine months ended December 28, 2019, the Company recorded impairment charges of \$2 million and \$8 million, respectively, primarily related to intangible assets associated with its premier Michael Kors store locations (see Note 13 for further information). Impairment charges recorded during the nine months ended December 29, 2018 were \$2 million. There were no goodwill or other indefinite-lived intangible asset impairment charges recorded during any of the periods presented.

9. Current Assets and Current Liabilities

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

| | December 28, 2019 | March 30, 2019 |
|--|----------------------|-------------------|
| Prepaid taxes | \$ 189 | \$ 125 |
| Interest receivable related to net investment hedges | 12 | 11 |
| Prepaid property and equipment | 8 | 7 |
| Prepaid rent ⁽¹⁾ | — | 24 |
| Other | 54 | 54 |
| | \$ 263 | \$ 221 |

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

| | December 28, 2019 | March 30, 2019 |
|--|----------------------|-------------------|
| Other taxes payable | \$ 95 | \$ 47 |
| Return liabilities | 51 | 35 |
| Accrued capital expenditures | 27 | 25 |
| Accrued rent ⁽²⁾ | 22 | 34 |
| Accrued advertising and marketing | 16 | 10 |
| Gift cards and retail store credits | 13 | 13 |
| Professional services | 11 | 12 |
| Restructuring liability ⁽¹⁾ | 11 | 64 |
| Accrued litigation | 10 | 11 |
| Accrued interest | 5 | 10 |
| Accrued purchases and samples | 4 | 29 |
| Other | 88 | 84 |
| | <u>\$ 353</u> | <u>\$ 374</u> |

⁽¹⁾ In connection with the adoption of ASU 2016-02, certain lease related assets and liabilities were reflected within operating lease right-of-use assets and liabilities as of December 28, 2019. See Note 2 and Note 4 for additional information.

⁽²⁾ The accrued rent balance relates to variable lease payments.

10. Restructuring and Other Charges

Retail Fleet Optimization Plan

The Company plans to close between 100 and 150 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 lower depreciation and amortization expense as a result of the impairment charges recorded once these initiatives are completed.

During the nine months ended December 28, 2019, the Company closed 29 of its Michael Kors retail stores under the Retail Fleet Optimization Plan, for a total of 129 stores closed at a cost of \$100 million since plan inception. Restructuring charges recorded in connection with the Retail Fleet Optimization Plan during the three and nine months ended December 28, 2019 were \$5 million and \$6 million, respectively. The below table presents a rollforward of the Company’s remaining restructuring liability related to this plan (in millions):

| | Severance and benefit costs | Lease-related and other costs | Total |
|--|--------------------------------|----------------------------------|-------------|
| Balance at March 30, 2019 | \$ 2 | \$ 53 | \$ 55 |
| ASC 842 (Leases) Adjustment ⁽¹⁾ | — | (46) | (46) |
| Balance at March 31, 2019 | 2 | 7 | 9 |
| Additions charged to expense | — | 6 | 6 |
| Payments | (1) | (7) | (8) |
| Balance at December 28, 2019 | <u>\$ 1</u> | <u>\$ 6</u> | <u>\$ 7</u> |

⁽¹⁾ Consists of the reclassification of sublease liabilities to an offset of the related operating lease right-of-use asset due to the adoption of ASC 842. See Note 2 and Note 4 for further information.

During the three and nine months ended December 29, 2018, the Company recorded restructuring charges of \$4 million and \$10 million, respectively, under the Retail Fleet Optimization Plan, which were comprised of lease-related charges.

Other Restructuring Charges

In addition to the restructuring charges related to the Retail Fleet Optimization Plan, the Company incurred charges of \$2 million and \$5 million during the three and nine months ended December 28, 2019, respectively, primarily consisting of lease-related costs. The Company also incurred charges of \$3 million and \$4 million relating to Jimmy Choo lease-related charges during the three and nine months ended December 29, 2018, respectively.

Other Costs

During the three months ended December 28, 2019, the Company recorded costs of \$8 million, which included \$5 million in connection with the acquisition of Versace and \$3 million in connection with the Jimmy Choo acquisition. During the nine months ended December 28, 2019, the Company recorded costs of \$26 million, which included \$18 million in connection with the acquisition of Versace and \$8 million in connection with the Jimmy Choo acquisition.

During the three months ended December 29, 2018, the Company recorded costs of \$12 million, which included \$6 million in connection with the acquisition of Versace and \$6 million in connection with the Jimmy Choo acquisition. During the nine months ended December 29, 2018, the Company recorded costs of \$35 million, which included \$20 million in connection with the Jimmy Choo acquisition and \$15 million in connection with the acquisition of Versace.

11. Debt Obligations

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

| | December 28, 2019 | March 30, 2019 |
|--|----------------------|-------------------|
| Term Loan | \$ 1,125 | \$ 1,580 |
| Revolving Credit Facilities | 548 | 550 |
| 4.000% Senior Notes due 2024 | 450 | 450 |
| Other | 3 | 1 |
| Total debt | 2,126 | 2,581 |
| Less: Unamortized debt issuance costs | 8 | 13 |
| Less: Unamortized discount on long-term debt | 2 | 2 |
| Total carrying value of debt | 2,116 | 2,566 |
| Less: Short-term debt | 1,031 | 630 |
| Total long-term debt | \$ 1,085 | \$ 1,936 |

Senior Unsecured Revolving Credit Facility

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 28, 2019, the Company was in compliance with all covenants related to this agreement.

As of December 28, 2019 and March 30, 2019, the Company had borrowings of \$503 million and \$539 million, respectively, outstanding under the 2018 Revolving Credit Facility, which were recorded within short-term debt in its consolidated balance sheets. In addition, stand-by letters of credit of \$16 million were outstanding as of December 28, 2019. At December 28, 2019, the amount available for future borrowings under the 2018 Revolving Credit Facility was \$481 million. As of December 28, 2019 and March 30, 2019, the carrying value of borrowings outstanding under the 2018 Term Loan Facility was \$1.119 billion and \$1.570 billion, respectively, of which \$483 million and \$80 million, respectively, was recorded within short-term debt and \$636 million and \$1.490 billion, respectively, was recorded within long-term debt in its consolidated balance sheets.

See Note 11 to the Company's Fiscal 2019 Annual Report on Form 10-K for additional information regarding the Company's credit facilities and debt obligations.

12. 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 30, 2019 for a detailed disclosure of other commitments and contractual obligations as of March 30, 2019.

13. 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 28, 2019 and March 30, 2019, 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 14.

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 28, 2019 using: | | | Fair value at March 30, 2019 using: | | |
|---|--|---|---|--|---|---|
| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Derivative assets: | | | | | | |
| Forward foreign currency exchange contracts | \$ — | \$ 1 | \$ — | \$ — | \$ 5 | \$ — |
| Net investment hedges | — | 58 | — | — | 37 | — |
| Other undesignated derivative contracts | — | 1 | — | — | — | — |
| Total derivative assets | \$ — | \$ 60 | \$ — | \$ — | \$ 42 | \$ — |
| Derivative liabilities: | | | | | | |
| Forward foreign currency exchange contracts | \$ — | \$ 1 | \$ — | \$ — | \$ — | \$ — |
| Other undesignated derivative contracts | — | — | — | — | 5 | — |
| Total derivative liabilities | \$ — | \$ 1 | \$ — | \$ — | \$ 5 | \$ — |

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 11 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 28, 2019 | | March 30, 2019 | |
|-----------------------------|-------------------|----------------------|----------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| 4.000% Senior Notes | \$ 446 | \$ 468 | \$ 445 | \$ 438 |
| Term Loan | \$ 1,119 | \$ 1,125 | \$ 1,570 | \$ 1,574 |
| Revolving Credit Facilities | \$ 548 | \$ 548 | \$ 550 | \$ 550 |

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, operating lease right-of-use 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 assets (Versace and Jimmy Choo brands) are assessed for impairment at least annually during the fourth quarter of each fiscal year, while its other long-lived assets, including operating lease right-of-use assets, property and equipment 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 Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that carrying amounts of such assets may not be recoverable. This assessment is performed for each long-lived asset group that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The grouping of assets requires a significant amount of judgment. The Company historically grouped certain premier store locations, primarily Michael Kors premier stores, with other Michael Kors stores within the immediate geographic area surrounding the premier store as the Company believed the assets of the store group benefited from the Company's investments in the premier store. Due to the Company's recent significant expansion in luxury retail, as well as its continued growth in its global digital business, the Company reassessed its methodology for evaluating impairment of long-lived assets, including the determination of asset groupings. The Company's luxury retail business generally operates only premier, more luxurious, retail store locations with consistent investments across its individual stores. As a result, during the nine months ended December 28, 2019, the Company determined that asset groups at an individual store level represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. As a result of this determination, in the first quarter of Fiscal 2020, the Company identified impairment indicators at certain premier retail store locations and recorded operating lease right-of-use asset and property and equipment impairment charges of \$68 million and \$11 million, respectively, which are included in the impairment charges detailed in the table below (in millions):

| | Three Months Ended December 28, 2019 | | | Nine Months Ended December 28, 2019 | | |
|-------------------------------------|---|------------|----------------------|--|------------|----------------------|
| | Carrying Value Prior to Impairment | Fair Value | Impairment Charge | Carrying Value Prior to Impairment | Fair Value | Impairment Charge |
| Operating Lease Right-of-Use Assets | \$ 27 | \$ 20 | \$ 7 | \$ 314 | \$ 135 | \$ 179 |
| Property and Equipment | 13 | 3 | 10 | 51 | 18 | 33 |
| Key Money | 3 | 1 | 2 | 12 | 4 | 8 |
| Total | \$ 43 | \$ 24 | \$ 19 | \$ 377 | \$ 157 | \$ 220 |

| | Three Months Ended December 29, 2018 | | | Nine Months Ended December 29, 2018 | | |
|------------------------|---|------------|----------------------|--|------------|----------------------|
| | Carrying Value Prior to Impairment | Fair Value | Impairment Charge | Carrying Value Prior to Impairment | Fair Value | Impairment Charge |
| Property and Equipment | \$ 6 | \$ — | \$ 6 | \$ 20 | \$ 5 | \$ 15 |
| Lease Rights | — | — | — | 4 | 2 | 2 |
| Total | \$ 6 | \$ — | \$ 6 | \$ 24 | \$ 7 | \$ 17 |

In addition to the impairment charges above, the Company recorded an adjustment to reduce its March 31, 2019 opening balance of retained earnings by \$152 million, net of tax, reflecting impairments of operating lease right-of-use assets for certain underperforming real estate locations for which the carrying value of the opening operating lease right-of-use asset exceeded its related fair value. Property and equipment related to these underperforming locations were fully impaired due to the adoption of ASU 2016-02. See Note 2 and Note 4 for additional information.

