

FINAL TRANSCRIPT

Thomson StreetEventsSM

RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Event Date/Time: Feb. 07. 2007 / 9:00AM ET

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

CORPORATE PARTICIPANTS

Nancy Murray

Polo Ralph Lauren Corporation - SVP, Corporate Affairs

Tracey Travis

Polo Ralph Lauren Corporation - CFO & SVP

Roger Farah

Polo Ralph Lauren Corporation - President & COO

CONFERENCE CALL PARTICIPANTS

Brian McGough

Morgan Stanley - Analyst

Liz Dunn

Thomas Weisel Partners - Analyst

David Glick

Buckingham Research - Analyst

Gabrielle Kivitz

Deutsche Bank - Analyst

Virginia Genereux

Merrill Lynch - Analyst

Robbie Ohmes

Banc of America Securities - Analyst

Elizabeth Montgomery

Cowen and Company - Analyst

Melissa Otto

WR Hambrecht - Analyst

PRESENTATION

Operator

Good morning, and thank you for calling the Polo Ralph Lauren third quarter fiscal year 2007 earnings conference call. As a reminder, today's conference is being recorded. All lines will be in a listen-only function during the presentation today. At the end of the presentation, we will conduct a question-and-answer session. Instructions on how to ask a question will be given at that time.

Now for opening remarks and introductions, I will turn the conference over to Miss Nancy Murray. Please go ahead, ma'am.

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 third quarter conference call. Tracey Travis, our CFO, will review our consolidated financial performance. And then I'll highlight some details on our segment performance and give you an outlook on the balance of the year, as well as our initial thoughts on fiscal '08. Roger Farah, our President and COO, will give you an overview of our business and will also answer your questions. As you know, we'll be making some forward-looking comments today, including our financial outlook. The principle risks that could cause our results to differ materially from our current expectations are detailed in our SEC filings. And now, let me turn the call over to Tracey.

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Tracey Travis - Polo Ralph Lauren Corporation - CFO & SVP

Thank you, Nancy. And good morning, everyone. We are quite pleased to report our third quarter results, which exceeded our initial expectations due to strong performance in our core businesses, and in particular, our global retail segment. These results also reflect our investments in longer-term initiatives, such as luxury accessories, denim and new specialty retail concepts, which we expect will be the drivers of our earnings growth in future years. Regarding our third quarter and year-to-date results, revenues for the third quarter increased 15% to \$1.14 billion from last year's \$996 million.

As you are aware, we are acquired our Polo Jeans license in the fourth quarter of last year, so excluding the impact of the Polo Jeans acquisition on the third quarter of this year, total net revenues increased 10%. Our net revenue growth was driven by wholesale sales increasing 18%, or 5% excluding the effects of the Polo Jeans acquisition. And retail sales increased 13% due largely to strong comp sales in all of our store formats. Polo.com had high teen Internet sales growth compared to the same October through December period last year, and measuring versus comparable months is the best indicator of our performance during the important holiday season for Polo.com. I will remind you that last year we reported Polo.com on a one-quarter lag. So on a reported basis, this year's net sales compared to the July through September timeframe net sales last year results in significant growth on a reported basis.

Licensing royalties were up 8% to \$68 million compared to \$62 million last year. Excluding the impact of the Polo Jeans acquisition, royalties increased 16%. The royalty increase was largely driven by accelerated receipt and recognition of an \$8 million royalty payment connected with the termination of our Chaps Underwear license. Revenues year-to-date increased by 18% to \$3.26 billion compared to \$2.77 billion in the comparable period last year. Excluding the effects of both the Polo Jeans and footwear acquisition, total net revenues for the first nine months grew by 12%. Wholesale sales increased 23% year-to-date, or 11% excluding the impact of the acquisition, while retail sales grew 14% in the first nine months. For the first nine months, our licensing segment was essentially flat to last year. Excluding the footwear and Polo Jeans acquisitions, licensing royalties rose 7% in the first nine months.

Our gross profit increased 16% to \$614 million from \$532 million last year, with a gross profit rate expansion of 30 basis points to 53.7% of net revenues versus 53.4% last year. Year-to-date gross profit increased 19% to \$1.8 billion from \$1.5 billion in the comparable period last year, with a gross profit rate expansion of 50 basis points to 54.5% of net revenues versus 54% last year. Improvements in gross profit for both the quarter and year-to-date were driven primarily by higher sales and improved merchandise margins across our core wholesale product line, somewhat offset by lower margins in Polo Jeans and footwear and improved full price sell-through of products in our retail businesses.

SG&A expenses increased 11% to \$430 million for the quarter, which included \$1.8 million in incremental costs related to the expensing of all stock-based compensation in accordance with FAS 123R. Our SG&A rate improved 140 basis points to 37.6% compared to 39% last year. In the first nine months, SG&A expenses increased 14% to \$1.25 billion, which included \$10.1 million in incremental costs related to the expensing of all stock-based compensation. And this is compared to \$1.1 billion in the comparable period last year of SG&A expense. Our SG&A rate improved 130 basis points to 38.2% compared to 39.5% last year. In both the third quarter and year-to-date, our rate improvements were primarily driven by the leveraging of fixed costs on our incremental sales volume, as well as initiatives taken late last year and early in the first quarter of this year to restructure and dispose of marginal home and clearance stores related to our Club Monaco business.

