FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day and good morning, and thank you for calling the Polo Ralph Lauren fourth quarter and fiscal year 2006 earnings conference call. [OPERATOR INSTRUCTIONS]

Now for opening remarks and introductions I'd like to turn the conference over to Ms. Nancy Murray. Please go ahead, mam.

Nancy Murray - *Polo Ralph Lauren Corporation - SVP - Corporate Affairs*

Thank you and good morning. And we appreciate all of you for joining us on our fiscal '07 second quarter conference call this morning. Tracey Travis. our CFO, will review our consolidated financial performance, then I'll highlight some details on the segment performance and give you an outlook for third quarter and full year. And then Roger Farah, our President and COO, will give you an overview of our business and also will answer your questions. As you know we'll be make some forward-looking comments today, including our financial outlook. The principal risks that could cause our results to different materially from our current expectations is detailed in our SEC filings.

And how I'd like to turn the call over to Tracey.

Tracey Travis - *Polo Ralph Lauren Corporation - CFO*

Thank you, Nancy, and good morning, everyone. We are quite pleased to report our second quarter results, which exceeded our initial expectations due to the outstanding performance of our core businesses, and in particular our retail segment. Offsetting investments we have made for future initiatives, such as Rugby, Polo Jeans, Footwear and our Japan Flagship store. In addition to our earnings announcement today, we are also pleased to report that we have signed a letter of intent with Kellwood Company to acquire the new campaign business, our licensing partner for men's and women's belts, and other small leather goods under the Polo, Ralph Lauren, Lauren and Chaps lines in the U.S. This transaction will be an asset purchase with a total cash consideration estimated to be approximately $9 million, subject to certain closing adjustments. We expect to complete the transaction by the end of fiscal 2007, and it represents another building block in our development of a significant global accessories business, inclusive of categories such as footwear, eyewear and fragrances.

Now shifting back to earnings let me spend a few minutes detailing of you our second quarter and year-to-date results. Revenues for the second quarter increased 14% to $1.17 billion from last year's $1.03 billion. Excluding the impact of the Polo Jeans acquisition, total net revenues increased 9%. Our net revenue growth was driven by wholesale sales increasing 14% -- or 6%, excluding the effects of the Polo Jeans acquisition. And retail sales increasing 15% due largely to very strong comp sales in all of our store formats, as well as outstanding internet sales at Polo.com.

Licensing royalties were essentially flat compared to the second quarter last year. However, excluding the impact of the Polo Jeans acquisition, licensing royalties rose 8% due to accelerated growth in our Asia-Pacific licensing region. Revenues in the first half of the fiscal year increased by 19% to $2.12 billion, compared to $1.78 billion in the comparable period last year. Again, excluding the effects of the Polo Jeans and footwear acquisitions, total net revenues for the first half grew 13%.

Wholesale sales increased 26% in the first half or 13%, excluding the impact of the acquisition, while retail sales grew 15% in the first half. Our licensing segment was down slightly, due primarily to the loss of royalties from Polo Jeans and footwear., Excluding the acquisitions, licensing royalties rose 2% in the half.

Our gross profit increased 15% to $633 million from $552 million last year, with the gross profit rate expansion of 50 basis-points to 54.2% of net revenues versus 53.7% last year. Gross profit in the quarter benefited primarily from a positive response to our fall assortments. Gross profit for the first half increased 21% to $1.16 billion, from $966 million in the comparable period last year, with a gross profit rate expansion of 60 basis-points to 54.9% of net revenues versus 54.3% last year. Improvements were driven primarily by increased sell-throughs in our new fashion deliveries and supply chain efficiencies.

SG&A expenses increased 12% to $418 million for the quarter, which included $5.7 million in incremental cost related to the expensing of all stock-based compensation in accordance with FAS 123(R). And this is compared to $375 million in SG&A expense last year. Our SG&A rate improved 70 basis-points to 35.8% compared to 36.5% last year.

In the first half, SG&A expenses increased 15% to $816 million, which included $8.3 million in incremental cost related to the expensing of all stock-based compensation. And this is compared to $709 million in the comparable period last year. Our SG&A rate improved 130 basis-points, 38.5% compared to 39.8% last year. In both the second quarter and the first half, our rate improvements were primarily driven by the leverage we gained on our incremental sales volume.

In the second, we generated a 21% increase in operating income to $215 million compared to $177 million last year. The resulting operating margin of 18.4% represented a 120 basis-point margin improvement from last year's operating margin of 17.2%. In the first half we generated a 35% increase in operating income to $348 million, compared to $257 million last year. This represents a 190 basis-point improvement in operating margin to 16.4% from 14.5% in the last year. Our effective tax rate in the second quarter improved to 35.9% versus 38.2% last year.

This improvement was principally due to the reversal of valuation allowances on prior net operating losses in certain foreign jurisdictions. Our effective tax rate for the first half was 36.5%, compared 37.9% in the comparable period last year. In the second quarter we generated $137 million in net income or $1.28 per diluted share compared to $104 million or $0.97 per diluted share last year, an approximately 32% increase in both net income and earnings per share. In the first half we generated $217 million in net income or $2.02 per diluted share, compared to $155 million or $1.46 per diluted share last year. For the first half net income increased 40% and earnings per share increased 38%.

And shifting now to the balance sheet, in early October we completed the issuance of 300 million Euros of seven-year notes. We intent to use the net proceeds from this financing to settle our 227 million Euro of outstanding notes due later this month, with the remaining balance used for general corporate and working capital needs. We ended the quarter with inventory of $586 million, up 14% over last year, primarily due to the inclusion this year of Polo Jeans and increases to support future sales growth. During the quarter also we repurchased one million shares of common stock, totally $62 million. $30 million of this $62 million, the repurchase was spent against our new 250 million share repurchase authorization, which was authorized by our board in August of 2006. Year to date we have repurchased 2.2 million shares of common stock totaling $130 million.

