

RALPH LAUREN CORP  
Form 10-Q  
February 04, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q  
(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 26, 2015

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-13057

Ralph Lauren Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

650 Madison Avenue,

New York, New York

(Address of principal executive offices)

(212) 318-7000

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

At January 29, 2016, 58,133,458 shares of the registrant's Class A common stock, \$.01 par value, and 25,881,276 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

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RALPH LAUREN CORPORATION  
CONSOLIDATED BALANCE SHEETS

|                                                                                                                                                  | December 26,<br>2015<br>(millions)<br>(unaudited) | March 28,<br>2015 |
|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------|
| <b>ASSETS</b>                                                                                                                                    |                                                   |                   |
| Current assets:                                                                                                                                  |                                                   |                   |
| Cash and cash equivalents                                                                                                                        | \$527                                             | \$500             |
| Short-term investments                                                                                                                           | 688                                               | 644               |
| Accounts receivable, net of allowances of \$277 million and \$251 million                                                                        | 473                                               | 655               |
| Inventories                                                                                                                                      | 1,271                                             | 1,042             |
| Income tax receivable                                                                                                                            | 70                                                | 57                |
| Deferred tax assets                                                                                                                              | 154                                               | 145               |
| Prepaid expenses and other current assets                                                                                                        | 269                                               | 281               |
| Total current assets                                                                                                                             | 3,452                                             | 3,324             |
| Property and equipment, net                                                                                                                      | 1,564                                             | 1,436             |
| Deferred tax assets                                                                                                                              | 38                                                | 45                |
| Goodwill                                                                                                                                         | 901                                               | 903               |
| Intangible assets, net                                                                                                                           | 248                                               | 267               |
| Other non-current assets                                                                                                                         | 138                                               | 131               |
| Total assets                                                                                                                                     | \$6,341                                           | \$6,106           |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                    |                                                   |                   |
| Current liabilities:                                                                                                                             |                                                   |                   |
| Short-term debt                                                                                                                                  | \$15                                              | \$234             |
| Accounts payable                                                                                                                                 | 195                                               | 210               |
| Income tax payable                                                                                                                               | 55                                                | 27                |
| Accrued expenses and other current liabilities                                                                                                   | 949                                               | 715               |
| Total current liabilities                                                                                                                        | 1,214                                             | 1,186             |
| Long-term debt                                                                                                                                   | 596                                               | 298               |
| Non-current liability for unrecognized tax benefits                                                                                              | 80                                                | 116               |
| Other non-current liabilities                                                                                                                    | 647                                               | 615               |
| Commitments and contingencies (Note 14)                                                                                                          |                                                   |                   |
| Total liabilities                                                                                                                                | 2,537                                             | 2,215             |
| Equity:                                                                                                                                          |                                                   |                   |
| Class A common stock, par value \$.01 per share; 100.9 million and 100.0 million shares issued; 58.1 million and 60.4 million shares outstanding | 1                                                 | 1                 |
| Class B common stock, par value \$.01 per share; 25.9 million shares issued and outstanding                                                      | —                                                 | —                 |
| Additional paid-in-capital                                                                                                                       | 2,236                                             | 2,117             |
| Retained earnings                                                                                                                                | 6,015                                             | 5,787             |
| Treasury stock, Class A, at cost; 42.8 million and 39.6 million shares                                                                           | (4,248)                                           | (3,849)           |
| Accumulated other comprehensive loss                                                                                                             | (200)                                             | (165)             |
| Total equity                                                                                                                                     | 3,804                                             | 3,891             |
| Total liabilities and equity                                                                                                                     | \$6,341                                           | \$6,106           |
| See accompanying notes.                                                                                                                          |                                                   |                   |



RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME

|                                                              | Three Months Ended                |                      | Nine Months Ended    |                      |
|--------------------------------------------------------------|-----------------------------------|----------------------|----------------------|----------------------|
|                                                              | December 26,<br>2015              | December 27,<br>2014 | December 26,<br>2015 | December 27,<br>2014 |
|                                                              | (millions, except per share data) |                      |                      |                      |
|                                                              | (unaudited)                       |                      |                      |                      |
| Net sales                                                    | \$1,899                           | \$1,986              | \$5,399              | \$5,603              |
| Licensing revenue                                            | 47                                | 47                   | 135                  | 132                  |
| Net revenues                                                 | 1,946                             | 2,033                | 5,534                | 5,735                |
| Cost of goods sold <sup>(a)</sup>                            | (852)                             | (874)                | (2,361)              | (2,401)              |
| Gross profit                                                 | 1,094                             | 1,159                | 3,173                | 3,334                |
| Selling, general, and administrative expenses <sup>(a)</sup> | (833)                             | (837)                | (2,494)              | (2,461)              |
| Amortization of intangible assets                            | (5)                               | (6)                  | (17)                 | (19)                 |
| Impairment of assets                                         | (9)                               | —                    | (24)                 | (2)                  |
| Restructuring and other charges                              | (58)                              | (1)                  | (123)                | (7)                  |
| Total other operating expenses, net                          | (905)                             | (844)                | (2,658)              | (2,489)              |
| Operating income                                             | 189                               | 315                  | 515                  | 845                  |
| Foreign currency losses                                      | (3)                               | (8)                  | (9)                  | (14)                 |
| Interest expense                                             | (6)                               | (3)                  | (14)                 | (12)                 |
| Interest and other income, net                               | 2                                 | —                    | 5                    | 4                    |
| Equity in losses of equity-method investees                  | (1)                               | (3)                  | (7)                  | (9)                  |
| Income before provision for income taxes                     | 181                               | 301                  | 490                  | 814                  |
| Provision for income taxes                                   | (50)                              | (86)                 | (135)                | (236)                |
| Net income                                                   | \$131                             | \$215                | \$355                | \$578                |
| Net income per common share:                                 |                                   |                      |                      |                      |
| Basic                                                        | \$1.55                            | \$2.44               | \$4.15               | \$6.53               |
| Diluted                                                      | \$1.54                            | \$2.41               | \$4.11               | \$6.46               |
| Weighted average common shares outstanding:                  |                                   |                      |                      |                      |
| Basic                                                        | 84.9                              | 88.1                 | 85.7                 | 88.5                 |
| Diluted                                                      | 85.5                              | 89.0                 | 86.3                 | 89.5                 |
| Dividends declared per share                                 | \$0.50                            | \$0.45               | \$1.50               | \$1.35               |
| <sup>(a)</sup> Includes total depreciation expense of:       | \$(71)                            | \$(72)               | \$(210)              | \$(200)              |

See accompanying notes.

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|                                                | Three Months Ended   |                      | Nine Months Ended    |                      |
|------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                                | December 26,<br>2015 | December 27,<br>2014 | December 26,<br>2015 | December 27,<br>2014 |
|                                                | (millions)           |                      |                      |                      |
|                                                | (unaudited)          |                      |                      |                      |
| Net income                                     | \$ 131               | \$ 215               | \$ 355               | \$ 578               |
| Other comprehensive income (loss), net of tax: |                      |                      |                      |                      |
| Foreign currency translation losses            | (26                  | ) (74                | ) (13                | ) (174               |
| Net gains (losses) on cash flow hedges         | (8                   | ) 12                 | (24                  | ) 37                 |
| Net gains on defined benefit plans             | 1                    | —                    | 2                    | 1                    |
| Other comprehensive loss, net of tax           | (33                  | ) (62                | ) (35                | ) (136               |
| Total comprehensive income                     | \$ 98                | \$ 153               | \$ 320               | \$ 442               |

See accompanying notes.

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                                   | Nine Months Ended    |                      |
|-----------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                   | December 26,<br>2015 | December 27,<br>2014 |
|                                                                                   | (millions)           |                      |
|                                                                                   | (unaudited)          |                      |
| Cash flows from operating activities:                                             |                      |                      |
| Net income                                                                        | \$355                | \$578                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                      |
| Depreciation and amortization expense                                             | 227                  | 219                  |
| Deferred income tax benefit                                                       | (4                   | ) (11                |
| Equity in losses of equity-method investees                                       | 7                    | 9                    |
| Non-cash stock-based compensation expense                                         | 79                   | 60                   |
| Non-cash impairment of assets                                                     | 24                   | 2                    |
| Excess tax benefits from stock-based compensation arrangements                    | (9                   | ) (7                 |
| Other non-cash charges, net                                                       | 20                   | (20                  |
| Changes in operating assets and liabilities:                                      |                      |                      |
| Accounts receivable                                                               | 176                  | 155                  |
| Inventories                                                                       | (251                 | ) (240               |
| Prepaid expenses and other current assets                                         | 24                   | (77                  |
| Accounts payable and accrued liabilities                                          | 218                  | 101                  |
| Income tax receivables and payables                                               | —                    | 101                  |
| Deferred income                                                                   | (8                   | ) (13                |
| Other balance sheet changes, net                                                  | (6                   | ) 33                 |
| Net cash provided by operating activities                                         | 852                  | 890                  |
| Cash flows from investing activities:                                             |                      |                      |
| Capital expenditures                                                              | (325                 | ) (300               |
| Purchases of investments                                                          | (637                 | ) (1,156             |
| Proceeds from sales and maturities of investments                                 | 591                  | 940                  |
| Acquisitions and ventures                                                         | (14                  | ) (8                 |
| Change in restricted cash deposits                                                | (6                   | ) (1                 |
| Net cash used in investing activities                                             | (391                 | ) (525               |
| Cash flows from financing activities:                                             |                      |                      |
| Proceeds from issuance of short-term debt                                         | 3,409                | 2,283                |
| Repayments of short-term debt                                                     | (3,628               | ) (2,170             |
| Proceeds from issuance of long-term debt                                          | 299                  | —                    |
| Payments of capital lease obligations                                             | (19                  | ) (17                |
| Payments of dividends                                                             | (128                 | ) (119               |
| Repurchases of common stock, including shares surrendered for tax withholdings    | (399                 | ) (382               |
| Proceeds from exercises of stock options                                          | 31                   | 46                   |
| Excess tax benefits from stock-based compensation arrangements                    | 9                    | 7                    |
| Other financing activities                                                        | (2                   | ) —                  |
| Net cash used in financing activities                                             | (428                 | ) (352               |
| Effect of exchange rate changes on cash and cash equivalents                      | (6                   | ) (47                |
| Net increase (decrease) in cash and cash equivalents                              | 27                   | (34                  |
| Cash and cash equivalents at beginning of period                                  | 500                  | 797                  |
| Cash and cash equivalents at end of period                                        | \$527                | \$763                |

See accompanying notes.

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and where otherwise indicated)

(Unaudited)

1. Description of Business

Ralph Lauren Corporation ("RLC") is a global leader in the design, marketing, and distribution of premium lifestyle products, including apparel, accessories, home furnishings, and other licensed product categories. RLC's long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands, sales channels, and international markets. RLC's brand names include Ralph Lauren, Ralph Lauren Collection, Purple Label, Black Label, Polo, Polo Ralph Lauren, Double RL, RLX Ralph Lauren, Lauren Ralph Lauren, Ralph Lauren Childrenswear, Denim & Supply Ralph Lauren, Chaps, Club Monaco, and American Living, among others. RLC and its subsidiaries are collectively referred to herein as the "Company," "we," "us," "our," and "ourselves," unless the context indicates otherwise.

The Company classifies its businesses into three segments: Wholesale, Retail, and Licensing. The Company's wholesale sales are made principally to major department stores and specialty stores around the world. The Company also sells directly to consumers through its integrated retail channel, which includes its retail stores, concession-based shop-within-shops, and e-commerce operations around the world. In addition, the Company licenses to unrelated third parties for specified periods the right to operate retail stores and/or to use its various trademarks in connection with the manufacture and sale of designated products, such as certain apparel, eyewear, fragrances, and home furnishings.

2. Basis of Presentation

Interim Financial Statements

These interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and are unaudited. In the opinion of management, these consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial position, income, comprehensive income, and cash flows of the Company for the interim periods presented. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") have been condensed or omitted from this report as is permitted by the SEC's rules and regulations. However, the Company believes that the disclosures provided herein are adequate to prevent the information presented from being misleading. This report should be read in conjunction with the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended March 28, 2015 (the "Fiscal 2015 10-K").

Basis of Consolidation

These unaudited interim consolidated financial statements present the consolidated financial position, income, comprehensive income, and cash flows of the Company, including all entities in which the Company has a controlling financial interest and is determined to be the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Periods

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2016 will end on April 2, 2016 and will be a 53-week period ("Fiscal 2016"). Fiscal year 2015 ended on March 28, 2015 and was a 52-week period ("Fiscal 2015"). The third quarter of Fiscal 2016 ended on December 26, 2015 and was a 13-week period. The third quarter of Fiscal 2015 ended on December 27, 2014 and was also a 13-week period.

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the consolidated financial statements include reserves for bad debt, customer returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances; the realizability of inventory; reserves for litigation and other contingencies; useful lives and impairments of long-lived tangible and intangible assets; fair value measurements; accounting for income taxes and related uncertain tax positions; valuation of stock-based compensation awards and related estimated forfeiture rates; reserves for restructuring activity; and accounting for business combinations, among others.

Reclassifications

Certain reclassifications have been made to the prior period's financial information in order to conform to the current period's presentation.

Seasonality of Business

The Company's business is typically affected by seasonal trends, with higher levels of wholesale sales in its second and fourth fiscal quarters and higher retail sales in its second and third fiscal quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school, and holiday shopping periods impacting the Retail segment. In addition, fluctuations in sales, operating income, and cash flows in any fiscal quarter may be affected by other events affecting retail sales, such as changes in weather patterns. Accordingly, the Company's operating results and cash flows for the three-month and nine-month periods ended December 26, 2015 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2016.

3. Summary of Significant Accounting Policies

Revenue Recognition

Revenue is recognized across all segments of the business when there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable, and collectability is reasonably assured.

Revenue within the Company's Wholesale segment is recognized at the time title passes and risk of loss is transferred to customers. Wholesale revenue is recorded net of estimates of returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances. Returns and allowances require pre-approval from management and discounts are based on trade terms. Estimates for end-of-season markdown reserves are based on historical trends, actual and forecasted seasonal results, an evaluation of current economic and market conditions, retailer performance, and, in certain cases, contractual terms. Estimates for operational chargebacks are based on actual customer notifications of order fulfillment discrepancies and historical trends. The Company reviews and refines these estimates on at least a quarterly basis. The Company's historical estimates of these costs have not differed materially from actual results.

Retail store and concession-based shop-within-shop revenue is recognized net of estimated returns at the time of sale to consumers. E-commerce revenue from sales of products ordered through the Company's e-commerce sites is recognized upon delivery of the shipment to its customers. Such revenue is also reduced by an estimate of returns. Gift cards issued by the Company are recorded as a liability until they are redeemed, at which point revenue is recognized. The Company recognizes income for unredeemed gift cards when the likelihood of redemption by a customer is remote and the Company determines that it does not have a legal obligation to remit the value of the unredeemed gift card to the relevant jurisdiction as unclaimed or abandoned property.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue from licensing arrangements is recognized when earned in accordance with the terms of the underlying agreements, generally based upon the higher of (i) contractually guaranteed minimum royalty levels or (ii) actual sales and royalty data, or estimates thereof, received from the Company's licensees.

The Company accounts for sales taxes and other related taxes on a net basis, excluding such taxes from revenue.

**Shipping and Handling Costs**

The costs associated with shipping goods to customers are reflected as a component of selling, general, and administrative ("SG&A") expenses in the consolidated statements of income. Shipping costs were approximately \$13 million and \$32 million during the three-month and nine-month periods ended December 26, 2015, respectively, and \$13 million and \$32 million during the three-month and nine-month periods ended December 27, 2014, respectively.

The costs of preparing merchandise for sale, such as picking, packing, warehousing, and order charges ("handling costs") are also included in SG&A expenses. Handling costs were approximately \$48 million and \$133 million during the three-month and nine-month periods ended December 26, 2015, respectively, and \$49 million and \$136 million during the three-month and nine-month periods ended December 27, 2014, respectively. Shipping and handling costs billed to customers are included in revenue.

**Net Income per Common Share**

Basic net income per common share is computed by dividing net income attributable to common shares by the weighted-average number of common shares outstanding during the period. Weighted-average common shares include shares of the Company's Class A and Class B common stock. Diluted net income per common share adjusts basic net income per common share for the dilutive effects of outstanding stock options, restricted stock, restricted stock units ("RSUs"), and any other potentially dilutive instruments, only in the periods in which such effects are dilutive under the treasury stock method.

The weighted-average number of common shares outstanding used to calculate basic net income per common share is reconciled to shares used to calculate diluted net income per common share as follows:

|                                                              | Three Months Ended<br>December 26, 2015 |                      | Nine Months Ended<br>December 27, 2014 |                      |
|--------------------------------------------------------------|-----------------------------------------|----------------------|----------------------------------------|----------------------|
|                                                              | December 26,<br>2015                    | December 27,<br>2014 | December 26,<br>2015                   | December 27,<br>2014 |
|                                                              | (millions)                              |                      |                                        |                      |
| Basic shares                                                 | 84.9                                    | 88.1                 | 85.7                                   | 88.5                 |
| Dilutive effect of stock options, restricted stock, and RSUs | 0.6                                     | 0.9                  | 0.6                                    | 1.0                  |
| Diluted shares                                               | 85.5                                    | 89.0                 | 86.3                                   | 89.5                 |

All earnings per share amounts have been calculated using unrounded numbers. Options to purchase shares of the Company's Class A common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding RSUs that are issuable only upon the achievement of certain service and/or performance goals. Performance-based RSUs are included in the computation of diluted shares only to the extent that the underlying performance conditions (and any applicable market condition modifiers) (i) have been satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. As of December 26, 2015 and December 27, 2014, there were approximately 2.5 million and 1.9 million, respectively, additional shares issuable upon exercise of anti-dilutive options and contingent vesting of performance-based RSUs, which were excluded from the diluted share calculations.

**Accounts Receivable**

In the normal course of business, the Company extends credit to wholesale customers that satisfy defined credit criteria. Accounts receivable is recorded at carrying value, which approximates fair value, and is presented in the Company's consolidated balance sheets net of certain reserves and allowances. These reserves and allowances consist of (i) reserves for returns, discounts,



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances (see the Revenue Recognition section above for further discussion of related accounting policies) and (ii) allowances for doubtful accounts.

A rollforward of the activity in the Company's reserves for returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances is presented below:

|                                                               | Three Months Ended |                   | Nine Months Ended |                   |
|---------------------------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                                               | December 26, 2015  | December 27, 2014 | December 26, 2015 | December 27, 2014 |
|                                                               | (millions)         |                   |                   |                   |
| Beginning reserve balance                                     | \$246              | \$284             | \$240             | \$254             |
| Amount charged against revenue to increase reserve            | 181                | 189               | 570               | 558               |
| Amount credited against customer accounts to decrease reserve | (161)              | (206)             | (545)             | (538)             |
| Foreign currency translation                                  | (2)                | (5)               | (1)               | (12)              |
| Ending reserve balance                                        | \$264              | \$262             | \$264             | \$262             |

An allowance for doubtful accounts is determined through analysis of periodic aging of accounts receivable, assessments of collectability based on an evaluation of historical and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions, among other factors. The Company's allowance for doubtful accounts was \$13 million and \$11 million as of December 26, 2015 and March 28, 2015, respectively. The change in the allowance for doubtful accounts was not material during the three-month and nine-month periods ended December 26, 2015 and December 27, 2014.

## Concentration of Credit Risk

The Company sells its wholesale merchandise primarily to major department and specialty stores around the world, and extends credit based on an evaluation of each customer's financial capacity and condition, usually without requiring collateral. In the Company's wholesale business, concentration of credit risk is relatively limited due to the large number of customers and their dispersion across many geographic areas. However, the Company has three key wholesale customers that generate significant sales volume. During Fiscal 2015, the Company's sales to its largest wholesale customer, Macy's, Inc. ("Macy's"), accounted for approximately 12% of its total net revenues, and the Company's sales to its three largest wholesale customers (including Macy's) accounted for approximately 24% of total net revenues. As of December 26, 2015, these three key wholesale customers constituted approximately 42% of total gross accounts receivable.

## Derivative Financial Instruments

The Company records all derivative financial instruments on its consolidated balance sheets at fair value. For derivative instruments that qualify for hedge accounting, the effective portion of changes in their fair value is either (i) offset against the changes in fair value of the related hedged assets, liabilities, or firm commitments through earnings or (ii) recognized in equity as a component of accumulated other comprehensive income ("AOCI") until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge against changes in fair value or cash flows and net investments, respectively.

Each derivative instrument that qualifies for hedge accounting is expected to be highly effective at reducing the risk associated with the exposure being hedged. For each derivative instrument that is designated as a hedge, the Company formally documents the related risk management objective and strategy, including identification of the hedging instrument, the hedged item, and the risk exposure, as well as how hedge effectiveness will be assessed prospectively and retrospectively over the instrument's term. To assess hedge effectiveness, the Company generally uses regression analysis, a statistical method, to compare the change in the fair value of the derivative instrument to the change in fair value or cash flows of the related hedged item. The extent to which a hedging instrument has been and is expected to remain highly effective in achieving offsetting changes in fair value or cash flows is assessed and documented by the Company on at least a quarterly basis.



