

RALPH LAUREN CORP
Form 10-Q
November 08, 2018

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

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

For the quarterly period ended September 29, 2018

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

Commission File Number: 001-13057

Ralph Lauren Corporation

(Exact name of registrant as specified in its charter)

Delaware 13-2622036
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
650 Madison Avenue, 10022
New York, New York (Zip Code)

(Address of principal executive offices)

(212) 318-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At November 2, 2018, 54,556,873 shares of the registrant's Class A common stock, \$.01 par value, and 25,881,276 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

RALPH LAUREN CORPORATION
INDEX

	Page
PART I. FINANCIAL INFORMATION (Unaudited)	
Item 1. Financial Statements:	
<u>Consolidated Balance Sheets</u>	<u>2</u>
<u>Consolidated Statements of Operations</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>65</u>
Item 4. <u>Controls and Procedures</u>	<u>65</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>66</u>
Item 1A. <u>Risk Factors</u>	<u>66</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>66</u>
Item 6. <u>Exhibits</u>	<u>67</u>
<u>Signatures</u>	<u>68</u>
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101	INSTANCE DOCUMENT
EX-101	SCHEMA DOCUMENT
EX-101	CALCULATION LINKBASE DOCUMENT
EX-101	LABELS LINKBASE DOCUMENT
EX-101	PRESENTATION LINKBASE DOCUMENT
EX-101	DEFINITION LINKBASE DOCUMENT

RALPH LAUREN CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 30, 2018	March 31, 2018
	(millions)	
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$553.1	\$1,304.6
Short-term investments	1,319.5	699.4
Accounts receivable, net of allowances of \$215.9 million and \$222.2 million	432.3	421.4
Inventories	994.6	761.3
Income tax receivable	34.9	38.0
Prepaid expenses and other current assets	359.1	323.7
Total current assets	3,693.5	3,548.4
Property and equipment, net	1,130.5	1,186.3
Deferred tax assets	67.6	86.6
Goodwill	928.6	950.5
Intangible assets, net	175.0	188.0
Other non-current assets	160.3	183.5
Total assets	\$6,155.5	\$6,143.3
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$—	\$10.1
Current portion of long-term debt	—	298.1
Accounts payable	202.1	165.6
Income tax payable	42.8	30.0
Accrued expenses and other current liabilities	996.2	1,083.4
Total current liabilities	1,241.1	1,587.2
Long-term debt	683.9	288.0
Income tax payable	124.8	124.8
Non-current liability for unrecognized tax benefits	80.0	79.2
Other non-current liabilities	563.7	606.7
Commitments and contingencies (Note 13)		
Total liabilities	2,693.5	2,685.9
Equity:		
Class A common stock, par value \$.01 per share; 102.9 million and 102.0 million shares issued; 54.6 million and 55.4 million shares outstanding	1.0	1.0
Class B common stock, par value \$.01 per share; 25.9 million shares issued and outstanding	0.3	0.3
Additional paid-in-capital	2,448.0	2,383.4
Retained earnings	5,925.4	5,752.2
Treasury stock, Class A, at cost; 48.3 million and 46.6 million shares	(4,804.9)	(4,581.0)
Accumulated other comprehensive loss	(107.8)	(98.5)
Total equity	3,462.0	3,457.4
Total liabilities and equity	\$6,155.5	\$6,143.3
See accompanying notes.		

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
	(millions, except per share data)			
	(unaudited)			
Net revenues	\$1,690.9	\$ 1,664.2	\$3,081.5	\$ 3,011.3
Cost of goods sold	(661.6)	(668.4)	(1,156.5)	(1,164.3)
Gross profit	1,029.3	995.8	1,925.0	1,847.0
Selling, general, and administrative expenses	(793.6)	(772.7)	(1,535.5)	(1,487.1)
Impairment of assets	(9.8)	(11.2)	(11.1)	(20.9)
Restructuring and other charges	(15.9)	(18.6)	(38.3)	(55.4)
Total other operating expenses, net	(819.3)	(802.5)	(1,584.9)	(1,563.4)
Operating income	210.0	193.3	340.1	283.6
Interest expense	(6.0)	(4.6)	(10.4)	(9.6)
Interest income	10.4	2.3	19.6	4.3
Other income (expense), net	0.4	0.2	(1.6)	(0.3)
Income before income taxes	214.8	191.2	347.7	278.0
Income tax provision	(44.5)	(47.4)	(68.4)	(74.7)
Net income	\$170.3	\$ 143.8	\$279.3	\$ 203.3
Net income per common share:				
Basic	\$2.09	\$ 1.76	\$3.42	\$ 2.49
Diluted	\$2.07	\$ 1.75	\$3.37	\$ 2.47
Weighted average common shares outstanding:				
Basic	81.3	81.7	81.6	81.6
Diluted	82.3	82.3	82.8	82.4
Dividends declared per share	\$0.625	\$ 0.50	\$1.25	\$ 1.00
See accompanying notes.				

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(millions)			
	(unaudited)			
Net income	\$170.3	\$ 143.8	\$279.3	\$ 203.3
Other comprehensive income (loss), net of tax:				
Foreign currency translation gains (losses)	(6.2)	31.1	(36.9)	87.7
Net gains (losses) on cash flow hedges	(0.2)	(2.3)	27.5	(24.3)
Net gains (losses) on defined benefit plans	—	(0.1)	0.1	(0.4)
Other comprehensive income (loss), net of tax	(6.4)	28.7	(9.3)	63.0
Total comprehensive income	\$163.9	\$ 172.5	\$270.0	\$ 266.3

See accompanying notes.