Our capital expenditures for the quarter were $29 million,compared to $42 million for the second quarter last year. We still anticipate the full-year capital expenditures to be approximately $200 million, relating primarily to new stores, shop and shops investments, and infrastructure investment. And we continue to believe our disciplined investments have generated great returns for our shareholders. At the end of the second quarter we had a pre-tax return on investment of 32% compared 25% last year, while our return on equity rose to 20% from 16% for the same period last year.

With that I'd like to turn the call back to Nancy for additional details on our segment performance.

Nancy Murray - *Polo Ralph Lauren Corporation - SVP - Corporate Affairs*

Thank you, Tracey. This really was an outstanding quarter in which our core businesses exceeded our expectations and our investments in the future were on track. Our retail revenues in the second quarter increased 15%, with comps up 9.3%. We posted a 15.9 comp at Club Monaco stores, a 9.6% comp in our global Ralph Lauren stores and an 8.4% comp at our worldwide factory stores. Polo.com was a very strong performer during the quarter, with a 35% comparable three-month period growth. As we've always said it's really outstanding product that drives our business, and we had a very positive reaction to our fall assortments in our Ralph Lauren stores on a global basis.

We had significant comp stores sales growth in Europe, with particular strength in our Malon, Paris and London retail stores. At Club Monaco there was a strong wear-now aspect to the product, with a dressy point of view that really resonated with the customer. Women's apparel and accessories generated double-digit gains, while men's bottoms had strong quarter, also with double-digit sales increases.

Club Monaco also completed the disposition of Caban and its outlet stores during the quarter clarifying their portfolio to really focus on the apparel and accessories business. In our worldwide factory store, sales were driven by improved merchandise presentation and strong inventory management. Sales were significantly up in men's, women's and children's apparel. And we continued to invest this quarter in Rugby, as we opened our eighth store in the group in Seattle in August. And we're on track to open additional stores in the remain balance of this fiscal year.

Our retail operating income increased 70% to $67 million compared to $39 million last year. Correspondingly. we delivered a 15% retail operating margin compared to 10.2% last year. A 480 basis-point improvement and really an outstanding performance by any standard. In the first half, retail sales were $857 million, up 15% compared to $745 million last year. Total Company comp store sales increased 8.3%, and Polo.com sales grew 42% during the comparable six-month period.

For the first half, comp store sales were 12.5% at Club Monaco, 8.4% at factory stores and 6.9% at Ralph Lauren stores. For the first half, retail operating income was up 75% to $131 million and that compares to $75 million last year. And it also reflects a 520 basis-point improvement in operating margin to 15.3 for the first half of this year. In both the quarter and the year to date, the margin increase resulted from strong customer response to the fashion assortments and expense leverage in all retail formats.

We'll convert our Club Monaco stores to the holiday set this week and Ralph Lauren stores will be set for the holidays by mid-November. We believe we're well positioned for the holiday in all of our formats, with strong gift-giving statements in men's, women's, children and home. And Polo.com will offer create your own perfect gift from Polo's to Rugby's to sweaters. And whether it's focused on apparel or gifts, we really intensified our presentation. And in addition, in the sun belt we're layering in more appropriate wear-now cashmere and silk-blended sweaters in our own retail and at better department and specialty stores to really support give-giving opportunities in the southern climate.

These strategies will be supported by powerful advertising and marketing initiatives, including an exquisite 24-page holiday direct mail piece highlighting product for men and women. Then we'll follow that up with a second direct mail fees detailing our holiday shopping services for the season. In addition, we'll continue with a powerful suite of advertising in national and regional publications.

Let me spend a moment on our wholesale business. We reported a 14% sales increase over last year's second quarter, and excluding the impact of Polo Jeans, revenues increased 6%, and that was driven primarily to strong fall sales across all brands in Europe, the continued success of the new domestic Chaps for women and boy's lines, and strong growth of the Lauren for Women's line. In Europe women's Blue Label and men's Polo Ralph Lauren continued to be in strong demand. In addition, we had significant gains in children's, Black Label, and Purple Label. Geographically Spain and Italy drove our regional increases.

For the second quarter our wholesale operating income increased 10% to $157 million. Operating margins decreased 100 basis-points to 23.8%, due primarily to the impact of Polo Jeans as we wind that down domestically. For the first half, our wholesale revenues increased 26% to $1.15 billion. Excluding the effect of the Polo Jeans and footwear acquisitions, revenues increased 13%. That increase is primarily due to the drivers I detailed a moment ago, and strong growth in our men's domestic business.

Operating income for the first half, increased 31% to $248 million, compared to $189 million in the first half last year. Wholesale operating margin increased 80 basis-points in the first half to 21.5%, compared to $20.7 in the comparable period last year, And that was really primarily from supply chain efficiencies. We completed our spring markets in the past month and we feel very good about the reaction, and will begin to deliver our new denim lines for Lauren and Polo Ralph Lauren in late January of calendar '07. Our second quarter licensing royalties were $62 million this year, essentially unchanged to last year. And excluding the impact of the Polo Jeans acquisition, revenues actually increased 8%.