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As a result of its use of derivative instruments, the Company is exposed to the risk that counterparties to such contracts will fail to meet their contractual obligations. To mitigate this counterparty credit risk, the Company has a policy of only entering into contracts with carefully selected financial institutions based upon an evaluation of their credit ratings and certain other factors, adhering to established limits for credit exposure. The Company's established policies and procedures for mitigating credit risk from derivative transactions include ongoing review and assessment of its counterparties' creditworthiness. The Company also enters into master netting arrangements with counterparties, when possible, to mitigate credit risk associated with its derivative instruments. In the event of default or termination (as such terms are defined within the respective master netting arrangement), these arrangements allow the Company to net-settle amounts payable and receivable related to multiple derivative transactions with the same counterparty. The master netting arrangements specify a number of events of default and termination, including, among others, the failure to make timely payments.

The fair values of the Company's derivative instruments are recorded on its consolidated balance sheets on a gross basis. For cash flow reporting purposes, proceeds received or amounts paid upon the settlement of a derivative instrument are classified in the same manner as the related item being hedged, primarily within cash flows from operating activities.

**Cash Flow Hedges**

The Company enters into forward foreign currency exchange contracts to reduce its risk related to exchange rate fluctuations on inventory transactions, intercompany royalty payments made by certain of its international operations, intercompany contributions made to fund certain marketing efforts of its international operations, and other foreign currency-denominated operational cash flows. To the extent forward foreign currency exchange contracts are designated as cash flow hedges and are highly effective in offsetting changes in the value of the hedged items, the related gains or losses are initially deferred in equity as a component of AOCI and are subsequently recognized in the consolidated statements of income as follows:

- **Forecasted Inventory Transactions** — recognized as part of the cost of the inventory being hedged within cost of goods sold when the related inventory is sold to a third party.

- **Intercompany Royalty Payments and Marketing Contributions** — recognized within foreign currency gains (losses) generally in the period in which the related payments or contributions being hedged are received or paid.

To the extent that a derivative instrument designated as a cash flow hedge is not considered effective, any change in its fair value relating to such ineffectiveness is immediately recognized in earnings within foreign currency gains (losses). If it is determined that a derivative instrument has not been highly effective, and will continue not to be highly effective in hedging the designated exposure, hedge accounting is discontinued and further gains (losses) are immediately recognized in earnings within foreign currency gains (losses). Upon discontinuance of hedge accounting, the cumulative change in fair value of the derivative instrument previously recorded in AOCI is recognized in earnings when the related hedged item affects earnings, consistent with the originally-documented hedging strategy, unless the forecasted transaction is no longer probable of occurring, in which case the accumulated amount is immediately recognized in earnings within foreign currency gains (losses).

**Hedge of a Net Investment in a Foreign Operation**

Changes in the fair value of a derivative instrument or the carrying value of a non-derivative instrument that is designated as a hedge of a net investment in a foreign operation are reported in the same manner as a translation adjustment, to the extent it is effective. In assessing the effectiveness of a derivative financial instrument that is designated as a hedge of a net investment, the Company uses a method based on changes in spot rates to measure the impact of foreign currency exchange rate changes on both its foreign subsidiary net investment and the related hedging instrument. If the notional amount of the instrument designated as the hedge of a net investment is greater than the portion of the net investment being hedged, hedge ineffectiveness is recognized immediately in earnings within foreign currency gains (losses). To the extent the instrument remains effective, changes in its value are recorded in equity as foreign currency translation gains (losses), a component of AOCI, and are recognized in earnings within foreign currency gains (losses) only upon the sale or liquidation of the hedged net investment.



RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value Hedges

Changes in the fair value of a derivative instrument that is designated as a fair value hedge, along with offsetting changes in the fair value of the related hedged item attributable to the hedged risk, are recorded in earnings. Hedge ineffectiveness is recorded in earnings to the extent that the change in the fair value of the hedged item does not offset the change in the fair value of the hedging instrument.

Undesignated Hedges

All of the Company's undesignated hedges are entered into to hedge specific economic risks, particularly foreign currency exchange rate risk related to foreign currency-denominated balances. Changes in the fair value of undesignated derivative instruments are immediately recognized in earnings within foreign currency gains (losses). See Note 13 for further discussion of the Company's derivative financial instruments.

Refer to Note 3 in the Fiscal 2015 10-K for a summary of all of the Company's significant accounting policies.

4. Recently Issued Accounting Standards

Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). Currently, entities are required to present deferred tax assets and liabilities as current and noncurrent on the balance sheet. ASU 2015-17 simplifies the current guidance by requiring entities to classify all deferred tax assets and liabilities, together with any related valuation allowance, as noncurrent on the balance sheet. ASU 2015-17 is effective for the Company beginning in its fiscal year 2018, with early adoption permitted, and may be applied prospectively or retrospectively. The adoption of ASU 2015-17 is not expected to impact the Company's consolidated financial statements other than the change in presentation of deferred tax assets and liabilities within its consolidated balance sheets.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a single, comprehensive accounting model for revenues arising from contracts with customers that will supersede most existing revenue recognition guidance, including industry-specific guidance. Under this model, revenue is recognized at an amount that an entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under existing revenue recognition guidance.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers — Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 is effective for the Company beginning in its fiscal year 2019. ASU 2014-09 may be applied retrospectively to all prior periods presented or through a cumulative adjustment to the opening retained earnings balance in the year of adoption. The Company is currently in the process of evaluating the impact that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Proposed Amendments to Current Accounting Standards

The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In May 2013, the FASB issued an exposure draft, "Leases" (the "Exposure Draft"), which would replace the existing guidance in Accounting Standards Codification ("ASC") Topic 840, "Leases." Under the Exposure Draft, among other changes in practice, a lessee's rights and obligations under most leases, including existing and new arrangements, would be recognized as assets and liabilities on the balance sheet. The comment period for the Exposure Draft ended in September 2013. The FASB has now completed its redeliberations on certain portions of the proposal and plans to issue a final standard in the first quarter of 2016. When effective, this new standard will likely have a significant impact on the Company's consolidated financial statements. However, as the standard-setting process is still ongoing, the Company is currently unable to determine the impact that this proposed change in accounting would have on its consolidated financial statements.

## 5. Inventories

Inventories consist of the following:

|                   | December 26,<br>2015<br>(millions) | March 28,<br>2015 | December 27,<br>2014 |
|-------------------|------------------------------------|-------------------|----------------------|
| Raw materials     | \$3                                | \$3               | \$2                  |
| Work-in-process   | —                                  | 2                 | 1                    |
| Finished goods    | 1,268                              | 1,037             | 1,208                |
| Total inventories | \$1,271                            | \$1,042           | \$1,211              |

## 6. Property and Equipment

Property and equipment, net consists of the following:

|                                | December 26,<br>2015<br>(millions) | March 28,<br>2015 |
|--------------------------------|------------------------------------|-------------------|
| Land and improvements          | \$17                               | \$17              |
| Buildings and improvements     | 456                                | 409               |
| Furniture and fixtures         | 723                                | 686               |
| Machinery and equipment        | 336                                | 317               |
| Capitalized software           | 445                                | 402               |
| Leasehold improvements         | 1,256                              | 1,185             |
| Construction in progress       | 171                                | 99                |
|                                | 3,404                              | 3,115             |
| Less: accumulated depreciation | (1,840)                            | (1,679)           |
| Property and equipment, net    | \$1,564                            | \$1,436           |

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. Other Assets and Liabilities

Prepaid expenses and other current assets consist of the following:

|                                                 | December 26,<br>2015<br>(millions) | March 28,<br>2015 |
|-------------------------------------------------|------------------------------------|-------------------|
| Other taxes receivable                          | \$102                              | \$93              |
| Prepaid rent expense                            | 34                                 | 31                |
| Derivative financial instruments                | 19                                 | 65                |
| Prepaid samples                                 | 16                                 | 12                |
| Restricted cash                                 | 14                                 | 2                 |
| Tenant allowances receivable                    | 12                                 | 14                |
| Prepaid advertising and marketing               | 11                                 | 7                 |
| Other prepaid expenses and current assets       | 61                                 | 57                |
| Total prepaid expenses and other current assets | \$269                              | \$281             |

Other non-current assets consist of the following:

|                                  | December 26,<br>2015<br>(millions) | March 28,<br>2015 |
|----------------------------------|------------------------------------|-------------------|
| Security deposits                | \$32                               | \$28              |
| Restricted cash                  | 30                                 | 36                |
| Derivative financial instruments | 26                                 | 22                |
| Other non-current assets         | 50                                 | 45                |
| Total other non-current assets   | \$138                              | \$131             |

Accrued expenses and other current liabilities consist of the following:

|                                                      | December 26,<br>2015<br>(millions) | March 28,<br>2015 |
|------------------------------------------------------|------------------------------------|-------------------|
| Accrued operating expenses                           | \$249                              | \$183             |
| Accrued inventory                                    | 171                                | 75                |
| Other taxes payable                                  | 146                                | 108               |
| Accrued payroll and benefits                         | 130                                | 162               |
| Accrued capital expenditures                         | 97                                 | 62                |
| Deferred income                                      | 44                                 | 38                |
| Dividends payable                                    | 42                                 | 43                |
| Restructuring reserve                                | 35                                 | 5                 |
| Capital lease obligations                            | 20                                 | 19                |
| Derivative financial instruments                     | 9                                  | 18                |
| Other accrued expenses and current liabilities       | 6                                  | 2                 |
| Total accrued expenses and other current liabilities | \$949                              | \$715             |

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current liabilities consist of the following:

|                                     | December 26,<br>2015<br>(millions) | March 28,<br>2015 |
|-------------------------------------|------------------------------------|-------------------|
| Capital lease obligations           | \$269                              | \$238             |
| Deferred rent obligations           | 222                                | 219               |
| Deferred tax liabilities            | 87                                 | 87                |
| Derivative financial instruments    | 10                                 | 1                 |
| Deferred compensation               | 8                                  | 9                 |
| Deferred income                     | 5                                  | 20                |
| Other non-current liabilities       | 46                                 | 41                |
| Total other non-current liabilities | \$647                              | \$615             |

## 8. Impairment of Assets

During the three-month and nine-month periods ended December 26, 2015, the Company recorded non-cash impairment charges of \$9 million and \$24 million, respectively, primarily to write off certain fixed assets related to its domestic and international stores and shop-within-shops in connection with the Global Reorganization Plan (see Note 9).

During the nine months ended December 27, 2014, the Company recorded non-cash impairment charges of \$2 million, primarily to write off certain fixed assets related to its European operations and domestic retail stores.

## 9. Restructuring and Other Charges

A description of significant restructuring and other activities and related costs is included below.

## Fiscal 2016

## Global Reorganization Plan

On May 12, 2015, the Company's Board of Directors approved a reorganization and restructuring plan comprised of the following major actions: (i) the reorganization of the Company from its current channel and regional structure to an integrated global brand-based operating structure, which will streamline the Company's business processes to better align its cost structure with its long-term growth strategy; (ii) a strategic store and shop-within-shop performance review conducted by region and brand; (iii) a targeted corporate functional area review; and (iv) the consolidation of certain of the Company's luxury lines (collectively, the "Global Reorganization Plan"). The Global Reorganization Plan will result in a reduction in workforce and, once the performance review is complete, the closure of certain stores and shop-within-shops. The Global Reorganization Plan is expected to be substantially implemented during the course of Fiscal 2017.

The Company currently expects to incur total estimated charges of approximately \$120 million to \$150 million in connection with the Global Reorganization Plan, comprised of cash-related restructuring charges totaling approximately \$85 million to \$100 million and non-cash charges totaling approximately \$35 million to \$50 million. The Company's assessment of restructuring-related activities is still ongoing and incremental charges beyond this range may be incurred.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the charges recorded in connection with the Global Reorganization Plan during the three-month and nine-month periods ended December 26, 2015 is as follows:

|                                                             | December 26, 2015             |                   |
|-------------------------------------------------------------|-------------------------------|-------------------|
|                                                             | Three Months Ended (millions) | Nine Months Ended |
| Cash-related restructuring charges:                         |                               |                   |
| Severance and benefit costs                                 | \$ 11                         | \$ 49             |
| Lease termination and store closure costs                   | —                             | 7                 |
| Other cash charges <sup>(a)</sup>                           | 3                             | 11                |
| Total cash-related restructuring charges                    | 14                            | 67                |
| Non-cash charges:                                           |                               |                   |
| Impairment of assets (see Note 8)                           | 9                             | 24                |
| Accelerated stock-based compensation expense <sup>(b)</sup> | 9                             | 9                 |
| Inventory-related charges <sup>(c)</sup>                    | 10                            | 13                |
| Total non-cash charges                                      | 28                            | 46                |
| Total charges                                               | \$ 42                         | \$ 113            |

(a) Other cash charges primarily consisted of consulting fees recorded in connection with the Global Reorganization Plan.

Accelerated stock-based compensation expense, which is recorded within restructuring and other charges in the

(b) unaudited interim consolidated statements of income, was recorded in connection with vesting provisions associated with certain separation agreements.

(c) Inventory-related charges are recorded within cost of goods sold in the unaudited interim consolidated statements of income.

A summary of the activity in the restructuring reserve related to the Global Reorganization Plan is as follows:

|                                       | Severance and Benefit Costs | Lease Termination and Store Closure Costs | Other Cash Charges | Total |
|---------------------------------------|-----------------------------|-------------------------------------------|--------------------|-------|
|                                       | (millions)                  |                                           |                    |       |
| Balance at March 28, 2015             | \$—                         | \$—                                       | \$—                | \$—   |
| Additions charged to expense          | 49                          | 7                                         | 11                 | 67    |
| Cash payments charged against reserve | (26)                        | (2)                                       | (7)                | (35)  |
| Non-cash adjustments                  | —                           | 1                                         | —                  | 1     |
| Balance at December 26, 2015          | \$ 23                       | \$ 6                                      | \$ 4               | \$ 33 |

## Other Charges

During both the three-month and nine-month periods ended December 26, 2015, the Company recorded other charges of \$34 million related to its pending customs audit (see Note 14). Additionally, during the three-month and nine-month periods ended December 26, 2015, the Company recorded other charges of \$1 million and \$13 million, respectively, primarily related to the settlement of certain litigation claims.

## Fiscal 2015

During Fiscal 2015, the Company recorded restructuring charges of \$10 million, \$7 million of which were recorded during the nine months ended December 27, 2014. These charges were primarily related to severance and benefit costs associated with



RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

certain of its retail, wholesale, and corporate operations. At March 28, 2015, the restructuring reserve related to these charges was \$5 million, which was reduced by payments to \$2 million at December 26, 2015.

10. Income Taxes

Effective Tax Rate

The Company's effective tax rate, which is calculated by dividing each fiscal period's provision for income taxes by pretax income, was 27.5% and 28.6% during the three-month periods ended December 26, 2015 and December 27, 2014, respectively, and 27.6% and 29.0% during the nine-month periods ended December 26, 2015 and December 27, 2014, respectively. The effective tax rates in the periods presented were lower than the U.S. federal statutory income tax rate of 35% principally as a result of the proportion of earnings generated in lower taxed foreign jurisdictions versus the U.S. In addition, the effective tax rate for the three months ended December 26, 2015 was favorably impacted by tax benefits associated with provision to tax return adjustments. The effective tax rate for the nine months ended December 26, 2015 was also favorably impacted by the reversal of certain tax liabilities due to the expiration of statutes of limitations and a change in estimate related to the assessment period of certain tax liabilities, as discussed below. The effective tax rate for the nine months ended December 27, 2014 was also favorably impacted by the legal entity restructuring of certain of the Company's foreign operations during Fiscal 2015, partially offset by additional tax reserves associated with the conclusion of tax examinations.

During the second quarter of Fiscal 2016, the Company concluded, with the assistance of a third-party consultant, that based on recent audit settlements and taxpayer audit trends, the assessment period associated with certain tax liabilities established under ASC Topic 740, "Income Taxes," should be reduced. This change is considered a change in estimate for accounting purposes and the related impact was recorded during the second quarter of Fiscal 2016.

This change lowered the Company's provision for income taxes by \$8 million, including interest and penalties, and net of deferred tax asset reversals, and increased basic and diluted earnings per share by \$0.09 for the nine-month period ended December 26, 2015.

Uncertain Income Tax Benefits

The Company classifies interest and penalties related to unrecognized tax benefits as part of its provision for income taxes. The total amount of unrecognized tax benefits, including interest and penalties, was \$80 million and \$116 million as of December 26, 2015 and March 28, 2015, respectively, and is included within non-current liability for unrecognized tax benefits in the consolidated balance sheets. The reduction in unrecognized tax benefits, including interest and penalties, primarily related to the reversal of tax liabilities of \$11 million and \$9 million due to the change in estimate previously discussed and the expiration of statutes of limitations, respectively, as well as tax audit settlements of \$17 million.

The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$60 million and \$85 million as of December 26, 2015 and March 28, 2015, respectively.

Future Changes in Unrecognized Tax Benefits

The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, settlements of ongoing tax audits and assessments and the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits, excluding interest and penalties, could potentially be reduced by approximately \$11 million during the next 12 months. However, changes in the occurrence, expected outcomes, and timing of such events could cause the Company's current estimate to change materially in the future.

The Company files a consolidated U.S. federal income tax return, as well as tax returns in various state, local, and foreign jurisdictions. The Company is generally no longer subject to examinations by the relevant tax authorities for years prior to its fiscal year ended April 1, 2006.



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 11. Debt

Debt consists of the following:

|                                                  | December 26,<br>2015<br>(millions) | March 28,<br>2015 |
|--------------------------------------------------|------------------------------------|-------------------|
| \$300 million 2.125% Senior Notes <sup>(a)</sup> | \$298                              | \$298             |
| \$300 million 2.625% Senior Notes <sup>(b)</sup> | 298                                | —                 |
| Commercial paper notes                           | 15                                 | 234               |
| Total debt                                       | 611                                | 532               |
| Less: short-term debt                            | 15                                 | 234               |
| Total long-term debt                             | \$596                              | \$298             |

(a) During the first quarter of Fiscal 2016, the Company entered into an interest rate swap contract which it designated as a hedge against changes in the fair value of its fixed-rate 2.125% Senior Notes (see Note 13). Accordingly, the carrying value of the 2.125% Senior Notes as of December 26, 2015 reflects an adjustment of \$1 million for the change in fair value attributable to the benchmark interest rate. The carrying value of the 2.125% Senior Notes is also net of unamortized debt issuance costs and discount of \$1 million and \$2 million as of December 26, 2015 and March 28, 2015, respectively.

(b) The carrying value of the 2.625% Senior Notes is net of unamortized debt issuance costs and discount of \$2 million as of December 26, 2015.

## Senior Notes

In September 2013, the Company completed a registered public debt offering and issued \$300 million aggregate principal amount of unsecured senior notes due September 26, 2018, which bear interest at a fixed rate of 2.125%, payable semi-annually (the "2.125% Senior Notes"). The 2.125% Senior Notes were issued at a price equal to 99.896% of their principal amount. The proceeds from this offering were used for general corporate purposes, including repayment of the Company's previously outstanding €209 million principal amount of 4.5% Euro-denominated notes, which matured on October 4, 2013.

In August 2015, the Company completed a second registered public debt offering and issued an additional \$300 million aggregate principal amount of unsecured senior notes due August 18, 2020, which bear interest at a fixed rate of 2.625%, payable semi-annually (the "2.625% Senior Notes"). The 2.625% Senior Notes were issued at a price equal to 99.795% of their principal amount. The proceeds from this offering were used for general corporate purposes. The Company has the option to redeem the 2.125% Senior Notes and 2.625% Senior Notes (collectively, the "Senior Notes"), in whole or in part, at any time at a price equal to accrued and unpaid interest on the redemption date, plus the greater of (i) 100% of the principal amount of the series of Senior Notes to be redeemed or (ii) the sum of the present value of Remaining Scheduled Payments, as defined in the supplemental indentures governing such Senior Notes (together with the indenture governing the Senior Notes, the "Indenture"). The Indenture contains certain covenants that restrict the Company's ability, subject to specified exceptions, to incur certain liens; enter into sale and leaseback transactions; consolidate or merge with another party; or sell, lease, or convey all or substantially all of the Company's property or assets to another party. However, the Indenture does not contain any financial covenants.

## Commercial Paper

In May 2014, the Company initiated a commercial paper borrowing program (the "Commercial Paper Program") that allowed it to issue up to \$300 million of unsecured commercial paper notes through private placement using third-party broker-dealers. In May 2015, the Company initiated an expansion of its Commercial Paper Program to allow for a total issuance of up to \$500 million of unsecured commercial paper notes.



RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Borrowings under the Commercial Paper Program are supported by the Global Credit Facility, as defined below, and may be used to support the Company's general working capital and corporate needs. Maturities of commercial paper notes vary, but cannot exceed 397 days from the date of issuance. Commercial paper notes issued under the Commercial Paper Program rank equally with the Company's other forms of unsecured indebtedness. As of December 26, 2015, the Company had \$15 million in borrowings outstanding under its Commercial Paper Program, with a weighted-average annual interest rate of 0.42% and a weighted-average remaining term of 2 days.

Revolving Credit Facilities

Global Credit Facility

In February 2015, the Company entered into an amended and restated credit facility that provides for a \$500 million senior unsecured revolving line of credit through February 11, 2020 (the "Global Credit Facility") under terms and conditions substantially similar to those previously in effect. The Global Credit Facility is also used to support the issuance of letters of credit and the maintenance of the Commercial Paper Program. Borrowings under the Global Credit Facility may be denominated in U.S. Dollars and other currencies, including Euros, Hong Kong Dollars, and Japanese Yen. The Company has the ability to expand its borrowing availability under the Global Credit Facility to \$750 million, subject to the agreement of one or more new or existing lenders under the facility to increase their commitments. There are no mandatory reductions in borrowing ability throughout the term of the Global Credit Facility. As of December 26, 2015, there were no borrowings outstanding under the Global Credit Facility and the Company was contingently liable for \$9 million of outstanding letters of credit.