In the third quarter we generated a 28% increase in operating income to \$184 million compared to \$144 million last year. The resulting operating margin of 16.1% represents a 170 basis point improvement from last year's operating margin of 14.4%. In the first nine months we generated a 33% increase in operating income to \$533 million compared to \$401 million last year. This represents a 190 basis point improvement in operating margin to 16.3% from 14.4% last year.

Our effective tax rate in the quarter was 38.9% versus 36.6% last year. The tax rate increase in the quarter was principally due to a discreet tax reserve adjustment related to one of our foreign jurisdictions, in addition to the normal adjustment of our

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

quarterly tax provision to reflect our best estimate of the effective tax rate for the year. Our effective tax rate for the first nine months was 37.3%, and this rate is more reflective of what we believe our effective tax rate will be for the full year. Our effective tax rate during the comparable nine month period last year was 37.4%. In the third quarter we generated \$111 million in net income or \$1.03 per diluted share, compared to \$91 million or \$0.84 per diluted share last year, an approximate 22% increase in net income and a 23% increase in earnings per share. For the nine months we generated \$328 million in net income or \$3.04 per dilute share, compared to \$246 million, or \$2.30 per diluted share last year. For the nine months net income increased 33% and earnings per share increased 32%.

Shifting now to our balance sheet, we ended the quarter with \$752 million in cash, or \$358 million in cash net of debt. During the quarter we retired 227 million Euros of short-term debt and we issued 300 million Euros of new seven-year fixed rate debt at a 4.5% coupon during the quarter. Our inventory at \$484 million was up 9% over last year, primarily due to increases to support future sales growth, as well as the inclusion of Polo Jeans this year. During the quarter we repurchased approximately 840,000 shares of Class A common stock totaling \$62 million. Year-to-date we have repurchased approximately 3.1 million shares of Class A common stock totaling \$191 million. And yesterday, we are pleased to report that our Board of Directors authorized a new \$250 million share repurchase program. As we have in the past, we will continue to opportunistically repurchase outstanding shares at the appropriate moment, as one part of our investment strategy to generate returns for all shareholders.

Our capital expenditures for the quarter were \$40 million compared to \$23 million for the third quarter last year. We anticipate our full year capital expenditures to be approximately \$180 million, relating primarily to new Company-owned stores, shop investments in our wholesale channel, and infrastructure investments to support our growing Company. Despite several investments we have made that have impacted our results in the short-term, we expect those investments to be strong contributors to our long-term growth. Our previous investments in Europe, Lauren and childrenswear, combined with our core business performance, have generated great returns for our shareholders. At the end of the quarter, we had a pretax return on investment of 32% compared to 26% last year, while our return on equity rose to 20% from 16% last year.

We are on track to complete our purchase of New Campaign Incorporated, which is our men's and women's belts and leather goods license, at the beginning of fiscal 2008. As we announced in our second quarter earnings release, we will pay approximately \$9 million for this business. We intend to position these products along with our footwear and other licensed accessory products to drive the future growth of our global accessories collection.

In closing, I would be remiss if I did not add how pleased we are to be included in the S&P 500 Index as of the opening of trading last Friday. We believe that this is a significant recognition of our consistently strong financial and operating performance, which has resulted from the successful execution of our business and creative strategies. So on behalf of the management team, I would like to both congratulate and thank all of our Polo employees for their contributions to this important milestone. And with that, I would 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, and it really was one in which our core businesses exceeded our expectations. Our retail revenues in the third quarter increased 13%, with comps up 7.4%, and that comes on top of a 7.4% comp gain last year, as well. We posted an 11.4% comp at Club Monaco stores, a 7.5% comp at our worldwide factory stores, and a 5.8% comp at our global Ralph Lauren stores. As Tracey said, Polo.com was a very strong performer during the quarter, with a 17% comparable three month period growth. And as we've always said, it's really outstanding product that drives our business. Despite the mild weather we had during the holiday season, we had a very positive reaction to our holiday men's, women's and children's apparel assortments in our Ralph Lauren stores on a global basis. Our holiday apparel highlights included men's furnishings, women's collection and Black Label, and infant's and girl's. We also saw significant comp store sales growth in Europe with strong sales gains in our three stores in London, as well as in our Milan and Paris stores.

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

At Club Monaco, we had a very good quarter in women's apparel, and that was really driven by dresses and outerwear, and accessories generated high double-digit gains. Club Monaco is fashion-right in their trends, and really because of upgrades in quality, fit and price points, they are seeing a significant growth in all aspects of their business. And our worldwide factory stores, sales were driven by improved merchandise presentation and strong inventory management. And despite the warm weather in both the Northeast and across Europe, sales increased in men's, women's and children's apparel. On Polo.com, the 17% sales growth over the comparable three months was a result of significant increases in men's apparel, women's accessories, home and boy's. In January, RL Media, which is the joint venture we have with NBC, began construction on the new Polo.com fulfillment and call center, and that's scheduled to be fully operational by April 2008. This new center will allow us to increase our order capacity, as well as reduce turn time and fulfillment costs.

