Expert Testimony of
Dr. Loren K. Smith PhD

Federal Trade Commission

v.

Tapestry, Inc. and Capri Holdings Limited.

September 11, 2024

Framework for Merger Analysis

- Research Industry

- Market Definition

- Effect on Competition
    - Indirect: Market Concentration

    - Direct Analyses of Competitive Effects

- Mitigating Factors

Key Features of the Industry

- Stable, high cost-price margins

- Stable, high Defendant revenues compared to others

- Importance of branding and product differentiation

Summary of Market Concentration

Metric	Merger Guidelines Threshold	This Transaction
Post-Merger HHI	1,800	>3,500
Change in HHI	>100	>1,400
Post-Merger Market Share	>30%	58%

4

Indicators of Loss of Competition

Analysis	Results
Qualitative	Close head to head competition
Upward Pricing Pressure Index	18% average increase
Merger Simulation	15-17% average price increase/quality decrease
Annual Consumer Harm	$365 million

NPD Handbag Style Definitions

Circana.

Subclass	Subclass Definition
Cross body Bags	Handbags that have an extra long strap, meant to be worn across the body. Generally smaller and more square shaped than a messenger bag. They are worn for more fashion than function.
Satchels	Handbags with handles that are mainly carried with your hand. Sizes and designs vary by designer. Typically feature a short strap drop.
Shoulder Bags	Handbags that can be carried almost exclusively by a shoulder. A handbag that is carried by a loop around the shoulder.
Totes/Shoppers	Bags that are generally more spacious than a shoulder bag and usually feature an open interior with a strap or handles that are centered atop the bag.

ACCESSIBLE LUXURY: PARTY RECOGNITION

From: Rae Tao <RTao@tapestry.com>

Sent: Mon, 1 Feb 2021 08:00:07 -0500 (EST)

To: Joanne Crevoiserat <jcrevoiserat@tapestry.com>; Todd Kahn<tkahn@tapestry.com>; Liz Fraser <lfraser@katespade.com>; Giorgio Sarnel<gsarnel@stuartweitzman.com>; Andrea Resnick <aresnick@tapestry.com>; Christina Colone <ccolone@tapestry.com>; Kelsey Mueller<KMueller@tapestry.com>; Leigh Manheim <lmanheim@coach.com>; Joon Silverstein<jsilverstein@coach.com>; Susan Pellish-Thaler <spellishthaler@coach.com>; Diane Mahady Stefanovic <dmahady@coach.com>; Marilyne Trebus<MTrebus@coach.com>; Jennifer Yue <JYue@coach.com>; Vincent Golebiowski <vgolebiowski@coach.com>; Adrianne Kirszner <AKirszner@katespade.com>; Michele Parsons <mparsons1@katespade.com>; Rachel Lande<RLande@katespade.com>; Trang To <tto1@katespade.com>; Amanda Bopp<ABopp@katespade.com>; Kristen Naiman <KNaiman@katespade.com>; Joe Milano<jmilano@katespade.com>

Cc: Global Strategy <GlobalStrategy@coach.com>

Subject: NPD Update - Bag & SLG for Q2 FY21

Attachments: Q2 FY21 NPD Update - HB & SLG.pdf

Good morning,

Please find attached insights from the Q2 FY21 NPD release for HB & SLG. On a handbag-only basis, the total market declined -20%, in line with Q1 declines of -19%. In Q2, the Premium Market (defined as Bridge, Contemporary, & Designer brands) declined -19%, below Q1 declines of -13%. Small leather goods underperformed vs. handbags.