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	September 30,	September 30,
	2018	2017
	(millions)	
	(unaudited)	
Cash flows from operating activities:		
Net income	\$279.3	\$ 203.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	140.0	146.7
Deferred income tax expense (benefit)	11.2	(25.3)
Non-cash stock-based compensation expense	42.8	39.4
Non-cash impairment of assets	11.1	20.9
Non-cash restructuring-related inventory charges	—	1.3
Other non-cash charges	6.2	4.4
Changes in operating assets and liabilities:		
Accounts receivable	(18.7)	(17.4)
Inventories	(251.8)	(53.4)
Prepaid expenses and other current assets	(49.8)	(1.9)
Accounts payable and accrued liabilities	3.4	72.2
Income tax receivables and payables	29.5	51.4
Deferred income	(11.6)	3.0
Other balance sheet changes	21.4	(7.6)
Net cash provided by operating activities	213.0	437.0
Cash flows from investing activities:		
Capital expenditures	(93.1)	(74.7)
Purchases of investments	(1,822.8)	(426.3)
Proceeds from sales and maturities of investments	1,211.4	591.3
Acquisitions and ventures	(4.5)	(3.6)
Settlement of net investment hedges	(23.8)	—
Net cash provided by (used in) investing activities	(732.8)	86.7
Cash flows from financing activities:		
Repayments of short-term debt	(9.9)	—
Proceeds from the issuance of long-term debt	398.1	—
Repayments of long-term debt	(300.0)	—
Payments of capital lease obligations	(10.5)	(14.2)
Payments of dividends	(91.3)	(81.1)
Repurchases of common stock, including shares surrendered for tax withholdings	(223.9)	(14.6)
Proceeds from exercise of stock options	21.8	0.1
Other financing activities	(2.8)	—
Net cash used in financing activities	(218.5)	(109.8)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(20.7)	33.2
Net increase (decrease) in cash, cash equivalents, and restricted cash	(759.0)	447.1
Cash, cash equivalents, and restricted cash at beginning of period	1,355.5	711.8
Cash, cash equivalents, and restricted cash at end of period	\$596.5	\$ 1,158.9
See accompanying notes.		

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Description of Business

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

The Company diversifies its business by geography (North America, Europe, and Asia, among other regions) and channel of distribution (wholesale, retail, and licensing). This allows the Company to maintain a dynamic balance as its operating results do not depend solely on the performance of any single geographic area or channel of distribution. The Company's wholesale sales are made principally to major department stores and specialty stores around the world, as well as to certain unrelated third party-owned stores to which the Company has licensed the right to operate in defined geographic territories using its trademarks. The Company also sells directly to consumers through its integrated retail channel, which includes its retail stores, concession-based shop-within-shops, and digital commerce operations around the world. In addition, the Company licenses to unrelated third parties for specified periods the right to access its various trademarks in connection with the licensees' manufacture and sale of designated products, such as certain apparel, eyewear, fragrances, and home furnishings.

The Company organizes its business into the following three reportable segments: North America, Europe, and Asia. In addition to these reportable segments, the Company also has other non-reportable segments. See Note 17 for further discussion of the Company's segment reporting structure.

2. Basis of Presentation

Interim Financial Statements

These interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and are unaudited. In the opinion of management, these consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial position, income, comprehensive income, and cash flows of the Company for the interim periods presented. In addition, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") and the notes thereto have been condensed or omitted from this report as is permitted by the SEC's rules and regulations. However, the Company believes that the disclosures provided herein are adequate to prevent the information presented from being misleading. This report should be read in conjunction with the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended March 31, 2018 (the "Fiscal 2018 10-K").

Basis of Consolidation

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

Fiscal Periods

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2019 will end on March 30, 2019 and will be a 52-week period ("Fiscal 2019"). Fiscal year 2018 ended on March 31, 2018 and was also a

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52-week period ("Fiscal 2018"). The second quarter of Fiscal 2019 ended on September 29, 2018 and was a 13-week period. The second quarter of Fiscal 2018 ended on September 30, 2017 and was also a 13-week period.

Use of Estimates

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

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

Reclassifications

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

Seasonality of Business

The Company's business is typically affected by seasonal trends, with higher levels of wholesale sales in its second and fourth fiscal quarters and higher retail sales in its second and third fiscal quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school, and holiday shopping periods impacting our retail business. As a result of changes in our business, consumer spending patterns, and the macroeconomic environment, historical quarterly operating trends and working capital requirements may not be indicative of our future performance. In addition, fluctuations in sales, operating income, and cash flows in any fiscal quarter may be affected by other events affecting retail sales, such as changes in weather patterns. Accordingly, the Company's operating results and cash flows for the three-month and six-month periods ended September 29, 2018 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2019.

3. Summary of Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue across all segments of the business when it satisfies its performance obligations by transferring control of promised products or services to its customers, which occurs either at a point in time or over time, depending on when the customer obtains the ability to direct the use of and obtain substantially all of the remaining benefits from the products or services. The amount of revenue recognized considers terms of sale that create variability in the amount of consideration that the Company ultimately expects to be entitled to in exchange for the products or services, and is subject to an overall constraint that a significant revenue reversal will not occur in future periods. Sales and other related taxes collected from customers and remitted to government authorities are excluded from revenue.

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

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue within the Company's retail business is recognized when the customer takes physical possession of the products, which occurs either at the point of sale for merchandise purchased at the Company's retail stores and concession-based shop-within-shops, or upon receipt of shipment for merchandise ordered through direct-to-consumer digital commerce sites. Such revenues are recorded net of estimated returns based on historical trends. Payment is due at the point of sale.

Gift cards issued to customers by the Company are recorded as a liability until they are redeemed, at which point revenue is recognized. The Company also estimates and recognizes revenue for gift card balances not expected to ever be redeemed (referred to as "breakage") to the extent that it does not have a legal obligation to remit the value of such unredeemed gift cards to the relevant jurisdiction as unclaimed or abandoned property. Such estimates are based upon historical redemption trends, with breakage income recognized in proportion to the pattern of actual customer redemptions.

Revenue from the Company's licensing arrangements is recognized over time during the period that licensees are provided access to the Company's trademarks (i.e., symbolic intellectual property) and benefit from such access through their sales of licensed products. These arrangements require licensees to pay a sales-based royalty, which for certain arrangements may be subject to a contractually-guaranteed minimum royalty amount. Payments are generally due quarterly and, depending on time of receipt, may be recorded as a liability until recognized as revenue. The Company recognizes revenue for its sales-based royalty arrangements (including those for which the royalty exceeds any contractually-guaranteed minimum royalty amount) as licensed products are sold by the licensee. If a sales-based royalty is not ultimately expected to exceed a contractually-guaranteed minimum royalty amount, the minimum is recognized as revenue ratably over the contractual period. This sales-based output measure of progress and pattern of recognition best represents the value transferred to the licensee over the term of the arrangement, as well as the consideration that the Company is entitled to in exchange for providing access to its trademarks. As of September 29, 2018, contractually-guaranteed minimum royalty amounts expected to be recognized as revenue during future periods were as follows:

	Contractually-Guaranteed Minimum Royalties ^(a) (millions)
Remainder of Fiscal 2019	\$ 53.9
Fiscal 2020	88.5
Fiscal 2021	81.5
Fiscal 2022 and thereafter	65.7
Total	\$ 289.6

^(a) Amounts presented do not contemplate anticipated contract renewals or royalties earned in excess of the contractually guaranteed minimums.

See Note 4 for discussion of the Company's adoption of the new revenue recognition accounting standard as of the beginning of the first quarter of Fiscal 2019 and the resulting impact to its consolidated financial statements.