The Global Credit Facility contains a number of covenants that, among other things, restrict the Company's ability, subject to specified exceptions, to incur additional debt; incur liens; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve itself; engage in businesses that are not in a related line of business; make loans, advances, or guarantees; engage in transactions with affiliates; and make certain investments. The Global Credit Facility also requires the Company to maintain a maximum ratio of Adjusted Debt to Consolidated EBITDAR (the "leverage ratio") of no greater than 3.75 as of the date of measurement for the four most recent consecutive fiscal quarters. Adjusted Debt is defined generally as consolidated debt outstanding plus eight times consolidated rent expense for the last four consecutive fiscal quarters. Consolidated EBITDAR is defined generally as consolidated net income plus (i) income tax expense, (ii) net interest expense, (iii) depreciation and amortization expense, and (iv) consolidated rent expense. As of December 26, 2015, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under the Company's Global Credit Facility.

Pan-Asia Credit Facilities

Certain of the Company's subsidiaries in Asia have uncommitted credit facilities with regional branches of JPMorgan Chase (the "Banks") in China and South Korea (the "Pan-Asia Credit Facilities"). These credit facilities are subject to annual renewal and may be used to fund general working capital and corporate needs of the Company's operations in the respective countries. Borrowings under the Pan-Asia Credit Facilities are guaranteed by the parent company and are granted at the sole discretion of the Banks, subject to availability of the Banks' funds and satisfaction of certain regulatory requirements. The Pan-Asia Credit Facilities do not contain any financial covenants. The Company's Pan-Asia Credit Facilities by country are as follows:

China Credit Facility — provides Ralph Lauren Trading (Shanghai) Co., Ltd. with a revolving line of credit of up to 100 million Chinese Renminbi (approximately \$15 million) through April 7, 2016, and may also be used to support bank guarantees. As of December 26, 2015, bank guarantees supported by this facility were not material.

- South Korea Credit Facility — provides Ralph Lauren (Korea) Ltd. with a revolving line of credit of up to 47 billion South Korean Won (approximately \$40 million) through October 31, 2016.

As of December 26, 2015, there were no borrowings outstanding under the Pan-Asia Credit Facilities.

Refer to Note 14 of the Fiscal 2015 10-K for additional disclosure of the terms and conditions of the Company's debt and credit facilities.



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 12. Fair Value Measurements

U.S. GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy for a particular asset or liability depends on the inputs used in its valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally-derived (unobservable). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 — inputs to the valuation methodology based on quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — inputs to the valuation methodology based on quoted prices for similar assets or liabilities in active markets for substantially the full term of the financial instrument; quoted prices for identical or similar instruments in markets that are not active for substantially the full term of the financial instrument; and model-derived valuations whose inputs or significant value drivers are observable.

Level 3 — inputs to the valuation methodology based on unobservable prices or valuation techniques that are significant to the fair value measurement.

The following table summarizes the Company's financial assets and liabilities that are measured and recorded at fair value on a recurring basis, excluding accrued interest components:

|                                                 | December 26,<br>2015<br>(millions) | March 28,<br>2015 |
|-------------------------------------------------|------------------------------------|-------------------|
| Financial assets recorded at fair value:        |                                    |                   |
| Corporate bonds — non-U.S.                      | \$8                                | \$8               |
| Derivative financial instruments <sup>(b)</sup> | 45                                 | 87                |
| Total                                           | \$53                               | \$95              |
| Financial liabilities recorded at fair value:   |                                    |                   |
| Derivative financial instruments <sup>(b)</sup> | \$19                               | \$19              |
| Total                                           | \$19                               | \$19              |

(a) Based on Level 1 measurements.

(b) Based on Level 2 measurements.

To the extent the Company invests in bonds, such investments are classified as available-for-sale and recorded at fair value in its consolidated balance sheets based upon quoted prices in active markets.

The Company's derivative financial instruments are recorded at fair value in its consolidated balance sheets and are valued using pricing models that are primarily based on market observable external inputs, including spot and forward currency exchange rates, benchmark interest rates, and discount rates consistent with the instrument's tenor, and consider the impact of the Company's own credit risk, if any. Changes in counterparty credit risk are also considered in the valuation of derivative financial instruments.

The Company's cash and cash equivalents, restricted cash, and time deposits are recorded at carrying value, which approximates fair value based on Level 1 measurements.

The Company's debt instruments are recorded at their carrying values in its consolidated balance sheets, which may differ from their respective fair values. The fair values of the Senior Notes are estimated based on external pricing data, including available quoted market prices, and with reference to comparable debt instruments with similar interest rates, credit ratings, and trading frequency, among other factors. The fair value of the Company's commercial paper notes is estimated using external pricing data, based on interest rates and credit ratings for similar issuances with the same remaining term as the Company's outstanding



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

borrowings. Due to their short-term nature, the fair value of commercial paper notes outstanding at December 26, 2015 approximates their carrying value.

The following table summarizes the carrying values and the estimated fair values of the Company's debt instruments:

|                                   | December 26, 2015 |                           | March 28, 2015 |                           |
|-----------------------------------|-------------------|---------------------------|----------------|---------------------------|
|                                   | Carrying Value    | Fair Value <sup>(a)</sup> | Carrying Value | Fair Value <sup>(a)</sup> |
|                                   | (millions)        |                           |                |                           |
| \$300 million 2.125% Senior Notes | \$298             | (b) \$303                 | \$298          | (b) \$304                 |
| \$300 million 2.625% Senior Notes | 298               | (b) 303                   | —              | —                         |
| Commercial paper notes            | 15                | 15                        | 234            | 234                       |

(a) Based on Level 2 measurements.

(b) See Note 11 for discussion of the carrying values of the Company's Senior Notes as of December 26, 2015 and March 28, 2015.

Unrealized gains or losses resulting from changes in the fair value of the Company's debt do not result in the realization or expenditure of cash, unless the debt is retired prior to its maturity.

## Non-financial Assets and Liabilities

The Company's non-financial assets, which primarily consist of goodwill, other intangible assets, and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at carrying value.

However, on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be fully recoverable (and at least annually for goodwill and indefinite-lived intangible assets), non-financial instruments are assessed for impairment and, if applicable, written down to and recorded at fair value, considering external market participant assumptions.

During the three-month and nine-month periods ended December 26, 2015 and December 27, 2014, the Company recorded non-cash impairment charges to reduce the carrying values of certain long-lived store and shop-within-shop assets to their fair values. The fair values of these assets were determined based on Level 3 measurements. Inputs to these fair value measurements included estimates of the amount and timing of the stores' or shop-within-shops' net future discounted cash flows based on historical experience, current trends, and market conditions.

The following table summarizes the impairment charges recorded during the three-month and nine-month periods ended December 26, 2015 and December 27, 2014:

|                                                                          | Three Months Ended |                   | Nine Months Ended |                   |
|--------------------------------------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                                                          | December 26, 2015  | December 27, 2014 | December 26, 2015 | December 27, 2014 |
|                                                                          | (millions)         |                   |                   |                   |
| Aggregate carrying value of long-lived assets written down to fair value | \$9                | \$ —              | \$24              | \$ 2              |
| Impairment charges (see Note 8)                                          | (9                 | ) —               | (24               | ) (2              |

No goodwill impairment charges were recorded during either of the nine-month periods ended December 26, 2015 or December 27, 2014. The Company performed its annual goodwill impairment assessment using a qualitative approach as of the beginning of the second quarter of Fiscal 2016. In performing the assessment, the Company identified and considered the significance of relevant key factors, events, and circumstances that affected the fair values and/or carrying amounts of its reporting units. These factors included external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as the Company's actual and planned financial performance. Additionally, the results of the Company's most recent quantitative goodwill impairment test indicated that the fair values of its reporting units significantly exceeded their respective



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

carrying values. Based on the results of its qualitative goodwill impairment assessment, the Company concluded that it is not more likely than not that the fair values of its reporting units are less than their respective carrying values, and there were no reporting units at risk of impairment.

## 13. Financial Instruments

## Derivative Financial Instruments

The Company is exposed to changes in foreign currency exchange rates, primarily relating to certain anticipated cash flows and the value of reported net assets of its international operations, as well as changes in the fair value of its fixed-rate debt attributed to changes in the benchmark interest rate. Consequently, the Company uses derivative financial instruments to manage and mitigate such risks. The Company does not enter into derivative transactions for speculative or trading purposes.

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its consolidated balance sheets as of December 26, 2015 and March 28, 2015:

| Derivative Instrument <sup>(a)</sup> | Notional Amounts  |                | Derivative Assets                 |            |                                   |            | Derivative Liabilities            |            |                                   |            |
|--------------------------------------|-------------------|----------------|-----------------------------------|------------|-----------------------------------|------------|-----------------------------------|------------|-----------------------------------|------------|
|                                      | December 26, 2015 | March 28, 2015 | December 26, 2015                 |            | March 28, 2015                    |            | December 26, 2015                 |            | March 28, 2015                    |            |
|                                      |                   |                | Balance Sheet Line <sup>(b)</sup> | Fair Value | Balance Sheet Line <sup>(b)</sup> | Fair Value | Balance Sheet Line <sup>(b)</sup> | Fair Value | Balance Sheet Line <sup>(b)</sup> | Fair Value |
|                                      | (millions)        |                |                                   |            |                                   |            |                                   |            |                                   |            |
| Designated Hedges:                   |                   |                |                                   |            |                                   |            |                                   |            |                                   |            |
| FC — Inventory purchases             | \$597             | \$587          | (e)                               | \$17       | PP                                | \$49       | AE                                | \$5        | AE                                | \$9        |
| FC — Other                           | 104               | 118            | PP                                | 1          | PP                                | 5          | AE                                | 1          | AE                                | 1          |
| IRS — 2.125% Senior Notes            | 300               | —              | —                                 | —          | —                                 | —          | ONCL                              | 1          | —                                 | —          |
| CCS — NI                             | 307               | —              | —                                 | —          | —                                 | —          | ONCL                              | 7          | —                                 | —          |
| Total Designated Hedges              | \$1,308           | \$705          |                                   | \$18       |                                   | \$54       |                                   | \$14       |                                   | \$10       |
| Undesignated Hedges:                 |                   |                |                                   |            |                                   |            |                                   |            |                                   |            |
| FC — Other                           | \$580             | \$464          | (f)                               | \$27       | (g)                               | \$33       | (h)                               | \$5        | (i)                               | \$9        |
| Total Hedges                         | \$1,888           | \$1,169        |                                   | \$45       |                                   | \$87       |                                   | \$19       |                                   | \$19       |

(a) FC = Forward foreign currency exchange contracts; IRS = Interest rate swap contract; CCS = Cross-currency swap contract; NI = Net investment hedge.

(b) PP = Prepaid expenses and other current assets; AE = Accrued expenses and other current liabilities; ONCL = Other non-current liabilities.

(c) Primarily includes designated hedges of foreign currency-denominated intercompany royalty payments and other operational exposures.

(d) Primarily includes undesignated hedges of foreign currency-denominated intercompany loans and other intercompany balances.

(e) \$16 million included within prepaid expenses and other current assets and \$1 million included within other non-current assets.

(f) \$2 million included within prepaid expenses and other current assets and \$25 million included within other non-current assets.

(g) \$11 million included within prepaid expenses and other current assets and \$22 million included within other non-current assets.

(h)

\$3 million included within accrued expenses and other current liabilities and \$2 million included within other non-current liabilities.

- (i) \$8 million included within accrued expenses and other current liabilities and \$1 million included within other non-current liabilities.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, even though they are subject to master netting arrangements. However, if the Company were to offset and record the asset and liability balances of all of its derivative instruments on a net basis in accordance with the terms of each of its master netting arrangements, spread across eight separate counterparties, the amounts presented in the consolidated balance sheets as of December 26, 2015 and March 28, 2015 would be adjusted from the current gross presentation as detailed in the following table:

| Derivative Instrument  | December 26, 2015                            |                                                                                             |            | March 28, 2015                               |                                                                                             |            |
|------------------------|----------------------------------------------|---------------------------------------------------------------------------------------------|------------|----------------------------------------------|---------------------------------------------------------------------------------------------|------------|
|                        | Gross Amounts Presented in the Balance Sheet | Gross Amounts Not Offset in the Balance Sheet that are Subject to Master Netting Agreements | Net Amount | Gross Amounts Presented in the Balance Sheet | Gross Amounts Not Offset in the Balance Sheet that are Subject to Master Netting Agreements | Net Amount |
|                        | (millions)                                   |                                                                                             |            |                                              |                                                                                             |            |
| Derivative assets      | \$45                                         | \$(11 )                                                                                     | \$34       | \$87                                         | \$(14 )                                                                                     | \$73       |
| Derivative liabilities | \$19                                         | \$(11 )                                                                                     | \$8        | \$19                                         | \$(14 )                                                                                     | \$5        |

The Company's master netting arrangements do not require cash collateral to be pledged by the Company or its counterparties. Refer to Note 3 for further discussion of the Company's master netting arrangements.

The following tables summarize the pretax impact of the effective portion of gains and losses from the Company's designated derivative instruments on its unaudited interim consolidated financial statements for the three-month and nine-month periods ended December 26, 2015 and December 27, 2014:

| Derivative Instrument                              | Gains (Losses) Recognized in OCI                  |                   |                   |                        |
|----------------------------------------------------|---------------------------------------------------|-------------------|-------------------|------------------------|
|                                                    | Three Months Ended                                |                   | Nine Months Ended |                        |
|                                                    | December 26, 2015                                 | December 27, 2014 | December 26, 2015 | December 27, 2014      |
|                                                    | (millions)                                        |                   |                   |                        |
| Designated Cash Flow Hedges:                       |                                                   |                   |                   |                        |
| FC — Inventory purchases                           | \$5                                               | \$11              | \$7               | \$33                   |
| FC — Other                                         | (1 )                                              | 12                | (3 )              | 21                     |
|                                                    | \$4                                               | \$23              | \$4               | \$54                   |
| Designated Hedge of Net Investment: <sup>(a)</sup> |                                                   |                   |                   |                        |
| CCS                                                | \$6                                               | \$—               | \$(7 )            | \$—                    |
| Total Designated Hedges                            | \$10                                              | \$23              | \$(3 )            | \$54                   |
| Derivative Instrument                              | Gains (Losses) Reclassified from AOCI to Earnings |                   |                   |                        |
|                                                    | Three Months Ended                                |                   | Nine Months Ended |                        |
|                                                    | December 26, 2015                                 | December 27, 2014 | December 26, 2015 | December 27, 2014      |
|                                                    | (millions)                                        |                   |                   |                        |
| Designated Cash Flow Hedges:                       |                                                   |                   |                   |                        |
| FC — Inventory purchases                           | \$13                                              | \$—               | \$(2 )            | Cost of goods sold     |
| FC — Other                                         | —                                                 | 11                | 16                | Foreign currency gains |
|                                                    | \$13                                              | \$11              | \$14              | (losses)               |

- (a) Amounts recognized in OCI would be recognized in earnings only upon the sale or liquidation of the hedged net investment.

As of December 26, 2015, it is expected that approximately \$20 million of net gains deferred in AOCI related to derivative instruments will be recognized in earnings over the next twelve months. No material gains or losses relating to ineffective cash flow hedges were recognized during any of the fiscal periods presented.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the pretax impact of gains and losses from the Company's undesignated derivative instruments on its unaudited interim consolidated financial statements for the three-month and nine-month periods ended December 26, 2015 and December 27, 2014:

| Derivative Instrument     | Gains (Losses) Recognized in Earnings |                   |                   |                   | Location of Gains<br>(Losses)<br>Recognized in Earnings |
|---------------------------|---------------------------------------|-------------------|-------------------|-------------------|---------------------------------------------------------|
|                           | Three Months Ended                    |                   | Nine Months Ended |                   |                                                         |
|                           | December 26, 2015                     | December 27, 2014 | December 26, 2015 | December 27, 2014 |                                                         |
|                           | (millions)                            |                   |                   |                   |                                                         |
| Undesignated Hedges:      |                                       |                   |                   |                   |                                                         |
| FC — Other                | \$2                                   | \$ 18             | \$4               | \$ 24             | Foreign currency gains<br>(losses)                      |
| Total Undesignated Hedges | \$2                                   | \$ 18             | \$4               | \$ 24             |                                                         |

## Risk Management Strategies

## Forward Foreign Currency Exchange Contracts

The Company primarily enters into forward foreign currency exchange contracts to reduce its risk related to exchange rate fluctuations on inventory transactions made in an entity's non-functional currency, intercompany royalty payments made by certain of its international operations, intercompany contributions made to fund certain marketing efforts of its international operations, and other foreign currency-denominated operational and intercompany balances and cash flows. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro, the Japanese Yen, the South Korean Won, the Australian Dollar, the Canadian Dollar, the British Pound Sterling, and the Hong Kong Dollar, the Company hedges a portion of its foreign currency exposures anticipated over a two-year period. In doing so, the Company uses forward foreign currency exchange contracts that generally have maturities of two months to two years to provide continuing coverage throughout the hedging period.

## Interest Rate Swap Contract

During the first quarter of Fiscal 2016, the Company entered into a pay-floating rate, receive-fixed rate interest rate swap contract which it designated as a hedge against changes in the fair value of its fixed-rate 2.125% Senior Notes attributed to changes in the benchmark interest rate (the "Interest Rate Swap"). The Interest Rate Swap, which matures on September 26, 2018, has a notional amount of \$300 million and swaps the fixed interest rate on the Company's 2.125% Senior Notes for a variable interest rate based on the 3-month London Interbank Offered Rate ("LIBOR") plus a fixed spread. Changes in the fair value of the Interest Rate Swap were offset by changes in the fair value of the 2.125% Senior Notes attributed to changes in the benchmark interest rate, with no resulting ineffectiveness recognized in earnings during either of the three-month or nine-month periods ended December 26, 2015.

## Cross-Currency Swap Contract

During the first quarter of Fiscal 2016, the Company entered into a €280 million notional amount pay-floating rate, receive-floating rate cross-currency swap contract which it designated as a hedge of its net investment in certain of its European subsidiaries (the "Cross-Currency Swap"). The Cross-Currency Swap, which matures on September 26, 2018, swaps the USD-based variable interest rate payment based on the 3-month LIBOR plus a fixed spread (as paid under the Interest Rate Swap described above) for a Euro-based variable interest rate payment based on the 3-month Euro Interbank Offered Rate plus a fixed spread. As a result, the Cross-Currency Swap, in conjunction with the Interest Rate Swap, economically converts the Company's \$300 million fixed-rate 2.125% Senior Notes to a €280 million floating-rate Euro-denominated liability. No material gains or losses related to the ineffective portion, or the amount excluded from effectiveness testing, were recognized in earnings during either the three-month or nine-month periods ended December 26, 2015.

See Note 3 for further discussion of the Company's accounting policies relating to its derivative financial instruments.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investments

As of December 26, 2015, the Company's short-term and non-current investments consisted of \$688 million of time deposits and \$8 million of non-U.S. corporate bonds, respectively. As of March 28, 2015, the Company's short-term and non-current investments consisted of \$644 million of time deposits and \$8 million of non-U.S. corporate bonds, respectively.

No significant realized or unrealized gains or losses on available-for-sale investments or other-than-temporary impairment charges were recorded during any of the fiscal periods presented.

See Note 3 to the Fiscal 2015 10-K for further discussion of the Company's accounting policies relating to its investments.

14. Commitments and Contingencies

Customs Audit

In September 2014, one of the Company's international subsidiaries received a pre-assessment notice from the relevant customs officials concerning the method used to determine the dutiable value of imported inventory. The notice communicated the customs officials' assertion that the Company should have applied an alternative duty method, which could result in up to approximately \$46 million in incremental duty and non-creditable value-added tax, including approximately \$11 million in interest and penalties. The Company believed that the alternative duty method claimed by the customs officials was not applicable to the Company's facts and circumstances and vigorously contested their asserted methodology.

In October 2014, the Company filed an appeal of the pre-assessment notice in accordance with the standard procedures established by the relevant customs authorities. In response to the filing of the Company's appeal of the pre-assessment notice, the review committee instructed the customs officials to reconsider their assertion of the alternative duty method and conduct a re-audit to evaluate the facts and circumstances noted in the pre-assessment notice. In December 2015, the Company received the results of the re-audit conducted and a customs audit assessment notice in the amount of approximately \$34 million, which the Company recorded within restructuring and other charges in its unaudited interim consolidated statements of income during the third quarter of Fiscal 2016 (see Note 9). Although the Company disagrees with the assessment notice, in order to secure the Company's rights, the Company must pay the assessment amount and subsequently file its appeal with the customs authorities within 90 days of receipt of notification of such assessment. The Company continues to maintain its original filing position and will vigorously contest any other proposed methodology asserted by the customs officials. Should the Company be successful in its merits, a full refund for the amounts paid plus interest will be required to be paid by the customs authorities. If the Company is unsuccessful in its current appeal with the customs authorities, it may further appeal this decision within the courts. At this time, while the Company believes that the customs officials' claims are not meritorious and that the Company should prevail, the outcome of the appeals process is subject to risk and uncertainty.