Additional highlights below:

Within Premium HB Market
- Designer brands declined -10% in Q2, in contrast with +13% growth in the prior quarter
  - Notable contributors of the decline were Chanel (-14%) and Gucci (-23%)
  - Yves Saint Laurent grew +6%, ranking 3rd in sales across all Premium brands in Q2, driven by the popularity of the Lou Leather Camera Crossbody and Niki Medium Leather Flap Shoulder Bag
- Bridge & Contemporary brands (Accessible Luxury) declined -22%, in line with Q1 declines
  - MMK continued to lead the decline with sales down -21% YoY, driven by -28% unit declines
  - MCM and Tory Burch were both positive for the quarter at +34% and +7% respectively, driven by double-digit unit increases (a continuation of Q1 trends)

Q2 FY21 NPD Growth
- Total NPD HB Market: -20%
- Premium HB Market (Bridge, Contemporary, & Designer): -19%
- Premium HB & SLG Market: -20%

Q2 FY21 NPD Brand Growth, HB only
- Coach: -17%
- Kate Spade: -34%
- MMK: -21%
- Tory Burch: +7%
- Marc Jacobs: -17%

Q2 FY21 Addressable HB Market Share (excluding moderate brands)
- Coach: 8% share
- Kate Spade: 2% share
- MMK: 19% share
- Tory Burch: 5% share
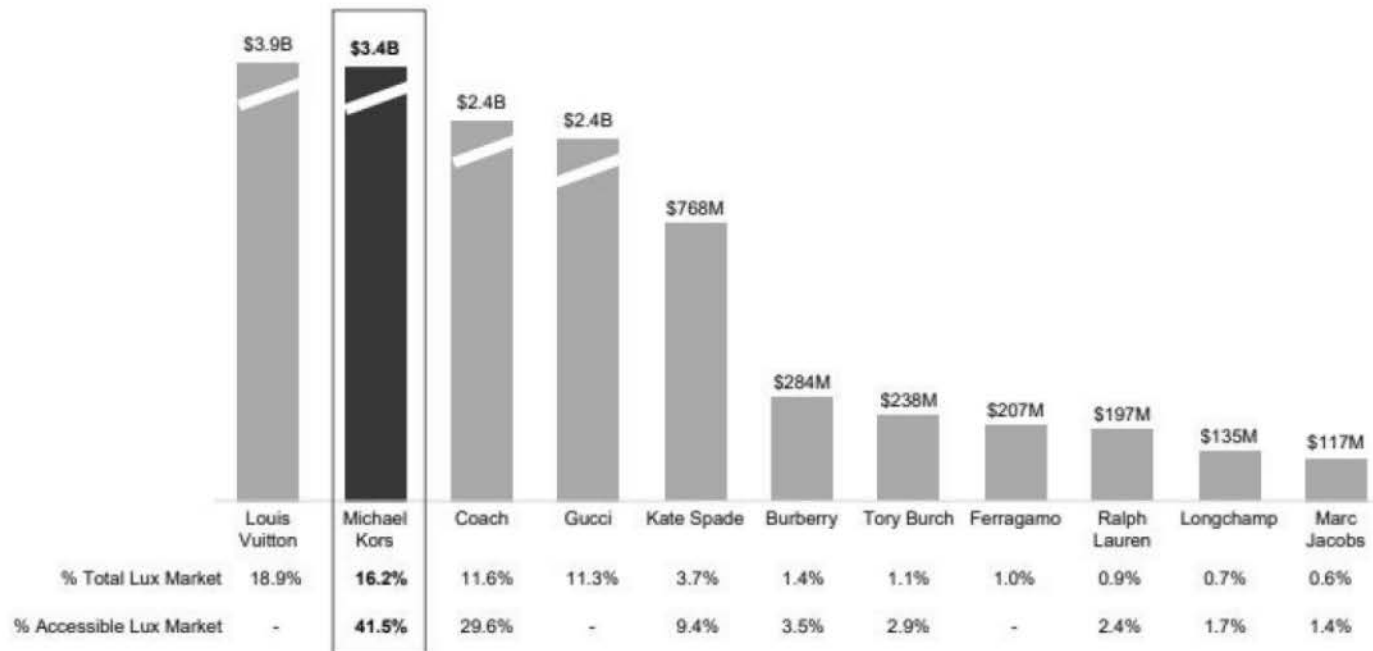- Marc Jacobs: 2% share