In the third quarter, our retail operating income increased 49% to \$95 million, and that compares to \$64 million last year. Correspondingly, we delivered a 17.6% retail operating margin compared to 13.3% last year. And that's a 430 basis point improvement, and really an outstanding performance by all concepts contributing. For the nine months, retail sales were up \$1.4 billion, and that's 14% increase compared to \$1.2 billion last year. Total Company comp store sales increased 7.9%, and Polo.com sales grew 30% during the comparable nine month period.

We had a spectacular year-to-date performance in global retail, and our stores are increasingly more productive, as we've dramatically improved sales per square foot. The comp breakdown for the nine months includes a 12.1% at Club Monaco, 8% at factory stores, and 6.4% at Ralph Lauren stores. Retail operating income was up 63% to \$226 million, and that compares to \$139 million last year. And that reflects a 490 basis point improvement in operating margin to 16.2% for the nine month period. 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 of our retail formats.

Now let me spend some time on our wholesale business. We reported an 18% sales increase over last year's third quarter. Excluding the impact of Polo Jeans, revenue increased 5%, driven primarily by the continued success of the new domestic Chaps for women's and children's line, and strong growth in the Lauren line. Our men's wholesale business is performing very well, and posting strong sell-throughs at retail. In Lauren, we're seeing double-digit gains in sales, and we're increasing market share. And our childrenswear business is on track for another strong year, as well. Our European business continues to benefit from our earlier work there, where we consolidated offices, distribution and systems. We built flagship -- a luxury flagship in Milan, and we've upgraded shop-and-shop in our premium locations, such as Harrods, Selfridges and El Corte Ingles.

For the third quarter, our wholesale operating income increased 11% to \$91 million. Operating margins decreased 100 basis points to 17.1%, and that's really due to the rebuilding of our footwear business and the realigning of our jeans. For the nine months, our wholesale revenues increased 23% to \$1.7 billion. Excluding the effect of the Polo Jeans and footwear acquisitions, revenues increased 11%. And that increase is primarily due to solid performances in all of the key merchandise areas and improved sell-throughs in all channels of distribution. Operating income for the first nine months increased 25% to \$339 million compared to \$272 million in the same period last year. Wholesale operating margin increased 30 basis points for the nine months to 20.1% compared to 19.8% in the comparable period last year.

Our third quarter licensing royalties were up 8% to \$68 million this year, with an operating income up 10% to \$42 million. Excluding the impact to the Polo Jeans acquisition, royalties actually increased 16%. In addition to the one-time royalty payment in the domestic licensing business that Tracey discussed, international royalties increased due to ongoing sales growth in the Asia-Pacific license region. Licensing royalties for the nine months were \$180 million, essentially unchanged from last year. And if you exclude the impact of the acquisitions, revenues actually increased 7%. Operating income was down to \$106 million and that compares to \$114 million last year.

Now, let me just spend a couple of minutes highlighting our outlook for the balance of the year, which as you know, ends on March 31st, and give you our initial thoughts on fiscal 2008. For fiscal 2007, we expect consolidated revenue to grow mid teen percent, reflecting low double-digit percent growth in our retail segment, and mid to high teen percent growth in our wholesale segment, with licensing down mid single-digit percent to last year. We would expect our operating margins to increase moderately

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

compared to last year. This guidance would now result in earnings per share in the range of \$3.60 to \$3.65, an approximate 26% increase over fiscal 2006 earnings per share.

Now for the fiscal year 2008, our initial outlook is for consolidated revenue to grow in the high single-digits, based on high single-digit percent growth in retail, mid -- and that's based on mid single-digit comp growth. And high single-digit percent growth in global wholesale. We would expect licensing to increase mid single-digit percent. And we would also expect our operating margins to increase slightly in fiscal -- increase slightly to fiscal 2007. We would expect this to produce earnings per share in the range of \$3.95 to \$4.05, representing approximately an 11% increase to fiscal 2007. And now let me turn the call over to Roger.

Roger Farah - Polo Ralph Lauren Corporation - President & COO

Thank you, Nancy and Tracey, and good morning. Our strategy to elevate the product and to refine our distribution channels continues to produce strong results. Our performance year-to-date is outstanding, as we delivered an 18% sales growth, with a 33% increase in operating income, while continuing to support growth initiatives for the future in luxury accessories, specialty retail and in denim. The range of our accomplishments have been dramatic. Throughout the first quarter and the -- third quarter and the first nine months, we continued to develop new products, elevate the merchandising and presentation of our luxury brands, open new retail stores, and expand our brand internationally. All are in line with our long-term strategy, and we have achieved this with very high returns on our investments and a pristine balance sheet.

While Nancy and Tracey have updated you on the total Company and strong segment results, let me spend a few minutes on several of our previously announced initiatives for '07. The domestic transition of Polo Jeans is proceeding on schedule. We started the installation of shops in Lauren and men's denim during the last few weeks, and expect to rollout -- the rollout to continue for the next several months. New product has started to arrive in stores and the early reaction has been strong. We recently previewed the next deliveries with key customers in both men's and women's, which has generated a great deal of excitement. The new eyewear product from Luxottica has also started to ship, with new lines rolling out also during the next few months. We're very excited about the long-term global opportunities that will develop out of this new relationship. The footwear business is also progressing with new product and sourcing strategies, supply chain initiatives, and showrooms all being developed for both men's and women's. With the addition of the small leather goods and belts business in fiscal 2008, we believe we are on a path to upgrade, improve and extend our overall accessory business.