Disaggregated Net Revenues

The following tables disaggregate the Company's net revenues into categories that depict how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors for the periods presented:

	Three Months Ended September 29, 2018					September 30, 2017				
	North America	Europe	Asia	Other	Total	North America	Europe	Asia	Other	Total
	(millions)									
Sales Channel ^(a) :										
Wholesale	\$452.8	\$231.6	\$22.2	\$7.0	\$713.6	\$451.3	\$233.5	\$17.9	\$7.3	\$710.0

Edgar Filing: RALPH LAUREN CORP - Form 10-Q

Retail	435.4	227.6	222.5	47.4	932.9	424.3	229.5	198.9	54.6	907.3
Licensing	—	—	—	44.4	44.4	—	—	—	46.9	46.9
Total	\$888.2	\$459.2	\$244.7	\$98.8	\$1,690.9	\$875.6	\$463.0	\$216.8	\$108.8	\$1,664.2

8

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Six Months Ended September 29, 2018					September 30, 2017				
	North America	Europe	Asia	Other	Total	North America	Europe	Asia	Other	Total
	(millions)									
Sales Channel ^(a) :										
Wholesale	\$762.9	\$369.6	\$34.8	\$12.5	\$1,179.8	\$764.6	\$349.1	\$25.8	\$13.3	\$1,152.8
Retail	822.9	440.2	457.9	97.3	1,818.3	820.7	437.4	400.1	111.6	1,769.8
Licensing	—	—	—	83.4	83.4	—	—	—	88.7	88.7
Total	\$1,585.8	\$809.8	\$492.7	\$193.2	\$3,081.5	\$1,585.3	\$786.5	\$425.9	\$213.6	\$3,011.3

(a) Net revenues from the Company's wholesale and retail businesses are recognized at a point in time. Net revenues from the Company's licensing business are recognized over time.

Deferred Income

Deferred income represents cash payments received in advance of the Company's transfer of control of products or services to its customers and is generally comprised of unredeemed gift cards, net of breakage, and advance royalty payments from licensees. The Company's deferred income balances were \$20.0 million and \$31.7 million as of September 29, 2018 and March 31, 2018, respectively, and were primarily recorded within accrued expenses and other current liabilities within the consolidated balance sheets. During the three-month and six-month periods ended September 29, 2018, the Company recognized \$1.6 million and \$14.9 million, respectively, of net revenues from amounts recorded as deferred income as of March 31, 2018. The change in deferred income during the six months ended September 29, 2018 also reflected a reduction of \$6.1 million related to the Company's initial adoption of ASU 2014-09 (see Note 4). Substantially all of the deferred income balance as of September 29, 2018 is expected to be recognized as revenue within the next twelve months.

Shipping and Handling Costs

The costs associated with shipping goods to customers are accounted for as fulfillment activities and reflected as a component of selling, general, and administrative ("SG&A") expenses in the consolidated statements of operations. The costs of preparing merchandise for sale, such as picking, packing, warehousing, and order charges ("handling costs") are also included in SG&A expenses. Shipping and handling costs billed to customers are included in revenue.

A summary of shipping and handling costs is as follows:

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Shipping costs	\$10.9	\$ 9.4	\$19.6	\$ 16.7
Handling costs	39.0	38.4	74.7	75.6

Net Income per Common Share

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

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended		Six Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(millions)			
Basic shares	81.3	81.7	81.6	81.6
Dilutive effect of stock options and RSUs	1.0	0.6	1.2	0.8
Diluted shares	82.3	82.3	82.8	82.4

All earnings per share amounts have been calculated using unrounded numbers. Options to purchase shares of the Company's Class A common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding performance-based and market-based RSUs, which are included in the computation of diluted shares only to the extent that the underlying performance or market conditions (i) have been satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive. As of September 29, 2018 and September 30, 2017, there were 1.5 million and 2.3 million, respectively, of additional shares issuable upon exercise of anti-dilutive options and contingent vesting of performance-based RSUs that were excluded from the diluted shares calculations.

Accounts Receivable

In the normal course of business, the Company extends credit to wholesale customers that satisfy defined credit criteria. Payment is generally due within 30 to 120 days and does not include a significant financing component. Accounts receivable is recorded at carrying value, which approximates fair value, and is presented in the Company's consolidated balance sheets net of certain reserves and allowances. These reserves and allowances consist of (i) reserves for returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances (see the "Revenue Recognition" section above for further discussion of related accounting policies) and (ii) allowances for doubtful accounts.

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

	Three Months Ended		Six Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(millions)			
Beginning reserve balance	\$167.2	\$ 199.6	\$202.5	\$ 202.8
Amount charged against revenue to increase reserve	150.5	175.6	250.2	293.3
Amount credited against customer accounts to decrease reserve	(119.2)	(146.2)	(249.3)	(272.2)
Foreign currency translation	0.2	2.5	(4.7)	7.6
Ending reserve balance	\$198.7	\$ 231.5	\$198.7	\$ 231.5

An allowance for doubtful accounts is determined through an analysis of accounts receivable aging, assessments of collectability based on an evaluation of historical and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions, among other factors.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A rollforward of the activity in the Company's allowance for doubtful accounts is presented below:

	Three Months Ended		Six Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
	(millions)			
Beginning reserve balance	\$18.7	\$ 13.9	\$19.7	\$ 11.6
Amount recorded to expense to increase (decrease) reserve ^(a)	(0.5)	3.8	(0.5)	6.3
Amount written-off against customer accounts to decrease reserve	(1.0)	(0.7)	(1.4)	(1.4)
Foreign currency translation	—	0.3	(0.6)	0.8
Ending reserve balance	\$17.2	\$ 17.3	\$17.2	\$ 17.3

^(a) Amounts recorded to bad debt expense are included within SG&A expenses in the consolidated statements of operations.

Concentration of Credit Risk

The Company sells its wholesale merchandise primarily to major department and specialty stores around the world, and extends credit based on an evaluation of each customer's financial capacity and condition, usually without requiring collateral. In the Company's wholesale business, concentration of credit risk is relatively limited due to the large number of customers and their dispersion across many geographic areas. However, the Company has three key wholesale customers that generate significant sales volume. During Fiscal 2018, the Company's sales to its largest wholesale customer, Macy's, Inc. ("Macy's"), accounted for approximately 8% of total net revenues, and the Company's sales to its three largest wholesale customers, including Macy's, accounted for approximately 19% of total net revenues. Substantially all of the Company's sales to its three largest wholesale customers related to its North America segment. As of September 29, 2018, these three key wholesale customers constituted approximately 34% of total gross accounts receivable.