For the quarter, operating income was down 7% to $38 million, compared to $40 million last year. And really, what happened there was that we had strength in international licensing that was offset by the loss of licensing royalty from Polo Jeans, which, you know, is now owned. Licensing royalties in the first half were down 6% to $113 million compared to $120 million last year, again, primarily due to the loss of licensing royalty from Polo Jeans and footwear. Operating income was down 15% to $64 million, compared to $75 million last year. If you exclude the impact of the acquisitions I just mentioned revenues increased 2%, again, as a result of stronger international licensing royalties.

Now let me just spend a couple of minutes highlighting our outlook for the third quarter, which ends on December 30th of this year, and then the balance of fiscal '07, which ends on March 31st, calendar '07. We expect the third quarter consolidated revenue growth to be low double-digit percent, reflecting low double-digit percent growth in both our retail and wholesale segments, with licensing down low single-digit percent to last year.

We would expect our operating margins to increase modestly compared to the third quarter over last year. Now for the full year-- and this is based on our strong first six months of the year, we now expect earnings to grow 22% to 25% year over year, or to $3.50 to $3.60. These results would be driven by consolidated revenue, which is projected to grow by low to mid-teen percent and operating margins expanding modestly compared to 2006.

And now let me turn the call over to Roger.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Okay. Thank you, Nancy, and Tracey, and good morning. It was obviously an outstanding quarter and first six months by any measure. Really strong sales in all of our businesses, with expanding margins and strong expense leverage producing a 32% net income on the quarter and a 40% net income increase on the six months. I think Ralph really said it best this morning in the release when he talked about our Company's strength being our clarity and focus.

We have a world-class team of Polo that is focused on common objectives. We are very clear on who our customer is, and all of our products and all of our brands are focused on that customer, and our channels of distribution are positioned to service those customers. We have added funding to advertising and marketing with a consistent message, and we've really reshaped very carefully our distribution strategies to focus on our own retail stores, selected specialty stores and better department stores. And at the same time have eliminated inappropriate points of distribution and off-price sales, in order to elevate the brand.

We have also applied that same clear focus to how we operate our business. We have reshaped our sourcing, supply chain and IT over the last few years, and we are really getting a pay-back now in terms of improved gross margin growth and expense leveraging, resulting in improved operating margin rate growth. Our capital investments in new store, shop and shops and global infrastructures are generating very high returns. And at the same time, we are investing in growth initiatives like Rugby, footwear, denim, accessories, all of which will be important contributors in the future.

When we originally forecasted the year, we had said the first half would be impacted by the start up and transition costs of these new initiatives, but the back half would show the improvement for the full year. While the results of the new initiatives occurred as planned, the success of the first half was driven by the outstanding performance of the businesses we've worked so hard on in prior years, including Europe, both in the wholesale and retail sectors; our own retail stores. And you can see from the comp store sales and the operating margins, the profitability has grown dramatically. Strong wholesale performances in men's women's and kid's; and the corporate initiatives in supply chain sourcing; and the strong management of our balance sheet has all driven the first-half results.

Just to expand a bit more, in Europe we are really getting a pay-back from several initiatives. One, the elevation of our product, both in terms of price point in fashion and all merchandise categories. We have certainly improved the execution of how we run and service our customers. Our careful distribution policies and improvements in product presentation has improved the sell-through. And we have incrementally added to the advertising and markets over the last several years to get our message out to this key market.

Common themes in our retail business have also include the elevating of product and price points, as we continue to improve our product presentations in order to drive higher sales per square foot. We work on, constantly, our flow of fresh fashion. We have also leveraged successfully our shared-expense model, and so much of the incremental sales is flowing through to the bottom line. Based on the current level of profitability of retail, we will look to add stores more quickly in the next three to five years.

The consistent themes that have driven a very successful performance by our wholesale division include the careful focus on assortment plans by door to improve sell-throughs. We have actively managed the distribution points with new key shops indoors around the world, including Harrod's, Selfridges, Saks Fifth Avenue, Bergdorf Goodman or Holt Renfrew in Canada, as well as key markets in Asia. Supply chain initiatives in wholesale include key sourcing efforts to reduce cost of goods. Our speed to market and improvements in fill rates have resulted in less excess and less off-price, which we believe are driving higher sell throughs.

At the same time, the wholesale group is working on the repositioning of our new businesses for the long-term health and growth of the Company, including the footwear business, the denim business for men's, women's and kid's, as well as our announcement today with the addition of small leather goods and belts. We believe we're beginning to build a foundation for the accessory business into the future. So at this point in the year, I think we feel very good about all of our segments performance and how we're positioned for a strong holiday season, as well as a completion to the full fiscal year.

And I think we're prepared to field questions, operator, at this point, please?

QUESTIONS AND ANSWERS

Operator

Thank you. [OPERATOR INSTRUCTIONS] We'll now take our first question from Robbie Ohmes with Banc of America Securities. Please go ahead.

Robbie Ohmes - *Banc of America Securities - Analyst*

Thank you very much and great quarter. Couple of quick questions. The first question is I was hoping you could give us a little more help, or maybe a little more detail on how you will approach denim from here globally, you know, because you've got the Polo Jeans that's going to be rolling out, I guess, over the next few quarters? And can you help us understand how that timing will work? And will it be a match-for-match in terms of revenues? Or could you actually see growth in your denim business year-over-year as you anniversary the acquisition of Polo Jeans? That would be sort of the first question.

The second and third are kind of smaller questions. I wanted to get a little more detail on the Asia-Pacific licensing increase. Just sort of what's going on over there and how that fits in with your strategy in the region? And then the third is just simply could you give us the AUR trends versus UNI trends in both wholesale and retail, as well? Thank you.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Okay, Robbie, let's start with the jeans transition. As you all know, domestically, we launched very successfully during the past market weeks the Lauren denim concepts, as well as the Polo denim concepts. And we had a very careful door distribution strategy that we worked in partnership with our key retailers, and we achieved the door count that we were looking for in both brands. In both cases, Lauren and Polo, we are looking to position the product on the floor in additional space next to the parent departments.