Fiscal 2008 will continue to see ongoing investments in brand elevation, specialty retail, international expansion, and the infrastructure to support a growing global Company. We will also support two new initiatives, including the starting of a new dress division and the development of our new business, Global Brand Concepts, or GBC. While these will have short-term negative financial impacts on fiscal 2008, they are important opportunities for future profitable growth. The dress business represents another opportunity to build additional merchandise categories using very strong existing brands. Initially focused on Lauren and Chaps, we also expect it to be an important to any new brands developed under GBC. We are very excited about the creation of this new division, GBC. This corporation has the unique talent to develop terrific product and marketing, built for a distinctive customer. We have-- we've had a tremendous amount of interest from all of our existing customers to explore opportunities to develop full life-style brands for their unique channel of distribution.

We have selected a partnership with JC Penney to build this total concept. American Living will have all product categories, including men's, women's, children's, accessories and home. Distribution will be exclusive, and will begin in spring of 2008 in all of their major stores supported by the catalog and Internet. We will design, manufacture and ship the product. We will also control and direct the brand marketing, imaging and in-store presentations. Our current success in a similar channel gives us a high degree of confidence in our ability to execute this major business opportunity. While we will be incurring expense for 12 months until we start shipping product next January, this is, however, a unique relationship that will have important financial impact in future years.

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

So as Ralph said, we are very excited by the continued success of our Company and the positive response to our overall strategy and direction. We feel there is a clear path for future growth, and we have the creative and operational talent to achieve our vision. I would like to extend a worldwide thanks to all the hard working and committed employees who contributed to our tremendous success. And at this point, we'll be happy to field a few questions, if there are any.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] Brian McGough, Morgan Stanley.

Brian McGough - Morgan Stanley - Analyst

I actually have a couple of questions on Global Brand Concepts. This is an industry where there's not a lot of big ideas. And this just seems like it could be a really big idea. Is there any reason why this can't be a business that's over \$1 billion a couple years out? And also, I was wondering if you could just give us a little bit of color on the whole global angle of this. Because I would think that while you're starting into U.S., there's probably a bigger opportunity outside of the U.S. than in. Thanks.

Roger Farah - Polo Ralph Lauren Corporation - President & COO

Okay, Brian. Good morning. I think that it is really a big idea, and it's a particularly big idea being done by this Company. As you know and others know, our Company is really founded on creativity, imagination and branding. So for us to be willing to pull -- to full forth an effort of our corporation behind this, is really truly unique in my opinion. I also believe to your point, Brian, we would not have done this if we didn't think it was going to be a truly big business. We certainly don't need something small to distract us with. So we see the opportunities unlimited. Really our desire to start the first relationship with Penney is partly because of the scale and the breadth of their distribution of stores, catalog and Internet. They have called it the biggest launch in their history, and I think time will prove that to be true, and perhaps an understatement. So when you look the a the size of their existing private brands, many of which do not have men's, women's, kids, accessories and home, I think the size and scale and financial impact to JC Penney and to Polo Ralph Lauren could be truly, truly large.

The other piece of your question, which is the global aspects, I think is also a good one, because everything we do today has a global sensibility. So the success we've enjoyed in extending our businesses around the world, really begin because there's clarity about the brand and who we are and what we're trying to represent. I think over time, the brands that are developed under this new concept could have global applications. So we are really treating it as a big deal. It's partly why we're investing importantly in it over the next 12 months. But I think it's just the beginning of what could be a very large opportunity. We obviously waited to do this, recognizing that we've come a long way in trading up and purifying our own distribution channels by brand. We think it's a perfect time to step in where there's a void. With that said, we've had interesting conversations with every one of our major customers at all price points who have an interest in seeing where they could go with Global Brand Concepts. So didn't mean to spend a lot of time on it, other than to say it is a huge idea. We're confident in our ability to execute with our first customer. I think we'll all see the product and the execution begin to roll out next January, February, and we are all very excited about it.

Brian McGough - Morgan Stanley - Analyst

Thanks. And then just a quick follow-up on that. With the retailer bearing the costs of marketing and also bearing the inventory risk, is there any reason why, after the initial start-up period, this wouldn't be both margin and ROIC accretive?

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Roger Farah - Polo Ralph Lauren Corporation - President & COO

We have a point of view that every relationship will be different in terms of how we structure this. Do I think this will be accretive to our earnings? Absolutely. And I think it will be certainly ROIC accretive.

Brian McGough - Morgan Stanley - Analyst

Okay. Thanks a lot.

Operator

Liz Dunn, Thomas Weisel Partners.

Liz Dunn - Thomas Weisel Partners - Analyst

Congratulations on a great quarter. Can you hear me?

Roger Farah - Polo Ralph Lauren Corporation - President & COO

Yes, we can.

Liz Dunn - Thomas Weisel Partners - Analyst

Okay. Great. I guess on the guidance, can you sort of discuss how your seasonality as changed over time? Because I think we've seen the fourth quarter shift a little bit in importance. And then also, I think some people are sort of looking at it as you beat the consensus significantly and didn't raise by as much. But you've never provided quarterly guidance. So can you sort of talk about the results this quarter versus your own expectations, and give us some comfort that the fourth quarter is sort of in line with your previous expectations?