Other Matters

The Company is involved, from time to time, in litigation, other legal claims, and proceedings involving matters associated with or incidental to its business, including, among other things, matters involving credit card fraud, trademark and other intellectual property, licensing, importation and exportation of its products, taxation, unclaimed property, and employee relations. The Company believes at present that the resolution of currently pending matters will not individually or in the aggregate have a material adverse effect on its consolidated financial statements. However, the Company's assessment of any current litigation or other legal claims could potentially change in light of the discovery of facts not presently known or determinations by judges, juries, or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or claims.

In the normal course of business, the Company enters into agreements that provide general indemnifications. The Company has not made any significant indemnification payments under such agreements in the past, and does not currently anticipate incurring any material indemnification payments.



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 15. Equity

## Summary of Changes in Equity

A reconciliation of the beginning and ending amounts of equity is presented below:

|                                                                                             | Nine Months Ended    |                      |
|---------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                             | December 26,<br>2015 | December 27,<br>2014 |
|                                                                                             | (millions)           |                      |
| Balance at beginning of period                                                              | \$3,891              | \$4,034              |
| Comprehensive income                                                                        | 320                  | 442                  |
| Dividends declared                                                                          | (127)                | (118)                |
| Repurchases of common stock, including shares surrendered for tax withholdings              | (399)                | (382)                |
| Stock-based compensation                                                                    | 79                   | 60                   |
| Shares issued and tax benefits recognized pursuant to stock-based compensation arrangements | 40                   | 53                   |
| Conversion of stock-based compensation awards                                               | —                    | (14)                 |
| Balance at end of period                                                                    | \$3,804              | \$4,075              |

## Common Stock Repurchase Program

A summary of the Company's repurchases of Class A common stock under its common stock repurchase program is presented below:

|                              | Nine Months Ended    |                      |
|------------------------------|----------------------|----------------------|
|                              | December 26,<br>2015 | December 27,<br>2014 |
|                              | (millions)           |                      |
| Cost of shares repurchased   | \$380                | \$350                |
| Number of shares repurchased | 3.0                  | 2.1                  |

As of December 26, 2015, the remaining availability under the Company's Class A common stock repurchase program was approximately \$200 million. Repurchases of shares of Class A common stock are subject to overall business and market conditions.

In addition, during each of the nine-month periods ended December 26, 2015 and December 27, 2014, 0.2 million shares of Class A common stock, at a cost of \$19 million and \$32 million, respectively, were surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards under the Company's 1997 Long-Term Stock Incentive Plan, as amended (the "1997 Incentive Plan"), and its Amended and Restated 2010 Long-Term Stock Incentive Plan (the "2010 Incentive Plan").

Repurchased and surrendered shares are accounted for as treasury stock at cost and held in treasury for future use.

## Dividends

Since 2003, the Company has maintained a regular quarterly cash dividend program on its common stock. On February 3, 2015, the Company's Board of Directors approved an increase to the Company's quarterly cash dividend on its common stock from \$0.45 per share to \$0.50 per share. The third quarter Fiscal 2016 dividend of \$0.50 per share was declared on December 11, 2015, was payable to stockholders of record at the close of business on December 24, 2015, and was paid on January 8, 2016. Dividends paid amounted to \$128 million and \$119 million during the nine-month periods ended December 26, 2015 and December 27, 2014, respectively.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Conversion of Stock-based Compensation Awards

During the first quarter of Fiscal 2015, the Company converted certain fully-vested and expensed stock-based compensation awards to a cash contribution into a deferred compensation account. The Company recorded the excess of these awards' then current redemption value over their original grant-date fair value to retained earnings, with a corresponding increase to other non-current liabilities in the consolidated balance sheet.

## 16. Accumulated Other Comprehensive Income

The following table presents the components of other comprehensive income (loss), net of tax, accumulated in equity:

|                                                | Foreign<br>Currency<br>Translation<br>Gains<br>(Losses) <sup>(a)</sup><br>(millions) | Net<br>Unrealized<br>Gains<br>(Losses) on<br>Cash Flow<br>Hedges <sup>(b)</sup> | Net<br>Unrealized<br>Losses on<br>Defined<br>Benefit<br>Plans <sup>(c)</sup> | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Balance at March 29, 2014                      | \$125                                                                                | \$ (4)                                                                          | \$ (7)                                                                       | \$ 114                                                          |
| Other comprehensive income (loss), net of tax: |                                                                                      |                                                                                 |                                                                              |                                                                 |
| OCI before reclassifications                   | (174)                                                                                | 48                                                                              | 1                                                                            | (125)                                                           |
| Amounts reclassified from AOCI to earnings     | —                                                                                    | (11)                                                                            | —                                                                            | (11)                                                            |
| Other comprehensive income (loss), net of tax  | (174)                                                                                | 37                                                                              | 1                                                                            | (136)                                                           |
| Balance at December 27, 2014                   | \$ (49)                                                                              | \$ 33                                                                           | \$ (6)                                                                       | \$ (22)                                                         |
| Balance at March 28, 2015                      | \$ (193)                                                                             | \$ 43                                                                           | \$ (15)                                                                      | \$ (165)                                                        |
| Other comprehensive income (loss), net of tax: |                                                                                      |                                                                                 |                                                                              |                                                                 |
| OCI before reclassifications                   | (13)                                                                                 | 3                                                                               | 1                                                                            | (9)                                                             |
| Amounts reclassified from AOCI to earnings     | —                                                                                    | (27)                                                                            | 1                                                                            | (26)                                                            |
| Other comprehensive income (loss), net of tax  | (13)                                                                                 | (24)                                                                            | 2                                                                            | (35)                                                            |
| Balance at December 26, 2015                   | \$ (206)                                                                             | \$ 19                                                                           | \$ (13)                                                                      | \$ (200)                                                        |

OCI before reclassifications to earnings related to foreign currency translation gains (losses) includes income tax benefits of \$2 million for each of the nine-month periods ended December 26, 2015 and December 27, 2014. OCI before reclassifications to earnings for the nine months ended December 26, 2015 also includes losses of \$4 million (net of a \$3 million income tax benefit) related to the effective portion of changes in the fair value of the Cross-Currency Swap designated as a hedge of the Company's net investment in certain of its European subsidiaries (see Note 13).

OCI before reclassifications to earnings related to net unrealized gains (losses) on cash flow hedges is net of income tax provisions of \$1 million and \$6 million for the nine-month periods ended December 26, 2015 and December 27, 2014, respectively. The tax effects on amounts reclassified from AOCI to earnings are presented in a table below.

<sup>(c)</sup> Activity is presented net of taxes, which were immaterial for both periods presented.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents reclassifications from AOCI to earnings for cash flow hedges, by component:

|                                                     | Three Months Ended |                   | Nine Months Ended |                   | Location of Gains (Losses)         |
|-----------------------------------------------------|--------------------|-------------------|-------------------|-------------------|------------------------------------|
|                                                     | December 26, 2015  | December 27, 2014 | December 26, 2015 | December 27, 2014 | Reclassified from AOCI to Earnings |
|                                                     | (millions)         |                   |                   |                   |                                    |
| Gains (losses) on cash flow hedges <sup>(a)</sup> : |                    |                   |                   |                   |                                    |
| FC — Inventory purchases                            | \$ 13              | \$ —              | \$ 29             | \$ (2             | ) Cost of goods sold               |
| FC — Other                                          | —                  | 11                | —                 | 16                | ) Foreign currency gains (losses)  |
| Tax effect                                          | (2                 | ) (3              | ) (2              | ) (3              | ) Provision for income taxes       |
| Net of tax                                          | \$ 11              | \$ 8              | \$ 27             | \$ 11             |                                    |

<sup>(a)</sup> FC = Forward foreign currency exchange contracts.

## 17. Stock-based Compensation

The Company's stock-based compensation awards are currently issued under the 2010 Incentive Plan, which was approved by its stockholders on August 5, 2010. However, any prior awards granted under the 1997 Incentive Plan remain subject to the terms of that plan. Any awards that expire, are forfeited, or are surrendered to the Company in satisfaction of taxes are available for issuance under the 2010 Incentive Plan.

Stock-based compensation awards that may be issued under the 2010 Incentive Plan include, but are not limited to, (i) stock options, (ii) restricted stock, and (iii) RSUs. In recent years, the Company's annual grants of stock-based compensation awards to its employees primarily consisted of stock options and RSUs. However, in Fiscal 2016, the annual grants consisted entirely of RSUs, as the Company elected to issue service-based RSUs in lieu of stock options. Additionally, new vesting provisions for certain awards granted to retirement-eligible employees were introduced. Specifically, beginning in Fiscal 2016, for certain service-based and performance-based RSUs granted to retirement-eligible employees, or employees who will become retirement-eligible prior to the end of the awards' respective stated vesting periods, vesting continues post-retirement for all or a portion of the remaining unvested RSUs. Accordingly, the related stock-based compensation expense is recognized on an accelerated basis over a term commensurate with the period that the employee is required to provide service in order to vest in the award.

Refer to Note 20 in the Fiscal 2015 10-K for additional details surrounding the Company's stock-based compensation awards, including information related to vesting terms, service and performance conditions, and payout percentages.

## Impact on Results

A summary of total stock-based compensation expense and the related income tax benefits recognized during the three-month and nine-month periods ended December 26, 2015 and December 27, 2014 is as follows:

|                      | Three Months Ended |                      | Nine Months Ended |                      |
|----------------------|--------------------|----------------------|-------------------|----------------------|
|                      | December 26, 2015  | December 27, 2014    | December 26, 2015 | December 27, 2014    |
|                      | (millions)         |                      |                   |                      |
| Compensation expense | \$ 25              | <sup>(a)</sup> \$ 18 | \$ 79             | <sup>(a)</sup> \$ 60 |
| Income tax benefit   | \$(10              | ) \$(7               | ) \$(30           | ) \$(23              |

Includes approximately \$9 million of accelerated stock-based compensation expense recorded within restructuring <sup>(a)</sup> and other charges in the Company's unaudited interim consolidated statements of income during the three-month and nine-



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

month periods ended December 26, 2015 (see Note 9). All other stock-based compensation expense was recorded within SG&A expenses.

The Company issues its annual grants of stock-based compensation awards in the first half of each fiscal year. Due to the timing of the annual grants and other factors, including the composition of the retirement-eligible employee population, stock-based compensation expense recognized during the three-month and nine-month periods ended December 26, 2015 is not indicative of the level of compensation expense expected to be incurred for the full Fiscal 2016.

## Stock Options

A summary of stock option activity under all plans for the nine months ended December 26, 2015 is as follows:

|                                          | Number of Options<br>(thousands) |
|------------------------------------------|----------------------------------|
| Options outstanding at March 28, 2015    | 3,225                            |
| Granted                                  | —                                |
| Exercised                                | (588)                            |
| Cancelled/Forfeited                      | (150)                            |
| Options outstanding at December 26, 2015 | 2,487                            |

## Restricted Stock Awards and Service-based RSUs

The fair values of restricted stock awards granted to non-employee directors are determined based on the fair value of the Company's Class A common stock on the date of grant. The weighted-average grant date fair values of restricted stock awards granted, which entitle holders to receive cash dividends in connection with the payments of dividends on the Company's Class A common stock, were \$131.40 and \$162.36 per share during the nine-month periods ended December 26, 2015 and December 27, 2014, respectively.

The fair values of service-based RSUs granted to certain of the Company's senior executives, as well as to certain of its other employees, are based on the fair value of the Company's Class A common stock on the date of grant, adjusted to reflect the absence of dividends for any awards not entitled to accrue dividend equivalents while outstanding. The weighted-average grant date fair values of service-based RSU awards granted were \$126.06 and \$167.26 per share during the nine-month periods ended December 26, 2015 and December 27, 2014, respectively.

A summary of restricted stock and service-based RSU activity during the nine months ended December 26, 2015 is as follows:

|                                | Number of Shares<br>Restricted Stock<br>(thousands) | Service-based RSUs |
|--------------------------------|-----------------------------------------------------|--------------------|
| Nonvested at March 28, 2015    | 5                                                   | 47                 |
| Granted                        | 8                                                   | 495                |
| Vested                         | (3)                                                 | (13)               |
| Forfeited                      | (1)                                                 | (36)               |
| Nonvested at December 26, 2015 | 9                                                   | 493                |

## Performance-based RSUs

The fair values of the Company's performance-based RSUs that are not subject to a market condition in the form of a total shareholder return ("TSR") modifier are based on the fair value of the Company's Class A common stock on the date of grant,

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adjusted to reflect the absence of dividends for those securities that are not entitled to dividend equivalents. The weighted-average grant date fair values of performance-based RSUs that do not contain a TSR modifier granted during the nine-month periods ended December 26, 2015 and December 27, 2014 were \$126.71 and \$157.10 per share, respectively.

The fair values of the Company's performance-based RSUs with a TSR modifier are determined on the date of grant using a Monte Carlo simulation valuation model. This pricing model uses multiple simulations to evaluate the probability of the Company achieving various stock price levels to determine its expected TSR performance ranking. No such awards were granted during the nine months ended December 26, 2015. The weighted-average grant date fair value of performance-based RSUs with a TSR modifier granted during the nine months ended December 27, 2014 was \$169.47.

A summary of performance-based RSU activity during the nine months ended December 26, 2015 is as follows:

|                                                        | Number of Shares                                          |                                            |
|--------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|
|                                                        | Performance-based RSUs — without TSR Modifier (thousands) | Performance-based RSUs — with TSR Modifier |
| Nonvested at March 28, 2015                            | 697                                                       | 214                                        |
| Granted                                                | 339                                                       | —                                          |
| Change due to performance/market condition achievement | (8                                                        | ) (20                                      |
| Vested                                                 | (293                                                      | ) (50                                      |
| Forfeited                                              | (43                                                       | ) (2                                       |
| Nonvested at December 26, 2015                         | 692                                                       | 142                                        |

## 18. Segment Information

The Company has three reportable segments based on its business activities and organization: Wholesale, Retail, and Licensing. These segments offer a variety of products through different channels of distribution. The Wholesale segment consists of apparel, accessories, home furnishings, and related products which are sold to major department stores, specialty stores, golf and pro shops, and the Company's owned, licensed, and franchised retail stores in the U.S. and overseas. The Retail segment consists of the Company's integrated worldwide retail operations, which sell products through its retail stores, concession-based shop-within-shops, and e-commerce sites, which are purchased from the Company's licensees, suppliers, and Wholesale segment. The Licensing segment generates revenues from royalties earned on the sale of the Company's apparel, home, and other products internationally and domestically through licensing alliances. The licensing agreements grant the licensees rights to use the Company's various trademarks in connection with the manufacture and sale of designated products in specified geographical areas for specified periods.

The accounting policies of the Company's segments are consistent with those described in Notes 2 and 3 to the Company's consolidated financial statements included in the Fiscal 2015 10-K. Sales and transfers between segments are generally recorded at cost and treated as transfers of inventory. All intercompany revenues, including such sales between segments, are eliminated in consolidation and are not reviewed when evaluating segment performance. Each segment's performance is evaluated based upon operating income before restructuring charges and certain other one-time items, such as legal charges, if any. Certain corporate overhead expenses related to global functions, most notably the Company's executive office, information technology, finance and accounting, human resources, and legal departments, largely remain at corporate. Additionally, other costs that cannot be allocated to the segments based on specific usage are also maintained at corporate, including corporate advertising and marketing expenses, depreciation and amortization of corporate assets, and other general and administrative expenses resulting from corporate-level activities and projects.



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net revenues and operating income for each of the Company's reportable segments are as follows:

|                                                            | Three Months Ended   |                      | Nine Months Ended    |                      |
|------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                                            | December 26,<br>2015 | December 27,<br>2014 | December 26,<br>2015 | December 27,<br>2014 |
|                                                            | (millions)           |                      |                      |                      |
| Net revenues:                                              |                      |                      |                      |                      |
| Wholesale                                                  | \$786                | \$837                | \$2,355              | \$2,488              |
| Retail                                                     | 1,113                | 1,149                | 3,044                | 3,115                |
| Licensing                                                  | 47                   | 47                   | 135                  | 132                  |
| Total net revenues                                         | \$1,946              | \$2,033              | \$5,534              | \$5,735              |
|                                                            |                      |                      |                      |                      |
|                                                            | Three Months Ended   |                      | Nine Months Ended    |                      |
|                                                            | December 26,<br>2015 | December 27,<br>2014 | December 26,<br>2015 | December 27,<br>2014 |
|                                                            | (millions)           |                      |                      |                      |
| Operating income:                                          |                      |                      |                      |                      |
| Wholesale <sup>(a)</sup>                                   | \$183                | \$207                | \$567                | \$634                |
| Retail <sup>(b)</sup>                                      | 136                  | 194                  | 369                  | 499                  |
| Licensing                                                  | 42                   | 42                   | 120                  | 120                  |
|                                                            | 361                  | 443                  | 1,056                | 1,253                |
| Unallocated corporate expenses                             | (114)                | (127)                | (418)                | (401)                |
| Unallocated restructuring and other charges <sup>(c)</sup> | (58)                 | (1)                  | (123)                | (7)                  |
| Total operating income                                     | \$189                | \$315                | \$515                | \$845                |

During the three-month and nine-month periods ended December 26, 2015, the Company recorded non-cash impairment charges of \$1 million and \$6 million, respectively, primarily to write off certain fixed assets related to

(a) its shop-within-shops in connection with the Global Reorganization Plan. During the nine-month period ended December 27, 2014, the Company recorded non-cash impairment charges of \$1 million, primarily to write off certain fixed assets related to its European operations. See Notes 8 and 9 for additional information.

(b) During the three-month and nine-month periods ended December 26, 2015, the Company recorded non-cash impairment charges of \$8 million and \$18 million, respectively, primarily to write off certain fixed assets related to its stores and concession-based shop-within-shops in connection with the Global Reorganization Plan. During the nine-month period ended December 27, 2014, the Company recorded non-cash impairment charges of \$1 million, primarily to write off certain fixed assets related its domestic retail stores. See Notes 8 and 9 for additional information.

(c) The three-month and nine-month periods ended December 26, 2015 and December 27, 2014 included certain unallocated restructuring and other charges (see Note 9), which are detailed below:

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|                                                   | Three Months Ended   |                      | Nine Months Ended    |                      |
|---------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                                   | December 26,<br>2015 | December 27,<br>2014 | December 26,<br>2015 | December 27,<br>2014 |
|                                                   | (millions)           |                      |                      |                      |
| Unallocated restructuring and other charges:      |                      |                      |                      |                      |
| Wholesale-related                                 | \$—                  | \$—                  | \$(10                | ) \$(3               |
| Retail-related                                    | (1                   | ) (1                 | ) (20                | ) (4                 |
| Licensing-related                                 | —                    | —                    | (1                   | ) —                  |
| Corporate operations-related                      | (22                  | ) —                  | (45                  | ) —                  |
| Unallocated restructuring charges                 | (23                  | ) (1                 | ) (76                | ) (7                 |
| Other charges (see Note 9)                        | (35                  | ) —                  | (47                  | ) —                  |
| Total unallocated restructuring and other charges | \$(58                | ) \$(1               | ) \$(123             | ) \$(7               |

Depreciation and amortization expense for the Company's segments is as follows:

|                                     | Three Months Ended   |                      | Nine Months Ended    |                      |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                     | December 26,<br>2015 | December 27,<br>2014 | December 26,<br>2015 | December 27,<br>2014 |
|                                     | (millions)           |                      |                      |                      |
| Depreciation and amortization:      |                      |                      |                      |                      |
| Wholesale                           | \$15                 | \$17                 | \$45                 | \$51                 |
| Retail                              | 39                   | 42                   | 117                  | 113                  |
| Licensing                           | 1                    | —                    | 1                    | —                    |
| Unallocated corporate expenses      | 21                   | 19                   | 64                   | 55                   |
| Total depreciation and amortization | \$76                 | \$78                 | \$227                | \$219                |

Net revenues by geographic location of the reporting subsidiary are as follows:

|                               | Three Months Ended   |                      | Nine Months Ended    |                      |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|
|                               | December 26,<br>2015 | December 27,<br>2014 | December 26,<br>2015 | December 27,<br>2014 |
|                               | (millions)           |                      |                      |                      |
| Net revenues <sup>(a)</sup> : |                      |                      |                      |                      |
| The Americas <sup>(b)</sup>   | \$1,321              | \$1,390              | \$3,719              | \$3,838              |
| Europe <sup>(c)</sup>         | 399                  | 409                  | 1,163                | 1,221                |
| Asia <sup>(d)</sup>           | 226                  | 234                  | 652                  | 676                  |
| Total net revenues            | \$1,946              | \$2,033              | \$5,534              | \$5,735              |

(a) Net revenues for certain of the Company's licensed operations are included within the geographic location of the reporting subsidiary which holds the respective license.

Includes the U.S., Canada, and Latin America. Net revenues earned in the U.S. during the three-month and nine-month periods ended December 26, 2015 were \$1.251 billion and \$3.527 billion, respectively, and \$1.317 billion and \$3.647 billion during the three-month and nine-month periods ended December 27, 2014, respectively.

(c) Includes the Middle East.

(d) Includes Australia and New Zealand.