14. Derivative Financial Instruments

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.

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 in September 2018 with notional amounts totaling €1.680 billion (approximately \$2.001 billion) to mitigate its foreign currency exchange risk through the closing date of the acquisition, which were settled on December 21, 2018. These derivative contracts were not designated as accounting hedges. Therefore, changes in fair value were 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 that are accounted for as cash flow hedges in the same category as the cash flows from the items being hedged. Accordingly, the Company classified the unrealized gains and losses relating to these derivative instruments within cash flows from investing activities.

Net Investment Hedges

As of December 28, 2019, the Company had multiple fixed-to-fixed cross-currency swap agreements with aggregate notional amounts of \$3.190 billion to hedge its net investment in Euro-denominated subsidiaries and \$44 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 have maturity dates between January 2022 and June 2026, the Company will exchange the semi-annual fixed rate payments on U.S. denominated debt for fixed rate payments of 0% to 1.674% 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 \$19 million and \$53 million, respectively, during the three and nine months ended December 28, 2019 and \$3 million and \$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 28, 2019 and March 30, 2019 (in millions):

| | Notional Amounts | | Fair Values | | | |
|--|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|
| | | | Assets | | Liabilities | |
| | December 28, 2019 | March 30, 2019 | December 28, 2019 | March 30, 2019 | December 28, 2019 | March 30, 2019 |
| Designated forward foreign currency exchange contracts | \$ 162 | \$ 166 | \$ 1 | (1) \$ 5 | (1) \$ 1 | (3) \$ — |
| Designated net investment hedge | 3,234 | 2,234 | 58 | (2) 37 | (2) — | — |
| Total designated hedges | 3,396 | 2,400 | 59 | 42 | 1 | — |
| Undesignated derivative contracts (4) | 15 | 199 | 1 | (1) — | — | 5 (3) |
| Total | \$ 3,411 | \$ 2,599 | \$ 60 | \$ 42 | \$ 1 | \$ 5 |

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

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

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

(4) Primarily includes undesignated hedges of foreign currency denominated intercompany balances and inventory purchases.

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 previous 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 set-off amounts for similar transactions denominated in the same currencies, the resulting impact as of December 28, 2019 and March 30, 2019 would be as follows (in millions):

| | Forward Currency Exchange Contracts | | Net Investment Hedges | |
|--|-------------------------------------|----------------|-----------------------|----------------|
| | December 28, 2019 | March 30, 2019 | December 28, 2019 | March 30, 2019 |
| Assets subject to master netting arrangements | \$ 2 | \$ 5 | \$ 58 | \$ 37 |
| Liabilities subject to master netting arrangements | \$ 1 | \$ 5 | \$ — | \$ — |
| Derivative assets, net | \$ 1 | \$ 5 | \$ 58 | \$ 37 |
| Derivative liabilities, net | \$ — | \$ 5 | \$ — | \$ — |

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. 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 gains and losses on the Company's designated forward foreign currency exchange contracts and net investment hedges (in millions):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------------|-------------------------|-------------------------|-------------------------|
| | December 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| | Losses Recognized in OCI | Gains Recognized in OCI | Gains Recognized in OCI | Gains Recognized in OCI |
| Designated forward foreign currency exchange contracts | \$ (2) | \$ 2 | \$ 4 | \$ 12 |
| Designated net investment hedges | \$ (51) | \$ 10 | \$ 53 | \$ 15 |

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 28, 2019 and December 29, 2018 (in millions):

| | Three Months Ended | | | | |
|--|--|-------------------|------------------------------------|--------------------------|-------------------|
| | Gain Reclassified from Accumulated OCI | | Location of (Gain) Loss recognized | Total Cost of goods sold | |
| | December 28, 2019 | December 29, 2018 | | December 28, 2019 | December 29, 2018 |
| Designated forward foreign currency exchange contracts | \$ (3) | \$ (1) | Cost of goods sold | \$ 639 | \$ 565 |

| | Nine Months Ended | | | | |
|--|---|-------------------|------------------------------------|--------------------------|-------------------|
| | (Gain) Loss Reclassified from Accumulated OCI | | Location of (Gain) Loss recognized | Total Cost of goods sold | |
| | December 28, 2019 | December 29, 2018 | | December 28, 2019 | December 29, 2018 |
| Designated forward foreign currency exchange contracts | \$ (8) | \$ 6 | Cost of goods sold | \$ 1,719 | \$ 1,507 |

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 28, 2019, the net impact of changes in the fair value of undesignated forward foreign currency exchange contracts recognized within foreign currency loss (gain) in the Company's consolidated statement of operations and comprehensive income was not material.

During the three and nine months ended December 29, 2018, the Company recognized a net loss of \$47 million and \$76 million, respectively, primarily 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.

15. Shareholders' Equity

Share Repurchase Program

During the nine months ended December 28, 2019, the Company repurchased 2,711,807 shares through open market transactions at a cost of \$100 million under its new \$500 million share-repurchase program, which was authorized by the Company's Board of Directors on August 1, 2019 and which expires on August 1, 2021. During the nine months ended December 29, 2018, the Company repurchased 3,718,237 shares through open market transactions at a cost of \$200 million under its previous \$1.0 billion share-repurchase program, which expired on May 25, 2019. As of December 28, 2019, the remaining availability under the Company's share repurchase program was \$400 million. Share repurchases may be made in open market or privately negotiated transactions, subject to market conditions, applicable legal requirements, trading 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 awards. During the nine month periods ended December 28, 2019 and December 29, 2018, the Company withheld 63,958 shares and 107,712 shares, respectively, with a fair value of \$2 million and \$7 million, respectively, in satisfaction of minimum tax withholding obligations relating to the vesting of restricted share awards.

Accumulated Other Comprehensive Income (Loss)

The following table details changes in the components of accumulated other comprehensive income (loss) ("AOCI"), net of taxes for the nine months ended December 28, 2019 and December 29, 2018, respectively (in millions):

| | Foreign Currency Translation Gains (Losses) ⁽¹⁾ | Net (Losses) Gains on Derivatives ⁽²⁾ | Other Comprehensive Income (Loss) Attributable to Capri |
|--|---|---|---|
| Balance at March 31, 2018 | \$ 61 | \$ (10) | \$ 51 |
| Other comprehensive (loss) income before reclassifications | (160) | 11 | (149) |
| Less: amounts reclassified from AOCI to earnings | — | (5) | (5) |
| Other comprehensive (loss) income, net of tax | (160) | 16 | (144) |
| Balance at December 29, 2018 | \$ (99) | \$ 6 | \$ (93) |
| Balance at March 30, 2019 | \$ (73) | \$ 7 | \$ (66) |
| Other comprehensive income before reclassifications | 40 | 4 | 44 |
| Less: amounts reclassified from AOCI to earnings | — | 7 | 7 |
| Other comprehensive income (loss), net of tax | 40 | (3) | 37 |
| Balance at December 28, 2019 | \$ (33) | \$ 4 | \$ (29) |

- (1) Foreign currency translation gains and losses for the nine months ended December 28, 2019 include net gains of \$3 million on intra-entity transactions that are of a long-term investment nature, a \$4 million translation loss relating to the inclusion of the Versace business and a \$44 million gain, net of taxes of \$9 million, relating to the Company's net investment hedges. Foreign currency translation gains and losses for the nine months ended December 29, 2018 include net gains of \$10 million on intra-entity transactions that are of a long-term investment nature, a \$139 million translation loss relating to the inclusion of the Jimmy Choo business and a \$13 million gain, net of taxes of \$3 million, relating to the Company's net investment hedges.
- (2) Reclassified amounts relate to the Company's forward foreign currency exchange contracts for inventory purchases and are recorded within cost of goods sold in the Company's consolidated statements of operations and comprehensive income. All tax effects were not material for the periods presented.

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 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 28, 2019, 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 RSUs, and other equity awards, and authorizes a total issuance of up to 15,246,000 ordinary shares. At December 28, 2019, there were 2,642,854 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 28, 2019:

| | Options | Service-Based RSUs | Performance-Based RSUs |
|---|-----------|--------------------|------------------------|
| Outstanding/Unvested at March 30, 2019 | 2,131,259 | 3,839,862 | 737,074 |
| Granted | — | 1,901,539 | 169,817 |
| Exercised/Vested | (5,082) | (797,597) | (53,025) |
| Decrease due to performance condition | — | — | (39,999) |
| Canceled/forfeited | (93,298) | (178,354) | — |
| Outstanding/Unvested at December 28, 2019 | 2,032,879 | 4,765,450 | 813,867 |

The weighted average grant date fair value of service-based and performance-based RSUs granted during the nine months ended December 28, 2019 was \$33.89 and \$33.86, respectively, and \$67.03 and \$67.52, respectively, during the nine months ended December 29, 2018.

Share-Based Compensation Expense

The following table summarizes compensation expense attributable to share-based compensation for the three and nine months ended December 28, 2019 and December 29, 2018 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | December 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Share-based compensation expense | \$ 16 | \$ 12 | \$ 65 | \$ 38 |
| Tax benefit related to share-based compensation expense | \$ 3 | \$ 2 | \$ 12 | \$ 7 |

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 rates. The estimated value of future forfeitures for equity grants as of December 28, 2019 is approximately \$9 million.