So we are not looking to position this product in the denim departments or the trendy areas of stores, but we are looking to extend the space in men's that's next to Polo, and we're looking to extend the space next to Lauren to house this product and have spent a lot of time and energy on a door-by-door evaluation and a commitment to build the kind of merchandise presentations that are consistent with all of our other brands. That has gone very well. The product is on-time and looking to be shipped at the end of January into February.

Additionally, we have recently shown summer for Lauren over the last week, and have received an exceptional reaction, so I think the transition is moving very well. I think the summer lines, people are looking to add doors. I think we're all very cautious in the first round, and so at this point we feel very good. Having said that, we have not delivered one piece yet, and we are looking to get the first consumer reaction in late January, early February. But I think, based on our very clear knowledge of the Lauren customer and our very clear knowledge of the Polo customer, we're very confident this product is going to be well received. So we're continue to look at that carefully. I think when we get into our February update for the new year, we can give you a better sense of what kind of annualized volume and run rates we're looking at.

In terms of the Asia-Pacific market, and the stronger licensing revenue, that's obviously a function of stronger business. We've had strong business throughout Asia-Pacific through first six months of the year, particularly in Korea, particularly in Australia, and in strength through the rest of the Singapore, Taiwan, Hong Kong regions. Japan has been a little more flat, except for our own store in Omotesando, which we launched at the end of March, where our business is tracking to our expectations, and we think it is elevating the image of the brand.

We also hosted 30 of the key heads of the major stores in Japan in our mansion about a month ago, and I think they were amazed at what the product offering is and the elevation of the brand that they saw in our mansion. They are seeing in Omotesando, so we do expect over time that the very large business we have in Japan will begin to undergo a transformation like we've been able to do in Europe.

Lastly, you asked about average-unit retail growth, and I would say both wholesale and retail is experiencing higher average unit retails. The combination of we're selling higher products, and we're selling them at higher price point, i.e., less off-price. So we're experiencing less mark-downs at wholesale, we're experiencing less mark-downs at retail, and I think Tracey talked about that in our gross margin expansion for the first six months.

Recognizing that our original plan had included a decrease in gross profit in the first half based on the lower-margin businesses like footwear and denim, while those businesses did produce the lower margins, our core businesses are getting significant increases in average unit sales, which, therefore, means a relatively modest growth in units. Club Monaco, where I think you've seen some startling sales increases and has had a universally-accepted reaction to their fall assortment, are experiencing -- because of an upgrade in quality, fit and price points, they actually are seeing a significant growth in average unit retail and total transactions. So we're very pleased with the trade-up strategy at Club Monaco.

Robbie Ohmes - *Banc of America Securities - Analyst*

And just a very last follow-up, Roger, was Club Monaco the -- when you look at the swing and profitability of your retail division, in the quarter was Club Monaco the key driver of that or which division would have been -- which retail division was the key driver of that huge profit swing? Well, it's a good news story, because I can tell you all divisions contributed very importantly.

We certainly saw a major improvement in Club Monaco. Our European retail business, after several years of a lot of time, energy, and money, experienced terrific sales and improvements. And our domestic businesses, whether it's our factory stores or the Ralph Lauren stores, all contributed as well as Polo.com. I don't think you improve the operating margins by 500 basis-points without of the businesses contributing, and we certainly got a to a level of profitability in retail that exceeded our expectation for this year. So we're very pleased with retail as we head into the holiday season. I think we have maybe time for another question.

Operator

Thank you. Our next question will come from Virginia Genereux with Merrill Lynch. Please go ahead.

Virginia Genereux - *Merrill Lynch - Analyst*

Thank you. Two, if I may. Roger, can you remind us, in Asia-Pacific and maybe Japan, especially, what businesses are still licensed? And what operating control do you have over those -- over those businesses? I think I know, but --

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Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Okay. Well, let me start with the simple answer. All of the businesses in Asia-Pacific are licensed, except the Omotesando store, which we own outright. So every single market there is a licensed relationship. In some cases, it's a country license, like Australia, in which case they have the license to both wholesale and retail.

In other markets, like Japan, there's a master license and then each of the individual merchandise categories have different owners. But at this point, it's all license. And our ability to control it is really through the licensing agreements, which give us rights of approval over distribution, advertising and marketing and, obviously, all product. We have increased the amount of oversight in the last couple of years and have looked to increase the marketing and advertising initiatives. We believe we were underfunding that in the marketplace.

We are trying to elevate the product and add more fashion, which is not always what a licensee wants to do. And we are being much more involved in distribution decisions and individual location decisions. So, many of the strategies that we have used to elevate and improve the United States and then more recently Europe, we are trying to use in Asia. But it's a -- it's a web of licensing agreements and we're working through that as we can.

Virginia Genereux - *Merrill Lynch - Analyst*

And Roger, at some point as you get more comfortable and running your own store there and stuff, is it possible that you might move to bring some of those businesses in-house?

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Well, you know, Virginia, you know our strategy very well, and it's based on, really, where we think we can run businesses and where we think we can add value as the operator. You know, overtime we look to do that and where we think we're better served as a partner. we try to find the best partner possible and then actively manage it. So, not just in the Asia-Pacific region but in all markets, we are constantly going through that evaluation. And obviously, with today's announcement about small leather goods and belts, we made the decision and partnered with Kellwood for a transaction that we think will allow us to focus on that. And I think it's the same thought process and analysis we do on the international markets.