Inventories

The Company holds inventory that is sold through wholesale distribution channels to major department stores and specialty retail stores. The Company also holds retail inventory that is sold in its own stores and digital commerce sites directly to consumers. Substantially all of the Company's inventories are comprised of finished goods, which are stated at the lower of cost or estimated realizable value, with cost determined on a weighted-average cost basis. Inventory held by the Company totaled \$994.6 million, \$761.3 million, and \$864.6 million as of September 29, 2018, March 31, 2018, and September 30, 2017, respectively.

Derivative Financial Instruments

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

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

As a result of its use of derivative instruments, the Company is exposed to the risk that counterparties to such contracts will fail to meet their contractual obligations. To mitigate this counterparty credit risk, the Company has a policy of only entering into

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Cash Flow Hedges

The Company uses forward foreign currency exchange contracts to reduce its risk related to exchange rate fluctuations on inventory transactions made in an entity's non-functional currency, intercompany royalty payments made by certain of its international operations, and the settlement of foreign currency-denominated balances. To the extent forward foreign currency exchange contracts are designated as qualifying cash flow hedges, the related gains or losses are initially deferred in equity as a component of AOCI and are subsequently recognized in the consolidated statements of operations as follows:

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

Intercompany Royalties/Settlement of Foreign Currency Balances — recognized within other income (expense), net during the period that the hedged balance is remeasured through earnings, generally through its settlement when the related payment occurs.

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

Hedge of a Net Investment in a Foreign Operation

The Company periodically uses cross-currency swap contracts and forward foreign currency exchange contracts to reduce risk associated with exchange rate fluctuations on certain of its net investments in foreign subsidiaries. Changes in the fair values of such derivative instruments that are designated as qualifying hedges of net investments in foreign operations are recorded in equity as a component of AOCI in the same manner as foreign currency translation adjustments. In assessing the effectiveness of such hedges, the Company uses a method based on changes in spot rates to measure the impact of foreign currency exchange rate fluctuations on both its foreign subsidiary net investment and the related derivative hedging instrument. Under this method, changes in the fair value of the hedging instrument other than those due to changes in the spot rate are initially recorded in AOCI as a translation adjustment, and are amortized into earnings as interest expense using a systematic and rational method over the instrument's term. Changes in fair value associated with the effective portion (i.e., those due to changes in the spot rate) are recorded in AOCI as a translation adjustment and are released and recognized in earnings only upon the sale or liquidation of the hedged net investment.

Fair Value Hedges

Changes in the fair value of a derivative instrument that is designated as a fair value hedge, along with offsetting changes in the fair value of the related hedged item attributable to the hedged risk, are recorded in earnings. To the extent that the change in the fair value of the hedged item does not fully offset the change in the fair value of the hedging instrument, the resulting net impact is reflected in earnings within the income statement line item associated with the hedged item.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Undesignated Hedges

All of the Company's undesignated hedges are entered into to hedge specific economic risks, particularly foreign currency exchange rate risk related to foreign currency-denominated balances. Changes in the fair value of undesignated derivative instruments are immediately recognized in earnings within other income (expense), net.

See Note 12 for further discussion of the Company's derivative financial instruments.

Refer to Note 3 of the Fiscal 2018 10-K for a summary of all of the Company's significant accounting policies.

4. Recently Issued Accounting Standards

Implementation Costs in Cloud Computing Arrangements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" ("ASU 2018-15"). ASU 2018-15 addresses diversity in practice surrounding the accounting for costs incurred to implement a cloud computing hosting arrangement that is a service contract by establishing a model for capitalizing or expensing such costs, depending on their nature and the stage of the implementation project during which they are incurred. Any capitalized costs are to be amortized over the reasonably certain term of the hosting arrangement and presented in the same line as the service arrangement's fees within the statement of operations. ASU 2018-15 also requires enhanced qualitative and quantitative disclosures surrounding hosting arrangements that are service contracts. ASU 2018-15 is effective for the Company beginning in its fiscal year ending March 27, 2021, with early adoption permitted, and may be adopted on either a retrospective or prospective basis. The Company is currently in the process of evaluating the impact that ASU 2018-15 will have on its consolidated financial statements and related disclosures.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"). ASU 2017-12 amends existing hedge accounting guidance by better aligning an entity's financial reporting with its risk management activities and by simplifying its application. Among its provisions, ASU 2017-12 eliminates the requirement to separately measure and report ineffectiveness for instruments that qualify for hedge accounting, and generally requires that the entire change in fair value of such instruments ultimately be presented in the same income statement line as the respective hedged item. Additionally, the updated guidance reduces the overall complexity of the hedge accounting model, including easing documentation and effectiveness assessment requirements and modifying the treatment of components excluded from the assessment of hedge effectiveness. The new guidance also broadens the scope of risks eligible to qualify for hedge accounting and enhances the understandability of hedge results through amended disclosure requirements. ASU 2017-12 is to be applied using a modified retrospective transition approach, except for the amended presentation and disclosure requirements, which are to be applied prospectively.

The Company early-adopted ASU 2017-12 as of the beginning of the first quarter of Fiscal 2019, which resulted in a cumulative adjustment of \$0.7 million, net of tax, to increase its opening retained earnings balance. Overall, the adoption of ASU 2017-12 did not have a material impact on the Company's consolidated financial statements.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). ASU 2016-16 requires recognition of income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to a third party. The Company adopted ASU 2016-16 as of the beginning of the first quarter of Fiscal 2019 using the modified retrospective method, which resulted in a cumulative adjustment of \$0.6 million to reduce its opening retained earnings balance. Overall, the adoption of ASU 2016-16 did not have a material impact on the Company's consolidated financial statements.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires that a lessee's rights and fixed payment obligations under most leases be recognized as right-of-use assets and lease liabilities on the consolidated balance sheet. ASU 2016-02 retains a dual model for classifying leases as either financing or operating, which governs the pattern of expense recognition to be reflected in the consolidated statement of operations. Variable lease payments based on performance, such as percentage-of-sales-based payments, will not be included in the measurement of right-of-use assets and lease liabilities. Rather, consistent with current practice, such amounts will be recognized as an expense in the period incurred.

The Company is currently in the process of evaluating the impact that ASU 2016-02 will have on its consolidated financial statements and related disclosures. The Company's assessment efforts to date have included reviewing the standard's provisions and gathering information to evaluate the landscape of its real estate, personal property, and other arrangements that may meet the definition of a lease. Based on these efforts, the Company currently anticipates that the adoption of ASU 2016-02 will result in a significant increase to its long-term assets and liabilities as, at a minimum, most of its current operating lease commitments will be subject to balance sheet recognition. The standard also requires enhanced quantitative and qualitative lease-related disclosures. Recognition of lease expense in the consolidated statement of operations is not anticipated to significantly change.