See Note 17 in the Company's Fiscal 2019 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 28, 2019 are a benefit of 2.0% and 0.6%, respectively. Such rates differ from the United Kingdom ("U.K.") federal statutory rate of 19% primarily due to the favorable impact of recognizing benefits from the resolution of uncertain tax positions and return to provision adjustments in the United States and Europe, which resulted in a decrease to the Company's effective income tax rate for the three and nine months ended December 28, 2019. In addition, the Company had favorable effects related to global financing activities. 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 29, 2018 were a provision of 17.4% and 12.7%, respectively. Such rates differed from the United Kingdom ("U.K.") federal statutory rate of 19% primarily due to the favorable effects of global financing arrangements and the favorable impact of tax benefits recognized on share-based compensation during the quarter.

18. Segment Information

The Company operates its business through three operating segments—Versace, Jimmy Choo and Michael Kors, 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 ("CODM") 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 components of the business that offer similar merchandise, customer experience and sales/marketing strategies.

The Company's three reportable segments are as follows:

- Versace — segment includes revenue generated through the sale of Versace luxury ready-to-wear, accessories, footwear and home furnishings through directly operated Versace boutiques throughout North America (United States and Canada), EMEA and certain parts of Asia, as well as through Versace outlet stores and e-commerce sites. In addition, revenue is generated through wholesale sales to distribution partners (including geographic licensing arrangements that allow third parties to use the Versace trademarks in connection with retail and/or wholesale sales of Versace branded products in specific geographic regions), multi-brand department stores and specialty stores worldwide, as well as through product license agreements in connection with the manufacturing and sale of jeans, fragrances, watches, jewelry and eyewear.
- Jimmy Choo — segment includes revenue generated through the sale of Jimmy Choo luxury footwear, handbags and small leather goods through directly operated Jimmy Choo retail and outlet stores throughout the Americas, EMEA and certain parts of Asia, through its 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 trademarks 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.

- Michael Kors — segment includes revenue generated through the sale of Michael Kors products through four primary Michael Kors retail store formats: “Collection” stores, “Lifestyle” stores (including concessions), outlet stores and e-commerce sites, through which the Company sells Michael Kors products, as well as licensed products bearing the Michael Kors name, directly to the end consumer throughout the Americas, Europe and certain parts of Asia. The Company also sells Michael Kors products directly to department stores, primarily located across the Americas and Europe, to specialty stores and travel retail shops, and to its geographic licensees. In addition, revenue is generated through product and geographic licensing arrangements, which allow third parties to use the Michael Kors brand name and trademarks in connection with the manufacturing and sale of products, including watches, jewelry, fragrances and eyewear.

In addition to these reportable segments, the Company has certain corporate costs that are not directly attributable to its brands and, therefore, are not allocated to segments. Such costs primarily include certain administrative, corporate occupancy, and information systems expenses, including enterprise resource planning system implementation costs. In addition, certain other costs are not allocated to segments, including restructuring and other charges (including transition costs related to the Company’s recent acquisitions) and impairment costs. The segment structure is consistent with how the Company’s CODM plans and allocates resources, manages the business and assesses performance. All intercompany revenues are eliminated in consolidation and are not reviewed when evaluating segment performance.

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

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Total revenue: | | | | |
| Versace | \$ 195 | \$ — | \$ 630 | \$ — |
| Jimmy Choo | 165 | 162 | 448 | 451 |
| Michael Kors | 1,211 | 1,276 | 3,281 | 3,443 |
| Total revenue | \$ 1,571 | \$ 1,438 | \$ 4,359 | \$ 3,894 |
| Income (loss) from operations: | | | | |
| Versace | \$ (12) | \$ — | \$ (6) | \$ — |
| Jimmy Choo | 9 | 15 | 10 | 28 |
| Michael Kors | 288 | 320 | 711 | 798 |
| Total segment income from operations | 285 | 335 | 715 | 826 |
| Less: Corporate expenses | (46) | (20) | (114) | (65) |
| Restructuring and other charges | (15) | (19) | (37) | (49) |
| Impairment of long-lived assets | (19) | (6) | (220) | (17) |
| Total income from operations | \$ 205 | \$ 290 | \$ 344 | \$ 695 |

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

| | Three Months Ended | | Nine Months Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Depreciation and amortization: | | | | |
| Versace | \$ 17 | \$ — | \$ 46 | \$ — |
| Jimmy Choo | 9 | 8 | 26 | 25 |
| Michael Kors | 37 | 43 | 116 | 135 |
| Total depreciation and amortization | \$ 63 | \$ 51 | \$ 188 | \$ 160 |

Total revenue (based on country of origin) by geographic location are as follows (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Total revenue: | | | | |
| The Americas ⁽¹⁾ | \$ 909 | \$ 927 | \$ 2,440 | \$ 2,438 |
| EMEA | 422 | 334 | 1,191 | 925 |
| Asia | 240 | 177 | 728 | 531 |
| Total revenue | \$ 1,571 | \$ 1,438 | \$ 4,359 | \$ 3,894 |

⁽¹⁾ Total revenue earned in the U.S. were \$845 million and \$2.267 billion, respectively, for the three and nine months ended December 28, 2019 and \$869 million and \$2.274 billion, respectively, for the three and nine months ended December 29, 2018.

As of December 28, 2019 and March 30, 2019, the Company's total assets were \$8.325 billion and \$6.650 billion, respectively. The increase in total assets was primarily due to the adoption of ASU 2016-02 in the first quarter of Fiscal 2020. As of December 28, 2019, the Company had operating lease right-of-use assets recorded on its consolidated balance sheets of \$1.665 billion, of which \$1.060 billion related to Michael Kors, \$379 million related to Versace, and \$226 million related to Jimmy Choo.

19. Subsequent Events

Acquisition of Alberto Gozzi S.r.L.

On December 16, 2019, the Company entered into a definitive agreement to acquire Italian atelier and shoe manufacturer Alberto Gozzi S.r.L. The transaction was completed in the Company's fourth quarter of Fiscal 2020.

Coronavirus

During the fourth quarter of Fiscal 2020, there has been an outbreak of coronavirus in China which the Company expects will materially impact its financial results. As of February 5, 2020, approximately 150 of the Company's stores in Mainland China were closed. Additionally, most of the stores that remain open are operating with reduced hours and experiencing significantly reduced customer traffic. While this global health emergency is expected to be temporary, the duration and intensity of the disruption is uncertain, including potential broader impacts outside of China if travel and tourist traffic is further restricted and there is a resulting decline in Chinese tourist spending in other regions. Given the dynamic nature of these circumstances, the related financial impact for the fourth quarter could materially differ from our current expectations.

In addition, the Company sources finished goods inventory from manufacturers in China for the Michael Kors brand. As a result of potential factory closures, reduced workforces, scarcity of raw materials and potential disruption of transportation of goods produced in China, the Company may be unable to obtain inventory or samples sourced from this region, which may materially impact Fiscal 2021. Given the uncertainty regarding these circumstances, the related financial impact cannot be reasonably estimated at this time.

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. Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations and projections of the management of Capri Holdings Limited (the "Company") about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. All statements other than statements of historical facts included herein, may be forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets", "plans", "believes", "expects", "aims", "intends", "will", "should", "could", "would", "may", "anticipates", "estimates", "synergy", "cost-saving", "projects", "goal", "strategy", "budget", "forecast" or "might" or, words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to future capital expenditures, expenses, revenues, earnings, economic performance, indebtedness, financial condition, share buybacks, dividend policy, losses and future prospects of the Company, business and management strategies and the expansion and growth of the Company's operations, and benefits from any acquisition. These forward-looking statements are not guarantees of future financial performance. Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions, which could cause actual results to differ materially from those projected or implied in any forward-looking statements. These risks, uncertainties and other factors include the Company's ability to integrate successfully and to achieve anticipated benefits of any acquisition; the risk of disruptions to the Company's businesses; the negative effects of events on the market price of the Company's ordinary shares and its operating results; significant transaction costs; unknown liabilities; the risk of litigation and/or regulatory actions related to the Company's businesses; fluctuations in demand for the Company's products; levels of indebtedness (including the indebtedness incurred in connection with acquisitions); future availability of credit; the timing and scope of future share buybacks, which may be made in open market or privately negotiated transactions, and are subject to market conditions, applicable legal requirements, trading restrictions under the Company's insider trading policy and other relevant factors, and which share repurchases may be suspended or discontinued at any time, the level of other investing activities and uses of cash; changes in consumer traffic and retail trends; loss of market share and industry competition; fluctuations in the capital markets; fluctuations in interest and exchange rates; the occurrence of unforeseen epidemics (including the outbreak of the coronavirus in China and its potential impact on our future financial results), disasters or catastrophes; political or economic instability in principal markets (including the continuing business disruption in Hong Kong); adverse outcomes in litigation; and general, local and global economic, political, business and market conditions, as well as those risks set forth in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended March 30, 2019, filed with the Securities and Exchange Commission on May 29, 2019.

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. Our 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. Our goal is to continue to extend the global reach of our brands while ensuring that they maintain their independence and exclusive DNA.

Our Versace brand, which was acquired on December 31, 2018, has long been recognized as one of the world's leading international fashion design houses and is synonymous with Italian glamour and style. Founded in 1978 in Milan, Versace is known for its iconic and unmistakable style and unparalleled craftsmanship, over the past several decades the House of Versace has grown globally from its roots in haute couture, expanding into the design, manufacturing, distribution and retailing of ready-to-wear, accessories, footwear, eyewear, watches, jewelry, fragrance and home furnishings businesses. Versace's design team is led by Donatella Versace, who has been the brand's artistic director for over 20 years. Versace distributes its products through a worldwide distribution network, which includes boutiques in some of the world's most glamorous cities, its e-commerce site, as well as through the most prestigious department and specialty stores worldwide.