Virginia Genereux - *Merrill Lynch - Analyst*

Thank you. And then just secondly, Roger, if I may, sort of follow under Robbie's. If you looked at the retail divisions, maybe sort of Europe, Club Monaco, U.S. full price and U.S. outlet stores, is there -- could you force rank where which formats maybe have the most incremental -- the most margin opportunity left as you look forward, given all that you are doing?

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Yes, I think it's a good question, Virginia, because we started at a very low level of profitability and initially goaled ourselves at 8% to 10%, which we did achieve last year. Came into this year looking for something in the low double-digits, and, obviously, through the first half of the year have well exceeded that. I believe that when we you get into the 15%, 16% operating margin range, I think the game for us going forward will be more oriented towards accelerating the store count. Most of the last three or four years we have focused very hard on improving the quality of our retail, organizing ourselves to get a high return on our investment -- as you know, retail requires a larger investment that wholesale. And I think we were very focused on things like sales per square foot, gross margin expansion, expense leverage.

I think the U.S. is ahead on a global basis, and while we've seen enormous improvements in Europe, I think Europe will accelerate that in the years to come. I think Club Monaco has certainly experienced a significant transformation, based on a lot of time, energy and good leadership there over the last couple of years. And I don't want to minimize the improvement of Polo.com.

As you know the early years of Polo.com and the start-up of all internets are not that profitable. Polo.com in the last couple of years has turned into a very serious retail business with both top-line and bottom-line contribution. So we're really getting strong performance on all of our direct-to-customer businesses, and I think what you'll see from this corporation, we've been fairly careful about new-store growth over the last three or four years. I think the next three to five years will see us expanding more aggressively, as we are more confident in our ability to deliver the bottom line as we push out internationally.

Virginia Genereux - *Merrill Lynch - Analyst*

Well thank you, and congratulations, Nancy and Tracey, too. Thank you.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Thanks, Virginia.

Operator

Our next question will come from Liz with Prudential Equity Group. Please go ahead.

Liz Dunn - *Prudential Equity Group - Analyst*

Thank you,and add my congratulations.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Good morning.

Liz Dunn - *Prudential Equity Group - Analyst*

Good morning. Can you discuss, you know, longer term where we could see operating margins going for the entire Company, because, you know, it looks like you're sort of getting in the range of what some of the more traditional luxury companies are achieving? And where do you think ultimately operating margins can go, understanding that there's certainly a seasonality component to it that's impacting this quarter? And then my second question relates to the small leather goods accusation.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Yes.

Liz Dunn - *Prudential Equity Group - Analyst*

Can you discuss the volume that Kellwood was doing and what -- you know, how you're going to evolve that business, because I think it was maybe a little bit underutilized there and there seems to be a number of things that you can do with it?

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Okay. You forgot to say bonjour, based on our -- I would say the long-term operating margins of the Company is something that we spend a lot of time on, and I think we'll spend a lot more time in February in our-- in our modeling for next year. But clearly, this Company historically had a lower operating margins in the first six months of the year, and higher operating margins in the back half of the year.

You know, based on where we are for the first six months, with operating margins up so significantly at 16.4, I think we've begun to demonstrate how our strategies are playing out in terms of margin expansion and expense management. We're trying to flow as much of that to the bottom line as we can, while at the same time investing. And I think the margins going forward, Liz, will have something to do with the rate of investment and the repositioning of new businesses or the repositioning of merchandise categories that are in, you know, various forms of development. I think what you're seeing in the segment margins of wholesale and retail -- you know, best-of-breed performances in apparel categories. I don't think many people in the apparel sector are producing the kind of margins in wholesale we're getting now, or the kind of margins we're getting in retail now.

I think one of the secrets for our future margin expansion rate will be our ability to development the accessory business into the same kind of profitable businesses that many of our peers in the luxury sector are enjoying. So I think we're enjoying outside margins at apparel and retail and wholesale, and I think they're enjoying outside margins in accessories. And I think for us to get where we really want to go, we'll have to work on that vigorously, and today's announce about small leather goods and belts is a step in that direction. I think also, Liz, overtime, as we continue to grow our international businesses, I think those are margin-rich marketplaces.

And I think to our long-term goal of trying to get a third of our business out of Europe and a third of our business out of Asia, that will effect the mix of margin contributions, which will also drive the margins higher. So, we're -- we're working through the balance of a pretty aggressive reinvestment plan that Tracey spoke to, whether it's shop and shops, whether it's retail stores. And I think you know when you accelerate the growth of retail in the early years, those are not positives for your margins but over the long term they are. And I think we can get the margin higher/ I think we're getting some of that now and I think we'll get more of it into the future, as we see ongoing expansions in accessory and international.

In terms of small leather goods and belts. we've had a long-term relationship with Kellwood. They have primarily focused on a domestic business. We think these are enormous growth opportunities on a world-wide basis. It gives us another product category with footwear to development expertise in the manufacturing and sourcing of leather goods. Like we've done with all of our brands, we'll look to elevate the product. We'll look to extend the high-end luxury part of these categories into our own stores and selected retail stores. And then we'll look to align product categories, like Lauren or Polo or Chaps, into the appropriate distribution channels.

So, each of the major brand and channels will get a whole merchandise strategy around small leather goods and belts. And we think there's absolutely a large future in this, but recognizing we're not really going to have this transaction complete until the end of the fiscal year. So we're still three or four months away from, you know, getting to that conclusive point.