Roger Farah - Polo Ralph Lauren Corporation - President & COO

Sure. I'll start with the first part, which is the seasonality. There are some things that over the last couple years have shifted the flow by quarter. They include, obviously, the significant growth and the profitability of our retail business, where we've gone from very low single-digit segment reported operating profit to, as you've seen through the first nine months, very high levels of improvement, which should result in mid teens kind of numbers. So that does play out in the four quarters, where in the past, the small amount of money we made tended to fall in our third quarter. Two, with the ongoing improvements of Europe, which as you know, has very large distortions in two quarters, and lower quarters in the other two times of the year, that, with growth, has also tended to impact the quarterly flow. Lastly, the fourth quarter, which has historically been a very large shipping quarter for the wholesale businesses, has begun to move as we've added in women's businesses and kids businesses, where that April, May, June delivery period, or our first quarter, is very important, particularly in kids, as it's a lead-in to back to school, and the women's business, which is more evenly flowed. When we were mostly dependent on the wholesale business, the shipping of spring tended to distort the fourth quarter and disadvantage the first quarter. As we've tried to ship product closer to wear now, that's tended to thin out the fourth quarter and move profitability into the first quarter. And I think if you recall the last two years, we've seen significant growth in the profitability of our first quarter businesses. So all of those factors and several others do, in fact, impact the quarterly flow.

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

In terms of the guidance, since my answer was so long, I want to make sure I remember your second question. We've given annual guidance to the best of our ability at the start of the year, i.e., February. And then we've tried to update it as we go along, without giving specific quarterly guidance. So that's our best thinking given what we know today. It really comes out of a very extensive budgeting process that starts around the middle of October and runs through February. So it's based on detailed plans by business, by geography. And then as we get into the year, and as you all know, the year is fluid, we see how it unfolds and we attempt to update. Clearly, third quarter was a spectacular quarter. Although it looks on paper consistent with what has been a spectacular year, I think the experts had some concern about Christmas and warmer weather patterns and industry consolidations as risks to the quarter. I think our achievements, both at retail and with a 7-point-something comp and an outstanding profit flow through, which speaks to the quality of the retail sales. And the wholesale performance, given that disruptive environment plus the transition of jeans and the transition of footwear, is equally an outstanding performance, and is beyond what we had originally budgeted. Those results are coming out of the core businesses outperforming. The new businesses and the transition costs of that are performing about as expected.

So really the over-achievement against our initial guidance is coming out of the core businesses, as we continue to outperform the industry and our own expectations. So I tried to highlight a couple of the new initiatives in '08. Brian has clearly pointed out the size and scope of Global Brand Concept and what it could mean in the short and long-term, which we're very excited about. We think our recent history has been one of demanding high performance out of our core businesses, at the same time seeding new businesses that will have future earnings contributions. And I think we've done that pretty well. Tracey articulated the ongoing ROI improvements for our corporation, inventory turns, growing margins and expense reductions. So I think we've feathered in new businesses, invested in the ongoing strategies, in a balanced way as we can.

Liz Dunn - *Thomas Weisel Partners - Analyst*

Okay, great. All very impressive. Congrats again.

Operator

David Glick, Buckingham Research.

David Glick - *Buckingham Research - Analyst*

Congratulations on a great quarter and on exciting American Living announcement. Roger, if you would, just a few more follow-ups on the American Living business. If you could give us a sense, how you see the businesses kind of rolling out from the launch in Q4 '08 throughout calendar '08. The magnitude of the investments you're going to make in the build-up of the business before you ship the -- ship the product. And then qualitatively, help us understand the requirements on the front end of the business, how much you need to staff up in terms of design, merchandising, marketing, and how much you can really leverage the back end of the business.

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

Okay. Let me try to give you that, David, in some kind of summary form, because it could be a very long discussion. Our experience with a similar initiative over the last year has given us a real education on the type of commitments, resources, people, and expense that we have to employ to get this up and running. And I would say, even to our own surprise, the execution on that over the last couple years has been really flawless, from product design to manufacturing to supply chain, transportation, logistics, distribution issues. We've really done that quite well. So this is not completely virgin territory for us. We will attempt to launch the major product lines of men's, women's and kids in the January, February period of next year. And by the end of fiscal '08 would hope to have all the product categories, both owned and licensed, begun with JC Penney. So they all won't start spring of next year, but the major ones will. We are planning to launch in all the major stores, with catalog and Internet

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

support. I think JC Penney believes strongly, as we do, that in order to establish this brand, we need to have not only the product, but the marketing, the advertising and the in-store presentations executed, so that this truly registers with the customer in an important way.

So real estate decisions, presentation standards, the independent advertising, marketing, brand building, which we do so well for all of our brands, all of that will be applied to the creation of American Living. And we will allocate dedicated resources, and in some cases, share some of the existing expertise we have to get this up and running. This project internally has been thought about and contemplated for a while. We think given that it's early February, we're on a track now, since it's been announced, to open up the jets and run full steam to deliver this product on time in January. It's a monumental effort to launch a brand in all of these categories, but I think the organization is quite excited. It also gives us an opportunity to give some of our creative talent and operational talent new exposures and keep them growing and developing. So part of what our success has been in these new initiatives over the last couple years is the talent we have in this Company, and I think this gives them an opportunity to spread their wings a bit. So it's a big deal, and it's going to have significant financial impact in fiscal '09.