The Company will adopt ASU 2016-02 in the first quarter of its fiscal year ending March 28, 2020 ("Fiscal 2020") using a modified retrospective approach under which the cumulative effect of initially applying the standard will be recognized as an adjustment to opening Fiscal 2020 retained earnings, with no restatement of prior year amounts. In connection therewith, the Company anticipates it will apply an optional package of practical expedients intended to ease transition to the standard by, among its provisions, allowing the Company to carryforward its original lease classification conclusions (i.e., financing or operating) without reassessment. The Company is also evaluating which, if any, of certain other expedients it will elect upon adoption, including the use of hindsight in assessing factors that impact determination of the lease term, such as the likelihood that any renewal or purchase options are exercised.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a single, comprehensive accounting model for revenues arising from contracts with customers that supersedes most previously existing revenue recognition guidance, including industry-specific guidance. Under this model, revenue, representing the amount that an entity expects to be entitled to in exchange for providing promised goods or services (i.e., performance obligations), is recognized upon control of promised goods or services transferring to a customer. ASU 2014-09 also requires enhanced qualitative and quantitative revenue-related disclosures. After its original issuance, the FASB issued several additional related ASUs to address implementation concerns and further amend and clarify certain guidance within ASU 2014-09.

The Company adopted ASU 2014-09 as of the beginning of the first quarter of Fiscal 2019 using the modified retrospective method and applied the standard to all contracts as of the adoption date. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements, as the performance obligations underlying its core revenue streams (i.e., its retail and wholesale businesses) and the timing of recognition thereof, remain substantially unchanged. Revenues for these businesses are generated through the sale of finished products, and continue to be recognized at the point in time when merchandise is transferred to the customer and in an amount that considers the impacts of estimated returns, end-of-season markdowns, and other allowances that are variable in nature. For its licensing business, the Company continues to recognize revenue, including any contractually-guaranteed minimum royalty amounts, over time consistent with historical practice.

The Company's adoption of ASU 2014-09 did have an impact on its accounting for certain ancillary items. Specifically, certain costs associated with the marketing of merchandise to wholesale customers for a particular selling season are now expensed as incurred, rather than deferred and expensed over the course of the season. Additionally, revenue related to gift card breakage is now recognized in proportion to the pattern of actual customer redemptions, rather than when the likelihood of redemption becomes remote. As a result of applying these changes and in order to

transition to ASU 2014-09, the Company reduced (i) prepaid expenses and other current assets by \$12.1 million related to certain previously deferred wholesale marketing costs and (ii) accrued expenses and other current liabilities by \$6.1 million related to outstanding gift cards, which together resulted in a net cumulative adjustment to reduce opening retained earnings by \$5.2 million, net of tax, as of the beginning of the first quarter of Fiscal 2019. In addition to these changes, inventory amounts associated with estimated sales returns, which were \$19.8 million as of September 29, 2018, are now presented within prepaid expenses and other current assets in the consolidated balance sheet, rather than within inventories. Other than these changes, the Company's adoption of ASU 2014-09 did not have a material impact on its

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

consolidated balance sheet as of September 29, 2018 or its consolidated statements of operations, comprehensive income, and cash flows for the six months ended September 29, 2018. Prior periods have not been restated and continue to be reported under the accounting standards in effect during those periods.

See Note 3 for a detailed discussion regarding the Company's revenue recognition accounting policy.

5. Property and Equipment

Property and equipment, net consists of the following:

	September 29, 2018	March 31, 2018
	(millions)	
Land and improvements	\$ 16.8	\$ 16.8
Buildings and improvements	458.3	460.5
Furniture and fixtures	666.8	671.0
Machinery and equipment	438.9	430.4
Capitalized software	582.0	578.4
Leasehold improvements	1,198.9	1,181.2
Construction in progress	49.7	41.5
	3,411.4	3,379.8
Less: accumulated depreciation	(2,280.9)	(2,193.5)
Property and equipment, net	\$ 1,130.5	\$ 1,186.3

Depreciation expense was \$63.9 million and \$128.3 million during the three-month and six-month periods ended September 29, 2018, respectively, and \$67.8 million and \$134.7 million during the three-month and six-month periods ended September 30, 2017, respectively, and is recorded primarily within SG&A expenses in the consolidated statements of operations.

6. Other Assets and Liabilities

Prepaid expenses and other current assets consist of the following:

	September 29, 2018	March 31, 2018
	(millions)	
Other taxes receivable	\$ 172.4	\$ 171.4
Prepaid rent expense	41.8	37.0
Non-trade receivables	28.2	16.6
Inventory return asset (see Note 4)	19.8	—
Prepaid software maintenance	13.8	8.7
Derivative financial instruments	12.7	12.3
Restricted cash	11.5	15.5
Prepaid advertising and marketing	11.2	6.8
Tenant allowances receivable	9.9	4.3
Other prepaid expenses and current assets	37.8	51.1
Total prepaid expenses and other current assets	\$ 359.1	\$ 323.7

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current assets consist of the following:

	September 30, 2018	
	2018	2018
	(millions)	
Non-current investments	\$69.9	\$ 86.2
Restricted cash	31.9	35.4
Security deposits	24.7	27.3
Other non-current assets	33.8	34.6
Total other non-current assets	\$160.3	\$ 183.5

Accrued expenses and other current liabilities consist of the following:

	September 30, 2018	
	2018	2018
	(millions)	
Accrued operating expenses	\$230.6	\$ 225.8
Other taxes payable	204.6	194.2
Accrued inventory	196.4	174.0
Accrued payroll and benefits	175.8	227.8
Dividends payable	50.3	40.6
Restructuring reserve	48.6	69.6
Accrued capital expenditures	41.2	37.0
Capital lease obligations	21.1	19.5
Deferred income	19.0	30.4
Derivative financial instruments	3.0	60.8
Other accrued expenses and current liabilities	5.6	3.7
Total accrued expenses and other current liabilities	\$996.2	\$ 1,083.4

Other non-current liabilities consist of the following:

	September 30, 2018	
	2018	2018
	(millions)	
Capital lease obligations	\$223.0	\$ 236.4
Deferred rent obligations	203.5	212.2
Deferred tax liabilities	44.3	36.5
Derivative financial instruments	37.1	49.2
Restructuring reserve	13.9	27.9
Other non-current liabilities	41.9	44.5
Total other non-current liabilities	\$563.7	\$ 606.7

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Impairment of Assets

The Company recorded non-cash impairment charges of \$4.5 million and \$5.8 million during the three-month and six-month periods ended September 29, 2018, respectively, and \$2.1 million and \$11.8 million during the three-month and six-month periods ended September 30, 2017, respectively, to write off certain fixed assets related to its domestic and international stores, shop-within-shops, and corporate offices in connection with its restructuring plans (see Note 8).

