

Coach Inc.

COH – Strong Buy

Key Data

Analyst	Jeffrey Edelman
Current Price	\$36.00
52-Week Range	\$42-\$17
Shares Outstanding	46MM
Aver. Daily Volume	415K
2000 Revenues	\$616MM
Secular Growth Rate	17%
2001 EPS Estimate	\$1.50
2002 EPS Estimate	\$1.75
2001/2002 P/E	24.0x/20.6x
Current Dividend	NA
Current Yield	NA
Optionable	Yes
LEAPS	No
12-Month Price Target	\$48
Notable Characteristics	<i>Highlighted Stockssm list</i>

Highlighted Stocks is a service mark of UBS PaineWebber Inc.

Company Description.

Coach Inc. is a marketer of fine accessories and gifts for women and men, including handbags, business cases, furniture, luggage and travel accessories, worldwide through Coach catalogue and website.

Investment Recommendation.

Coach has leveraged its strong brand recognition in the accessories market with new product introductions, brand extension and a massive store renovation program. Its retail stores should be the main growth drivers over the next 12-18 months, after which international growth, particularly in Japan, could become a greater contributor.

Investment Highlights

Japan represents a big international growth opportunity for Coach. We believe Coach's niche of "affordable luxury" makes for an easier entry into foreign markets, as its product assortment has similar quality and feel to that of its European competitors, but its pricing provides greater value. Coach's greater efforts on penetrating the Japanese market represents its biggest potential given the Japanese consumers' higher-than-average demand for premium status brands.

Coach Japan Joint Venture—A Compelling Market for Coach Growth. In mid-June, Coach announced that it was stepping up its expansion plans in Japan through the formation of Coach Japan, with one of the country's large trading companies – Sumitomo Corp. Under this joint venture, the company should be able to control a faster rate of growth, consolidate retail sales rather than wholesale, and capture retail profit, less minority interest contribution.

We believe Coach fits our "Age of Affluence" thematic. The company caters to the affluent consumer and continues to leverage its strong brand recognition across its international footprint. In addition, Coach offers stressed-out, time starved consumers one stop shopping with the extension of its brand from handbags to clothing, shoes, and accessories (including items for pets). In addition, its Internet website, www.coach.com, provides efficient "do-it-yourself" service.

Five key reasons behind Coach's retail strength:

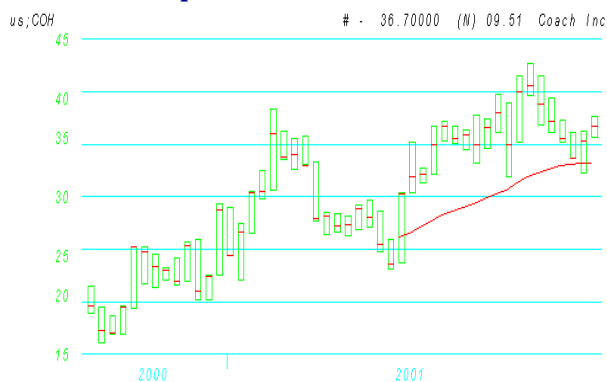
- **Impressive sales per square foot.** We believe Coach is in an enviable position for several reasons. The company's retail stores generate an impressive \$840 sales per square foot annually, and all of that represents full price volume. Its factory outlet stores do even better, closer to \$900 per square foot, and provide an excellent vehicle to maintain fresh inventory and newness in its full-price stores.

August 30, 2001

Additional information is available on request.

The information and opinions in this report are provided to UBS PaineWebber Inc. by UBS Warburg LLC.

Technical Snapshot



Coach Inc.

Coach Inc (COH) is a member of the technically neutral (intermediate-term) specialty apparel group. Limited chart history prevents extensive longer-term analysis at this time. Near-term, the stock has been consolidating and currently lies above its rising 30-week moving average—generally a healthy technical condition. Chart resistance is visible near the \$42 ¾ zone—the stock’s all-time highs. Watch for support near the \$32-33 zone to maintain a favorable technical outlook.

- **Comp-store sales growth above industry average.** In our view, comp-store sales growth is the key variable to maintaining, if not expanding, profitability. We believe Coach’s comp-store sales rank among the standouts in retailing.
- **Increased pace of store openings.** Management recently increased the pace of its store openings to 20 stores from 15 for its fiscal year 2002, and the profitability profile of these stores continues on plan.
- **The right store fit that’s profitable too.** We expect Coach’s new units to remain in the area of 2,200 and 2,500 square feet. We believe this is critical to maintaining sales productivity, profitability and return on invested capital. We believe Coach does not have to resort to larger store prototypes to drive its growth, as several other companies in the sector have recently announced.
- **We believe demand for the Coach brand is strong, easing the transition to international.** In our opinion, the Coach format will be easily transportable internationally, judging by its current strong performance in Japan. The company’s comparable stores in Japan have been running at a double-digit comp-sales pace. Coach plans to open flagship stores in

four major Japanese cities and perhaps as many as 15 specialty stores over the next few years.

Valuation

Our 12-month price target of \$48 is based on the shares trading at 25 times our calendar 2002 earnings estimate of \$1.83.

Investment Risks

Risks include the economic environment in Japan, a rapidly growing market for Coach; increased fashion emphasis which could represent additional markdown risk; and the health of the luxury accessory market can be affected by consumer-spending patterns.

Visit the company’s web site at:

www.coach.com

or, visit UBS PaineWebber’s web site at:

www.ubspainewebber.com

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