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 19. Additional Financial Information

## Cash Interest and Taxes

Cash paid for interest and income taxes is as follows:

|                            | Three Months Ended   |                      | Nine Months Ended    |                      |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
|                            | December 26,<br>2015 | December 27,<br>2014 | December 26,<br>2015 | December 27,<br>2014 |
|                            | (millions)           |                      |                      |                      |
| Cash paid for interest     | \$3                  | \$3                  | \$8                  | \$10                 |
| Cash paid for income taxes | \$26                 | \$28                 | \$151                | \$204                |

## Non-cash Transactions

Non-cash investing activities included the capitalization of fixed assets and recognition of related obligations in the net amounts of \$97 million and \$82 million for the nine-month periods ended December 26, 2015 and December 27, 2014, respectively. In addition, non-cash investing activities for the nine months ended December 27, 2014 included the capitalization of a fixed asset, for which a \$19 million non-binding advance payment was made during the Company's fiscal year ended March 29, 2014 and recorded within prepaid expenses and other current assets as of March 29, 2014.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Special Note Regarding Forward-Looking Statements

Various statements in this Form 10-Q, or incorporated by reference into this Form 10-Q, in future filings by us with the Securities and Exchange Commission (the "SEC"), in our press releases, and in oral statements made from time to time by us or on our behalf constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "expect," "project," "we believe," "is or remains optimistic," "currently envisions," and similar words or phrases and involve known and unknown risks, uncertainties, and other factors which may cause actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed in or implied by such forward-looking statements. These risks, uncertainties, and other factors include, among others:

- the loss of key personnel, including Mr. Ralph Lauren, or other changes in our executive and senior management team or to our operating structure, and our ability to effectively transfer knowledge during periods of transition;
- our ability to achieve anticipated operating enhancements and/or cost reductions from our restructuring plans, including our transition to a global brand-based operating structure;
- our ability to successfully implement our anticipated growth strategies and to capitalize on our repositioning initiatives in certain regions and merchandise categories;
- our exposure to currency exchange rate fluctuations from both a transactional and translational perspective, and risks associated with increases in the costs of raw materials, transportation, and labor;
- our ability to secure our facilities and systems and those of our third-party service providers from, among other things, cybersecurity breaches, acts of vandalism, computer viruses, or similar Internet or email events;
- our ability to continue to maintain our brand image and reputation and protect our trademarks;
- the impact of the volatile state of the global economy, stock markets, and other economic conditions on us, our customers, our suppliers, and our vendors and on our ability and their ability to access sources of liquidity;
- the impact to our business resulting from changes in consumers' ability or preferences to purchase premium lifestyle products that we offer for sale and our ability to forecast consumer demand, which could result in a build-up of inventory;
- changes in the competitive marketplace, including the introduction of new products or pricing changes by our competitors, and consolidations, liquidations, restructurings, and other ownership changes in the retail industry;
- a variety of legal, regulatory, tax, political, and economic risks, including risks related to the importation and exportation of products, tariffs, and other trade barriers which our international operations are subject to and other risks associated with our international operations, such as compliance with the Foreign Corrupt Practices Act or violations of other anti-bribery and corruption laws prohibiting improper payments, and the burdens of complying with a variety of foreign laws and regulations, including tax laws, trade and labor restrictions, and related laws that may reduce the flexibility of our business;
- the impact to our business of events of unrest and instability that are currently taking place in certain parts of the world, as well as from any terrorist action, retaliation, and the threat of further action or retaliation;
- our ability to continue to expand or grow our business internationally and the impact of related changes in our customer, channel, and geographic sales mix as a result;
- changes to our effective tax rates;
- changes in the business of, and our relationships with, major department store customers and licensing partners;
- our efforts to improve the efficiency of our distribution system and to continue to enhance and upgrade our global information technology systems and our global e-commerce platform;
- our intention to introduce new products or enter into or renew alliances and exclusive relationships;

- our ability to access sources of liquidity to provide for our cash needs, including our debt obligations, payment of dividends, capital expenditures, and potential repurchases of our Class A common stock;
- our ability to open new retail stores, concession shops, and e-commerce sites in an effort to expand our direct-to-consumer presence;
- our ability to make certain strategic acquisitions and successfully integrate the acquired businesses into our existing operations;
- the impact to our business resulting from potential costs and obligations related to the early termination of our long-term, non-cancellable leases;
- the potential impact to the trading prices of our securities if our Class A common stock share repurchase activity and/or cash dividend rate differs from investors' expectations;
- our ability to maintain our credit profile and ratings within the financial community; and
- the potential impact on our operations and on our customers resulting from natural or man-made disasters.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. A detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations is included in our Annual Report on Form 10-K for the fiscal year ended March 28, 2015 (the "Fiscal 2015 10-K"). There are no material changes to such risk factors other than as set forth in Part II, Item 1A — "Risk Factors" of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

In this Form 10-Q, references to "Ralph Lauren," "ourselves," "we," "our," "us," and the "Company" refer to Ralph Lauren Corporation and its subsidiaries, unless the context indicates otherwise. We utilize a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2016 will end on April 2, 2016 and will be a 53-week period ("Fiscal 2016"). Fiscal year 2015 ended on March 28, 2015 and was a 52-week period ("Fiscal 2015"). The third quarter of Fiscal 2016 ended on December 26, 2015 and was a 13-week period. The third quarter of Fiscal 2015 ended on December 27, 2014 and was also a 13-week period.

## INTRODUCTION

Management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as a supplement to the accompanying unaudited interim consolidated financial statements and footnotes to help provide an understanding of our results of operations, financial condition, and liquidity. MD&A is organized as follows:

**Overview.** This section provides a general description of our business, current trends and outlook, and a summary of our financial performance for the three-month and nine-month periods ended December 26, 2015. In addition, this section includes a discussion of recent developments and transactions affecting comparability that we believe are important in understanding our results of operations and financial condition, and in anticipating future trends.

**Results of operations.** This section provides an analysis of our results of operations for the three-month and nine-month periods ended December 26, 2015 compared to the three-month and nine-month periods ended December 27, 2014.

**Financial condition and liquidity.** This section provides a discussion of our financial condition and liquidity as of December 26, 2015, which includes (i) an analysis of our financial condition compared to the prior fiscal year-end; (ii) an analysis of changes in our cash flows for the nine-month period ended December 26, 2015 compared to the nine-month period ended December 27, 2014; (iii) an analysis of our liquidity, including common stock repurchases, payments of dividends, our outstanding debt and covenant compliance, and the availability under our credit facilities and our commercial paper borrowing program; and (iv) any material changes in our contractual and other obligations since March 28, 2015.

**Market risk management.** This section discusses any significant changes in our risk exposures related to foreign currency exchange rates, interest rates, and our investments since March 28, 2015.

**Critical accounting policies.** This section discusses any significant changes in our critical accounting policies since March 28, 2015. Critical accounting policies typically require significant judgment and estimation on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 3 of the Fiscal 2015 10-K.

**Recently issued accounting standards.** This section discusses the potential impact on our reported results of operations and financial condition of certain accounting standards that have been recently issued or proposed.

## OVERVIEW

### Our Business

Our Company is a global leader in the design, marketing, and distribution of premium lifestyle products, including apparel, accessories, home furnishings, and other licensed product categories. Our long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands, sales channels, and international markets. Our brand names include Ralph Lauren, Ralph Lauren Collection, Purple Label, Black Label, Polo, Polo Ralph Lauren, Double RL, RLX Ralph Lauren, Lauren Ralph Lauren, Ralph Lauren Childrenswear, Denim & Supply Ralph Lauren, Chaps, Club Monaco, and American Living, among others.

We classify our businesses into three segments: Wholesale, Retail, and Licensing. Our Wholesale business, which represented approximately 46% of our Fiscal 2015 net revenues, consists of sales made principally to major department stores and specialty stores around the world. Our Retail business, which represented approximately 52% of our Fiscal 2015 net revenues, consists of sales made directly to consumers through our integrated retail channel, which includes our retail stores, concession-based shop-within-shops, and our e-commerce operations around the world. Our Licensing business, which represented approximately 2% of our Fiscal 2015 net revenues, consists of royalty-based arrangements under which we license to unrelated third parties for specified periods the right to operate retail stores and/or to use our various trademarks in connection with the manufacture and sale of designated products, such as certain apparel, eyewear, fragrances, and home furnishings. Approximately 37% of our Fiscal 2015 net revenues were earned outside of the U.S.

Our business is typically affected by seasonal trends, with higher levels of wholesale sales in our second and fourth fiscal quarters and higher retail sales in our second and third fiscal quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school, and holiday shopping periods impacting our Retail segment. In addition, fluctuations in net sales, operating income, and cash flows in any fiscal quarter may be affected by other events impacting retail sales, such as changes in weather patterns. Accordingly, our operating results and cash flows for the three-month and nine-month periods ended December 26, 2015 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2016.

### Current Trends and Outlook

The global economy continues to be in a heightened state of uncertainty, as productivity growth in both advanced and emerging countries remains low. Certain worldwide events, including political unrest, disease epidemics, monetary policy changes, and currency and commodity price volatility, as well as China's recent economic slowdown, continue to impact consumer confidence and the global economy as a whole, as well as the world's stock markets. Additionally, unseasonably warm weather conditions have resulted in a challenging holiday selling season for many retailers. While certain geographic regions are withstanding these pressures better than others, the level of consumer travel and spending on discretionary items remains constrained, with trends likely to continue into 2016. Consequently, consumer retail traffic remains relatively weak and inconsistent, which has led to increased competition and a desire to offset traffic declines with increased levels of conversion. Certain of our operations have experienced, and have been impacted by, these dynamics, with variations across the geographic regions and businesses in which we operate. If the current economic conditions and challenging industry trends continue or worsen, the constrained level of worldwide consumer spending and modified consumption behavior may continue to have a negative effect on our sales, inventory levels, and operating margin for the remainder of Fiscal 2016 and beyond. Furthermore, our results have been, and are expected to continue to be, negatively impacted by unfavorable foreign exchange rate fluctuations. We have initiated various operating strategies to mitigate these challenges, and remain optimistic about our future growth prospects. Accordingly, we continue to invest in our longer-term growth initiatives, including our restructuring activities and transition to a global brand-based operating structure as



described within "Recent Developments" below, while continually monitoring macroeconomic risks and remaining focused on disciplined expense management. Although we continue to expect that the dilutive effects of investments that we are making in our business will create operating margin pressure in the near-term, we expect that these initiatives will create longer-term shareholder value. We will continue to monitor these risks and evaluate and adjust our operating strategies and foreign currency and cost management opportunities to mitigate the related impact on our results of operations, while remaining focused on the long-term growth of our business and protecting the value of our brand.

For a detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations, see Part I, Item 1A — "Risk Factors" in our Fiscal 2015 10-K, as well as Part II, Item 1A — "Risk Factors" of this Form 10-Q.

## Summary of Financial Performance

### Operating Results

During the three months ended December 26, 2015, we reported net revenues of \$1.946 billion, net income of \$131 million, and net income per diluted share of \$1.54, as compared to net revenues of \$2.033 billion, net income of \$215 million, and net income per diluted share of \$2.41 during the three months ended December 27, 2014. During the nine months ended December 26, 2015, we reported net revenues of \$5.534 billion, net income of \$355 million, and net income per diluted share of \$4.11, as compared to net revenues of \$5.735 billion, net income of \$578 million, and net income per diluted share of \$6.46 during the nine months ended December 27, 2014. The comparability of our operating results has been affected by charges incurred in connection with the Global Reorganization Plan (as defined within "Recent Developments" below), other charges primarily related to a pending customs audit and the settlement of certain litigation claims, and unfavorable foreign currency effects, as discussed further below.

During the three-month and nine-month periods ended December 26, 2015, net revenues declined 4.3% and 3.5%, respectively, on a reported basis. On a constant currency basis, as defined within "Transactions and Trends Affecting Comparability of Results of Operations and Financial Condition" below, net revenues declined 1.0% and increased 0.9% during the three-month and nine-month periods ended December 26, 2015, respectively. The decline in reported net revenues for the three-month and nine-month periods ended December 26, 2015 reflected lower net revenues from our wholesale and retail businesses, primarily driven by unfavorable foreign currency effects and a more competitive retail environment. Our gross profit percentage declined by 80 basis points to 56.2% during the three months ended December 26, 2015 and 80 basis points to 57.3% during the nine months ended December 26, 2015, primarily driven by unfavorable foreign currency effects and certain non-cash charges recorded in connection with the Global Reorganization Plan, partially offset by increased profitability largely attributable to favorable geographic mix, initial benefits from the Global Reorganization Plan, and lower sourcing costs. Selling, general, and administrative ("SG&A") expenses as a percentage of net revenues increased by 160 basis points to 42.8% during the three months ended December 26, 2015, and 220 basis points to 45.1% during the nine months ended December 26, 2015, primarily due to operating leverage on lower net revenues due in part to unfavorable foreign currency effects, and increased investments in our stores, facilities, and infrastructure consistent with our longer-term initiatives.

Net income declined by \$84 million during the three months ended December 26, 2015 as compared to the three months ended December 27, 2014, primarily due to a \$126 million decrease in operating income, partially offset by a \$36 million decline in our provision for income taxes. During the nine months ended December 26, 2015, net income declined by \$223 million as compared to the nine months ended December 27, 2014, primarily due to a \$330 million decrease in operating income, partially offset by a \$101 million decline in our provision for income taxes. The lower income tax provisions for the three-month and nine-month periods ended December 26, 2015 were primarily driven by lower pretax income and a decline in our reported effective tax rate of 110 basis points and 140 basis points, respectively.

Net income per diluted share declined to \$1.54 and \$4.11 during the three-month and nine-month periods ended December 26, 2015, respectively, due to lower net income, partially offset by lower weighted-average diluted shares outstanding. Our operating results during the three months ended December 26, 2015 included \$42 million of pretax charges recorded in connection with the Global Reorganization Plan, as well as \$35 million of other charges primarily related to a pending customs audit and the settlement of certain litigation claims, which together had an after-tax effect of reducing net income by \$62 million, or approximately \$0.73 per diluted share. During the nine months ended

December 26, 2015, our operating results included \$113 million of pretax charges recorded in connection with the Global Reorganization Plan, as well as \$47 million of other charges primarily related to a pending customs audit and the settlement of certain litigation claims, which together had an after-tax effect of reducing net income by \$117 million, or approximately \$1.36 per diluted share. Net income per diluted share also included unfavorable foreign currency impacts of approximately \$0.24 and \$0.94 per share during the three-month and nine-month periods ended December 26, 2015, respectively.

### Financial Condition and Liquidity

We ended the third quarter of Fiscal 2016 in a net cash and investments position (cash and cash equivalents plus short-term and non-current investments, less total debt) of \$612 million, as compared to \$620 million as of the end of Fiscal 2015. The decline in our net cash and investments position at December 26, 2015 as compared to March 28, 2015 was primarily due to our use of cash to support Class A common stock repurchases of \$399 million, including withholdings in satisfaction of tax obligations for stock-based compensation awards, to invest in our business through \$325 million in capital expenditures, and to make cash dividend payments of \$128 million, partially offset by our operating cash flows of \$852 million.

We generated \$852 million of cash from operations during the nine months ended December 26, 2015, compared to \$890 million during the nine months ended December 27, 2014. The decrease in our operating cash flows primarily related to a decline in net income before non-cash charges, partially offset by a net favorable change related to our operating assets and liabilities, including our working capital, during the nine months ended December 26, 2015 as compared to the prior fiscal year period.

Our equity declined to \$3.804 billion as of December 26, 2015 compared to \$3.891 billion as of March 28, 2015, primarily attributable to our share repurchase activity and dividends declared, partially offset by our comprehensive income and the net impact of stock-based compensation arrangements during the nine months ended December 26, 2015.

### Recent Developments

#### Global Reorganization Plan

On May 12, 2015, our Board of Directors approved a reorganization and restructuring plan comprised of the following major actions: (i) the reorganization of the Company from its current channel and regional structure to an integrated global brand-based operating structure, which will streamline our business processes to better align our cost structure with our long-term growth strategy; (ii) a strategic store and shop-within-shop performance review conducted by region and brand; (iii) a targeted corporate functional area review; and (iv) the consolidation of certain of our luxury lines (collectively, the "Global Reorganization Plan"). The Global Reorganization Plan will result in a reduction in workforce and, once the performance review is complete, the closure of certain stores and shop-within-shops. When substantially implemented during the course of Fiscal 2017, the Global Reorganization Plan is expected to result in improved operational efficiencies by reducing annual operating expenses by approximately \$110 million.

In connection with the Global Reorganization Plan, we currently expect to incur total estimated charges of approximately \$120 million to \$150 million, comprised of cash-related restructuring charges totaling approximately \$85 million to \$100 million and non-cash charges totaling approximately \$35 million to \$50 million. Our assessment of restructuring-related activities is still ongoing and incremental charges beyond this range may be incurred. Refer to Notes 8 and 9 to our accompanying unaudited interim consolidated financial statements for detailed discussions of the charges recorded in connection with the Global Reorganization Plan during the three-month and nine-month periods ended December 26, 2015.

#### Transactions and Trends Affecting Comparability of Results of Operations and Financial Condition

The comparability of our operating results for the three-month and nine-month periods ended December 26, 2015 and December 27, 2014 has been affected by certain events, including:

pretax asset impairment and restructuring and other charges recorded during the periods presented. A summary of the effect of these items on pretax income for each fiscal period is summarized below (references to "Notes" are to the notes to the accompanying unaudited interim consolidated financial statements):

|                                              | Three Months Ended   |                      | Nine Months Ended    |                      |
|----------------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                              | December 26,<br>2015 | December 27,<br>2014 | December 26,<br>2015 | December 27,<br>2014 |
|                                              | (millions)           |                      |                      |                      |
| Impairment of assets (see Note 8)            | \$ (9)               | ) \$ —               | \$ (24)              | ) \$ (2)             |
| Restructuring and other charges (see Note 9) | (58)                 | ) (1)                | (123)                | ) (7)                |



Since we are a global company, the comparability of our operating results reported in U.S. Dollars is also affected by foreign currency exchange rate fluctuations because the underlying currencies in which we transact change in value over time compared to the U.S. Dollar. These rate fluctuations can have a significant effect on our reported results. As such, in addition to financial measures prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"), our discussions often contain references to constant currency measures, which are calculated by translating the current-year and prior-year reported amounts into comparable amounts using a single foreign exchange rate for each currency. We present constant currency financial information, which is a non-U.S. GAAP financial measure, as a supplement to our reported operating results. We use constant currency information to provide a framework to assess how our businesses performed excluding the effects of foreign currency exchange rate fluctuations. We believe this information is useful to investors to facilitate comparisons of operating results and better identify trends in our businesses. The constant currency performance measures should be viewed in addition to, and not in lieu of or superior to, our operating performance measures calculated in accordance with U.S. GAAP. Reconciliations between this non-U.S. GAAP financial measure and the most directly comparable U.S. GAAP measure are included in the "Results of Operations" section where applicable.

Our "Results of Operations" discussion that follows includes the significant changes in operating results arising from these items affecting comparability. However, unusual items or transactions may occur in any period. Accordingly, investors and other financial statement users should consider the types of events and transactions that have affected operating trends.

## RESULTS OF OPERATIONS

Three Months Ended December 26, 2015 Compared to Three Months Ended December 27, 2014

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statement captions. All percentages shown in the below table and the discussion that follows have been calculated using unrounded numbers.

|                                                              | Three Months Ended                |                      |              |   |                   |    |
|--------------------------------------------------------------|-----------------------------------|----------------------|--------------|---|-------------------|----|
|                                                              | December 26,<br>2015              | December 27,<br>2014 | \$<br>Change |   | % / bps<br>Change |    |
|                                                              | (millions, except per share data) |                      |              |   |                   |    |
| Net revenues                                                 | \$1,946                           | \$2,033              | \$(87        | ) | (4.3              | %) |
| Cost of goods sold <sup>(a)</sup>                            | (852                              | ) (874               | ) 22         |   | (2.7              | %) |
| Gross profit                                                 | 1,094                             | 1,159                | (65          | ) | (5.5              | %) |
| Gross profit as % of net revenues                            | 56.2                              | % 57.0               | %            |   | (80 bps)          |    |
| Selling, general, and administrative expenses <sup>(a)</sup> | (833                              | ) (837               | ) 4          |   | (0.5              | %) |
| SG&A expenses as % of net revenues                           | 42.8                              | % 41.2               | %            |   | 160 bps           |    |
| Amortization of intangible assets                            | (5                                | ) (6                 | ) 1          |   | (7.0              | %) |
| Impairment of assets                                         | (9                                | ) —                  | (9           | ) | NM                |    |
| Restructuring and other charges                              | (58                               | ) (1                 | ) (57        | ) | NM                |    |
| Operating income                                             | 189                               | 315                  | (126         | ) | (40.1             | %) |
| Operating income as % of net revenues                        | 9.7                               | % 15.5               | %            |   | (580 bps)         |    |
| Foreign currency losses                                      | (3                                | ) (8                 | ) 5          |   | (63.5             | %) |
| Interest expense                                             | (6                                | ) (3                 | ) (3         | ) | 37.3              | %  |
| Interest and other income, net                               | 2                                 | —                    | 2            |   | NM                |    |
| Equity in losses of equity-method investees                  | (1                                | ) (3                 | ) 2          |   | (64.6             | %) |
| Income before provision for income taxes                     | 181                               | 301                  | (120         | ) | (39.8             | %) |
| Provision for income taxes                                   | (50                               | ) (86                | ) 36         |   | (42.0             | %) |
| Effective tax rate <sup>(b)</sup>                            | 27.5                              | % 28.6               | %            |   | (110 bps)         |    |
| Net income                                                   | \$131                             | \$215                | \$(84        | ) | (38.9             | %) |
| Net income per common share:                                 |                                   |                      |              |   |                   |    |
| Basic                                                        | \$1.55                            | \$2.44               | \$(0.89      | ) | (36.5             | %) |
| Diluted                                                      | \$1.54                            | \$2.41               | \$(0.87      | ) | (36.1             | %) |

<sup>(a)</sup> Includes total depreciation expense of \$71 million and \$72 million for the three-month periods ended December 26, 2015 and December 27, 2014, respectively.