Source: PX1334

Accessible Luxury: Party Recognition

North America Premium Handbag & SLG Market - unranked

Acc vs Lux	Brand	Total NA POS Sales		
		FY 21	FY 22	Growth
Accessible Luxury	Brahmin	$135	$150	11%
Accessible Luxury	Coach	$2,020	$2,461	22%
Accessible Luxury	Dooney & Bourke	$152	$126	-17%
Accessible Luxury	Kate Spade	$757	$971	28%
Accessible Luxury	Marc Jacobs	$98	$170	74%
Accessible Luxury	Michael Kors	$1,682	$1,948	16%
Accessible Luxury	Tory Burch	$344	$392	14%
Accessible Luxury	Tumi	$167	$227	36%
	Premium All Other	$2,020.17	$1,864.13	-8%
	Premium Market	15,738	19,283	23%
	Accessible Luxury	$5,355	$6,444	20%
	Luxury	$8,364	$10,975	31%
	Luxury: LVMH+Kering	$6,206	$8,161	31%
	Luxury: All Other Luxury	$2,157	$2,813	30%
	LVMH	$3,762	$4,977	32%
	Kering	$2,542	$3,354	32%

FY22	FY21 Market Share	Total NA POS Sales			
		Q1	Q2	Q3	Q4
Coach	13%	47%	29%	14%	4%
Michael Kors	11%	13%	22%	19%	8%
Kate Spade	5%	37%	39%	27%	10%
LVMH	24%	35%	36%	28%	24%
Kering	16%	25%	56%	34%	8%
Hermes	4%	46%	11%	53%	18%
Other	27%	30%	25%	8%	12%
Total		**32%**	**33%**	**22%**	**13%**
Accessible Luxury		32%	28%	18%	6%
Designer		32%	41%	32%	18%

Source: PX1328

Accessible Luxury: Party Recognition

North America Luxury Leather Goods 2021 Market Share

	Louis Vuitton	Michael Kors	Coach	Gucci	Kate Spade	Burberry	Tory Burch	Ferragamo	Ralph Lauren	Longchamp	Marc Jacobs
	$3.9B	$3.4B	$2.4B	$2.4B	$768M	$284M	$238M	$207M	$197M	$135M	$117M
% Total Lux Market	18.9%	16.2%	11.6%	11.3%	3.7%	1.4%	1.1%	1.0%	0.9%	0.7%	0.6%
% Accessible Lux Market	-	41.5%	29.6%	-	9.4%	3.5%	2.9%	-	2.4%	1.7%	1.4%

Source: Euromonitor estimated sales at retail (estimated wholesale sales and licensing revenue converted to estimated sales at retail)