Our Jimmy Choo brand, which was acquired on November 1, 2017, 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 shoes and accessory business. In addition, certain categories, such as fragrances, sunglasses and eyewear are produced under 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. Jimmy Choo is represented through its global store network, its e-commerce sites, as well as through the most prestigious department and specialty stores worldwide.

Our Michael Kors 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 growing brand awareness in other international markets. Michael Kors 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.

Segment Information

We operate in three reportable segments, which are as follows:

Versace

We generate revenue through the sale of Versace luxury ready-to-wear, accessories, footwear and home furnishings through directly operated Versace boutiques throughout North America (United States and Canada), EMEA (Europe, Middle East and Africa) and certain parts of Asia, as well as through Versace outlet stores and 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 jeans, fragrances, watches, jewelry and eyewear.

Jimmy Choo

We generate revenue through the sale of Jimmy Choo luxury goods to end clients through directly operated Jimmy Choo retail and outlet stores throughout the Americas (United States, Canada and Latin America, excluding Brazil), 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 tradename 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.

Michael Kors

We generate revenue through the sale of Michael Kors products through four primary Michael Kors retail store formats: “Collection” stores, “Lifestyle” stores (including concessions), 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, Europe and certain parts of Asia. Our Michael Kors e-commerce business includes e-commerce sites in the U.S., Canada and certain parts of Europe and Asia. We also sell Michael Kors products directly to department stores, primarily located across the Americas and Europe, to specialty stores and travel retail shops in the Americas, Europe and Asia, and to our geographic licensees in certain parts of EMEA, Asia and Brazil. In addition, revenue is generated through product and geographic licensing arrangements, which allow third parties to use the Michael Kors brand name and trademarks in connection with the manufacturing and sale of products, including watches, jewelry, fragrances and beauty, and eyewear, as well as through geographic licensing arrangements, which allow third parties to use the Michael Kors tradename in connection with the retail and/or wholesale sales of our Michael Kors branded products in specific geographic regions.

Unallocated Expenses

In addition to the reportable segments discussed above, we have certain corporate costs that are not directly attributable to our brands and, therefore, are not allocated to segments. Such costs primarily include certain administrative, corporate occupancy, and information systems expenses, including Enterprise Resource Planning (“ERP”) system implementation costs. In addition, certain other costs are not allocated to segments, including restructuring and other charges (including transaction and transition costs related to our recent acquisitions) and impairment costs. The segment structure is consistent with how our chief operating decision maker plans and allocates resources, manages the business and assesses performance. All prior period segment information has been recast to reflect the realignment of our segment reporting structure on a comparable basis, which occurred in the fourth quarter of Fiscal 2019. The following table presents our total revenue and income from operations by segment for the three and nine months ended December 28, 2019 and December 29, 2018 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Total revenue: | | | | |
| Versace | \$ 195 | \$ — | \$ 630 | \$ — |
| Jimmy Choo | 165 | 162 | 448 | 451 |
| Michael Kors | 1,211 | 1,276 | 3,281 | 3,443 |
| Total revenue | \$ 1,571 | \$ 1,438 | \$ 4,359 | \$ 3,894 |
| Income (loss) from operations: | | | | |
| Versace | \$ (12) | \$ — | \$ (6) | \$ — |
| Jimmy Choo | 9 | 15 | 10 | 28 |
| Michael Kors | 288 | 320 | 711 | 798 |
| Total segment income from operations | 285 | 335 | 715 | 826 |
| Less: Corporate expenses | (46) | (20) | (114) | (65) |
| Restructuring and other charges | (15) | (19) | (37) | (49) |
| Impairment of long-lived assets | (19) | (6) | (220) | (17) |
| Total income from operations | \$ 205 | \$ 290 | \$ 344 | \$ 695 |

The following table presents our global network of retail stores and wholesale doors by brand:

| | As of | |
|--|-------------------|-------------------|
| | December 28, 2019 | December 29, 2018 |
| Number of full price retail stores (including concessions): | | |
| Versace | 158 | — |
| Jimmy Choo | 176 | 168 |
| Michael Kors | 575 | 606 |
| | <u>909</u> | <u>774</u> |
| Number of outlet stores: | | |
| Versace | 50 | — |
| Jimmy Choo | 47 | 38 |
| Michael Kors | 271 | 264 |
| | <u>368</u> | <u>302</u> |
| Total number of retail stores | <u>1,277</u> | <u>1,076</u> |
| Total number of wholesale doors | | |
| Versace | 823 | — |
| Jimmy Choo | 558 | 592 |
| Michael Kors | 2,999 | 3,414 |
| | <u>4,380</u> | <u>4,006</u> |

The following table presents our retail stores by geographic location:

| | As of | | | As of | |
|-------------------------------|-------------------|------------|--------------|-------------------|--------------|
| | December 28, 2019 | | | December 29, 2018 | |
| | Versace | Jimmy Choo | Michael Kors | Jimmy Choo | Michael Kors |
| Store count by region: | | | | | |
| The Americas | 30 | 44 | 387 | 44 | 401 |
| EMEA | 62 | 77 | 180 | 69 | 198 |
| Asia | 116 | 102 | 279 | 93 | 271 |
| | <u>208</u> | <u>223</u> | <u>846</u> | <u>206</u> | <u>870</u> |

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 | | Nine Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | December 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Total revenue | \$ 1,571 | \$ 1,438 | \$ 4,359 | \$ 3,894 |
| Gross profit as a percent of total revenue | 59.3 % | 60.7 % | 60.6 % | 61.3 % |
| Income from operations | \$ 205 | \$ 290 | \$ 344 | \$ 695 |
| Income from operations as a percent of total revenue | 13.0 % | 20.2 % | 7.9 % | 17.8 % |

Seasonality

We experience certain effects of seasonality with respect to our business. We generally experience greater sales during our third fiscal quarter, primarily driven by holiday season sales, and the lowest sales during our first fiscal quarter.

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. We believe that our recent acquisitions of Versace and Jimmy Choo 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 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 5 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 have made significant progress toward our plan to close between 100 and 150 of our Michael Kors retail stores at an expected total one-time cost of approximately \$100 - \$125 million, in order to improve the profitability of our Michael Kors retail store fleet (“Retail Fleet Optimization Plan”). As of December 28, 2019, we closed a total of 129 stores at a cost of \$100 million to date and recorded restructuring charges of \$6 million and \$10 million during the nine months ended December 28, 2019 and December 29, 2018, respectively. We 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 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, particularly the Euro, the British Pound, the Chinese Renminbi, the Japanese Yen, the Korean Won and the Canadian Dollar, among others. 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 and Tariffs. 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 sanction tariffs imposed on our products due to changes in trade terms. On May 10, 2019, the U.S. increased the sanction tariffs rate from 10% to 25% on \$200 billion of imports of select product categories (Tranche 3), which includes handbags and travel goods from China, and effective September 1, 2019, a 10% tariff on an additional \$300 billion of goods from China, including ready-to-wear, footwear and men’s products, went into effect. If additional tariffs or trade restrictions are implemented by the U.S. or other countries, the cost of our products could increase which could adversely affect our business. In addition, commodity prices and tariffs may have an impact on our revenues, results of operations and cash flows. We use commercially reasonable efforts to mitigate these effects by sourcing our products as efficiently as possible and diversifying the countries where we produce. 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.

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 2020, we adopted the new accounting guidance related to lease accounting, as described in Note 2 and Note 4 to the accompanying consolidated financial statements. Under this guidance, our existing lease obligations, which relate to stores, corporate locations, warehouses and equipment, will be recorded as a lease liability and right-of-use asset for operating leases on our consolidated balance sheet. Accordingly, adoption of this standard significantly increased the Company’s total assets and total liabilities. 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 30, 2019. There have been no significant changes in our critical accounting policies since March 30, 2019, other than described above.

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 and related duties and tariffs, 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, as well as sublease income. Selling, general and administrative expenses include charges that are not allocated to our reportable segments.

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

Impairment of long-lived assets consists of charges to write-down operating lease right-of-use assets, property and equipment and finite-lived intangible assets to fair value. Impairment charges are not allocated to our reportable segments.

Restructuring and other charges includes store closure costs recorded in connection with the Retail Fleet Optimization Plan and other restructuring initiatives, as well as costs recorded in connection with our acquisitions of Versace and Jimmy Choo (see Note 5 and Note 10 to the accompanying consolidated financial statements for additional information). Restructuring and other charges are not allocated to our reportable segments.

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

Other (income) expense, net includes insurance settlements and proceeds received related to our anti-counterfeiting efforts. 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 14 to the accompanying consolidated financial statements for additional information).

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

Noncontrolling interests/Redeemable 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”), noncontrolling interests in JC Industry S.r.L and JC Gulf Trading LLC, as well as in J. Choo Russia J.V. Limited., as well as the redeemable noncontrolling interest in Versace Australia PTY Limited.