Additionally, the Company recorded non-cash impairment charges of \$5.3 million during the three-month and six-month periods ended September 29, 2018 and \$9.1 million during the three-month and six-month periods ended September 30, 2017 to write off certain fixed assets related to underperforming stores as a result of its on-going store portfolio evaluation.

See Note 11 for further discussion of the non-cash impairment charges recorded by the Company during the fiscal periods presented.

8. Restructuring and Other Charges

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

Fiscal 2019 Restructuring Plan

On June 4, 2018, the Company's Board of Directors approved a restructuring plan associated with the Company's strategic objective of operating with discipline to drive sustainable growth (the "Fiscal 2019 Restructuring Plan"). The Fiscal 2019 Restructuring Plan includes the following restructuring-related activities: (i) the rightsizing and consolidation of the Company's global distribution network and corporate offices; (ii) targeted severance-related actions; and (iii) closure of certain of its stores and shop-within-shops.

In connection with the Fiscal 2019 Restructuring Plan, the Company expects to incur total estimated charges of approximately \$100 million to \$150 million, comprised of cash-related charges of approximately \$70 million to \$110 million and non-cash charges of approximately \$30 million to \$40 million.

A summary of the charges recorded in connection with the Fiscal 2019 Restructuring Plan during the three-month and six-month periods ended September 29, 2018 is as follows:

	September 29, 2018	
	Three Month Ended	Six Month Ended
	(millions)	
Cash-related restructuring charges:		
Severance and benefit costs	\$9.0	\$ 17.2
Other cash charges	1.6	1.6
Total cash-related restructuring charges	10.6	18.8
Non-cash charges:		
Impairment of assets (see Note 7)	4.5	5.8
Total non-cash charges	4.5	5.8
Total charges	\$15.1	\$ 24.6

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of current period activity in the restructuring reserve related to the Fiscal 2019 Restructuring Plan is as follows:

	Severance and Benefit Costs	Other Cash Charges	Total
	(millions)		
Balance at March 31, 2018	\$—	\$ —	\$—
Additions charged to expense	17.2	1.6	18.8
Cash payments charged against reserve	(5.6)	(1.6)	(7.2)
Balance at September 29, 2018	\$11.6	\$ —	\$11.6

Way Forward Plan

On June 2, 2016, the Company's Board of Directors approved a restructuring plan with the objective of delivering sustainable, profitable sales growth and long-term value creation for shareholders (the "Way Forward Plan"). The Company is refocusing on its core brands and evolving its product, marketing, and shopping experience to increase desirability and relevance. It is also evolving its operating model to enable sustainable, profitable sales growth by significantly improving quality of sales, reducing supply chain lead times, improving its sourcing, and executing a disciplined multi-channel distribution and expansion strategy. As part of the Way Forward Plan, the Company is rightsizing its cost structure and implementing a return on investment-driven financial model to free up resources to invest in the brand and drive high-quality sales. The Way Forward Plan included strengthening the Company's leadership team and creating a more nimble organization by moving from an average of nine to six layers of management. The Way Forward Plan also included the discontinuance of the Company's Denim & Supply brand and the integration of its denim product offerings into its Polo Ralph Lauren brand. Collectively, these actions, which were substantially completed during the Company's fiscal year ended April 1, 2017 ("Fiscal 2017"), resulted in a reduction in workforce and the closure of certain stores and shop-within-shops.

On March 30, 2017, the Company's Board of Directors approved the following additional restructuring-related activities associated with the Way Forward Plan: (i) the restructuring of its in-house global digital commerce platform which was in development and shifting to a more cost-effective, flexible platform through a new agreement with Salesforce's Commerce Cloud, formerly known as Demandware; (ii) the closure of its Polo store at 711 Fifth Avenue in New York City; and (iii) the further streamlining of the organization and the execution of other key corporate actions in line with the Company's Way Forward Plan. These actions are an important part of the Company's efforts to achieve its stated objective to return to sustainable, profitable growth and invest in the future. These additional restructuring-related activities were largely completed during Fiscal 2018 and resulted in a further reduction in workforce and the closure of certain corporate office and store locations. The remaining activities, which are primarily lease-related, are expected to be completed during Fiscal 2019.

In connection with the Way Forward Plan, the Company currently expects to incur total estimated charges of approximately \$790 million, comprised of cash-related restructuring charges of approximately \$490 million and non-cash charges of approximately \$300 million. Cumulative charges incurred since inception were \$677.5 million and the Company expects the remaining charges of approximately \$115 million will be recorded during the remainder of Fiscal 2019. In addition to these charges, the Company also incurred an additional non-cash charge of \$155.2 million during Fiscal 2017 associated with the destruction of inventory out of current liquidation channels in line with its Way Forward Plan.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the charges recorded in connection with the Way Forward Plan during the three-month and six-month periods ended September 29, 2018 and September 30, 2017, as well as the cumulative charges recorded since its inception, is as follows:

	Three Months Ended		Six Months Ended		Cumulative Charges
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017	
Cash-related restructuring charges:					
Severance and benefit costs	\$0.3	\$ 6.2	\$ 6.5	\$ 17.9	\$ 228.2
Lease termination and store closure costs	1.5	5.4	1.6	17.6	122.1
Other cash charges	—	5.7	0.2	8.4	25.6
Total cash-related restructuring charges	1.8	17.3	8.3	43.9	375.9
Non-cash charges:					
Impairment of assets (see Note 7)	—	2.1	—	11.8	250.6
Inventory-related charges ^(a)	—	0.6	—	1.3	205.5
Accelerated stock-based compensation expense ^(b)	—	—	—	—	0.7
Total non-cash charges	—	2.7	—	13.1	456.8
Total charges	\$1.8	\$ 20.0	\$ 8.3	\$ 57.0	\$ 832.7

Cumulative inventory-related charges include \$155.2 million associated with the destruction of inventory out of ^(a) current liquidation channels. Inventory-related charges are recorded within cost of goods sold in the consolidated statements of operations.

Accelerated stock-based compensation expense, which is recorded within restructuring and other charges in the ^(b) consolidated statements of operations, was recorded in connection with vesting provisions associated with certain separation agreements.