(b)(4); (b)(3):6(f); (b)(3):21(f)
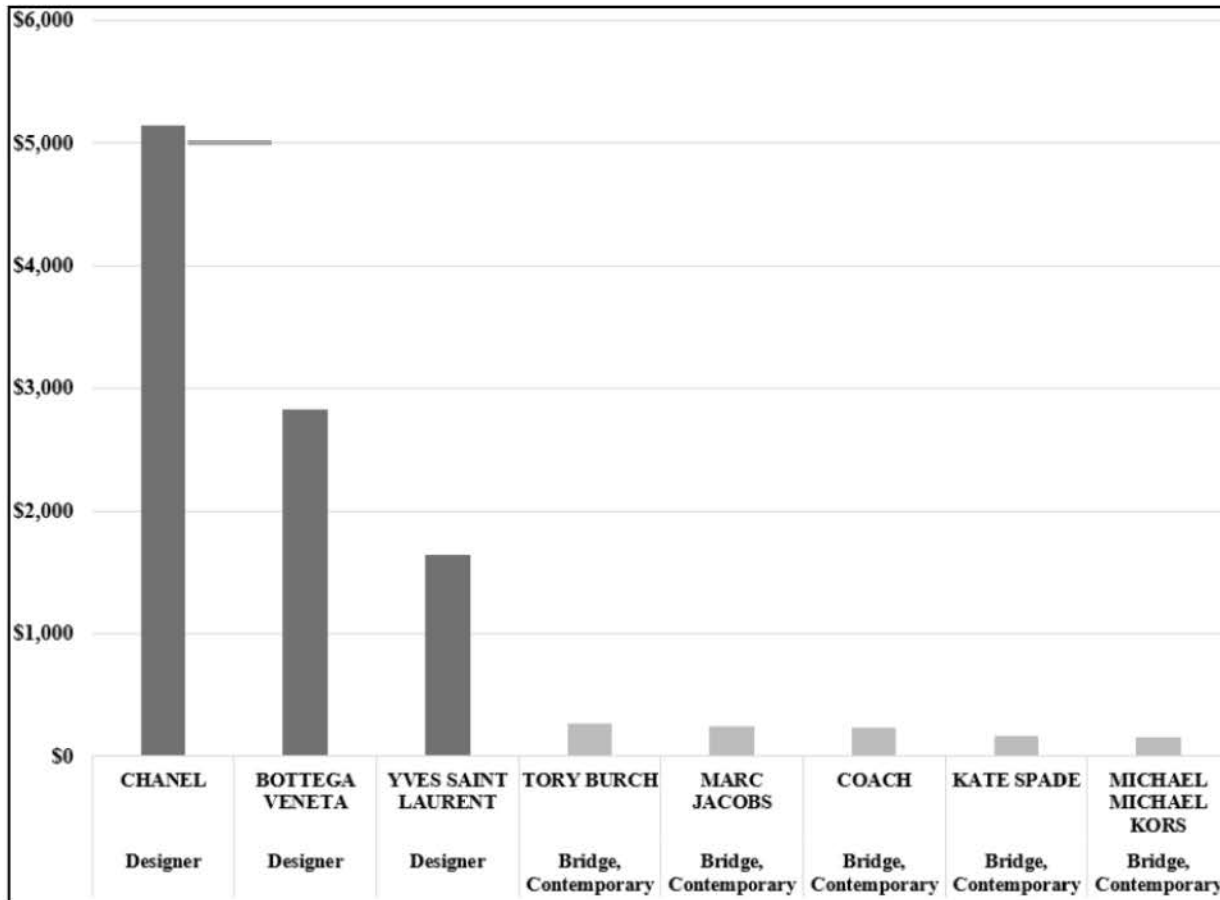
True Luxury Pricing Higher than Accessible Luxury

Average Tote AUR in NPD

Source: Smith Initial Report, Figure 18

11

Mass Market Pricing Lower than Accessible Luxury

Average Tote AUR in NPD

Accessible Luxury Production

From: "Joanne Crevoiserat" <jcrevoiserat@tapestry.com>
Sent: Sun, 29 Jan 2023 16:28:40 -0500 (EST)
To: "Peter Charles" <pcharles@tapestry.com>; "Scott Roe" <sroe@tapestry.com>; "Noam Paransky" <nparansky@tapestry.com>
Cc: "Debra Meyer" <dmeyer@tapestry.com>; "Laura Booth" <LBooth@tapestry.com>; "Kerri Reynolds" <kreynolds@tapestry.com>; "Melissa Lawrence" <mlawrence@coach.com>; "Kamisha ShimHue" <kshimhue@tapestry.com>; "Theresa Menno" <tmenno@tapestry.com>
Subject: Re: Feb Board Innovation Topic - Working Session 3

Debbie, Noam and Peter,

I edited the word document to illustrate the content and flow of the document
of the slides. The narrative will tell the story (and back story) and the slides wi
comments and edits and make further adjustments that you think move us furt

Debbie/peter, specifically, I think we can add a bit to the beginning of our SC
the accessible luxury market - balancing lower cost with quality well made pr
ensuring costs are managed to deliver the value the consumer recognizes. Yo
supporting on environmentally preferred materials.

Hope these notes are helpful in moving us closer to a final product. Please reach out with any further questions. Happy to review a "nex trun" when ready.