<sup>(b)</sup> Effective tax rate is calculated by dividing the provision for income taxes by income before provision for income taxes.

NM Not meaningful.

Net Revenues. Net revenues decreased by \$87 million, or 4.3%, to \$1.946 billion for the three months ended December 26, 2015 from \$2.033 billion for the three months ended December 27, 2014. On a constant currency basis, net revenues decreased by \$20 million, or 1.0%.

Net revenues for our three business segments, as well as a discussion of the changes in each segment's net revenues from the comparable prior year period on both a reported and constant currency basis, are provided below:

|                    | Three Months Ended<br>December 26,<br>2015<br>(millions) | December 27,<br>2014 | \$ Change<br>As<br>Reported | Foreign<br>Exchange<br>Impact | \$ Change<br>Constant<br>Currency | % Change<br>As<br>Reported | Constant<br>Currency |
|--------------------|----------------------------------------------------------|----------------------|-----------------------------|-------------------------------|-----------------------------------|----------------------------|----------------------|
| Net Revenues:      |                                                          |                      |                             |                               |                                   |                            |                      |
| Wholesale          | \$786                                                    | \$837                | \$(51)                      | \$25                          | \$(26)                            | (6.0%)                     | (3.1%)               |
| Retail             | 1,113                                                    | 1,149                | (36)                        | 42                            | 6                                 | (3.1%)                     | 0.5%                 |
| Licensing          | 47                                                       | 47                   | —                           | —                             | —                                 | (0.4%)                     | 0.1%                 |
| Total net revenues | \$1,946                                                  | \$2,033              | \$(87)                      | \$67                          | \$(20)                            | (4.3%)                     | (1.0%)               |

Wholesale net revenues — Net revenues decreased \$51 million, or 6.0%, during the three months ended December 26, 2015 as compared to the three months ended December 27, 2014, including net unfavorable foreign currency effects of \$25 million, primarily related to the weakening of the Euro and the Canadian Dollar against the U.S. Dollar. On a constant currency basis, net revenues decreased by \$26 million, or 3.1%.

The \$51 million decline in Wholesale net revenues was driven by:

a \$52 million net decrease related to our business in the Americas, reflecting lower sales across all of our major apparel and accessories businesses, largely due to a decline in foreign tourist traffic and unseasonable weather conditions, which led to a more competitive retail environment. The net decrease related to our business in the Americas also reflected net unfavorable foreign currency effects of \$3 million due to the weakening of the Canadian Dollar against the U.S. Dollar.

This decline was partially offset by:

a \$4 million net increase related to our European business, reflecting increased sales across all of our major apparel and accessories businesses, partially offset by net unfavorable foreign currency effects of \$20 million. On a constant currency basis, net revenues related to our European business increased by \$24 million, or 15.1%.

Retail net revenues — Net revenues decreased \$36 million, or 3.1%, during the three months ended December 26, 2015 as compared to the three months ended December 27, 2014, including net unfavorable foreign currency effects of \$42 million, primarily related to the weakening of the Euro, the Japanese Yen, and the Canadian Dollar against the U.S. Dollar. On a constant currency basis, net revenues increased by \$6 million, or 0.5%.

The \$36 million decline in Retail net revenues was driven by:

a \$70 million, or 7%, net decline in consolidated comparable store sales, including net unfavorable foreign currency effects of \$28 million. Our total comparable store sales decreased by \$42 million, or 5%, on a constant currency basis, primarily driven by lower sales from certain retail stores, partially offset by an increase from our Ralph Lauren e-commerce operations. Comparable store sales related to our e-commerce operations increased by approximately 1% on a reported basis and 2% on a constant currency basis over the related prior period, and had a favorable impact on our total comparable store sales of approximately 2% to 3% on a reported basis and 1% to 2% on a constant currency basis. Our consolidated comparable store sales excluding e-commerce declined by approximately 9% to 10% on a reported basis and 6% to 7% on a constant currency basis.

Comparable store sales refer to the growth of sales in stores that are open for at least one full fiscal year. Sales for stores that are closed during a fiscal year are excluded from the calculation of comparable store sales. Sales for stores that are either relocated, enlarged (as defined by gross square footage expansion of 25% or greater), or generally closed for 30 or more consecutive days for renovation are also excluded from the calculation of comparable store sales until such stores have been in their new location or in their newly renovated state for at least one full fiscal year. Sales from our e-commerce sites are included within comparable store sales for those geographies that have been serviced by the related site for at least one full fiscal year. Consolidated comparable store sales information includes our Ralph Lauren stores (including concession-based shop-within-shops), factory stores, Club Monaco



stores and e-commerce sites, and certain Ralph Lauren e-commerce sites. We use an integrated omni-channel strategy to operate our retail business, in which our e-commerce operations are interdependent with our physical stores.

This decline was partially offset by:

a \$34 million, or 18%, net increase in non-comparable store sales, including net unfavorable foreign currency effects of \$14 million. On a constant currency basis, non-comparable store sales increased by \$48 million, or 25%, primarily driven by new global store openings and the expansion of our e-commerce operations within the past twelve months, which more than offset the impact of store closings.

Our global average store count increased by approximately 115 stores and concession shops during the three months ended December 26, 2015 compared with the three months ended December 27, 2014, due to new global store openings, primarily in Asia and Europe, partially offset by store closures. The following table details our retail store and e-commerce presence as of the periods presented:

|                                     | December 26,<br>2015 | December 27,<br>2014 |
|-------------------------------------|----------------------|----------------------|
| Stores:                             |                      |                      |
| Freestanding stores                 | 501                  | 470                  |
| Concession shops                    | 589                  | 504                  |
| Total stores                        | 1,090                | 974                  |
| E-commerce Sites:                   |                      |                      |
| North American sites <sup>(a)</sup> | 3                    | 3                    |
| European sites <sup>(b)</sup>       | 3                    | 3                    |
| Asian sites <sup>(c)</sup>          | 4                    | 4                    |
| Total e-commerce sites              | 10                   | 10                   |

<sup>(a)</sup> Includes [www.RalphLauren.com](http://www.RalphLauren.com) and [www.ClubMonaco.com](http://www.ClubMonaco.com) (servicing the U.S.) and [www.ClubMonaco.ca](http://www.ClubMonaco.ca) (servicing Canada).

<sup>(b)</sup> Includes [www.RalphLauren.co.uk](http://www.RalphLauren.co.uk) (servicing the United Kingdom), [www.RalphLauren.fr](http://www.RalphLauren.fr) (servicing Belgium, France, Greece, Italy, Luxembourg, the Netherlands, Portugal, and Spain), and [www.RalphLauren.de](http://www.RalphLauren.de) (servicing Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Latvia, Poland, Slovakia, and Sweden).

<sup>(c)</sup> Includes [www.RalphLauren.co.jp](http://www.RalphLauren.co.jp) (servicing Japan), [www.RalphLauren.co.kr](http://www.RalphLauren.co.kr) (servicing South Korea),

<sup>(c)</sup> [www.RalphLauren.asia](http://www.RalphLauren.asia) (servicing Hong Kong, Macau, Malaysia, and Singapore), and [www.RalphLauren.com.au](http://www.RalphLauren.com.au) (servicing Australia and New Zealand).

Licensing revenues — Net revenues remained flat at \$47 million during the three-month periods ended December 26, 2015 and December 27, 2014 on both a reported and constant currency basis.

Gross Profit. Gross profit decreased by \$65 million, or 5.5%, to \$1.094 billion for the three months ended December 26, 2015, from \$1.159 billion for the three months ended December 27, 2014. Gross profit as a percentage of net revenues decreased by 80 basis points to 56.2% for the three months ended December 26, 2015, from 57.0% for the three months ended December 27, 2014. This decline was primarily driven by certain non-cash charges recorded in connection with the Global Reorganization Plan and unfavorable foreign currency effects, partially offset by increased profitability largely attributable to favorable geographic mix, initial benefits from the Global Reorganization Plan, and lower sourcing costs compared to higher cost benchmarks in the prior year period.

Gross profit as a percentage of net revenues is dependent upon a variety of factors, including changes in the relative sales mix among distribution channels, changes in the mix of products sold, the timing and level of promotional activities, foreign currency exchange rates, and fluctuations in material costs. These factors, among others, may cause gross profit as a percentage of net revenues to fluctuate from period to period.



**Selling, General, and Administrative Expenses.** SG&A expenses primarily include compensation and benefits, advertising and marketing, distribution, bad debt, information technology, facilities, legal, and other costs associated with finance and administration. SG&A expenses decreased by \$4 million, or 0.5%, to \$833 million for the three months ended December 26, 2015, from \$837 million for the three months ended December 27, 2014. This decrease included a net favorable foreign currency effect of \$23 million, primarily related to the weakening of the Euro and the Japanese Yen against the U.S. Dollar. SG&A expenses as a percentage of net revenues increased to 42.8% for the three months ended December 26, 2015, from 41.2% in the three months ended December 27, 2014. The 160 basis points increase was primarily due to operating deleverage on lower net revenues due in part to unfavorable foreign currency effects, as previously discussed, and an increase in operating expenses in support of the continued investment in, and expansion of, our retail businesses (which typically carry higher operating expense margins) through new store and concession shop openings (as previously discussed); increased investments in our facilities and infrastructure; and investments in new business initiatives. These increases were partially offset by our operational discipline and savings associated with our restructuring activities.

The \$4 million net decrease in SG&A expenses was driven by:

|                                    | Three Months Ended<br>December 26, 2015<br>Compared to<br>Three Months Ended<br>December 27, 2014<br>(millions) |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| SG&A expense category:             |                                                                                                                 |
| Compensation-related expenses      | \$(13 )                                                                                                         |
| Marketing and advertising expenses | (4 )                                                                                                            |
| Consulting fees                    | 5                                                                                                               |
| Rent and occupancy expenses        | 4                                                                                                               |
| Other                              | 4                                                                                                               |
| Total change in SG&A expenses      | \$(4 )                                                                                                          |

During the remainder of Fiscal 2016, we continue to expect a certain amount of operating expense deleverage due to foreign exchange rate volatility and continued investment in our long-term strategic growth initiatives, including expansion of the Polo-branded store concept around the world, retail store expansion, department store renovations, and continued investment in our infrastructure, partially offset by anticipated cost savings related to our transition to a global brand-based operating structure (see "Recent Developments" above).

**Amortization of Intangible Assets.** Amortization of intangible assets decreased by \$1 million, or 7.0%, to \$5 million for the three months ended December 26, 2015, from \$6 million for the three months ended December 27, 2014. This decrease reflected the absence of expense in the current fiscal quarter for certain customer relationship intangible assets that were fully amortized as of the end of Fiscal 2015.

**Impairment of Assets.** During the three months ended December 26, 2015, we recorded non-cash impairment charges of \$9 million, primarily to write off certain fixed assets related to our domestic and international stores and shop-within-shops in connection with the Global Reorganization Plan.

**Restructuring and Other Charges.** During the three months ended December 26, 2015, we recorded restructuring charges of \$23 million in connection with the Global Reorganization Plan, consisting of severance and benefit costs, other cash charges, and non-cash accelerated stock-based compensation expense. In addition, during the three months ended December 26, 2015, we recorded other charges of \$35 million primarily related to a pending customs audit and the settlement of certain litigation claims. During the three months ended December 27, 2014, we recorded restructuring charges of \$1 million, primarily related to severance and benefit costs associated with our retail operations (see Note 9 to the accompanying unaudited interim consolidated financial statements).

**Operating Income.** Operating income decreased by \$126 million, or 40.1%, to \$189 million for the three months ended December 26, 2015, from \$315 million for the three months ended December 27, 2014. This decrease included \$42 million of charges recorded in connection with the Global Reorganization Plan, as well as other charges of \$35 million primarily related to a pending customs audit and the settlement of certain litigation claims, as previously

discussed. This decrease also included a net

unfavorable foreign currency effect of \$25 million, primarily related to the weakening of the Euro, the Japanese Yen, and the Canadian Dollar against the U.S. Dollar. Operating income as a percentage of net revenues decreased 580 basis points to 9.7% for the three months ended December 26, 2015, from 15.5% for the three months ended December 27, 2014. The overall decline in operating income as a percentage of net revenues was primarily driven by the decrease in our gross profit margin and the increase in SG&A expenses as a percentage of net revenues, both of which are inclusive of unfavorable foreign currency effects, as well as the increase in restructuring and other charges and impairment of assets, all as previously discussed.

Operating income and margin for each of our three reportable segments are provided below:

|                                             | Three Months Ended |           |                   |           |            |           |
|---------------------------------------------|--------------------|-----------|-------------------|-----------|------------|-----------|
|                                             | December 26, 2015  |           | December 27, 2014 |           |            |           |
|                                             | Operating          | Operating | Operating         | Operating | \$         | Margin    |
|                                             | Income             | Margin    | Income            | Margin    | Change     | Change    |
|                                             | (millions)         |           | (millions)        |           | (millions) |           |
| Segment:                                    |                    |           |                   |           |            |           |
| Wholesale                                   | \$183              | 23.3%     | \$207             | 24.7%     | \$(24 )    | (140 bps) |
| Retail                                      | 136                | 12.2%     | 194               | 16.9%     | (58 )      | (470 bps) |
| Licensing                                   | 42                 | 89.4%     | 42                | 91.1%     | —          | (170 bps) |
|                                             | 361                |           | 443               |           | (82 )      |           |
| Unallocated corporate expenses              | (114 )             |           | (127 )            |           | 13         |           |
| Unallocated restructuring and other charges | (58 )              |           | (1 )              |           | (57 )      |           |
| Total operating income                      | \$189              | 9.7%      | \$315             | 15.5%     | \$(126 )   | (580 bps) |

Wholesale operating margin declined by 140 basis points, primarily due to the unfavorable impact of 70 basis points related to decreased profitability in our core wholesale businesses, largely driven by an increase in SG&A expenses as a percentage of net revenues in North America and the impact of a more competitive domestic retail environment, partially offset by improved performance of certain of our international operations. The remaining decline in Wholesale operating margin was primarily attributable to net unfavorable foreign currency effects of 50 basis points, as well as a 20 basis point decline attributable to non-cash charges recorded in connection with the Global Reorganization Plan.

Retail operating margin declined by 470 basis points, primarily attributable to the unfavorable impact of 210 basis points related to decreased profitability in our core retail businesses, largely driven by an increase in SG&A expenses as a percentage of net revenues and the impact of a more competitive domestic retail environment, as well as a 170 basis point decline attributable to non-cash charges recorded in connection with the Global Reorganization Plan. The remaining 90 basis point decline in Retail operating margin was attributable to net unfavorable foreign currency effects.

Licensing operating margin declined by 170 basis points, primarily due to an increase in SG&A expenses as a percentage of net revenues.

Unallocated corporate expenses decreased by \$13 million, primarily due to lower marketing and advertising expenses of \$3 million, lower compensation-related costs of \$2 million, and a decline in other operating expenses of \$11 million due in part to operational discipline. These declines were partially offset by higher consulting fees of \$3 million.

Unallocated restructuring and other charges increased by \$57 million to \$58 million during the three months ended December 26, 2015, from \$1 million during the three months ended December 27, 2014, as previously discussed above and in Note 9 to the accompanying unaudited interim consolidated financial statements.

Non-operating Expense, net. Non-operating expense, net is comprised of foreign currency gains (losses), interest expense, interest and other income, net, and equity in losses from our equity-method investees. Non-operating expense, net decreased by \$6 million to \$8 million for the three months ended December 26, 2015, compared to \$14 million for the three months ended December 27, 2014. The decrease in non-operating expense, net was largely driven by lower foreign currency losses, primarily related to the revaluation and settlement of foreign currency-denominated intercompany receivables and payables and net gains recognized on forward foreign currency exchange contracts.

Foreign currency gains (losses) do not result from the translation of the operating results of our foreign subsidiaries to

U.S. Dollars.

**Provision for Income Taxes.** The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes decreased by \$36 million, or 42.0%, to \$50 million for the three months ended December 26, 2015, from \$86 million for the three months ended December 27, 2014. The decrease in the provision for income taxes was primarily due to the decline in pretax income, coupled with a decrease in our reported effective tax rate of 110 basis points, to 27.5% for the three months ended December 26, 2015, from 28.6% for the three months ended December 27, 2014. The lower effective tax rate for the three months ended December 26, 2015 was primarily due to income tax benefits associated with provision to tax return adjustments, partially offset by the absence of tax benefits derived from the legal entity restructuring of certain of our foreign operations during Fiscal 2015. The effective tax rate differs from the statutory tax rate due to the effect of state and local taxes, tax rates in foreign jurisdictions, and certain nondeductible expenses. Our effective tax rate will change from period to period based on various factors including, but not limited to, the geographic mix of earnings, the timing and amount of foreign dividends, enacted tax legislation, state and local taxes, tax audit findings and settlements, and the interaction of various global tax strategies.

**Net Income.** Net income declined by \$84 million, or 38.9%, to \$131 million for the three months ended December 26, 2015, from \$215 million for the three months ended December 27, 2014. The decline in net income was primarily due to the \$126 million decrease in operating income, partially offset by the \$36 million reduction in our provision for income taxes, as previously discussed. Our operating results during the three months ended December 26, 2015 were also negatively impacted by \$42 million of pretax charges recorded in connection with the Global Reorganization Plan, as well as \$35 million of other charges primarily related to a pending customs audit and the settlement of certain litigation claims, which together had an after-tax effect of reducing net income by \$62 million. Net income also included unfavorable foreign currency impacts of \$20 million during the three months ended December 26, 2015.

**Net Income per Diluted Share.** Net income per diluted share declined by \$0.87, or 36.1%, to \$1.54 per share for the three months ended December 26, 2015, from \$2.41 per share for the three months ended December 27, 2014. The decline was due to lower net income, as previously discussed, partially offset by lower weighted-average diluted shares outstanding during the three months ended December 26, 2015 driven by our share repurchases over the last twelve months. Net income per diluted share for the three months ended December 26, 2015 was negatively impacted by approximately \$0.73 per share as a result of charges recorded in connection with the Global Reorganization Plan and other charges primarily related to a pending customs audit and the settlement of certain litigation claims, all as previously discussed. Net income per diluted share also included unfavorable foreign currency impacts of approximately \$0.24 per share during the three months ended December 26, 2015.

# Nine Months Ended December 26, 2015 Compared to Nine Months Ended December 27, 2014

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statement captions. All percentages shown in the below table and the discussion that follows have been calculated using unrounded numbers.

|                                                              | Nine Months Ended                 |                   |          |           |     |
|--------------------------------------------------------------|-----------------------------------|-------------------|----------|-----------|-----|
|                                                              | December 26, 2015                 | December 27, 2014 | \$       | % / bps   |     |
|                                                              |                                   |                   | Change   | Change    |     |
|                                                              | (millions, except per share data) |                   |          |           |     |
| Net revenues                                                 | \$5,534                           | \$5,735           | \$(201)  | (3.5)     | (%) |
| Cost of goods sold <sup>(a)</sup>                            | (2,361)                           | (2,401)           | 40       | (1.7)     | (%) |
| Gross profit                                                 | 3,173                             | 3,334             | (161)    | (4.8)     | (%) |
| Gross profit as % of net revenues                            | 57.3                              | 58.1              |          | (80 bps)  |     |
| Selling, general, and administrative expenses <sup>(a)</sup> | (2,494)                           | (2,461)           | (33)     | 1.3       | (%) |
| SG&A expenses as % of net revenues                           | 45.1                              | 42.9              |          | 220 bps   |     |
| Amortization of intangible assets                            | (17)                              | (19)              | 2        | (8.4)     | (%) |
| Impairment of assets                                         | (24)                              | (2)               | (22)     | NM        |     |
| Restructuring and other charges                              | (123)                             | (7)               | (116)    | NM        |     |
| Operating income                                             | 515                               | 845               | (330)    | (39.1)    | (%) |
| Operating income as % of net revenues                        | 9.3                               | 14.7              |          | (540 bps) |     |
| Foreign currency losses                                      | (9)                               | (14)              | 5        | (41.5)    | (%) |
| Interest expense                                             | (14)                              | (12)              | (2)      | 8.3       | (%) |
| Interest and other income, net                               | 5                                 | 4                 | 1        | 6.9       | (%) |
| Equity in losses of equity-method investees                  | (7)                               | (9)               | 2        | (17.6)    | (%) |
| Income before provision for income taxes                     | 490                               | 814               | (324)    | (39.8)    | (%) |
| Provision for income taxes                                   | (135)                             | (236)             | 101      | (42.7)    | (%) |
| Effective tax rate <sup>(b)</sup>                            | 27.6                              | 29.0              |          | (140 bps) |     |
| Net income                                                   | \$355                             | \$578             | \$(223)  | (38.5)    | (%) |
| Net income per common share:                                 |                                   |                   |          |           |     |
| Basic                                                        | \$4.15                            | \$6.53            | \$(2.38) | (36.4)    | (%) |
| Diluted                                                      | \$4.11                            | \$6.46            | \$(2.35) | (36.4)    | (%) |

<sup>(a)</sup> Includes total depreciation expense of \$210 million and \$200 million for the nine-month periods ended December 26, 2015 and December 27, 2014, respectively.