A summary of current period activity in the restructuring reserve related to the Way Forward Plan is as follows:

	Severance and Benefit Costs	Lease Termination and Store Closure Costs	Other Cash Charges	Total
	(millions)			
Balance at March 31, 2018	\$37.6	\$ 53.5	\$ 1.8	\$92.9
Additions charged to expense	6.5	1.6	0.2	8.3
Cash payments charged against reserve	(25.5)	(25.0)	(1.2)	(51.7)
Non-cash adjustments	(0.2)	0.2	—	—
Balance at September 29, 2018	\$18.4	\$ 30.3	\$ 0.8	\$49.5

Other Restructuring Plans

As of September 29, 2018, the remaining restructuring reserve related to the Company's restructuring plan initiated during its fiscal year ended April 2, 2016 ("Fiscal 2016") was \$1.4 million, reflecting \$3.2 million of cash payments made during the six months ended September 29, 2018. No other activity occurred in connection with this restructuring plan during the six months ended September 29, 2018. Refer to Note 9 of the Fiscal 2018 10-K for additional discussion regarding this restructuring plan.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Charges

The Company recorded other charges of \$3.5 million during each of the three-month periods ended September 29, 2018 and September 30, 2017 and \$7.0 million during each of the six-month periods ended September 29, 2018 and September 30, 2017 related to depreciation expense associated with the Company's former Polo store at 711 Fifth Avenue in New York City, recorded after the store closed during the first quarter of Fiscal 2018 in connection with the Way Forward Plan. Although the Company is no longer generating revenue or has any other economic activity associated with its former Polo store, it continues to incur depreciation expense due to its involvement at the time of construction.

During the six months ended September 29, 2018, the Company also recorded other charges of \$4.2 million, primarily related to its customs audit (see Note 13).

Additionally, during the six months ended September 30, 2017, the Company recorded other charges of \$6.7 million (inclusive of accelerated stock-based compensation expense of \$2.1 million), primarily related to the departure of Mr. Stefan Larsson as the Company's President and Chief Executive Officer and as a member of its Board of Directors, effective as of May 1, 2017. Refer to the Form 8-K filed on February 2, 2017 for additional discussion regarding the departure of Mr. Larsson.

These other charges were partially offset by the favorable impact of \$2.2 million related to the reversal of reserves associated with the settlement of certain non-income tax issues during the second quarter of Fiscal 2018.

9. Income Taxes

U.S. Tax Reform

On December 22, 2017, President Trump signed into law new tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"), which became effective January 1, 2018. The TCJA significantly revised U.S. tax law by, among other provisions, lowering the U.S. federal statutory income tax rate from 35% to 21%, creating a territorial tax system that includes a one-time mandatory transition tax on previously deferred foreign earnings, and eliminating or reducing certain income tax deductions.

ASC Topic 740, "Income Taxes," requires the effects of changes in tax laws to be recognized in the period in which the legislation is enacted. However, due to the complexity and significance of the TCJA's provisions, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") on December 22, 2017, which allows companies to record the tax effects of the TCJA on a provisional basis based on a reasonable estimate, and then, if necessary, subsequently adjust such amounts during a limited measurement period as more information becomes available. The measurement period ends when a company has obtained, prepared, and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year from enactment.

During the third quarter of Fiscal 2018, the Company recorded charges of \$231.3 million within its income tax provision in connection with the TCJA, of which \$215.5 million related to the mandatory transition tax and \$15.8 million related to the revaluation of the Company's deferred tax assets and liabilities. Subsequently, as a result of finalizing its full Fiscal 2018 operating results, the issuance of new interpretive guidance, and other analyses performed, the Company recorded measurement period adjustments during the fourth quarter of Fiscal 2018, whereby it reversed \$6.2 million of the charges related to the mandatory transition tax and \$5.5 million related to the revaluation of its deferred taxes. These reversals were partially offset by an incremental charge of \$1.8 million related to the expected future remittance of certain previously deferred foreign earnings.

During the second quarter of Fiscal 2019, the Company recorded an additional measurement period adjustment as a result of the issuance of new interpretive guidance related to stock-based compensation for certain executives, whereby it recorded an income tax benefit and corresponding deferred tax asset of \$4.7 million. This measurement period adjustment reduced the Company's effective tax rate by 220 basis points and 130 basis points during the three-month and six-month periods ended September 29, 2018, respectively.

These cumulative net charges were recorded on a provisional basis based on the Company's present interpretations of the TCJA and are subject to further refinement as additional information becomes available, including potential new or interpretative guidance issued by the FASB or the Internal Revenue Service and other tax agencies, and as further

analyses are completed. The Company expects to finalize its accounting for the enactment-related impacts of the TCJA during the third quarter of Fiscal 2019.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company is also in the process of assessing various international taxation provisions of the TCJA that became effective for the Company beginning in the first quarter of Fiscal 2019, including a minimum tax on global intangible low-taxed income ("GILTI"). The Company has tentatively decided to account for GILTI tax in the period in which it is incurred and therefore has not provided any deferred tax impacts of GILTI in its consolidated financial statements for the six months ended September 29, 2018. The Company will continue to evaluate this policy election during the remainder of Fiscal 2019.

Effective Tax Rate

The Company's effective tax rate, which is calculated by dividing each fiscal period's income tax provision by pretax income, was 20.7% and 19.7% during the three-month and six-month periods ended September 29, 2018, respectively, and 24.8% and 26.9% during the three-month and six-month periods ended September 30, 2017, respectively. The effective tax rates for the three-month and six-month periods ended September 29, 2018 were slightly lower than the U.S. federal statutory income tax rate of 21% reflecting the favorable impact of the SAB 118 measurement period adjustment recorded during the second quarter of Fiscal 2019, as previously discussed. The effective tax rates for the three-month and six-month periods ended September 30, 2017 were lower than the U.S. federal statutory income tax rate of 35% as a result of the proportion of earnings generated in lower taxed foreign jurisdictions versus the U.S., partially offset by the negative impact of the adoption of ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). Refer to Note 4 of the Fiscal 2018 10-K for further discussion of the Company's adoption of ASU 2016-09.

Uncertain Income Tax Benefits

The Company classifies interest and penalties related to unrecognized tax benefits as part of its income tax provision. The total amount of unrecognized tax benefits, including interest and penalties, was \$80.0 million and \$79.2 million as of September 29, 2018 and March 31, 2018, respectively, and is included within non-current liability for unrecognized tax benefits in the consolidated balance sheets.

The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$70.9 million and \$68.4 million as of September 29, 2018 and March 31, 2018, respectively.