Results of Operations

Comparison of the three months ended December 28, 2019 with the three months ended December 29, 2018

The following table details the results of our operations for the three months ended December 28, 2019 and December 29, 2018, 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 28, 2019 | December 29, 2018 | \$ Change | % Change | December 28, 2019 | December 29, 2018 |
| Statements of Operations Data: | | | | | | |
| Total revenue | \$ 1,571 | \$ 1,438 | \$ 133 | 9.2 % | | |
| Cost of goods sold | 639 | 565 | 74 | 13.1 % | 40.7 % | 39.3 % |
| Gross profit | 932 | 873 | 59 | 6.8 % | 59.3 % | 60.7 % |
| Selling, general and administrative expenses | 630 | 507 | 123 | 24.3 % | 40.1 % | 35.3 % |
| Depreciation and amortization | 63 | 51 | 12 | 23.5 % | 4.0 % | 3.5 % |
| Impairment of long-lived assets | 19 | 6 | 13 | NM | 1.2 % | 0.4 % |
| Restructuring and other charges ⁽¹⁾ | 15 | 19 | (4) | (21.1) % | 1.0 % | 1.3 % |
| Total operating expenses | 727 | 583 | 144 | 24.7 % | 46.3 % | 40.5 % |
| Income from operations | 205 | 290 | (85) | (29.3) % | 13.0 % | 20.2 % |
| Other income, net | (1) | (2) | 1 | (50.0) % | (0.1) % | (0.1) % |
| Interest expense, net | 3 | 7 | (4) | (57.1) % | 0.2 % | 0.5 % |
| Foreign currency (gain) loss | (2) | 43 | (45) | NM | (0.1) % | 3.0 % |
| Income before provision for income taxes | 205 | 242 | (37) | (15.3) % | 13.0 % | 16.8 % |
| (Benefit from) provision for income taxes | (4) | 42 | (46) | NM | (0.3) % | 2.9 % |
| Net income | 209 | 200 | 9 | 4.5 % | | |
| Less: Net loss attributable to noncontrolling interest and redeemable noncontrolling interest | (1) | — | (1) | NM | | |
| Net income attributable to Capri | \$ 210 | \$ 200 | \$ 10 | 5.0 % | | |

NM Not meaningful

⁽¹⁾ Restructuring and other charges includes store closure costs recorded in connection with the Retail Fleet Optimization Plan (as defined in Note 10) and other restructuring initiatives, and costs recorded in connection with the acquisitions of Gianni Versace S.r.l and Jimmy Choo Group Limited.

Total Revenue

Total revenue increased \$133 million, or 9.2%, to \$1.571 billion for the three months ended December 28, 2019, compared to \$1.438 billion for the three months ended December 29, 2018, which included net unfavorable foreign currency effects of approximately \$5 million, primarily related to the weakening of the Euro against the U.S. Dollar during the three months ended December 28, 2019 as compared to the same prior year period. On a constant currency basis, our total revenue increased \$138 million, or 9.6%. Total revenue for the three months ended December 28, 2019 includes approximately \$195 million of incremental revenue attributable to Versace, which was acquired and consolidated into our results of operations effective December 31, 2018, offset in part by lower revenue from our Michael Kors business, as compared to the prior year.

Gross Profit

Gross profit increased \$59 million, or 6.8%, to \$932 million for the three months ended December 28, 2019, compared to \$873 million for the three months ended December 29, 2018, which included net unfavorable foreign currency effects of \$3 million. Gross profit as a percentage of total revenue decreased 140 basis points to 59.3% during the three months ended December 28, 2019, compared to 60.7% during the three months ended December 29, 2018. The decrease in our gross profit margin was primarily attributable to lower gross profit margin for Michael Kors primarily driven by increased markdowns during the three months ended December 28, 2019, as compared to the three months ended December 29, 2018, partially offset by the inclusion of Versace, which benefited our gross margin 130 basis points.

Total Operating Expenses

Total operating expenses increased \$144 million, or 24.7%, to \$727 million during the three months ended December 28, 2019, compared to \$583 million for the three months ended December 29, 2018, which included incremental operating expenses of \$146 million associated with the recently acquired Versace business. Our operating expenses included a net favorable foreign currency impact of approximately \$5 million. Total operating expenses increased to 46.3% as a percentage of total revenue for the three months ended December 28, 2019, compared to 40.5% for the three months ended December 29, 2018. The components that comprise total operating expenses are explained below.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$123 million, or 24.3%, to \$630 million during the three months ended December 28, 2019, compared to \$507 million for the three months ended December 29, 2018. The increase in selling, general and administrative expenses was primarily due to incremental costs of \$130 million associated with the recently acquired Versace business, which has been consolidated in our operations beginning on December 31, 2018.

Corporate unallocated expenses, which are included within selling, general and administrative expenses discussed above, but are not directly attributable to a reportable segment, increased \$26 million, or 130.0%, to \$46 million during the three months ended December 28, 2019 as compared to \$20 million for the three months ended December 29, 2018, primarily attributable to the inclusion of ERP system implementation costs in the current year.

Selling, general, and administrative expenses as a percentage of total revenue increased to 40.1% for the three months ended December 28, 2019, compared to 35.3% for the three months ended December 29, 2018, primarily due to the inclusion of expenses associated with the Versace business, and increased retail store and e-commerce related costs as a percentage of total revenue during the three months ended December 28, 2019, as compared to the three months ended December 29, 2018.

Depreciation and Amortization

Depreciation and amortization increased \$12 million, or 23.5%, to \$63 million during the three months ended December 28, 2019, compared to \$51 million for the three months ended December 29, 2018. The increase in depreciation and amortization expense was primarily attributable to incremental depreciation and amortization expense of \$17 million attributable to our Versace business (including amortization of purchase accounting adjustments), partially offset by lower depreciation due to previously recorded property and equipment impairment charges. Depreciation and amortization increased to 4.0% as a percentage of total revenue during the three months ended December 28, 2019, compared to 3.5% for the three months ended December 29, 2018.

Impairment of Long-Lived Assets

During the three months ended December 28, 2019, we recognized long-lived asset impairment charges of \$19 million, primarily related to property and equipment and operating lease right-of-use assets at our Michael Kors store locations (see Note 13 to the accompanying consolidated financial statements for additional information). During the three months ended December 29, 2018, we recognized long-lived asset impairment charges of approximately \$6 million, which were primarily related to underperforming Michael Kors retail store locations, which related to closures as part of our Retail Fleet Optimization Plan.

Restructuring and Other Charges

During the three months ended December 28, 2019, we recognized restructuring and other charges of \$15 million, which included other costs of \$8 million primarily in connection with the acquisition of Versace (see Note 10 to the accompanying consolidated financial statements for additional information) and \$5 million related to our Retail Fleet Optimization Plan.

During the three months ended December 29, 2018, we recognized restructuring and other charges of \$19 million, which were comprised of \$12 million of other costs and restructuring charges of \$7 million primarily recorded in connection with our Retail Fleet Optimization Plan. The other costs recorded during the three months ended December 29, 2018 included \$6 million related to our agreement to acquire Versace and \$6 million in connection with the Jimmy Choo acquisition. Restructuring and other charges are not evaluated as part of our reportable segments' results (See *Segment Information* above for additional information).

Income from Operations

As a result of the foregoing, income from operations decreased \$85 million, or 29.3%, to \$205 million during three months ended December 28, 2019, compared to \$290 million for the three months ended December 29, 2018. Income from operations as a percentage of total revenue decreased to 13.0% during the three months ended December 28, 2019, compared to 20.2% for the three months ended December 29, 2018. See *Segment Information* above for a reconciliation of our segment operating income to total operating income.

Interest Expense, net

Interest expense, net decreased \$4 million to \$3 million during the three months ended December 28, 2019, compared to \$7 million for the three months ended December 29, 2018, primarily due to a reduction to interest expense related to the cross-currency swap used in the net investment hedge during the three months ended December 28, 2019, as compared to the three months ended December 29, 2018, largely offset by increased interest expense attributable to higher average borrowings outstanding in the current year (see Note 11 and Note 14 to the accompanying consolidated financial statements for additional information).

Foreign Currency (Gain) Loss

During the three months ended December 28, 2019, we recognized a net foreign currency gain of \$2 million, primarily attributable to the revaluation and settlement of certain of our accounts payable in currencies other than the functional currency, as well as the remeasurement of dollar-denominated intercompany loans with certain of our subsidiaries.

During the three months ended December 29, 2018, we recognized a net foreign currency loss of \$43 million, primarily attributable to a \$47 million unrealized loss related to a forward foreign currency exchange derivative contract entered into to mitigate foreign currency exchange risk relating to the Versace acquisition.

(Benefit from) Provision for Income Taxes

We recognized \$4 million of income tax benefit during the three months ended December 28, 2019, compared to \$42 million of income tax expense for the three months ended December 29, 2018. Our effective tax rate for the three months ended December 28, 2019, was a benefit of 2.0%, compared to a provision of 17.4% for the three months ended December 29, 2018. The decrease in our effective tax rate was primarily related to the favorable impact of recognizing benefits from the resolution of uncertain tax positions and return to provision adjustments in the United States and Europe, as well as the impact of the change in the geographic mix of earnings during the three months ended December 28, 2019, compared to three months ended December 29, 2018. These decreases were partially offset by the unfavorable impact of tax deficits recognized on shared-based compensation.

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 and Redeemable Noncontrolling Interest

During the three months ended December 28, 2019, we recorded a net loss attributable to the noncontrolling interest in our joint ventures of \$1 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 increased \$10 million, or 5.0%, to \$210 million during the three months ended December 28, 2019, compared to \$200 million for the three months ended December 29, 2018.

Segment Information

Versace

| (dollars in millions) | Three Months Ended | | \$ Change |
|-----------------------|----------------------|----------------------|-----------|
| | December 28, 2019 | December 29, 2018 | |
| Revenues | \$ 195 | \$ — | NM |
| Loss from operations | (12) | — | NM |
| Operating margin | (6.2) % | — % | |

NM Not meaningful

Revenues

The Versace business, acquired on December 31, 2018, contributed \$195 million to our total revenue during the three months ended December 28, 2019.

Loss from Operations

During the three months ended December 28, 2019, we recorded a loss from operations of \$12 million (after amortization of non-cash purchase accounting adjustments).

Jimmy Choo

| (dollars in millions) | Three Months Ended | | | % Change | |
|------------------------|----------------------|----------------------|-----------|----------------|----------------------|
| | December 28, 2019 | December 29, 2018 | \$ Change | As Reported | Constant Currency |
| Revenues | \$ 165 | \$ 162 | \$ 3 | 1.9 % | 1.9 % |
| Income from operations | 9 | 15 | (6) | (40.0) % | |
| Operating margin | 5.5 % | 9.3 % | | | |

Revenues

Revenue from Jimmy Choo increased \$3 million, or 1.9%, to \$165 million during the three months ended December 28, 2019, compared to \$162 million for the three months ended December 29, 2018.