<sup>(b)</sup> Effective tax rate is calculated by dividing the provision for income taxes by income before provision for income taxes.

NM Not meaningful.

Net Revenues. Net revenues decreased by \$201 million, or 3.5%, to \$5.534 billion for the nine months ended December 26, 2015 from \$5.735 billion for the nine months ended December 27, 2014. On a constant currency basis, net revenues increased by \$52 million, or 0.9%.

Net revenues for our three business segments, as well as a discussion of the changes in each segment's net revenues from the comparable prior year period on both a reported and constant currency basis, are provided below:

|                    | Nine Months Ended |                   | \$ Change   |             | Foreign         | \$ Change         |             | % Change          |         |
|--------------------|-------------------|-------------------|-------------|-------------|-----------------|-------------------|-------------|-------------------|---------|
|                    | December 26, 2015 | December 27, 2014 | As Reported | As Reported | Exchange Impact | Constant Currency | As Reported | Constant Currency |         |
|                    | (millions)        |                   |             |             |                 |                   |             |                   |         |
| Net Revenues:      |                   |                   |             |             |                 |                   |             |                   |         |
| Wholesale          | \$2,355           | \$2,488           | \$(133)     | )           | \$92            | \$(41)            | )           | (5.4 %)           | (1.7 %) |
| Retail             | 3,044             | 3,115             | (71)        | )           | 159             | 88                |             | (2.3 %)           | 2.8 %   |
| Licensing          | 135               | 132               | 3           |             | 2               | 5                 |             | 2.4 %             | 4.2 %   |
| Total net revenues | \$5,534           | \$5,735           | \$(201)     | )           | \$253           | \$52              |             | (3.5 %)           | 0.9 %   |

Wholesale net revenues — Net revenues decreased \$133 million, or 5.4%, during the nine months ended December 26, 2015 as compared to the nine months ended December 27, 2014, including net unfavorable foreign currency effects of \$92 million, primarily related to the weakening of the Euro and the Canadian Dollar against the U.S. Dollar. On a constant currency basis, net revenues declined by \$41 million, or 1.7%.

The \$133 million decline in Wholesale net revenues was driven by:

a \$118 million net decrease related to our business in the Americas, reflecting lower sales across all of our major apparel and accessories businesses, largely due to a decline in foreign tourist traffic and unseasonable weather conditions, which led to a more competitive retail environment, partially offset by increased revenues from our home business. The net decrease related to our business in the Americas also reflected net unfavorable foreign currency effects of \$11 million due to the weakening of the Canadian Dollar against the U.S. Dollar; and  
a \$13 million net decrease related to our European business, reflecting net unfavorable foreign currency effects of \$76 million, partially offset by increased sales across all of our major apparel and accessories businesses. On a constant currency basis, net revenues related to our European business increased by \$63 million, or 12.7%.

Retail net revenues — Net revenues decreased \$71 million, or 2.3%, during the nine months ended December 26, 2015 as compared to the nine months ended December 27, 2014, including net unfavorable foreign currency effects of \$159 million, primarily related to the weakening of the Euro, the Japanese Yen, the Canadian Dollar, and the Korean Won against the U.S. Dollar. On a constant currency basis, net revenues increased by \$88 million, or 2.8%.

The \$71 million decline in Retail net revenues was driven by:

a \$183 million, or 7%, net decline in consolidated comparable store sales, including net unfavorable foreign currency effects of \$117 million. Our total comparable store sales decreased by \$66 million, or 3%, on a constant currency basis, primarily driven by lower sales from certain retail stores, partially offset by an increase from our Ralph Lauren e-commerce operations. Comparable store sales related to our e-commerce operations increased by approximately 2% on a reported basis and 4% on a constant currency basis over the related prior period, and had a favorable impact on our total comparable store sales of approximately 1% to 2% on both a reported and constant currency basis. Our consolidated comparable store sales excluding e-commerce declined by approximately 8% to 9% on a reported basis and 4% to 5% on a constant currency basis.

This decline was partially offset by:

a \$112 million, or 22%, net increase in non-comparable store sales, including net unfavorable foreign currency effects of \$42 million. On a constant currency basis, non-comparable store sales increased by \$154 million, or 30%, primarily driven by new global store openings and the expansion of our e-commerce operations within the past twelve months, which more than offset the impact of store closings.

Our global average store count increased by approximately 96 stores and concession shops during the nine months ended December 26, 2015 compared with the nine months ended December 27, 2014, due to new global store openings, primarily in Asia and Europe, partially offset by store closures.

Licensing revenues — Net revenues increased \$3 million, or 2.4%, during the nine months ended December 26, 2015 as compared to the nine months ended December 27, 2014, including net unfavorable foreign currency effects of \$2 million, primarily related to the weakening of the Euro and the Japanese Yen against the U.S. Dollar. On a constant currency basis, net revenues increased by \$5 million, or 4.2%.

Gross Profit. Gross profit decreased by \$161 million, or 4.8%, to \$3.173 billion for the nine months ended December 26, 2015, from \$3.334 billion for the nine months ended December 27, 2014. Gross profit as a percentage of net revenues declined by 80 basis points to 57.3% for the nine months ended December 26, 2015, from 58.1% for the nine months ended December 27, 2014. This decline was primarily driven by unfavorable foreign currency effects and certain non-cash charges recorded in connection with the Global Reorganization Plan, partially offset by increased profitability largely attributable to favorable geographic mix, initial benefits from the Global Reorganization Plan, and lower sourcing costs compared to higher cost benchmarks in the prior year period.

Selling, General, and Administrative Expenses. SG&A expenses increased by \$33 million, or 1.3%, to \$2.494 billion for the nine months ended December 26, 2015, from \$2.461 billion for the nine months ended December 27, 2014. This increase included a net favorable foreign currency effect of \$104 million, primarily related to the weakening of the Euro, the Japanese Yen, and the Korean Won against the U.S. Dollar. SG&A expenses as a percentage of net revenues increased to 45.1% for the nine months ended December 26, 2015, from 42.9% in the nine months ended December 27, 2014. The 220 basis point increase was primarily due to operating deleverage on lower net revenues due in part to unfavorable foreign currency effects, as previously discussed, and an increase in operating expenses in support of the continued investment in, and expansion of, our retail businesses (which typically carry higher operating expense margins) through new store and concession shop openings (as previously discussed); increased investments in our facilities and infrastructure; and investments in new business initiatives. These increases were partially offset by our operational discipline and savings associated with our restructuring activities.

The \$33 million net increase in SG&A expenses was driven by:

|                                    | Nine Months Ended<br>December 26, 2015<br>Compared to<br>Nine Months Ended<br>December 27, 2014<br>(millions) |
|------------------------------------|---------------------------------------------------------------------------------------------------------------|
| SG&A expense category:             |                                                                                                               |
| Consulting fees                    | \$22                                                                                                          |
| Depreciation expense               | 11                                                                                                            |
| Rent and occupancy expenses        | 8                                                                                                             |
| Marketing and advertising expenses | (8)                                                                                                           |
| Total change in SG&A expenses      | \$33                                                                                                          |

Amortization of Intangible Assets. Amortization of intangible assets decreased by \$2 million, or 8.4%, to \$17 million for the nine months ended December 26, 2015, from \$19 million for the nine months ended December 27, 2014. This decrease reflected the absence of expense in the current fiscal year-to-date period for certain customer relationship intangible assets that were fully amortized as of the end of Fiscal 2015.

Impairment of Assets. During the nine months ended December 26, 2015, we recorded non-cash impairment charges of \$24 million, primarily to write off certain fixed assets related to our domestic and international stores and shop-within-shops in connection with the Global Reorganization Plan. During the nine months ended December 27, 2014, we recorded non-cash impairment charges of \$2 million, primarily to write off certain fixed assets related to our European operations and domestic retail stores.

Restructuring and Other Charges. During the nine months ended December 26, 2015, we recorded restructuring charges of \$76 million in connection with the Global Reorganization Plan, consisting of severance and benefit costs, lease termination and store closure costs, other cash charges, and non-cash accelerated stock-based compensation expense. In addition, during the nine months ended December 26, 2015, we recorded other charges of \$47 million primarily related to a pending customs audit and the settlement of certain litigation claims. During the nine months ended December 27, 2014, we recorded restructuring charges of \$7 million, primarily related to severance and benefit

costs associated with our retail and wholesale operations (see Note 9 to the accompanying unaudited interim consolidated financial statements).

**Operating Income.** Operating income decreased by \$330 million, or 39.1%, to \$515 million for the nine months ended December 26, 2015, from \$845 million for the nine months ended December 27, 2014. This decrease included \$113 million of charges recorded in connection with the Global Reorganization Plan, as well as other charges of \$47 million primarily related to a pending customs audit and the settlement of certain litigation claims, as previously discussed. This decrease also included a net unfavorable foreign currency effect of \$98 million, primarily related to the weakening of the Euro, the Japanese Yen, and the Canadian Dollar against the U.S. Dollar. Operating income as a percentage of net revenues declined 540 basis points to 9.3% for the nine months ended December 26, 2015, from 14.7% for the nine months ended December 27, 2014. The overall decline in operating income as a percentage of net revenues was primarily driven by the decrease in our gross profit margin and the increase in SG&A expenses as a percentage of net revenues, both of which are inclusive of unfavorable foreign currency effects, as well as the increase in restructuring and other charges and impairment of assets, all as previously discussed.

Operating income and margin for each of our three reportable segments are provided below:

|                                             | Nine Months Ended |                   |                   |                   | \$         | Margin     |
|---------------------------------------------|-------------------|-------------------|-------------------|-------------------|------------|------------|
|                                             | December 26, 2015 | December 27, 2014 | December 26, 2015 | December 27, 2014 |            |            |
|                                             | Operating         | Operating         | Operating         | Operating         | Change     | Change     |
|                                             | Income            | Margin            | Income            | Margin            | (millions) | (millions) |
| Segment:                                    | (millions)        |                   | (millions)        |                   |            |            |
| Wholesale                                   | \$567             | 24.1%             | \$634             | 25.5%             | \$(67)     | (140 bps)  |
| Retail                                      | 369               | 12.1%             | 499               | 16.0%             | (130)      | (390 bps)  |
| Licensing                                   | 120               | 89.1%             | 120               | 91.3%             | —          | (220 bps)  |
|                                             | 1,056             |                   | 1,253             |                   | (197)      |            |
| Unallocated corporate expenses              | (418)             | )                 | (401)             | )                 | (17)       | )          |
| Unallocated restructuring and other charges | (123)             | )                 | (7)               | )                 | (116)      | )          |
| Total operating income                      | \$515             | 9.3%              | \$845             | 14.7%             | \$(330)    | (540 bps)  |

Wholesale operating margin declined by 140 basis points, primarily due to the unfavorable impact of 60 basis points related to decreased profitability in our core wholesale businesses, largely driven by an increase in SG&A expenses as a percentage of net revenues in North America and the impact of a more competitive domestic retail environment, partially offset by improved performance of certain of our international operations. The remaining decline in Wholesale operating margin was primarily attributable to net unfavorable foreign currency effects of 60 basis points, as well as a 20 basis point decline attributable to non-cash charges recorded in connection with the Global Reorganization Plan.

Retail operating margin declined by 390 basis points, primarily attributable to the unfavorable impact of 160 basis points related to decreased profitability in our core retail businesses, largely driven by an increase in SG&A expenses as a percentage of net revenues, as well as a 120 basis point decline attributable to net unfavorable foreign currency effects. The remaining 110 basis point decline in Retail operating margin was attributable to non-cash charges recorded in connection with the Global Reorganization Plan.

Licensing operating margin declined by 220 basis points, primarily due to an increase in SG&A expenses as a percentage of net revenues.

Unallocated corporate expenses increased by \$17 million, primarily due to higher compensation-related costs of \$27 million, largely related to the introduction of new vesting provisions for certain stock-based compensation awards granted to retirement-eligible employees beginning in Fiscal 2016 (see Note 17 to the accompanying unaudited interim consolidated financial statements), and higher consulting fees of \$19 million. These increases were partially offset by a decline in other operating expenses of \$29 million due in part to operational discipline.

Unallocated restructuring and other charges increased by \$116 million to \$123 million during the nine months ended December 26, 2015, from \$7 million during the nine months ended December 27, 2014, as previously discussed above and in Note 9 to the accompanying unaudited interim consolidated financial statements.



Non-operating Expense, net. Non-operating expense, net decreased by \$6 million to \$25 million for the nine months ended December 26, 2015, from \$31 million for the nine months ended December 27, 2014. The decrease in non-operating expense, net was largely driven by lower foreign currency losses, primarily related to the revaluation and settlement of foreign currency-denominated intercompany receivables and payables and net gains recognized on forward foreign currency exchange contracts.

Provision for Income Taxes. The provision for income taxes decreased by \$101 million, or 42.7%, to \$135 million for the nine months ended December 26, 2015, from \$236 million for the nine months ended December 27, 2014. The decrease in the provision for income taxes was primarily due to the decline in pretax income, coupled with a decrease in our reported effective tax rate of 140 basis points, to 27.6% for the nine months ended December 26, 2015, from 29.0% for the nine months ended December 27, 2014. The lower effective tax rate for the nine months ended December 26, 2015 was primarily due to income tax benefits resulting from the expiration of statutes of limitations, a change to the assessment period associated with certain tax liabilities, and provision to tax return adjustments, partially offset by the absence of tax benefits derived from the legal entity restructuring of certain of our foreign operations during Fiscal 2015.

Net Income. Net income declined by \$223 million, or 38.5%, to \$355 million for the nine months ended December 26, 2015, from \$578 million for the nine months ended December 27, 2014. The decline in net income was primarily due to the \$330 million decrease in operating income, partially offset by the \$101 million reduction in our provision for income taxes, as previously discussed. Our operating results during the nine months ended December 26, 2015 were also negatively impacted by \$113 million of pretax charges recorded in connection with the Global Reorganization Plan, as well as \$47 million of other charges primarily related to a pending customs audit and the settlement of certain litigation claims, which together had an after-tax effect of reducing net income by \$117 million. Net income also included unfavorable foreign currency impacts of \$81 million during the nine months ended December 26, 2015.

Net Income per Diluted Share. Net income per diluted share declined by \$2.35, or 36.4%, to \$4.11 per share for the nine months ended December 26, 2015, from \$6.46 per share for the nine months ended December 27, 2014. The decline was due to lower net income, as previously discussed, partially offset by lower weighted-average diluted shares outstanding during the nine months ended December 26, 2015 driven by our share repurchases over the last twelve months. Net income per diluted share for the nine months ended December 26, 2015 was negatively impacted by approximately \$1.36 per share as a result of charges recorded in connection with the Global Reorganization Plan and other charges primarily related to a pending customs audit and the settlement of certain litigation claims, all as previously discussed. Net income per diluted share also included unfavorable foreign currency impacts of approximately \$0.94 per share during the nine months ended December 26, 2015.

## FINANCIAL CONDITION AND LIQUIDITY

### Financial Condition

The following table presents our financial condition as of December 26, 2015 and March 28, 2015:

|                                         | December 26,<br>2015<br>(millions) | March 28,<br>2015 | \$<br>Change |
|-----------------------------------------|------------------------------------|-------------------|--------------|
| Cash and cash equivalents               | \$527                              | \$500             | \$27         |
| Short-term investments                  | 688                                | 644               | 44           |
| Non-current investments <sup>(a)</sup>  | 8                                  | 8                 | —            |
| Short-term debt                         | (15)                               | (234)             | 219          |
| Long-term debt <sup>(b)</sup>           | (596)                              | (298)             | (298)        |
| Net cash and investments <sup>(c)</sup> | \$612                              | \$620             | \$(8)        |
| Equity                                  | \$3,804                            | \$3,891           | \$(87)       |

<sup>(a)</sup> Recorded within other non-current assets in our consolidated balance sheets.

<sup>(b)</sup> See Note 11 to the accompanying unaudited interim consolidated financial statements for discussion of the carrying value of our long-term debt as of December 26, 2015 and March 28, 2015.



(c) "Net cash and investments" is defined as cash and cash equivalents, plus short-term and non-current investments, less total debt.

The decline in our net cash and investments position at December 26, 2015 as compared to March 28, 2015 was primarily due to our use of cash to support Class A common stock repurchases of \$399 million, including withholdings in satisfaction of tax obligations for stock-based compensation awards, to invest in our business through \$325 million in capital expenditures, and to make cash dividend payments of \$128 million, partially offset by our operating cash flows of \$852 million.

The decline in equity was primarily attributable to our share repurchase activity and dividends declared, partially offset by our comprehensive income and the net impact of stock-based compensation arrangements during the nine months ended December 26, 2015.

#### Cash Flows

The following table details our cash flows for the nine-month periods ended December 26, 2015 and December 27, 2014:

|                                                              | Nine Months Ended                  |                      |              |
|--------------------------------------------------------------|------------------------------------|----------------------|--------------|
|                                                              | December 26,<br>2015<br>(millions) | December 27,<br>2014 | \$<br>Change |
| Net cash provided by operating activities                    | \$852                              | \$890                | \$(38)       |
| Net cash used in investing activities                        | (391)                              | (525)                | ) 134        |
| Net cash used in financing activities                        | (428)                              | (352)                | ) (76)       |
| Effect of exchange rate changes on cash and cash equivalents | (6)                                | (47)                 | ) 41         |
| Net increase (decrease) in cash and cash equivalents         | \$27                               | \$(34)               | ) \$61       |

**Net Cash Provided by Operating Activities.** Net cash provided by operating activities decreased to \$852 million during the nine months ended December 26, 2015, as compared to \$890 million during the nine months ended December 27, 2014. The \$38 million net decrease in cash provided by operating activities was primarily due to a decline in net income before non-cash charges, partially offset by a net favorable change related to our operating assets and liabilities, including our working capital. The net increase related to our working capital was primarily driven by favorable changes in our (i) accounts payable and accrued liabilities and (ii) prepaid expenses and other current asset balances, both primarily related to the timing of payments. These increases to our working capital were partially offset by an unfavorable change in income tax receivables and payables, primarily due to the timing of tax payments.

**Net Cash Used in Investing Activities.** Net cash used in investing activities was \$391 million during the nine months ended December 26, 2015, as compared to \$525 million during the nine months ended December 27, 2014. The \$134 million net decrease in cash used in investing activities was primarily driven by a \$170 million decline in cash used to purchase investments, less proceeds from sales and maturities of investments. During the nine months ended December 26, 2015, we made net investment purchases of \$46 million, as compared to net investment purchases of \$216 million during the nine months ended December 27, 2014.

The above decrease in cash used in investing activities was partially offset by a \$25 million increase in capital expenditures. During the nine months ended December 26, 2015, we spent \$325 million on capital expenditures, as compared to \$300 million during the nine months ended December 27, 2014. Our capital expenditures during the nine months ended December 26, 2015 primarily related to our global retail store expansion, department store renovations, enhancements to our global information technology systems, and further development of our infrastructure.

**Net Cash Used in Financing Activities.** Net cash used in financing activities was \$428 million during the nine months ended December 26, 2015, as compared to \$352 million during the nine months ended December 27, 2014. The \$76 million net increase in cash used in financing activities was primarily driven by:

a \$33 million decrease in proceeds from debt issuances, less cash used to repay debt. During the nine months ended December 26, 2015, we received \$299 million in proceeds from our issuance of the 2.625% Senior Notes (as defined within "Senior Notes" below) in August 2015, which was partially offset by net repayments of \$219 million related



to our Commercial Paper Program (as defined within "Commercial Paper" below). On a comparative basis, during the nine months ended December 27, 2014, we received net proceeds of \$113 million related to our Commercial Paper Program;

a \$17 million increase in cash used to repurchase shares of our Class A common stock. During the nine months ended December 26, 2015, we used \$380 million to repurchase shares of Class A common stock pursuant to our common stock repurchase program, and an additional \$19 million in shares of Class A common stock were surrendered or withheld in satisfaction of withholding taxes in connection with the vesting of awards under our 1997 Long-Term Stock Incentive Plan, as amended (the "1997 Incentive Plan") and our Amended and Restated 2010 Long-Term Stock Incentive Plan (the "2010 Incentive Plan"). On a comparative basis, during the nine months ended December 27, 2014, we used \$350 million to repurchase shares of Class A common stock pursuant to our common stock repurchase program, and an additional \$32 million in shares of Class A common stock were surrendered or withheld for taxes; and

a \$9 million increase in cash used to pay dividends, primarily due to an increase to the quarterly cash dividend on our common stock from \$0.45 per share to \$0.50 per share. During the nine months ended December 26, 2015, we used \$128 million to pay dividends, as compared to \$119 million during the nine months ended December 27, 2014.

#### Liquidity

Our primary sources of liquidity are the cash flows generated from our operations, availability under our Global Credit Facility and Pan-Asia Credit Facilities (both as defined below), our Commercial Paper Program (as defined below), our available cash and cash equivalents and short-term investments, and other available financing options. As of December 26, 2015, we had \$1.215 billion in cash, cash equivalents, and short-term investments, of which \$1.171 billion were held by our subsidiaries domiciled outside the U.S. We are not dependent on foreign cash to fund our domestic operations and do not expect to repatriate these balances to meet our domestic cash needs. However, if our plans change and we choose to repatriate any funds to the U.S. in the future, we would be subject to applicable U.S. and foreign taxes.