Liz Dunn - *Prudential Equity Group - Analyst*

Okay. [inaudible] and merci.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

I wish I could respond, but I'm terrible at French.

Nancy Murray - *Polo Ralph Lauren Corporation - SVP - Corporate Affairs*

And also if I could ask, we have quite a few people in the queue this morning wanting to ask questions and we want to be able to get to everyone, so if on the first go around you could limit your questions just to one, then we'll pick you back up on the second go around, so everyone has a chance to ask your question.

Operator

We'll now-- I'm sorry. We're now go to David Glick of Buckingham Research. Please go ahead.

David Glick - *Buckingham Research - Analyst*

Good morning and another congratulations on an exception quarter. Roger, I just wanted to follow up on the one-third, one third, one-third discussion in terms of your ultimate goal of the balance between Europe, Asia, and the U.S. And I know it's obviously hard to put a specific timeframe on it, but I was just wondering if you could give us some color on either a general timeframe? Or maybe another way to go about it is what kind of growth rates should we think about in those three regions, going forward?

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Well, David, unfortunately, for you you got in after Nancy said one question, so that's good news for me. We are currently -- approximately 15% of our business is in Europe, about 15% in Asia, and about 70% in the U.S., so this is not at all a decision to contract the U.S. business. We think there's plenty of opportunity. I think it's more a statement about the upside of those international markets. Most luxury brands that we've been able to identify and track do about a third of their business in each of those markets. That's where the high-end customers are and that's where we think the opportunity is.

Because those markets have long been penetrated by us, but through licensees, as we have evolved our strategies domestically, both in retail and wholesale. it's been a little slower to bring them around in the international markets. Since the acquisition of Europe in 2000, I think you've seen enormous growth in terms of that region's sales and profit contribution, but we think we have a long way to go. And we're really focused on western Europe. I think there are long-term opportunities in eastern Europe, but that is not in our near-term list of priorities. So I think we'll continue to see, through the same strategies we're employing, an accelerate of our European business. And I think you'll find us looking to open more stores Europe over the next three to five years, as we feel more comfortable about our ability to complete, both for real estate and the execution of that retail strategy.

You know, you can't go a day without picking up the paper and hearing about China's growth or India's growth or the affluent customers in Japan, so I think it's obvious us that both through the right retail strategies there and through the right selected wholesale distribution points, properly executed, those markets are, while large for us, still under penetrated. So our next three-year plan, I think, will have us investing more time, money, advertising, marketing, resources to accelerate those regions. But to move a 15/15/70 mix, a third, a third, a third is a long-term project, and I think we need to understand it could be a five to ten-year time horizon.

David Glick - *Buckingham Research - Analyst*

Okay, and in terms of growth rates, obviously if you're growing in the mid-teens this year -- and I know that includes an acquisition -- you're looking, obviously, at 20% to 25% plus growth in those -- in Europe and Asia at a minimum going forward, correct?

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

I think we'll give you all of the modeling helping we can in February.

David Glick - *Buckingham Research - Analyst*

Thanks a lot, Roger. Congratulations.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Okay. Thanks, David.

Operator

Our next question comes from Margaret Mager with Goldman Sachs. Please go ahead.

Margaret Mager - *Goldman Sachs - Analyst*

Wow, great quarter.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Thank you, Margaret. Are you okay.

Margaret Mager - *Goldman Sachs - Analyst*

Yes, I have --

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

You'e all choked up over the quarter?

Margaret Mager - *Goldman Sachs - Analyst*

I am. I am. But wow, fantastic results. What else can be said. I wanted to ask about the -- the retail division and your comments, Roger, about adding stores more quickly going forward.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Yes.

Margaret Mager - *Goldman Sachs - Analyst*

Can you just update us on your plans this year as far as retail store expansion and what might be likely, you know, next year and the years ahead, as far as ramping that up, and where -- where you would see that happening? Is Club Monaco an equal participant or is it going to be concentrated on the Ralph Lauren stores? Is it U.S. concentrated? International, et cetera? Thank you.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

We have opened on average over the last three or four years about 20 to 25 stores, and at the same time we have been editing out and closing, you know, weak performers, so the net store count as been, you know, moving up slowly. I think that based on our success to date in retail, which includes the ongoing strong comps in all formats and the profitability we've now [paid], we will look to accelerate that to perhaps double the new store count, so in the 40 to 50 range growth. And we'll continue to edit out where we think we have underperformers we'll do that. That will require a ramp-up in store location processes, store build-out processes, and all of the things necessary to support it.

I think the major recipient of new-store growth will continue to be Ralph Lauren or Ralph Lauren derivatives. Meaning perhaps children's stores as stand alone, as we have had successful kid's stores where we've opened them. Ralph Lauren stores, whether they are glamorous, upscale, mansion-type stores, such as Malan or Tokyo or Moscow, or whether they are neighborhood stores like a New Canaan or a Georgetown. So whether it's a merchandise category that's distorted as a stand-alone stores, like kid's, or it's a full-blown Ralph Lauren store, I think they'll get the bulk of our focus.

I also think we're look to accelerate the European store count. Today we only have 13 stores, and that clearly does not satisfy the European market. And while those are not mall-based -- they have to be found and negotiated individually -- I think we'll be looking at an acceleration of retail under the Ralph Lauren banner in Europe. We also think in time, concepts like Rugby can be international concepts, both in Europe and in Asia, and we're looking at those as we look to ramp-up, you know, a Rugby domestically and international. So all of our merchandising concepts under the Ralph Lauren banner have expansion opportunities.