Thanks,
Joanne

> **Joanne Crevoiserat: "[O]ur supply chain innovation over the years effectively created the accessible luxury market – balancing lower cost with quality well made product"**

SOURCING DIFFERENCES BETWEEN AFFORDABLE AND TRUE LUXURY
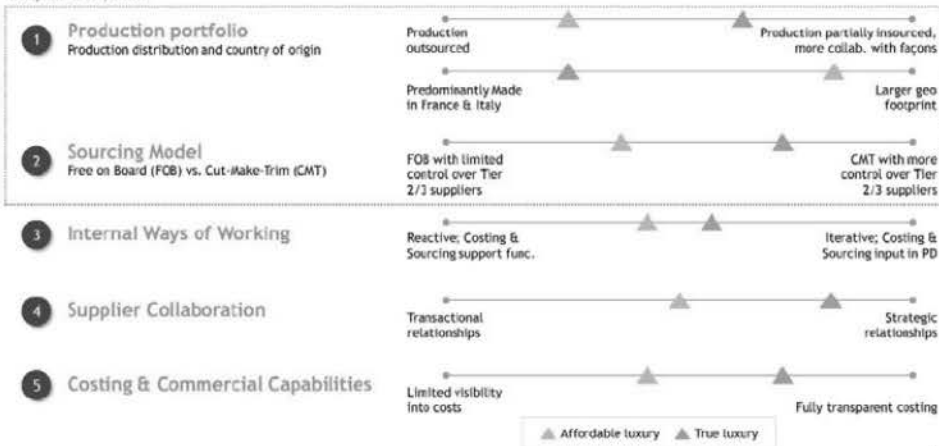
Confidential Commercial Information — Tapestry-FTC-000860734

Margins for Defendants' Products

	DTC Margin	Wholesale Margin
Crossbody		
Coach		
Kate Spade		
Michael Kors		
Satchel		
Coach		
Kate Spade		
Michael Kors		
Shoulder		
Coach		
Kate Spade	(b)(4); (b)(3):6(f); (b)(3):21(f)	
Michael Kors		
Totes/Shoppers		
Coach		
Kate Spade		
Michael Kors		
Overall Cluster		
Coach		
Kate Spade		
Michael Kors		

Source: Smith Initial Report Backup; Defendants' Second Request Responses

Aggregate Diversion Ratio Analysis

- Conservative 60% margins

- Breakeven point = **17%**
  - "Critical Aggregate Diversion Ratio"

- Results well above the critical aggregate diversion ratio

		Aggregate Diversion Ratio Estimates	
Last Purchase	**Considered**	**Baseline**	**Sensitivity**
Coach	Other Accessible Luxury Brands	61.4%	35.7%
Kate Spade	Other Accessible Luxury Brands	65.1%	45.5%
Michael Kors	Other Accessible Luxury Brands	63.7%	50.8%

Source: Smith Initial Report, Table 5. See Smith Initial Report, Appendix II for additional information on methodology.

Survey Consideration Questions

Questions indicative of diversion

"What other brands did you consider before you made **this purchase?**"
(FY22Q4 Kantar)

"The last time you purchased [a handbag] from [brand], what other [handbag] brands did you consider buying from?"
(March 2022 Bain)

Not indicative of diversion

"How likely are you to consider choosing each of these brands of [CATEGORY] in the next 12 months?"
(FY23 Q2 Kantar)

Sources: PX1647-009; PX1697; PX1185-010

FOIA-2025-00293 000000066311 "UNCLASSIFIED" 1/21/2025

FY22 Q4 US Brand Tracking: Other Considered Brands

tapestry

Among the broad premium market, when making their latest purchase, about 1 in 3 do not consider any other brands. Coach, Michael Kors and Kate Spade fall within the same consideration set. Coach and Louis Vuitton fall within the consideration set across all benchmark brands.