Income from Operations

Income from operations for our Jimmy Choo segment decreased \$6 million, or 40.0%, to \$9 million during the three months ended December 28, 2019, compared to \$15 million for the three months ended December 29, 2018. Income from operations as a percentage of Jimmy Choo revenue declined 380 basis points from 9.3% for the three months ended December 29, 2018, to 5.5% during the three months ended December 28, 2019, primarily due to manufacturing benefits recognized in the prior year, as well as increased expenses in the current year related to investments in new stores.

Michael Kors

| (dollars in millions) | Three Months Ended | | | % Change | |
|------------------------|----------------------|----------------------|-----------|----------------|----------------------|
| | December 28, 2019 | December 29, 2018 | \$ Change | As Reported | Constant Currency |
| Revenues | \$ 1,211 | \$ 1,276 | \$ (65) | (5.1)% | (4.7)% |
| Income from operations | 288 | 320 | (32) | (10.0)% | |
| Operating margin | 23.8 % | 25.1 % | | | |

Revenues

Michael Kors revenues decreased \$65 million, or 5.1%, to \$1.211 billion during the three months ended December 28, 2019, compared to \$1.276 billion for the three months ended December 29, 2018, which included unfavorable foreign currency effects of \$5 million. On a constant currency basis, revenue decreased \$60 million, or 4.7%. The decrease in revenues was primarily due to lower sales of women's accessories and watches and a decrease in comparable store sales of \$17 million. This decrease was partially offset by higher sales of women's footwear, men's accessories, and women's apparel.

Our comparable store sales benefited approximately 180 basis points from the inclusion of e-commerce sales.

Income from Operations

Income from operations for our Michael Kors segment decreased \$32 million, or 10.0%, to \$288 million during the three months ended December 28, 2019, compared to \$320 million for the three months ended December 29, 2018. Income from operations as a percentage of Michael Kors revenue declined 130 basis points from 25.1% for the three months ended December 29, 2018, to 23.8% during the three months ended December 28, 2019, largely due to a decrease in gross profit margin, as previously discussed, partially offset by lower retail operating expenses.

Results of Operations

Comparison of the nine months ended December 28, 2019 with the nine months ended December 29, 2018

The following table details the results of our operations for the nine months ended December 28, 2019 and December 29, 2018, 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 28, 2019 | December 29, 2018 | \$ Change | % Change | December 28, 2019 | December 29, 2018 |
| Statements of Operations Data: | | | | | | |
| Total revenue | \$ 4,359 | \$ 3,894 | \$ 465 | 11.9 % | | |
| Cost of goods sold | 1,719 | 1,507 | 212 | 14.1 % | 39.4 % | 38.7 % |
| Gross profit | 2,640 | 2,387 | 253 | 10.6 % | 60.6 % | 61.3 % |
| Selling, general and administrative expenses | 1,851 | 1,466 | 385 | 26.3 % | 42.5 % | 37.6 % |
| Depreciation and amortization | 188 | 160 | 28 | 17.5 % | 4.3 % | 4.1 % |
| Impairment of long-lived assets | 220 | 17 | 203 | NM | 5.0 % | 0.4 % |
| Restructuring and other charges ⁽¹⁾ | 37 | 49 | (12) | (24.5) % | 0.8 % | 1.3 % |
| Total operating expenses | 2,296 | 1,692 | 604 | 35.7 % | 52.7 % | 43.5 % |
| Income from operations | 344 | 695 | (351) | (50.5) % | 7.9 % | 17.8 % |
| Other income, net | (4) | (4) | — | — % | (0.1) % | (0.1) % |
| Interest expense, net | 19 | 21 | (2) | (9.5) % | 0.4 % | 0.5 % |
| Foreign currency loss | 4 | 79 | (75) | (94.9) % | 0.1 % | 2.0 % |
| Income before provision for income taxes | 325 | 599 | (274) | (45.7) % | 7.5 % | 15.4 % |
| (Benefit from) provision for income taxes | (2) | 76 | (78) | (102.6) % | — % | 2.0 % |
| Net income | 327 | 523 | (196) | (37.5) % | | |
| Less: Net loss attributable to noncontrolling interest and redeemable noncontrolling interest | (1) | (1) | — | — | | |
| Net income attributable to Capri | \$ 328 | \$ 524 | \$ (196) | (37.4) % | | |

NM Not meaningful

⁽¹⁾ Restructuring and other charges includes store closure costs recorded in connection with the Retail Fleet Optimization Plan (as defined in Note 10) and other restructuring initiatives, and costs recorded in connection with the acquisitions of Gianni Versace S.r.l and Jimmy Choo Group Limited.

Total Revenue

Total revenue increased \$465 million, or 11.9%, to \$4.359 billion for the nine months ended December 28, 2019, compared to \$3.894 billion for the nine months ended December 29, 2018, which included net unfavorable foreign currency effects of approximately \$41 million, primarily related to the weakening of the Euro, the Chinese Renminbi, the British Pound, and the Canadian Dollar against the U.S. Dollar during the nine months ended December 28, 2019 as compared to the same prior year period. On a constant currency basis, our total revenue increased \$506 million, or 13.0%. Total revenue for the nine months ended December 28, 2019 includes approximately \$630 million of incremental revenue attributable to Versace, which was acquired and consolidated into our results of operations effective December 31, 2018, offset in part by lower revenue from our Michael Kors business, as compared to the prior year.

Gross Profit

Gross profit increased \$253 million, or 10.6%, to \$2.640 billion for the nine months ended December 28, 2019, compared to \$2.387 billion for the nine months ended December 29, 2018, which included net unfavorable foreign currency effects of \$27 million. Gross profit as a percentage of total revenue decreased 70 basis points to 60.6% during the nine months ended December 28, 2019, compared to 61.3% during the nine months ended December 29, 2018. The decrease in our gross profit margin was primarily attributable to lower gross profit for Michael Kors primarily driven by increased markdowns during the nine months ended December 28, 2019, as compared to the nine months ended December 29, 2018, partially offset by the inclusion of Versace, which benefited our gross margin 100 basis points.

Total Operating Expenses

Total operating expenses increased \$604 million, or 35.7%, to \$2.296 billion during the nine months ended December 28, 2019, compared to \$1.692 billion for the nine months ended December 29, 2018, which included incremental operating expenses of \$427 million associated with the recently acquired Versace business. Our operating expenses included a net favorable foreign currency impact of approximately \$37 million. Total operating expenses increased to 52.7% as a percentage of total revenue for the nine months ended December 28, 2019, compared to 43.5% for the nine months ended December 29, 2018. The components that comprise total operating expenses are explained below.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increase \$385 million, or 26.3%, to \$1.851 billion during the nine months ended December 28, 2019, compared to \$1.466 billion for the nine months ended December 29, 2018. The increase in selling, general and administrative expenses was primarily due to incremental costs of \$381 million associated with the recently acquired Versace business, which has been consolidated in our operations beginning on December 31, 2018.

Corporate unallocated expenses, which are included within selling, general and administrative expenses discussed above, but are not directly attributable to a reportable segment, increased \$49 million, or 75.4%, to \$114 million during the nine months ended December 28, 2019 as compared to \$65 million for the nine months ended December 29, 2018, primarily attributable to the inclusion of ERP system implementation costs in the current year.

Selling, general and administrative expenses as a percentage of total revenue increase to 42.5% during the nine months ended December 28, 2019, compared to 37.6% for the nine months ended December 29, 2018, primarily due to the inclusion of expenses associated with the Versace business and increased retail store and e-commerce related costs as a percentage of total revenue during the nine months ended December 28, 2019, as compared to the nine months ended December 29, 2018.

Depreciation and Amortization

Depreciation and amortization increased \$28 million, or 17.5%, to \$188 million during the nine months ended December 28, 2019, compared to \$160 million for the nine months ended December 29, 2018. The increase in depreciation and amortization expense was primarily attributable to incremental depreciation and amortization expense of \$46 million attributable to the Versace business (including amortization of purchase accounting adjustments), partially offset by lower depreciation due to previously recorded property and equipment impairment charges. Depreciation and amortization increased to 4.3% as a percentage of total revenue during the nine months ended December 28, 2019, compared to 4.1% for the nine months ended December 29, 2018.

Impairment of Long-Lived Assets

During the nine months ended December 28, 2019, we recognized long-lived asset impairment charges of \$220 million, which primarily related to operating lease right-of-use assets as part of our quarterly impairment assessments (see Note 13 to the accompanying consolidated financial statements for additional information). During the nine months ended December 29, 2018, we recognized long-lived asset impairment charges of approximately \$17 million, which were related to underperforming Michael Kors retail store locations, which related to closures as part of our Retail Fleet Optimization Plan.

Restructuring and Other Charges

During the nine months ended December 28, 2019, we recognized restructuring and other charges of \$37 million, which included restructuring charges of \$11 million, primarily related to Jimmy Choo lease-related charges and our Retail Fleet Optimization Plan, and other costs of \$26 million. The other costs recorded during the nine months ended December 28, 2019 included \$18 million related to the acquisition of Versace and \$8 million in connection with the Jimmy Choo acquisition (see Note 10 to the accompanying consolidated financial statements for additional information).

During the nine months ended December 29, 2018, we recognized restructuring and other charges of \$49 million, which were primarily comprised of \$35 million of other costs and restructuring charges of \$14 million primarily recorded in connection with our Retail Fleet Optimization Plan. The other costs recorded during the nine months ended December 29, 2018 included \$20 million in connection with the Jimmy Choo acquisition and \$15 million in connection with the acquisition of Versace. Restructuring and other charges are not evaluated as part of our reportable segments' results (See *Segment Information* above for additional information).