David Glick - *Buckingham Research - Analyst*

And is home the primary category that will be licensed out?

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

Yes, and selected other categories that may not be within our core competence to do, that will support the brand. Not inconsistent with some of the categories we license at Ralph Lauren.

David Glick - *Buckingham Research - Analyst*

So, at least two-thirds of the revenues you will be -- about maybe a max of third licensed?

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

I don't have a breakout, but clearly the majority of the business will be owned.

David Glick - *Buckingham Research - Analyst*

Okay. Very good. Thank you very much. Congratulations.

Operator

Gabrielle Kivitz, Deutsche Bank.

Gabrielle Kivitz - *Deutsche Bank - Analyst*

Good morning, and congratulations on another fantastic quarter.

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

Thank you, Gabrielle.

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Gabrielle Kivitz - Deutsche Bank - Analyst

So first question, on Europe, Roger, I was hoping you could talk a little more about the outlook in Europe. Will you continue to invest in marketing at the same rate? I know you had been doing that and getting great returns. Also, specifically, where do you have most of the opportunity? Is it more in incremental square footage, in existing doors, is it new doors, new countries? Just talk a little bit more about the outlook. And then also, you launched the children's business there, did an incremental summer line, I think, last year. Are there other opportunities like that, as well? If you could just kind of give more color on the outlook there. Thanks.

Roger Farah - Polo Ralph Lauren Corporation - President & COO

Okay. We had a very good fall and holiday season in Europe, and obviously, first nine months. I think the strategies that you touched on, and others, are playing out for us in an integrated way between retail and wholesale. We had very strong reaction this holiday season to some fantastic product in all of the key markets of Europe. And we expect to continue to invest in growing our retail presence in that market, whether they be large stores, like Milan, or smaller stores, like a kids store, we are exploring actively opportunities to grow our own retail business. Separately, but in complement to that, is a very successful wholesale business, which is not predicated on expanding doors. But is predicated on elevating and enhancing the existing doors we're in. We have made sizable investments in key distribution points in Europe and will continue to do so. As a matter of fact, Europe, between wholesale, retail and infrastructure, could get as much as a third of our capital next year, as we continue to see that as a unique opportunity and build on what we've established. There is truly strength today in the high end of women's collection, Black and Blue, as well as high end in men's. As you articulated, the kids strategy is working very nicely, in terms of gaining a lead pan-European position with our upper end kids business.

Separately, while we do have a handful of selected licensed stores in Europe, i.e. Greece, or the Middle East, or soon to be opened in Moscow, we have upped the involvement of our people in merchandising assortments, visual merchandising, presentations, the type of selling associates and their training to a very successful conclusion. I think you probably saw, or maybe didn't focus on, in our press release, we included the number of international licensed stores that we have. It's a significant number. We have really invested both in Asia, South America and Europe in upping that level of execution to match the level of execution we have in our own stores, and the licensees are being good partners. So whether it's capital, whether it's time and energy in marketing and expense, we continue to invest heavily in Europe. And the results have been very satisfying in terms of elevating the brand and the financial payoff.

Gabrielle Kivitz - Deutsche Bank - Analyst

Thank you. And if I could ask a follow-up on the dress business, you had mentioned that as a big opportunity for '08. When exactly in '08 is that expected to launch? Which quarter? Is there a separate real estate strategy, separate shops you would have, similar to what you're doing with the jeans business? If you could just talk about how big the opportunity is with that category. Thanks.

Roger Farah - Polo Ralph Lauren Corporation - President & COO

Okay. We've always had some dresses as part of our sportswear line, but the opportunity to go after the dedicated dress business is very real. We will begin to ship January, February of next year, first in Lauren, where we've had tremendous success in the extensions of that business from the sportswear to the active sportswear, now to dresses, obviously into accessories. We are looking for dedicated space, and we are building a designated and expert team as we speak. That will also, in its initial timetable, cover the Chaps business, where we've had such terrific success to our women's product, and there's a big appetite for dresses. We also plan on making it a part of the early launch of American Living at JC Penney. So those three distribution points all in and around January, February will be on the receiving end of our first deliveries.

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Gabrielle Kivitz - *Deutsche Bank - Analyst*

Great. Thank you. Good luck.

Operator

[OPERATOR INSTRUCTIONS] Virginia Genereux, Merrill Lynch.

Virginia Genereux - *Merrill Lynch - Analyst*

Two quick ones, if I may. Nancy and Tracey, anything as far as sort of the March EPS being down year-over-year, which I think your guidance implies, anything in particular pressuring that? Because I feel like you guys are against the investment in the Tokyo store, that you are anniversaring some stuff that would help you. Just wondering about March, firstly. And then secondly, Roger, if you can -- on the Global Brands. The economics with JP Penney is, for the wholesale apparel businesses, is going to be just like your existing -- it's just like your Chaps relationship with Kohl's, is that right? That it's your -- a typical wholesale relationship. It's not -- are they paying you a royalty mask? And part B, sir, would you consider -- or have you considered using this as a vehicle to enter the mass channel, a Tesco, or a Wal-Mart, or something like that? Thank you.