↕ Indicates significance vs FY21 Q4 at the 95% level

Other Brands Considered When Making Latest Purchase

	COACH N=686		Kate Spade NEW YORK N=373		MICHAEL Michael Kors N=485		TORY BURCH N=56* Small Sample		LOUIS VUITTON N=114		GUCCI N=98* Small Sample	
#1	Michael Kors	14%	Coach	27%	Coach	33%	Coach	29% #3 Rank	Gucci	29%	Chanel	18%
#2	Kate Spade	11%	Michael Kors	26%	Kate Spade	16%	Kate Spade	29%	Chanel	16%	Louis Vuitton	18%
#3	Gucci	9%	Guess	5%	Guess	7%	Michael Kors	21%	Coach	11% #8 Rank	Prada	15%
#4	Louis Vuitton ↑	7% #7 Rank	Calvin Klein	5%	Calvin Klein	7%	Louis Vuitton	11%	Prada	11%	Coach	14%
#5	Guess	7%	Dooney & Bourke	5%	Louis Vuitton	7%	Calvin Klein	5%	YSL	10%	Dior	10%
#6	Chanel ↑	7% #13 Rank	Nine West	4%	Fossil	6%	Gucci	5%	Dior	8%	Guess	9%
#7	Dooney & Bourke	4%	Louis Vuitton	3%	Nine West	5%	Chanel	5%	Michael Kors	7%	Calvin Klein	7%
#8	Fossil	6%	Prada	3%	Gucci	5%	Guess	4%	Burberry	5%	YSL	6%
#9	Calvin Klein	6%	Tory Burch	3% #4 Rank	Tory Burch	5% #12 Rank	Vera Bradley	4%	Kate Spade	4%	Fendi	6%
#10	Prada	6%	Fossil	3%	Dooney & Bourke	4%	Marc Jacobs	4%	Dolce & Gabbana	4%	Balenciaga	6%
	Didn't consider other brands 36%		Didn't consider other brands 37%		Didn't consider other brands 31%		Didn't consider other brands 29%		Didn't consider other brands 35%		Didn't consider other brands 23%	

© 2022 Tapestry, Inc. Q: What other brands did you consider before you made your most recent purchase? (*didn't consider other brands' - no brands were selected from aided awareness brand list, and didn't write in 'other' brands either) Source: FY22 Q4 US Brand Tracking

10

Source: PX1465-010

Summary of Survey Diversion Results

Bain Survey Diversion Results

		Estimated Diversion Ratio from Survey Data	
Last Purchase	**Considered**	**Baseline**	**Sensitivity**
Michael Kors	Tapestry	41.9%	33.4%
Michael Kors	Kate Spade	17.0%	13.5%
Michael Kors	Coach	24.9%	19.9%
Tapestry	Michael Kors	19.3%	12.0%
Kate Spade	Michael Kors	13.4%	9.4%
Coach	Michael Kors	23.1%	13.4%

Kantar Survey Diversion Results

		Estimated Diversion Ratio from Survey Data	
Last Purchase	**Considered**	**Baseline**	**Sensitivity**
Michael Kors	Tapestry	45.3%	30.9%
Michael Kors	Kate Spade	14.3%	9.7%
Michael Kors	Coach	31.0%	21.1%
Tapestry	Michael Kors	23.9%	14.8%
Kate Spade	Michael Kors	23.8%	15.0%
Coach	Michael Kors	24.0%	14.7%

Sources: Smith Initial Report, Table 35, Table 36.

Concentration Measures Indicate Substantial Loss of Competition

2022 Shares

Brand	Share
Coach	28.3%
Kate Spade	12.3%
Michael Kors	20.9%
Combined Share	61.5%
Delta HHI	1,695
Post HHI	3,947

2023 Shares

Brand	Share
Coach	29.4%
Kate Spade	11.4%
Michael Kors	17.5%
Combined Share	58.3%
Delta HHI	1,424
Post HHI	3,591
	10.0%
	8.3%
	2.4%
	2.3%
(b)(4); (b)(3):6(f); (b)(3):21(f)	1.8%
	1.8%
	1.7%
	1.4%
	1.2%
	1.1%
OTHER	9.8%

The Parties Are Close Head-to-Head Competitors

Competitive Pricing Update: Handbags

SPR22 KS price increases help to narrow gap with key competitors

	MSRP	KS Positioning (December)	KS Positioning (January)	KS Ideal Positioning Target
Handbags				
Michael Kors	$297	-23%	-21%	+10%
Coach	$314	-32%	-25%	-10%
Tory Burch	$544	-58%	-57%	-25%
Wallets				
Michael Kors	$124	-11%	-1%	+25%
Coach	$149	-33%	-22%	-10%
Tory Burch	$165	-47%	-35%	-25%