Income from Operations

As a result of the foregoing, income from operations decreased \$351 million or 50.5%, to \$344 million during the nine months ended December 28, 2019, compared to \$695 million for the nine months ended December 29, 2018. Income from operations as a percentage of total revenue decreased to 7.9% during the nine months ended December 28, 2019, compared to 17.8% for the nine months ended December 29, 2018 (see *Segment Information* above for a reconciliation of our segment operating income to total operating income).

Interest Expense, net

Interest expense, net decreased \$2 million to \$19 million during the nine months ended December 28, 2019, compared to \$21 million for the nine months ended December 29, 2018, primarily due to a reduction to interest expense related to the cross-currency swap used in the net investment hedge during the nine months ended December 28, 2019, as compared to the nine months ended December 29, 2018, largely offset by increased interest expense attributable to higher average borrowings outstanding in the current year (see Note 11 and Note 14 to the accompanying consolidated financial statements for additional information).

Foreign Currency Loss

During the nine months ended December 28, 2019, we recognized a net foreign currency loss of \$4 million, primarily attributable to the revaluation and settlement of certain of our accounts payable in currencies other than the functional currency, as well as the remeasurement of dollar-denominated intercompany loans with certain of our subsidiaries.

During the nine months ended December 29, 2018, we recognized a net foreign currency loss of \$79 million, primarily attributable to a \$77 million realized loss related to forward foreign currency exchange derivative contracts to hedge the transaction price of the Versace acquisition.

(Benefit from) Provision for Income Taxes

We recognized \$2 million of income tax benefit during the nine months ended December 28, 2019, compared to \$76 million of income tax expense for the nine months ended December 29, 2018. Our effective tax rate for the nine months ended December 28, 2019, was a benefit of 0.6%, compared to a provision of 12.7% for the nine months ended December 29, 2018. The decrease in our effective tax rate was primarily related to the favorable impact of recognizing benefits from the resolution of uncertain tax positions and return to provision adjustments in the United States and Europe, as well as the impact of the change in the geographic mix of earnings during the nine months ended December 28, 2019 compared to the nine months ended December 29, 2018. These decreases were partially offset by the unfavorable impact of tax deficits recognized on shared-based compensation.

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 and Redeemable Noncontrolling Interest

During the nine months ended December 28, 2019 and December 29, 2018, we recorded a net loss attributable to the noncontrolling interest in our joint ventures in each period of \$1 million. 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 \$196 million, or 37.4%, to \$328 million during the nine months ended December 28, 2019, compared to \$524 million for the nine months ended December 29, 2018.

Segment Information

Versace

| (dollars in millions) | Nine Months Ended | | \$ Change |
|-----------------------|----------------------|----------------------|-----------|
| | December 28, 2019 | December 29, 2018 | |
| Revenues | \$ 630 | \$ — | NM |
| Loss from operations | (6) | — | NM |
| Operating margin | (1.0)% | — % | |

NM Not meaningful

Revenues

The Versace business acquired on December 31, 2018 contributed \$630 million to our total revenue during the nine months ended December 28, 2019.

Loss from Operations

During the nine months ended December 28, 2019, we recorded a loss from operations of \$6 million (after amortization of non-cash purchase accounting adjustments).

Jimmy Choo

| (dollars in millions) | Nine Months Ended | | | % Change | |
|------------------------|----------------------|----------------------|-----------|----------------|----------------------|
| | December 28, 2019 | December 29, 2018 | \$ Change | As Reported | Constant Currency |
| Revenues | \$ 448 | \$ 451 | \$ (3) | (0.7)% | 0.9 % |
| Income from operations | 10 | 28 | (18) | (64.3)% | |
| Operating margin | 2.2 % | 6.2 % | | | |

Revenues

Revenue from Jimmy Choo decreased \$3 million, or 0.7%, to \$448 million during the nine months ended December 28, 2019, compared to \$451 million for the nine months ended December 29, 2018, which included unfavorable foreign currency effects of \$7 million. On a constant currency basis, revenue increased \$4 million, or 0.9%.

Income from Operations

Income from operations for our Jimmy Choo segment decreased \$18 million, or 64.3%, to \$10 million during the nine months ended December 28, 2019, compared to \$28 million for the nine months ended December 29, 2018. Income from operations as a percentage of Jimmy Choo revenue declined 400 basis points from 6.2% for the nine months ended December 29, 2018, to 2.2% during the nine months ended December 28, 2019, primarily due to an increase in operating expenses, including retail store expenses, advertising, marketing and corporate expenses, as well as investments in new stores.

Michael Kors

| (dollars in millions) | Nine Months Ended | | | % Change | |
|------------------------|----------------------|----------------------|-----------|----------------|----------------------|
| | December 28, 2019 | December 29, 2018 | \$ Change | As Reported | Constant Currency |
| Revenues | \$ 3,281 | \$ 3,443 | \$ (162) | (4.7)% | (3.7)% |
| Income from operations | 711 | 798 | (87) | (10.9)% | |
| Operating margin | 21.7 % | 23.2 % | | | |

Revenues

Michael Kors revenues decreased \$162 million, or 4.7%, to \$3.281 billion during the nine months ended December 28, 2019, compared to \$3.443 billion for the nine months ended December 29, 2018, which included unfavorable foreign currency effects of \$34 million. On a constant currency basis, revenue decreased \$128 million, or 3.7%. The decrease in revenues was primarily due to lower sales of women's accessories and watches and a decrease in comparable store sales of \$32 million. This decrease was partially offset by higher sales of women's footwear, men's accessories and women's apparel.

Our comparable store sales benefited approximately 170 basis points from the inclusion of e-commerce sales.

Income from Operations

Income from operations for our Michael Kors segment decreased \$87 million, or 10.9%, to \$711 million during the nine months ended December 28, 2019, compared to \$798 million for the nine months ended December 29, 2018. Income from operations as a percentage of Michael Kors revenue declined 150 basis points from 23.2% for the nine months ended December 29, 2018, to 21.7% during the nine months ended December 28, 2019, largely due to a decrease in gross profit margin, as previously discussed.

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 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 \$164 million on capital expenditures during the nine months ended December 28, 2019.

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

| | As of | |
|----------------------------|----------------------|-------------------|
| | December 28, 2019 | March 30, 2019 |
| Balance Sheet Data: | | |
| Cash and cash equivalents | \$ 237 | \$ 172 |
| Working capital | \$ (524) | \$ 187 |
| Total assets | \$ 8,325 | \$ 6,650 |
| Short-term debt | \$ 1,031 | \$ 630 |
| Long-term debt | \$ 1,085 | \$ 1,936 |

| | Nine Months Ended | |
|--|----------------------|----------------------|
| | December 28, 2019 | December 29, 2018 |
| Cash Flows Provided By (Used In): | | |
| Operating activities | \$ 752 | \$ 776 |
| Investing activities | (133) | (216) |
| Financing activities | (554) | 1,472 |
| Effect of exchange rate changes | — | (9) |
| Net increase in cash and cash equivalents and restricted cash ⁽¹⁾ | \$ 65 | \$ 2,023 |

⁽¹⁾ The prior year balance includes restricted cash placed in escrow in connection with the acquisition of Versace.

Cash Provided by Operating Activities

Net cash provided by operating activities decreased \$24 million to \$752 million during the nine months ended December 28, 2019, as compared to \$776 million for the nine months ended December 29, 2018, as a result of a \$44 million decrease in our net income after non-cash adjustments, partially offset by a \$21 million net favorable change related to operating assets and liabilities.

Cash Used in Investing Activities

Net cash used in investing activities decreased \$83 million to \$133 million during the nine months ended December 28, 2019, as compared to \$216 million during the nine months ended December 29, 2018, which was primarily attributable to a \$77 million realized loss related to an undesignated derivative contract during the nine months ended December 29, 2018. The decrease also included \$32 million related to the settlement of a net investment hedge during the nine months ended December 28, 2019, partially offset by higher capital expenditures of \$29 million compared to prior year.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities was \$554 million during the nine months ended December 28, 2019, compared to net cash provided by financing activities of \$1.472 billion during the nine months ended December 29, 2018. The increase of cash used in financing activities of \$2.026 billion was primarily attributable to decreased debt borrowings of \$2.123 billion, net of debt repayments, partially offset by a \$105 million decrease in cash payments to repurchase our ordinary shares compared to prior year.

Debt Obligations

The following table presents a summary of our borrowing capacity and amounts outstanding as of December 28, 2019 and March 30, 2019 (dollars in millions):

| | As of | |
|---|----------------------|-------------------|
| | December 28, 2019 | March 30, 2019 |
| Senior Unsecured Revolving Credit Facility: | | |
| Revolving Credit Facility (excluding up to a \$500 million accordion feature) ⁽¹⁾ | | |
| Total Availability | \$ 1,000 | \$ 1,000 |
| Borrowings outstanding ⁽²⁾ | 503 | 539 |
| Letter of credit outstanding | 16 | 17 |
| Remaining availability | \$ 481 | \$ 444 |
| Term Loan Facility (\$1.6 billion) | | |
| Borrowings Outstanding, net of debt issuance costs ⁽³⁾ | \$ 1,119 | \$ 1,570 |
| Remaining availability | \$ — | \$ — |
| 4.000% Senior Notes | | |
| Borrowings Outstanding, net of debt issuance costs and discount amortization ⁽³⁾ | \$ 446 | \$ 445 |
| Other Borrowings ⁽³⁾ | \$ 3 | \$ 1 |
| Hong Kong Uncommitted Credit Facility: | | |
| Total availability (100 million Hong Kong Dollars) | \$ 13 | \$ 13 |
| Borrowings outstanding | — | — |
| Bank guarantees outstanding (12 million Hong Kong Dollars) | 1 | 2 |
| Remaining availability | \$ 12 | \$ 11 |
| China Uncommitted Credit Facility: | | |
| Borrowings outstanding | \$ — | \$ — |
| Total and remaining availability (100 million Chinese Yuan) | \$ 14 | \$ 14 |
| Japan Credit Facility: | | |
| Borrowings outstanding | \$ — | \$ — |
| Total and remaining availability (1.0 billion Japanese Yen) | \$ 9 | \$ 9 |
| Versace Uncommitted Credit Facility: | | |
| Total availability (20 million Euro) | \$ 22 | \$ 22 |
| Borrowings outstanding (10 million Euro) ⁽²⁾ | 16 | 11 |
| Remaining availability | \$ 6 | \$ 11 |
| Versace Uncommitted Credit Facilities: | | |
| Total availability (32 million Euro) | \$ 36 | \$ — |
| Borrowings outstanding (26 million Euro) ⁽²⁾ | 29 | — |
| Remaining availability | \$ 7 | \$ — |
| Total borrowings outstanding ⁽¹⁾ | \$ 2,116 | \$ 2,566 |
| Total remaining availability | \$ 529 | \$ 489 |

- (1) 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 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 28, 2019 and March 30, 2019, 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 28, 2019 and March 30, 2019.
- (3) Recorded as long-term debt in our consolidated balance sheets as of December 28, 2019 and March 30, 2019, except for the current portion of \$483 million and \$80 million, respectively, outstanding under the 2018 Term Loan Facility, which was recorded within short-term debt at December 28, 2019 and March 30, 2019.