Our sources of liquidity are used to fund our ongoing cash requirements, including working capital requirements, global retail store and e-commerce development and expansion, construction and renovation of shop-within-shops, investment in infrastructure, including technology, acquisitions, joint ventures, payment of dividends, debt repayments, common stock repurchases, settlement of contingent liabilities (including uncertain tax positions), and other corporate activities. We believe that our existing sources of cash, the availability under our credit facilities, and our ability to access capital markets will be sufficient to support our operating, capital, and debt service requirements for the foreseeable future, the ongoing development of our businesses, and our plans for further business expansion. As discussed in the "Debt and Covenant Compliance" section below, we had \$15 million in commercial paper notes outstanding as of December 26, 2015. We had no borrowings outstanding under our Global Credit Facility or Pan-Asia Credit Facilities as of December 26, 2015.

We believe that our Global Credit Facility is adequately diversified with no undue concentration in any one financial institution. In particular, as of December 26, 2015, there were nine financial institutions participating in the Global Credit Facility, with no one participant maintaining a maximum commitment percentage in excess of 20%. 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 Global Credit Facility and the Pan-Asia Credit Facilities in the event of our election to draw funds in the foreseeable future.

#### Common Stock Repurchase Program

A summary of our repurchases of Class A common stock under our common stock repurchase program is presented below:

|                              | Nine Months Ended                  |                      |
|------------------------------|------------------------------------|----------------------|
|                              | December 26,<br>2015<br>(millions) | December 27,<br>2014 |
| Cost of shares repurchased   | \$380                              | \$350                |
| Number of shares repurchased | 3.0                                | 2.1                  |



As of December 26, 2015, the remaining availability under our Class A common stock repurchase program was approximately \$200 million. Repurchases of shares of Class A common stock are subject to overall business and market conditions.

In addition, during each of the nine-month periods ended December 26, 2015 and December 27, 2014, 0.2 million shares of Class A common stock, at a cost of \$19 million and \$32 million, respectively, were surrendered or withheld in satisfaction of withholding taxes in connection with the vesting of awards under the 1997 Incentive Plan and the 2010 Incentive Plan.

Repurchased and surrendered shares are accounted for as treasury stock at cost and held in treasury for future use.

#### Dividends

Since 2003, we have maintained a regular quarterly cash dividend program on our common stock. On February 3, 2015, our Board of Directors approved an increase to the quarterly cash dividend on our common stock from \$0.45 per share to \$0.50 per share. The third quarter Fiscal 2016 dividend of \$0.50 per share was declared on December 11, 2015, was payable to stockholders of record at the close of business on December 24, 2015, and was paid on January 8, 2016. Dividends paid amounted to \$128 million and \$119 million during the nine-month periods ended December 26, 2015 and December 27, 2014, respectively.

We intend to continue to pay regular quarterly dividends on our outstanding common stock. However, any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors and will depend on our results of operations, cash requirements, financial condition, and other factors that the Board of Directors may deem relevant.

#### Debt and Covenant Compliance

##### Senior Notes

In September 2013, we completed a registered public debt offering and issued \$300 million aggregate principal amount of unsecured senior notes due September 26, 2018, which bear interest at a fixed rate of 2.125%, payable semi-annually (the "2.125% Senior Notes"). The 2.125% Senior Notes were issued at a price equal to 99.896% of their principal amount. The proceeds from this offering were used for general corporate purposes, including repayment of the previously outstanding €209 million principal amount of 4.5% Euro-denominated notes, which matured on October 4, 2013.

In August 2015, we completed a second registered public debt offering and issued an additional \$300 million aggregate principal amount of unsecured senior notes due August 18, 2020, which bear interest at a fixed rate of 2.625%, payable semi-annually (the "2.625% Senior Notes"). The 2.625% Senior Notes were issued at a price equal to 99.795% of their principal amount. The proceeds from this offering were used for general corporate purposes. The indenture and supplemental indentures governing the 2.125% Senior Notes and 2.625% Senior Notes (as supplemented, the "Indenture") contain certain covenants that restrict our ability, subject to specified exceptions, to incur certain liens; enter into sale and leaseback transactions; consolidate or merge with another party; or sell, lease, or convey all or substantially all of our property or assets to another party. However, the Indenture does not contain any financial covenants.

##### Commercial Paper

In May 2014, we initiated a commercial paper borrowing program (the "Commercial Paper Program") that allowed us to issue up to \$300 million of unsecured commercial paper notes through private placement using third-party broker-dealers. In May 2015, we initiated an expansion of the Commercial Paper Program to allow for a total issuance of up to \$500 million of unsecured commercial paper notes.

Borrowings under the Commercial Paper Program are supported by the Global Credit Facility, as defined below, and may be used to support our general working capital and corporate needs. Maturities of commercial paper notes vary, but cannot exceed 397 days from the date of issuance. Commercial paper notes issued under the Commercial Paper Program rank equally with our other forms of unsecured indebtedness. As of December 26, 2015, we had \$15 million in borrowings outstanding under our Commercial Paper Program, with a weighted-average annual interest rate of 0.42% and a weighted-average remaining term of 2 days.



## Revolving Credit Facilities

### Global Credit Facility

In February 2015, we entered into an amended and restated credit facility that provides for a \$500 million senior unsecured revolving line of credit through February 11, 2020 (the "Global Credit Facility") under terms and conditions substantially similar to those previously in effect. The Global Credit Facility is also used to support the issuance of letters of credit and the maintenance of the Commercial Paper Program. Borrowings under the Global Credit Facility may be denominated in U.S. Dollars and other currencies, including Euros, Hong Kong Dollars, and Japanese Yen. We have the ability to expand our borrowing availability under the Global Credit Facility to \$750 million, subject to the agreement of one or more new or existing lenders under the facility to increase their commitments. There are no mandatory reductions in borrowing ability throughout the term of the Global Credit Facility. As of December 26, 2015, there were no borrowings outstanding under the Global Credit Facility and we were contingently liable for \$9 million of outstanding letters of credit.

The Global Credit Facility contains a number of covenants that, among other things, restrict our ability, subject to specified exceptions, to incur additional debt; incur liens; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve; engage in businesses that are not in a related line of business; make loans, advances, or guarantees; engage in transactions with affiliates; and make certain investments. The Global Credit Facility also requires us to maintain a maximum ratio of Adjusted Debt to Consolidated EBITDAR (the "leverage ratio") of no greater than 3.75 as of the date of measurement for the four most recent consecutive fiscal quarters. Adjusted Debt is defined generally as consolidated debt outstanding plus eight times consolidated rent expense for the last four consecutive fiscal quarters. Consolidated EBITDAR is defined generally as consolidated net income plus (i) income tax expense, (ii) net interest expense, (iii) depreciation and amortization expense, and (iv) consolidated rent expense. As of December 26, 2015, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under our Global Credit Facility.

### Pan-Asia Credit Facilities

Certain of our subsidiaries in Asia have uncommitted credit facilities with regional branches of JPMorgan Chase (the "Banks") in China and South Korea (the "Pan-Asia Credit Facilities"). These credit facilities are subject to annual renewal and may be used to fund general working capital and corporate needs of our operations in the respective countries. Our subsidiaries' borrowings under the Pan-Asia Credit Facilities are guaranteed by the parent company. The Pan-Asia Credit Facilities do not contain any financial covenants. As of December 26, 2015, the Pan-Asia Credit Facilities provided for revolving lines of credit of up to \$55 million, granted at the sole discretion of the Banks, subject to availability of the Banks' funds and satisfaction of certain regulatory requirements. As of December 26, 2015, there were no borrowings outstanding under the Pan-Asia Credit Facilities.

Refer to Note 11 to the accompanying unaudited interim consolidated financial statements and Note 14 of the Fiscal 2015 10-K for detailed disclosure of the terms and conditions of our debt and credit facilities.

## MARKET RISK MANAGEMENT

As discussed in Note 16 of the Fiscal 2015 10-K and Note 13 to the accompanying unaudited interim consolidated financial statements, we are exposed to a variety of risks, including changes in foreign currency exchange rates relating to certain anticipated cash flows from our international operations and possible declines in the value of reported net assets of certain of our foreign operations, as well as changes in the fair value of our fixed-rate debt relating to changes in interest rates. Consequently, at times, in the normal course of business, we employ established policies and procedures, including the use of derivative financial instruments, to manage such risks. We do not enter into derivative transactions for speculative or trading purposes.

As a result of the use of derivative instruments, we are exposed to the risk that counterparties to our contracts will fail to meet their contractual obligations. To mitigate this counterparty credit risk, we have a policy of only entering into contracts with carefully selected financial institutions based upon an evaluation of their credit ratings and certain other factors, adhering to established limits for credit exposure. Our established policies and procedures for mitigating credit risk from derivative transactions include ongoing review and assessment of the creditworthiness of our counterparties. We also enter into master netting arrangements with counterparties, when possible, to mitigate credit risk associated with our derivative instruments. As a result of the above considerations, we do not believe that we are exposed to any undue concentration of counterparty risk with respect to our derivative contracts as of December 26, 2015. However,

we do have in aggregate approximately \$34 million of derivative instruments in net asset positions with seven creditworthy financial institutions.

### Foreign Currency Risk Management

We manage our exposure to changes in foreign currency exchange rates through the use of forward foreign currency exchange contracts. Refer to Note 13 to the accompanying unaudited interim consolidated financial statements for a summary of the notional amounts and fair values of our forward foreign currency exchange contracts outstanding as of December 26, 2015.

#### Forward Foreign Currency Exchange Contracts

We enter into forward foreign currency exchange contracts as hedges to reduce our risk related to exchange rate fluctuations on inventory transactions made in an entity's non-functional currency, intercompany royalty payments made by certain of its international operations, intercompany contributions made to fund certain marketing efforts of its international operations, and other foreign currency-denominated operational and intercompany balances and cash flows. As part of our overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro, the Japanese Yen, the South Korean Won, the Australian Dollar, the Canadian Dollar, the British Pound Sterling, and the Hong Kong Dollar, we hedge a portion of our foreign currency exposures anticipated over a two-year period. In doing so, we use forward foreign currency exchange contracts that generally have maturities of two months to two years to provide continuing coverage throughout the hedging period.

Our foreign exchange risk management activities are governed by our Company's established policies and procedures. These policies and procedures provide a framework that allows for the management of currency exposures while ensuring the activities are conducted within our established guidelines. Our policies include guidelines for the organizational structure of our risk management function and for internal controls over foreign exchange risk management activities, including, but not limited to, authorization levels, transaction limits, and credit quality controls, as well as various measurements for monitoring compliance. We monitor foreign exchange risk using different techniques, including a periodic review of market values and sensitivity analyses.

#### Cross-Currency Swap Contract

During the first quarter of Fiscal 2016, we entered into a €280 million notional amount pay-floating rate, receive-floating rate cross-currency swap which we designated as a hedge of our net investment in certain of our European subsidiaries (the "Cross-Currency Swap"). The Cross-Currency Swap, which matures on September 26, 2018, swaps a USD-based variable interest rate based on the 3-month London Interbank Offered Rate ("LIBOR") plus a fixed spread for a Euro-based variable interest rate based on the 3-month Euro Interbank Offered Rate plus a fixed spread. As a result, the Cross-Currency Swap, in conjunction with the Interest Rate Swap (as defined below), economically converts our \$300 million fixed-rate 2.125% Senior Notes to a €280 million floating-rate Euro-denominated liability.

As of December 26, 2015, there have been no other significant changes in our foreign currency exposures, or in the types of derivative instruments used to hedge such exposures. See Note 3 to the accompanying unaudited interim consolidated financial statements for further discussion of our foreign currency exposures, and the types of derivative instruments used to hedge those exposures.

#### Interest Rate Risk Management

During the first quarter of Fiscal 2016, we entered into a pay-floating rate, receive-fixed rate interest rate swap contract which we designated as a hedge against changes in the fair value of our 2.125% Senior Notes attributed to changes in the benchmark interest rate (the "Interest Rate Swap"). The Interest Rate Swap, which matures on September 26, 2018, has an aggregate notional amount of \$300 million and swaps the fixed interest rate on our 2.125% Senior Notes for a variable interest rate based on the 3-month LIBOR plus a fixed spread.

#### Investment Risk Management

As of December 26, 2015, we had cash and cash equivalents on-hand of \$527 million, consisting of deposits in interest bearing accounts and invested in money market funds and time deposits with original maturities of 90 days or less. Our other significant investments included \$688 million of short-term investments, consisting of time deposits with original maturities greater than 90 days, and \$44 million of restricted cash placed in escrow with certain banks as collateral, primarily to secure guarantees in connection with certain international tax matters.



We actively monitor our exposure to changes in the fair value of our global investment portfolio in accordance with our established policies and procedures, which include monitoring both general and issuer-specific economic conditions, as discussed further below. Our investment objectives include capital preservation, maintaining adequate liquidity, diversification to minimize liquidity and credit risk, and achievement of maximum returns within the guidelines set forth in our investment policy. See Note 13 to the accompanying unaudited interim consolidated financial statements for further detail of the composition of our investment portfolio as of December 26, 2015. We evaluate investments held in unrealized loss positions for other-than-temporary impairment on a quarterly basis. This evaluation involves a variety of considerations, including assessments of risks and uncertainties associated with general economic conditions and distinct conditions affecting specific issuers. We consider the following factors: (i) the length of time and the extent to which the fair value has been below cost, (ii) the financial condition, credit worthiness, and near-term prospects of the issuer, (iii) the length of time to maturity, (iv) anticipated future economic conditions and market forecasts, (v) our intent and ability to retain our investment for a period of time sufficient to allow for recovery of market value, and (vi) an assessment of whether it is more likely than not that we will be required to sell our investment before recovery of market value. No material realized or unrealized gains or losses on available-for-sale investments or other-than-temporary impairment charges were recorded in any of the fiscal periods presented.

#### CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 3 of the Fiscal 2015 10-K. Our estimates are often based on complex judgments, assessments of probability, and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same set of facts and circumstances, could develop and support a range of alternative estimated amounts. For a complete discussion of our critical accounting policies, see the "Critical Accounting Policies" section of the MD&A in our Fiscal 2015 10-K.

There have been no significant changes in the application of our critical accounting policies since March 28, 2015.

#### Goodwill Impairment Assessment

We performed our annual goodwill impairment assessment using a qualitative approach as of the beginning of the second quarter of Fiscal 2016. In performing the assessment, we identified and considered the significance of relevant key factors, events, and circumstances that affected the fair values and/or carrying amounts of our reporting units. These factors included external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as our actual and planned financial performance. Additionally, the results of our most recent quantitative goodwill impairment test indicated that the fair values of our reporting units significantly exceeded their respective carrying values. Based on the results of our qualitative goodwill impairment assessment, we concluded that it is not more likely than not that the fair values of our reporting units are less than their respective carrying values, and there were no reporting units at risk of impairment.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 4 to the accompanying unaudited interim consolidated financial statements for a description of certain recently issued or proposed accounting standards which may impact our consolidated financial statements in future reporting periods.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

For a discussion of the Company's exposure to market risk, see "Market Risk Management" presented in Part I, Item 2 — "MD&A" of this Form 10-Q and incorporated herein by reference.

#### Item 4. Controls and Procedures.

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

The Company carried out an evaluation based on criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13(a)-15(e) and 15(d)-15(e) of the Securities and Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level as of December 26, 2015. Except as discussed below, there has been no change in the Company's internal control over financial reporting during the fiscal quarter ended December 26, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### Global Operating and Financial Reporting System Implementation

We are in the process of implementing a global operating and financial reporting information technology system, SAP, as part of a multi-year plan to integrate and upgrade our systems and processes, which began during our fiscal year ended April 2, 2011 and will continue in phases over the next several years. We substantially completed the migration of our North America operations to SAP during Fiscal 2015, and we are currently in the process of executing the migration of our European operations to SAP, which is expected to be completed during the Company's fiscal year ending April 1, 2017.

As the phased implementation of this system occurs, we are experiencing certain changes to our processes and procedures which, in turn, result in changes to our internal control over financial reporting. While we expect SAP to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as processes and procedures in each of the affected areas evolve. For a discussion of risks related to the implementation of new systems, see Item 1A — "Risk Factors — Risks Related to Our Business — Risks and uncertainties associated with the implementation of information systems may negatively impact our business" in the Fiscal 2015 10-K.

## PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings.

Reference is made to the information disclosed under Item 3 — "Legal Proceedings" in the Fiscal 2015 10-K, in addition to the information disclosed under Part II, Item 1 — "Legal Proceedings" in each of our prior Quarterly Reports on Form 10-Q filed in the fiscal year ending April 2, 2016.

We are involved, from time to time, in litigation, other legal claims, and proceedings involving matters associated with or incidental to our business, including, among other things, matters involving credit card fraud, trademark and other intellectual property, licensing, importation and exportation of products, taxation, unclaimed property, and employee relations. We believe at present that the resolution of currently pending matters will not individually or in the aggregate have a material adverse effect on our consolidated financial statements. However, our assessment of any litigation or other legal claims could potentially change in light of the discovery of facts not presently known or determinations by judges, juries, or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or claims.



## Item 1A. Risk Factors.

The Fiscal 2015 10-K contains a detailed discussion of certain risk factors that could materially adversely affect the Company's business, operating results, and/or financial condition. The following information amends, updates, and should be read in conjunction with the risk factors and information disclosed in the Fiscal 2015 10-K.

Recent changes in our executive and senior management team may be disruptive to, or cause uncertainty in, our business, results of operations, financial condition, and the market price of our common stock.

Effective on November 2, 2015, Mr. Ralph Lauren was appointed Executive Chairman and Chief Creative Officer and Mr. Stefan Larsson was appointed President and Chief Executive Officer and became a member of our Board of Directors. In addition to these recent changes, certain members of our executive and senior management team have departed, and we plan to continue to implement other management changes in connection with our transition to a global brand management operating structure. These changes in our executive and senior management team may be disruptive to, or cause uncertainty in, our business. The departure of certain key executives and the failure to ensure a smooth transition and effective transfer of knowledge involving senior employees could hinder our strategic planning and execution. Any such disruption or uncertainty could have a material adverse impact on our results of operations, financial condition, and the market price of our common stock.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## (a) Sales of Unregistered Securities

Shares of the Company's Class B Common Stock may be converted immediately into Class A Common Stock on a one-for-one basis by the holder. There is no cash or other consideration paid by the holder converting the shares and, accordingly, there is no cash or other consideration received by the Company. The shares of Class A Common Stock issued by the Company in such conversions are exempt from registration pursuant to Section 3(a)(9) of the Securities Act of 1933, as amended.

No shares of the Company's Class B common stock were converted into Class A common stock during the fiscal quarter ended December 26, 2015.

## (b) Not Applicable

## (c) Stock Repurchases

The following table sets forth the repurchases of shares of the Company's Class A common stock during the fiscal quarter ended December 26, 2015:

|                                        | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | Approximate Dollar<br>Value of Shares<br>That May Yet be<br>Purchased Under the<br>Plans or Programs <sup>(a)</sup><br>(millions) |
|----------------------------------------|-------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| September 27, 2015 to October 24, 2015 | 1,607                                     | <sup>(b)</sup> \$106.92            | —                                                                                            | \$300                                                                                                                             |
| October 25, 2015 to November 28, 2015  | 600,682                                   | 124.85                             | 600,682                                                                                      | 225                                                                                                                               |
| November 29, 2015 to December 26, 2015 | 201,980                                   | 123.77                             | 201,980                                                                                      | 200                                                                                                                               |
|                                        | 804,269                                   |                                    | 802,662                                                                                      |                                                                                                                                   |

<sup>(a)</sup> Repurchases of shares of Class A common stock are subject to overall business and market conditions.

<sup>(b)</sup> Represents shares surrendered to or withheld by the Company in satisfaction of withholding taxes in connection with the vesting of awards issued under the 2010 Long-Term Stock Incentive Plan.

Item 6. Exhibits.

- 3.1 Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1/A (File No. 333-24733) filed June 10, 1997).
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Form 8-K filed August 16, 2011).
- 3.3 Third Amended and Restated By-laws of the Company (filed as Exhibit 3.1 to the Form 8-K filed February 5, 2014).
- 12.1\* Computation of Ratio of Earnings to Fixed Charges.
- 31.1\* Certification of Stefan Larsson, President and Chief Executive Officer, pursuant to 17 CFR 240.13a-14(a).
- 31.2\* Certification of Robert L. Madore, Senior Vice President and Chief Financial Officer, pursuant to 17 CFR 240.13a-14(a).
- 32.1\* Certification of Stefan Larsson, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Robert L. Madore, Senior Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101\* Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at December 26, 2015 and March 28, 2015, (ii) the Consolidated Statements of Income for the three-month and nine-month periods ended December 26, 2015 and December 27, 2014, (iii) the Consolidated Statements of Comprehensive Income for the three-month and nine-month periods ended December 26, 2015 and December 27, 2014, (iv) the Consolidated Statements of Cash Flows for the nine-month periods ended December 26, 2015 and December 27, 2014, and (v) the Notes to the Consolidated Financial Statements.

Exhibits 32.1 and 32.2 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. Such exhibits shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934.

\* Filed herewith.

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.

RALPH LAUREN CORPORATION

By: /S/ ROBERT L. MADORE  
Robert L. Madore  
Corporate Senior Vice President  
and Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: February 4, 2016