In Club Monaco where we have spent the last couple of years, you know, repositioning the business, I think we're also looking for an acceleration. There we will look to do the domestic stores ourselves, but internationally, we have had a lot of success in the early efforts to license to key partners, such as Lane Crawford in Hong Kong stores in the far east. At the end of this fiscal year, we will have approximately 24 Club Monaco stores internationally through licensed partners, which are getting a very good reaction to the product. And we see that brand as having global potential, as well.

We just recently opened our first store in the Middle East in Club Monaco and our partners there are also encouraged. So. all of the direct-to-customer experiences seem be working, and overtime -- not unlike the answer to David's question -- I think the international arena will get a disproportionate time amount of our time and energy.

Margaret Mager - *Goldman Sachs - Analyst*

Okay, just a quick follow-up. The guidance for the third quarter and second half retail up-load double-digit, what kind of same-store sales number would be attached to that? Is that something in more the mid single or little bit below the eight to nine you've done year to date?

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Yes, the mid single-digit four to five comp is what we've got the back half modeled at. Obviously. we've run the first half at higher than that, but sitting here today, the modeling information that Nancy gave you was based on 4% to 5% comps.

Margaret Mager - *Goldman Sachs - Analyst*

Okay. Thank you very much and good luck during Christmas.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Thank you. Feel better.

Margaret Mager - *Goldman Sachs - Analyst*

Okay, thanks.

Operator

Our next comes from Omar Saad with Credit Suisse. Please go ahead.

Omar Saad - *Credit Suisse - Analyst*

Thanks, good morning.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Good morning.

Omar Saad - *Credit Suisse - Analyst*

Wanted to ask a question on the SG&A line. It looks like it's the second quarter in a row you've generated nice leverage on the top-line growth, and wanted to get your sense of how we should think about this, going forward.

If there's a sales growth assumption you feel you need to achieve to generate SG&A leverage? And -- and, you know, I varies quarter to quarter, depending on what kind of investments you're making in the business, but it's a very encouraging sign and wanted to see if you had any color to add.

Tracey Travis - *Polo Ralph Lauren Corporation - CFO*

Well, Nancy gave you the guidance, Omar -- this is Tracey -- with respect to what we're expecting for the year with the operating margin expansion. And I would look for the second half of the year for slight SG&A leverage, and -- and a little bit of margin leverage, as well. So balancing out in order to achieve those results.

Omar Saad - *Credit Suisse - Analyst*

Okay. And longer term,- how do you think about it philosophically? You've got a lot of opportunities to grow the top line. You're accelerating your retail business opportunities outside of the country and still in the country, as well. Is this -- as you kind of have -- have built out your system and your infrastructure, I think you've done a lot of that investing and investing is behind you. Is it something you feel you that should come to expect out yourself going forward beyond --?

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Omar, this is Roger, in case you couldn't tell the difference between Tracey and Roger. I think what we saw in the first six months was an exciting leveraging of these incremental sales over the -- you know, a slower growing expense base. And as Tracey said and as you said, that will go up and down by quarter. I think the over-all themes for expense management for the Company will be a combination of continuing our efforts to build common platforms, common business processes, efficiencies in our supply chain, and I think that is all positive in terms of leveraging incremental sales.

I think the flip side of that is, as we accelerate retail, as you know, retail comes with a higher expense rate and higher margin rates. And, therefore, you know, some of that pure infrastructure leverages will be neutralized by higher expense rates from retail, and the first year costs of opening an accelerated number of retail stores. So, while we certainly philosophically are shooting for on-going expense leveraging, it's a bit of a mix game, as well as a pure efficiency game.

Omar Saad - *Credit Suisse - Analyst*

Perfect.

Tracey Travis - *Polo Ralph Lauren Corporation - CFO*

And the only thing I would add to that, Omar, is as we've said in the past, our infrastructure investments, particularly our wholesale systems investment, will continue for the next couple of years. And we will still be investing in infrastructure in addition to the mix shift to retail.

Omar Saad - *Credit Suisse - Analyst*

Excellent. Thank you.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Thank you.

Operator

We're now move to Gabrielle Kivitz with Deutsche Bank. Please go ahead.

Gabrielle Kivitz - *Deutsche Bank - Analyst*

Good morning and congratulations on another great quarter.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Thank you.

Nancy Murray - *Polo Ralph Lauren Corporation - SVP - Corporate Affairs*

Good morning.

Gabrielle Kivitz - *Deutsche Bank - Analyst*

Question on the men's business. It's not clear. Was the men's business in the U.S. up? Did you see increases in that business? And then can you just give us more color, is that business comping an existing square footage space or are you getting more square footage within your existing doors? Can you maybe just give us a little bit of color on that business? And then also on the Lauren line. I know you've been getting more square footage, as well. This is excluding, obviously, the new jeans business that is going to layer in. But maybe you can talk about the increases you're seeing and how much more square footage opportunity do you have at existing doors and how much comp increases you're seeing in existing square footage> Thanks. Thanks.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Okay. Gabrielle. We actually had a fantastic men's quarter. As you know, we're reporting the shipments into the retailer, but I'm assuming your question is asking about the performance of the product at retail. And really this quarter, July, August, and September, we've had a very strong men's business and that's continued to run at a very high rate.

As we've talked about on prior calls, we've done a lot over the last couple of years to tighten the distribution of men's, really elevate the fashion, and really focus on our per-door productivity. And have done a lot of things in terms of shop managers, staffing, higher visual content, all of which, I think, is paying off for us in a very, very strong fall, which has encouraged us to feel good about the balance of this year. In some cases that has resulted in new space or incremental space. In some cases that's just continued to drive the sales per square foot even higher in those channels.