Tracey Travis - *Polo Ralph Lauren Corporation - CFO & SVP*

Okay. Virginia, this is Tracey. Regarding the fourth quarter, I would not assume that we're anticipating that the fourth quarter is down in EPS. There are a couple of things that I mentioned earlier that I'll call out for you, in terms of the fourth quarter. In the fourth quarter of last year, we rolled out Chaps women's and children's product. So we're lapping that rollout this year. We have benefited all year from the incremental sales related to the Chaps women's and children's products, and which has performed quite well for us. In addition, last year in fourth quarter, we acquired our Polo Jeans license. So all year, we've actually called out our reported numbers from a growth standpoint, as well as adjusted numbers for the Polo Jeans product. Obviously, we are also lapping that acquisition from last year. So our wholesale revenue growth associated with the comparable sales last year, is not as robust as it has been year-to-date.

From a retail standpoint, I also called out that last year we were reporting RL Media on a one quarter lag. So the October through December timeframe, which is huge for RL Media, obviously as it is for most retail concepts, and certainly dot-com concepts, those sales actually fell into the fourth quarter of last year, as opposed to the third quarter this year. So we are also lapping that year-over-year comparison in our retail segment. So the combination of those two items, there's some shifting in terms of year-over-year comparatives that are causing the fourth quarter to be not as stellar from a comparative standpoint year-over-year as the first three quarters. Nevertheless the full year, as you can see, is quite remarkable for us.

Virginia Genereux - *Merrill Lynch - Analyst*

Thank you. And Tracey, you said that you did not -- you do not expect EPS to be down in the fourth quarter. Is that right, may I ask?

Tracey Travis - *Polo Ralph Lauren Corporation - CFO & SVP*

No, we do not.

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Virginia Genereux - *Merrill Lynch - Analyst*

Okay, that gets me a little higher. Thank you. And then, sir, Roger, your thoughts on Global Brands.

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

Yes, I don't think we would ever entertain going into the mass channel. As a matter of fact, the early reaction to the announcement has had us in discussions with much higher tier retailers than American Living or Chaps. So I think quite frankly, as David and others have asked, the current 12 month dance card is full relative to getting this American Living launched and developed properly. But future partnerships, in my opinion, will not be going below the price points that these are currently envisioned at. Separately, while every relationship can have different characteristics, this one is modeled somewhat on a wholesale -- more classic wholesale basis. So from a P&L point of view, ROIC point of view, all of those things should mirror more closely a classic wholesale relationship.

Virginia Genereux - *Merrill Lynch - Analyst*

Thank you. That's very helpful. Great job, as always.

Operator

Robbie Ohmes, Banc of America Securities.

Robbie Ohmes - *Banc of America Securities - Analyst*

Just a couple of really brief follow-up questions. The first question, I guess for Roger, and I don't even know if you can answer this one. But the -- you mentioned that it was tough at retail for a lot of people, but you guys did great. Do you think that your business in the U.S. was restrained in the fourth quarter, and that your underlying momentum is a lot stronger than what we're looking at in the fourth quarter -- sorry, in the quarter numbers -- the third quarter numbers you just reported? And then a follow-up question is, can you talk about if there's any progress on bringing the Asian sublicensees back in-house, or the accessories license back in-house? Thanks.

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

Okay, Robbie. As I said, we are very pleased with our holiday. We'll just call it holiday. We won't get hung up on third versus fourth. Results for our own retail stores were very strong. As you all know, it was a very unusual weather pattern in November and December, and we do have a significant concentration of retail in the Northeast and Midwest. So we were very pleased, given all of that, with the holiday results. I attribute that to great products. I mean, let's have no mistake. Our business model starts with great product. We believe the product for the holiday, fall holidays and early transition products were very strong, and I think the customer reacted accordingly. With that said, our business at retail was better in Europe than the United States. So even with the strong overall results, we did get some distortion.

Separately, the Club Monaco performance, I would be remiss if I didn't mention, has been outstanding. The kind of comp store numbers they have run all year, and they ran in the holiday season, is being driven by, again, outstanding product, clarity about who the customer is, and the kind of product we've built for that customer, was extremely well received, particularly by the female customer in apparel and accessories. So that business has had an outstanding nine months. As we've said in the past, our efforts to reposition it have really paid off. And the ongoing international growth that they are beginning to experience in Asia and in the Middle East with their license partners, shared that success, as well. So there is a very aggressive opportunity to roll that business out internationally over the next couple years, which we are deep into discussions. So whether it was the

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Ralph Lauren stores, the factory stores, or Club Monaco, I think great product sort of carried the day, despite the ups and downs of weather. And parenthetically, we're now in what's supposed to be the coldest February in recent time. So, I can't -- your earlier question, you didn't know whether I can answer it. I certainly can't answer the weather question. And I think we continue to execute irrespective.

Robbie Ohmes - Banc of America Securities - Analyst

And then on the licenses coming back in-house.

Roger Farah - Polo Ralph Lauren Corporation - President & COO

Oh, sorry. At this point, we continue to work very hard, and have spent time and energy building up our Asian oversight to improve product, improve presentation, elevate and spend more on marketing. We are trying to use a lot of the same techniques that have worked for us in the European markets. I think Nancy touched on, it probably got lost in the script, the Asian businesses have been good. We enjoyed improved results throughout Asia, and that continues to be a hybrid of our initiatives and our license initiatives, and that's where we really stand at the moment.