➤ Coach prices remained flat, allowing KS increases to narrow gap more significantly
➤ Price increases at Kors and Tory minimized impact of KS increases on competitive positioning
  ➤ Kors HB prices +7% driven by new, higher priced product launches; largest % increase in crossbodies
  ➤ Tory increased c/o prices +12% and continued to launch newness with higher MSRPs
➤ KS increases in wallets significantly narrow gap with all key competitors

The Parties Are Close Head-to-Head Competitors

COMPETITIVE BRAND SNAPSHOT

MICHAEL KORS	COACH	kate spade NEW YORK	TORY BURCH	MARC JACOBS
FASHION + GLAMOROUS	CLASSIC + DOWNTOWN	WHIMSICAL	CLASSIC + PREPPY	FASHION + DOWNTOWN
$3.98B GLOBAL $2.65B NA	$4.85B GLOBAL $3.06B NA	$1.46B GLOBAL $1.2B NA	~$1.4B GLOBAL ~$1.0B NA	~$900M GLOBAL ~$600M NA
~30% Full Price / ~70% Outlet (N.A.)	~25% Full Price / ~75% Outlet (N.A.)	~20% Full Price / ~80% Outlet (N.A.)	~40% Full Price / ~60% Outlet (N.A.)	~65% Full Price / ~35% Outlet (N.A.)
• -9% Search Decrease • Gartner Digital IQ Ranking: #6	• +9% Search Increase • Gartner Digital IQ Ranking: #9	• +15% Search Increase • Gartner Digital IQ Ranking: #18	• +5% Search Increase • Gartner Digital IQ Ranking: #19	• +150% Search Increase • Gartner Digital IQ Ranking: #45
• Full Price Upper Funnel • Promotionally Segmented Consumer Marketing	• Full Price Upper Funnel • Highly Promotional Lower Funnel	• Select Full Price Moments • Highly Promotional Consumer Marketing	• Select Full Price Moments • Strategically Promotional	• Select Full Price Moments • Strategically Promotional

Note: Michael Kors, coach and kate spade revenue calendarized 2022

CONFIDENTIAL TREATMENT REQUESTED

CAPRI-001978115

Upward Pricing Pressure

**The proposed transaction will lead to
increased prices/decrease quality**

| | Avg. Price | Margin | Diversion Ratio to: | | | UPPI |
			Coach	Kate Spade	Michael Kors	
Tapestry						
Coach	$138.7	75%			23.1%	9.7%
Kate Spade	$100.4	64%			13.4%	7.8%
Capri						
Michael Kors	$90.4	64%	24.9%	17.0%		40.8%
Weighted Avg.						**18.0%**

Source: Smith Reply Report, Table 8

22

Merger Simulation

The proposed transaction will lead to increased prices/decrease quality

	DTC + Wholesale channels		
	Pre-merger	Post-merger	% Change
Coach	$145	$159	10%
Kate Spade	$108	$122	13%
Michael Kors	$103	$133	29%
Combined	$121	$142	17%

Source: Smith Initial Report, Table 11

23

(b)(4); (b)(3):6(f); (b)(3):21(f)