We believe that our 2018 Credit Facility is adequately diversified with no undue concentration in any one financial institution. As of December 28, 2019, 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 11 in the accompanying financial statements and Note 11 in our Fiscal 2019 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 28, 2019 and December 29, 2018 (dollars in millions):

| | Nine Months Ended | |
|---|----------------------|-----------------------|
| | December 28, 2019 | December 29, 2018 |
| Cost of shares repurchased under share repurchase program | \$ 100 | \$ 200 ⁽¹⁾ |
| Fair value of shares withheld to cover tax obligations for vested restricted share awards | 2 | 7 |
| Total cost of treasury shares repurchased | \$ 102 | \$ 207 |
| Shares repurchased under share repurchase program | 2,711,807 | 3,718,237 |
| Shares withheld to cover tax withholding obligations | 63,958 | 107,712 |
| | 2,775,765 | 3,825,949 |

(1) The share-repurchase program expired on May 25, 2019.

On August 1, 2019, our Board of Directors authorized a new \$500 million share repurchase program, which expires August 1, 2021. As of December 28, 2019, the remaining availability under the Company's share repurchase program was \$400 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 15 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 2019 Form 10-K for a detailed disclosure of our other contractual obligations and commitments as of March 30, 2019, as well as Note 4 to the accompanying consolidated financial statements for future lease obligations as of December 28, 2019.

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 \$23 million at December 28, 2019, including \$6 million in letters of credit issued outside of the 2018 Credit Facility. In addition, as of December 28, 2019, bank guarantees of approximately \$19 million were supported by the Versace 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 (loss), 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 28, 2019, 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 28, 2019, would result in a net increase and decrease, respectively, of approximately \$17 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. As of December 28, 2019, the net investment hedges have aggregate notional amounts of \$3.190 billion to hedge our net investments in Euro-denominated subsidiaries, and \$44 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 between January 2022 and June 2026, we will exchange the semi-annual fixed rate payments made under our Senior Notes for fixed rate payments of 0% to 1.674% in Euros and 0.89% in Japanese Yen. Based on all net investment hedges outstanding as of December 28, 2019, a 10% appreciation or devaluation of the U.S. Dollar compared to the level of foreign currency exchange rates under contract as of December 28, 2019, would result in a potential net cash increase or decrease upon settlement of approximately \$329 million in the fair value of these contracts, which have staggered maturities of 3 to 7 years.

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, our Japan Credit Facility and our Versace 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 11 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 China Credit Facility carries interest at a rate that is tied to the People's Bank of China's Benchmark lending rate. Our Japan Credit Facility carries interest at a rate posted by the Mitsubishi UFJ Financial Group. Our Versace Credit Facility carries interest at a rate set by the bank on the date of borrowing that is tied to the European Central Bank. Therefore, our statements of operations and comprehensive income and cash flows are exposed to changes in those interest rates. At December 28, 2019, we had \$503 million in short-term borrowings outstanding under our 2018 Credit Facility and \$1.119 billion, net of debt issuance costs, outstanding under our 2018 Term Loan Facility and \$45 million outstanding under our Versace Credit Facilities. At March 30, 2019, we had \$539 million in short-term borrowings outstanding under our 2018 Credit Facility, \$1.570 billion, net of debt issuance costs, outstanding under our 2018 Term Loan Facility and \$11 million outstanding under our Versace 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 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 subsequent 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 28, 2019. 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 28, 2019 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

In the first quarter of Fiscal 2020, we implemented additional internal controls in connection with our adoption of ASU 2016-02, *Leases (Topic 842)*, none of which materially affected our internal control over financial reporting. There were no other changes in our internal control over financial reporting during the nine months ended December 28, 2019 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 30, 2019, as amended and supplemented by the risk factor set forth below, 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.

The following is an amended and restated version of a Risk Factor included in Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the year ended March 30, 2019:

We face risks associated with operating globally and our strategy to continue to expand internationally.

We operate on a global basis, with approximately 48% of our total revenue from operations outside of the U.S. as of the end of the third quarter of Fiscal 2020. As a result, we are subject to the risks of doing business internationally, including:

- political or civil unrest, including protests and other civil disruption, such as the continuing business disruption in Hong Kong, which has negatively affected our business and is expected to continue to cause disruptions to our business for the foreseeable future;
- unforeseen public health crises, such as pandemic and epidemic diseases, including the recent outbreak of coronavirus in China which could result in closed offices, retail stores and factories, reduced workforces, scarcity of raw materials, embargoing of goods produced in areas infected by the virus, and reduced consumer traffic and spending within China and outside of China if the virus continues to spread, and could materially adversely affect our business and financial condition;
- economic instability and unsettled regional and global conflicts, which may negatively affect consumer spending by foreign tourists and local consumers in the various regions where we operate;
- laws, regulations and policies of foreign governments;
- potential negative consequences from changes in taxation policies;
- natural disasters or other extreme weather events, including those attributed to climate change; and
- acts of terrorism, military actions or other conditions over which we have no control.

In addition, on June 23, 2016, voters in the United Kingdom (“U.K.”) approved an advisory referendum to withdraw from the European Union (“Brexit”). On March 29, 2017, the U.K. triggered Article 50 of the Lisbon Treaty formally starting negotiations with the EU. The U.K. formally left the EU on January 31, 2020. There is an agreement in principle to transitional provisions under which EU law would remain in force in the U.K. until the end of December 2020, but this remains subject to the successful conclusion of a final withdrawal agreement between the parties. Although the terms of the U.K.’s future relationship with the EU are still unknown, it is possible that there will be increased regulatory and legal complexities, including potentially divergent national laws and regulations between the U.K. and EU. Brexit may also cause disruption and create uncertainty surrounding our business, including affecting our relationship with our existing and future customers, suppliers and employees and resulting in increased cost by way of new or elevated customs duties or financial implications from operational challenges.

Finally, if our international expansion plans are unsuccessful, it could have a material adverse effect on our business, results of operations and financial condition. We sell our products at varying retail price points based on geographic location that yield different gross profit margins and we achieve different operating profit margins, depending on geographic region, due to a variety of factors including product mix, store size, occupancy costs, labor costs and retail pricing. Changes in any one or more of these factors could result in lower revenues, increased costs, and negatively impact our business, results of operations and financial condition. There are also some countries where we do not yet have significant operating experience, and in most of these countries we face established competitors with significantly more operating experience in those locations. Furthermore, consumer demand and behavior, as well as tastes and purchasing trends may differ in these countries and, as a result, sales of our product may not be successful, or the margins on those sales may not be in line with those we currently anticipate.

There can be no assurance that any or all of these events will not have a material adverse effect on our business, results of operations and financial condition.

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 \$500 million share repurchase program, which was approved by its Board of Directors on August 1, 2019. 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 28, 2019:

| | 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 | Approximated Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions) |
|---------------------------|---|---|--|--|
| September 29 – October 26 | — | \$ — | — | \$ 500 |
| October 27 – November 23 | 958,783 | \$ 36.53 | 958,048 | \$ 465 |
| November 24 – December 28 | 1,753,759 | \$ 37.06 | 1,753,759 | \$ 400 |
| | <u>2,712,542</u> | | <u>2,711,807</u> | |

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 5, 2020.

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

| <u>Exhibit No.</u> | <u>Description</u> |
|-----------------------------|---|
| <u>10.1</u> | <u>Capri Holdings Limited Deferred Compensation Plan (included as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-35368), filed on November 14, 2019 and incorporated herein by reference).</u> |
| <u>31.1</u> | <u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>31.2</u> | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.1</u> | <u>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.</u> |
| <u>32.2</u> | <u>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.</u> |
| 101.1 | The following financial information from the Company's Quarterly Report on Form 10-Q for the period ended December 28, 2019, formatted in Inline 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. |

CERTIFICATIONS

I, John D. Idol, certify that:

1. I have reviewed this Form 10-Q of Capri Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 5, 2020

By: /s/ John D. Idol

John D. Idol

Chief Executive Officer

CERTIFICATIONS

I, Thomas J. Edwards, Jr., certify that:

1. I have reviewed this Form 10-Q of Capri Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 5, 2020

By: /s/ Thomas J. Edwards, Jr.
Thomas J. Edwards, Jr.
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report on Form 10-Q of Capri Holdings Limited (the "Company") for the quarter ended December 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John D. Idol, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Capri Holdings Limited.

Date: February 5, 2020

/s/ John D. Idol

John D. Idol

Chief Executive Officer

(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this Report.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report on Form 10-Q of Capri Holdings Limited (the "Company") for the quarter ended December 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas J. Edwards, Jr., Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Capri Holdings Limited.

Date: February 5, 2020

/s/ Thomas J. Edwards, Jr.

Thomas J. Edwards, Jr.

Chief Financial Officer

(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this Report.