Robbie Ohmes - Banc of America Securities - Analyst

Geat. Thank you very much.

Operator

Elizabeth Montgomery, Cowen.

Elizabeth Montgomery - Cowen and Company - Analyst

Congratulations on the good quarter. I just have kind of a quick follow-up. That \$180 million in CapEx, is that for '08 or for '07?

Tracey Travis - Polo Ralph Lauren Corporation - CFO & SVP

That was for '07.

Elizabeth Montgomery - Cowen and Company - Analyst

Is that down from your prior expectation, which I thought was around 200?

Tracey Travis - Polo Ralph Lauren Corporation - CFO & SVP

Exactly, yes, it is. We expect it to come in more -- closer to the 180 number at this point in time. Same mix, though, as we had shared with you before.

Elizabeth Montgomery - Cowen and Company - Analyst

Any particular reason for the savings?

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Tracey Travis - *Polo Ralph Lauren Corporation - CFO & SVP*

Just some shifts in priorities.

Elizabeth Montgomery - *Cowen and Company - Analyst*

Okay. And then, Roger, I guess I have a question on the dress business, the dress division. I'm assuming that a lot of these products are going to sit more in the classification area. Is that correct? And I guess, if you could give us any sense of the investment that will be required in that, since I would think that some of that could be kind of leveraged on the Lauren platform.

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

Okay. Well, the answer is yes, we do expect that the bulk of this product will sit in the classification department, which we think is an opportunity. While this has been a terrific dress year, our decision to get into this business is irrespective of a one or two year trend. We think we have something to say, and we think the customer is looking for us to express the Lauren or a Chaps or an American Living point of view. As far as the expenses necessary, we will for sure draft off some of the Lauren group. But there is need for dedicated design, dedicated pattern rooms, dedicated manufacturing capabilities. So there is some incremental expense that goes into this, even if some of it is drafted off the parent brand.

Elizabeth Montgomery - *Cowen and Company - Analyst*

Okay. Thanks very much.

Operator

Jennifer Black, Jennifer Black & Associates.

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

Good morning, Jennifer.

Operator

Ms. Black, your line is open.

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

Okay. No Jennifer. Can we go to the next question?

Operator

Melissa Otto, WR Hambrecht.

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Melissa Otto - *WR Hambrecht - Analyst*

Hi, congratulations on a great quarter. Just had a question on the Japan store in Omotesando. Would you talk a little bit about the performance of that store, and whether or not it exceeded expectations?

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

Okay. Well, as you know, we opened that store about the 28th of March last year. So we are almost one year around. It has been a fabulous experience, in that it's our first attempt to give the Japanese customer an unfiltered view of the world of Ralph Lauren. We certainly merchandised that store with the best of the best in apparel, accessories and all the products. It also has some distorted presentation of RRL and some product that is not as commonly found in the United States. The Japanese customer has actually responded very well to what's unique, and what's different, and what has not been in the marketplace before. We are also getting a very young customer, which we think is very exciting. And in fact, the staff that we trained and indoctrinated for the opening has actually experienced very low turnover. So what we're seeing is the organization we've built over there is very proud and excited to be part of the corporation, and I think that's being conveyed to the customer. So at this point, through the first 10.5, 11 months, the store is on plan. And I think in addition to its individual performance, it is successfully haloing the Company in that market, which was one of our intents. So we're pleased. We think we'll build that in year two, and it will begin to build, as London did when it opened, and Milan has done over the last couple years. So we're very pleased with the time, energy, money and investment we've put into that facility.

Melissa Otto - *WR Hambrecht - Analyst*

Are there plans to open additional stores in Japan?

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

Yes. I think over time we would like to look at other stores. Not just in Tokyo, but other markets in that country.

Melissa Otto - *WR Hambrecht - Analyst*

Will you be able to give any specifics around the number of store openings maybe we can expect over the next 12 months?

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

I think as we have specific plans, we'll be happy to share them. At this point, I think it would be premature.

Melissa Otto - *WR Hambrecht - Analyst*

Okay.

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

I would also say, beyond Japan, we continue to look at upgrading and opening stores in the rest of the Asia-Pacific region, which we think is -- it's a very big region for us now, but will continue to be even more going forward.

Feb. 07. 2007 / 9:00AM, RL - Q3 2007 Polo Ralph Lauren Corporation Earnings Conference Call

Melissa Otto - *WR Hambrecht - Analyst*

And then just one final follow-up question on Asia. We've been hearing a lot of reports of just terrific retail performance coming out of mainland China. Have you been experiencing this, as well?

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

We're not as far along in mainland China as perhaps others. That works through a licensed relationship that we have. So I think where we have put a stake in the ground, we've done well. But I think our efforts at this point have been more spread out throughout the Pacific region.

Melissa Otto - *WR Hambrecht - Analyst*

Great. Thank you very much, and congratulations once again.

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

So at this point, we would like to thank you all for listening and participating in our third quarter call. We appreciate your ongoing interest and excitement, and we'll look forward to updating you at the end of the fourth quarter. Thank you.

Operator

And that does conclude today's conference. We thank you for your participation, and have a great day.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2007, Thomson Financial. All Rights Reserved.