Claimed Efficiencies Are Not Sufficient to Mitigate Harm

Annual Consumer Harm

$365 Million Annually

Claimed Efficiencies

$50 Million

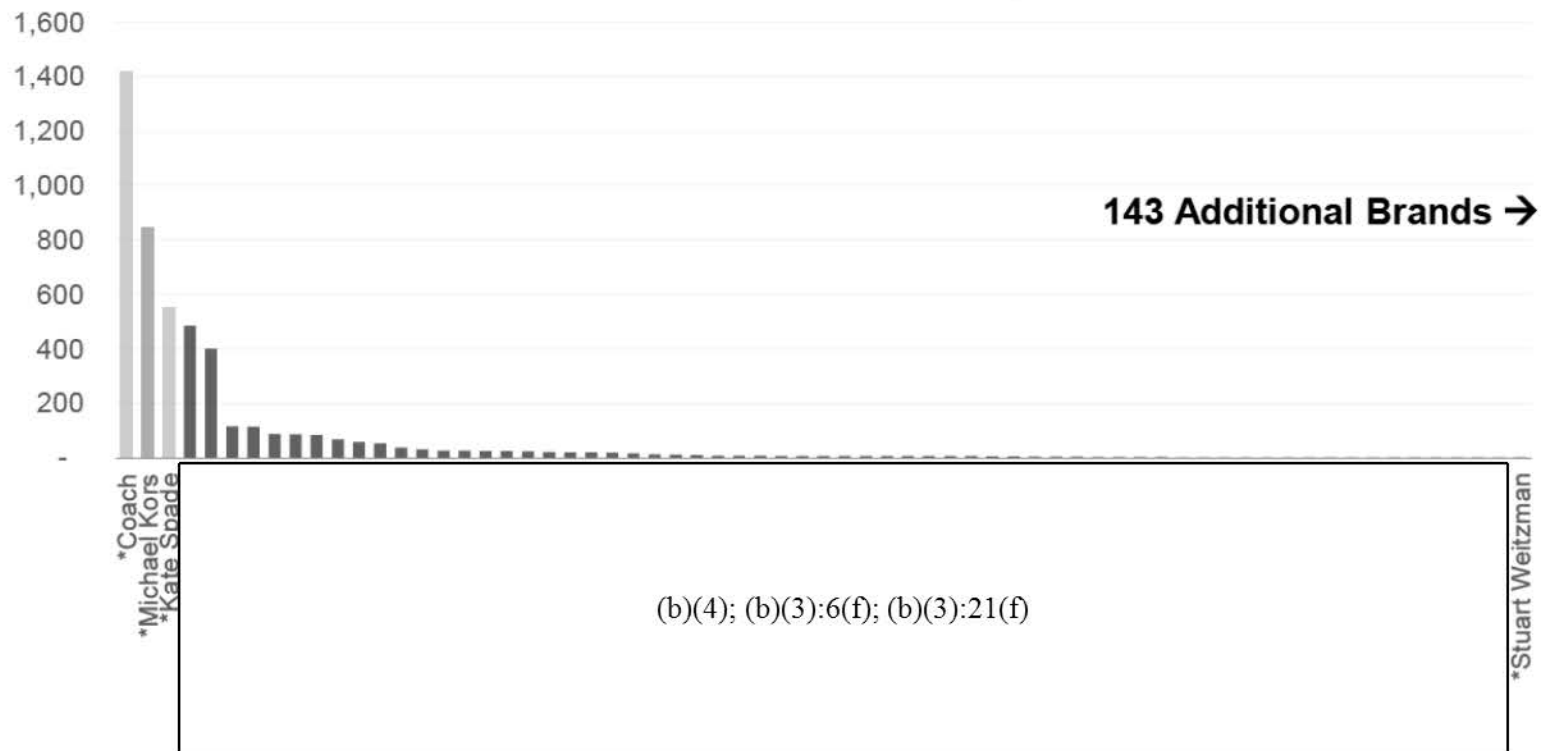*Source*: Smith Initial Report, § VI.B.3; Smith Reply Report, ¶ 200

25

Summary of Analysis

- Research Industry
  - *High margins, high Defendant revenues*
- Market Definition
  - *Accessible luxury handbags distinct set of competing products*
- Effects
  - Indirect: Market Concentration
    - *58% combined share, 3,500+ HHI*
  - Direct Analyses of Competitive Effects
    - *$365 million annual consumer harm*
- Mitigating Factors
  - *Not likely, not big enough*

Defendants Are the Largest Accessible Luxury Handbag Brands Today

Accessible Luxury HB Brands with More than $1M in Total Sales (2023, $M)

143 Additional Brands →

*Coach
*Michael Kors
*Kate Spade

*Stuart Weitzman

(b)(4); (b)(3):6(f); (b)(3):21(f)

1

PD03-001

Defendants Would Account for Nearly 60% of the Accessible Luxury Market Post-Deal

Accessible Luxury HB Brands with More than $1M in Total Sales (2023, $M)

143 Additional Brands →

Defendants

(b)(4); (b)(3):6(f); (b)(3):21(f)

2

PD03-002