Exciting for us in men's, if you haven't seen it, are some key new shops in a Saks Fifth Avenue on the sixth floor, where we opened the World of Ralph Lauren and have Purple Label, Black Label and Blue Label in a beautiful presentation. We've recently opened Black Label in Bergdorf Goodman. And so around the world, we are enhancing the men's presentations of all of the key locations. I was just in Montreal and Toronto last Thursday and Friday at Holt Renfrew, which have opened spectacular new men's shops. We're very proud of those, as well. So we've been very successful at elevating the men's business and really enhancing the door-by-door presentations.

We have not looked to add incremental doors in men's, as we've spent the last couple of years refining the existing distribution. Lauren also has experienced a terrific fall. The product is right on to the customer. It is selling through, you know, beautifully. And that really applies to both the department stores that had big businesses or the enhanced stores we picked up through the May-Fed merger, where we did plot door-by-door space and presentation standards, and we're getting very nice sell-throughs across that whole consolidation. So both of those businesses are selling through very well at retail. Obviously, our quarter reflects the sell-in and the impact of that, so that's encouraging.

Gabrielle Kivitz - *Deutsche Bank - Analyst*

Great. That's very helpful, and best of luck for the second half.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Thank you.

Operator

Our next question comes from Elizabeth Montgomery with Cowen and Company. Please go ahead.

eric Nanes - *Cowen and Company - Analyst*

Hi, it's Eric Nanes for Beth. All of our questions have been answered to this point. Thanks.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Okay.

eric Nanes - *Cowen and Company - Analyst*

And moving on we have Christine Chen with Pacific Growth Equities. Please go ahead.

Christine Chen - *Pacific Growth Equities - Analyst*

Thank you. Congratulations on an amazing quarter.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Thank you, Christine.

Christine Chen - *Pacific Growth Equities - Analyst*

Tracey, I was just wondering the tax rate which was lower this quarter was explained, but could you give us a little guidance in what we should be looking to use for our models for the second half? And Roger, can you talk a little bit about the performance of collection handbags and remind us when your handbag licensee is up for renewal?

Tracey Travis - *Polo Ralph Lauren Corporation - CFO*

Sure. Regarding the tax rate, Christine, you know, for the second half, we are looking at about a [technical difficulties] tax rate. Our full year tax rate right now, we are comfortable, given our true-up that we do every quarter -- obviously this quarter being favorable true-up -- that the 37% is the appropriate rate for -- for the year based on our quarterly analysis.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

And in terms of the handbag business, really the license is relatively short-term at this point, but we don't give out the expiration dates of any of our licenses. The performance of the Ricky bag is amazing. I hope you're on the waiting list for the new holiday shipments. We have begun to establish importantly at the high end in our own retail stores -- and that's where we're distributing our collection product -- a very nice following for the alligator and the highest prices in our assortment. And I think you'll see in the seasons to come, expanding presentations in our own stores to give it more prominence and more focus, as we redo our own stores and/or open new stores. We believe we're on the right track there, you know, with a foundation that we can grow from.

Christine Chen - *Pacific Growth Equities - Analyst*

Okay. Great. Thank you. Good luck for the holiday quarter.

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Thank you.

Operator

Our next question comes from Jennifer Black with Jennifer Black and Associates. Please go ahead.

Jennifer Black - *Jennifer Black and Associates - Analyst*

Let me also add my congratulations. Roger, you ha --

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Thank you.

Jennifer Black - *Jennifer Black and Associates - Analyst*

You're welcome. You had a great vision when you narrowed your doors in the department store channel on the wholesale side, and in this competitive landscape, it seems like you are perfectly positioned. Can you tell us what the next chapter ahead is in the new retail world?

Roger Farah - *Polo Ralph Lauren Corporation - President & COO*

Wow. I need a drum role before that. You know it's interesting, Jennifer. I think that Ralph has been very clear about the long-term direction of the Company, and I think it's been really a Company-wide effort to align our goals and our expectations against that.

Our desire for this brand has been one of exclusivity, elevation, careful distribution, enhanced presentations, and -- and we have been building block by building block moving through that, whether it's new product categories or new channels of distribution. I think the customer today is looking for distinctiveness. I think the customer is looking for clarity. I think the customer is willing to pay a fair price for a product that is unique, and I think that's the hallmark of what Ralph Lauren has done.

I think we're not fashion. We're not trendy per se, but we're moving with the customer in a way that they relate to, and we're trying to enhance every point of distribution they see. And at the same time, we've worked aggressively to eliminate those channels of distribution or points of distribution that were impacting the brand. And I think our ability to do that consistently over time has allowed us to enjoy strong results through -- you know, not the easiest of the last five or six years. Doing that consistently internationally is high on our list to do today, and I think we're seeing that pay-back in Europe. And I think we'll see it over time in the balance of the international markets.

So, the Company is very focused on a clear vision. We are working in tandem with key retailers around the world to get that vision executed. Our marketing, our product development is all aligned against that, and I think it's resonating with the customer. So, six months does not make a year, but we are pleased with where we have come out of the gate this year, and at the same time have continued to invest in new initiatives. So we are looking forward to a good holiday. It's never a certainty, but at this point, we feel good about how we're positioned. And I think in February, we can spend more time talking about the next three to five years.

So I appreciate everybody's interest. I thank all of the people at Polo for the hard work to make this happen. It's much easier to report these kind of numbers and talk about them than the alternative. And at this point we'll all focus on the holiday season and we'll talk to you in February. Thank you very much.

Operator

That does conclude today's teleconference. Thank you for your participation and have a lovely day.