Future Changes in Unrecognized Tax Benefits

The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, settlements of ongoing tax audits and assessments and the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, the Company does not anticipate that the balance of gross unrecognized tax benefits, excluding interest and penalties, will change significantly during the next twelve months. However, changes in the occurrence, expected outcomes, and timing of such events could cause the Company's current estimate to change materially in the future.

The Company files a consolidated U.S. federal income tax return, as well as tax returns in various state, local, and foreign jurisdictions. The Company is generally no longer subject to examinations by the relevant tax authorities for years prior to its fiscal year ended April 3, 2010.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Debt

Debt consists of the following:

	September 29, 2018	March 31, 2018
	(millions)	
\$300 million 2.125% Senior Notes ^(a)	\$—	\$ 298.1
\$300 million 2.625% Senior Notes ^(b)	288.5	288.0
\$400 million 3.750% Senior Notes ^(c)	395.4	—
Borrowings outstanding under credit facilities	—	10.1
Total debt	683.9	596.2
Less: short-term debt and current portion of long-term debt	—	308.2
Long-term debt	\$683.9	\$ 288.0

The carrying value of the 2.125% Senior Notes as of March 31, 2018 reflects adjustments of \$1.6 million associated with the Company's related interest rate swap contract (see Note 12), and is also presented net of unamortized debt issuance costs and discount of \$0.3 million.

The carrying value of the 2.625% Senior Notes as of September 29, 2018 and March 31, 2018 reflects adjustments of \$10.6 million and \$10.8 million, respectively, associated with the Company's related interest rate swap contract (see Note 12). The carrying value of the 2.625% Senior Notes is also presented net of unamortized debt issuance costs and discount of \$0.9 million and \$1.2 million as of September 29, 2018 and March 31, 2018, respectively.

The carrying value of the 3.750% Senior Notes is presented net of unamortized debt issuance costs and discount of \$4.6 million as of September 29, 2018.

Senior Notes

In August 2015, the Company completed a registered public debt offering and issued \$300 million aggregate principal amount of unsecured senior notes due August 18, 2020, which bear interest at a fixed rate of 2.625%, payable semi-annually (the "2.625% Senior Notes"). The 2.625% Senior Notes were issued at a price equal to 99.795% of their principal amount. The proceeds from this offering were used for general corporate purposes.

In August 2018, the Company completed another registered public debt offering and issued an additional \$400 million aggregate principal amount of unsecured senior notes due September 15, 2025, which bear interest at a fixed rate of 3.750%, payable semi-annually (the "3.750% Senior Notes"). The 3.750% Senior Notes were issued at a price equal to 99.521% of their principal amount. The proceeds from this offering were used for general corporate purposes, including repayment of the Company's previously outstanding \$300 million principal amount of unsecured 2.125% senior notes that matured September 26, 2018 (the "2.125% Senior Notes").

The Company has the option to redeem the 2.625% Senior Notes and 3.750% Senior Notes (collectively, the "Senior Notes"), in whole or in part, at any time at a price equal to accrued and unpaid interest on the redemption date, plus the greater of (i) 100% of the principal amount of the series of Senior Notes to be redeemed or (ii) the sum of the present value of Remaining Scheduled Payments, as defined in the supplemental indentures governing such Senior Notes (together with the indenture governing the Senior Notes, the "Indenture"). The Indenture contains certain covenants that restrict the Company's ability, subject to specified exceptions, to incur certain liens; enter into sale and leaseback transactions; consolidate or merge with another party; or sell, lease, or convey all or substantially all of the Company's property or assets to another party. However, the Indenture does not contain any financial covenants.

Commercial Paper

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

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Borrowings under the Commercial Paper Program are supported by the Global Credit Facility, as defined below. Accordingly, the Company does not expect combined borrowings outstanding under the Commercial Paper Program and Global Credit Facility to exceed \$500 million. Commercial Paper Program borrowings may be used to support the Company's general working capital and corporate needs. Maturities of commercial paper notes vary, but cannot exceed 397 days from the date of issuance. Commercial paper notes issued under the Commercial Paper Program rank equally with the Company's other forms of unsecured indebtedness. As of September 29, 2018, there were no borrowings outstanding under the Commercial Paper Program.

Revolving Credit Facilities

Global Credit Facility

In February 2015, the Company entered into an amended and restated credit facility (which was further amended in March 2016) that provides for a \$500 million senior unsecured revolving line of credit through February 11, 2020 (the "Global Credit Facility") under terms and conditions substantially similar to those previously in effect. The Global Credit Facility is also used to support the issuance of letters of credit and the maintenance of the Commercial Paper Program. Borrowings under the Global Credit Facility may be denominated in U.S. Dollars and other currencies, including Euros, Hong Kong Dollars, and Japanese Yen. The Company has the ability to expand its borrowing availability under the Global Credit Facility to \$750 million, subject to the agreement of one or more new or existing lenders under the facility to increase their commitments. There are no mandatory reductions in borrowing ability throughout the term of the Global Credit Facility. As of September 29, 2018, there were no borrowings outstanding under the Global Credit Facility and the Company was contingently liable for \$10.2 million of outstanding letters of credit.

The Global Credit Facility contains a number of covenants that, among other things, restrict the Company's ability, subject to specified exceptions, to incur additional debt; incur liens; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve itself; engage in businesses that are not in a related line of business; make loans, advances, or guarantees; engage in transactions with affiliates; and make certain investments. The Global Credit Facility also requires the Company to maintain a maximum ratio of Adjusted Debt to Consolidated EBITDAR (the "leverage ratio") of no greater than 3.75 as of the date of measurement for the four most recent consecutive fiscal quarters. Adjusted Debt is defined generally as consolidated debt outstanding plus four times consolidated rent expense for the four most recent consecutive fiscal quarters. Consolidated EBITDAR is defined generally as consolidated net income plus (i) income tax expense, (ii) net interest expense, (iii) depreciation and amortization expense, (iv) consolidated rent expense, (v) restructuring and other non-recurring expenses, and (vi) acquisition-related costs. As of September 29, 2018, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under the Company's Global Credit Facility.

Pan-Asia Credit Facilities

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

China Credit Facility — provides Ralph Lauren Trading (Shanghai) Co., Ltd. with a revolving line of credit of up to 50 million Chinese Renminbi (approximately \$7 million) through April 3, 2019, which is also able to be used to support bank guarantees.

South Korea Credit Facility — provided Ralph Lauren (Korea) Ltd. with a revolving line of credit of up to 47 billion South Korean Won (approximately \$42 million) through October 31, 2018. During the third quarter of Fiscal 2019, the Company renewed the South Korea Credit Facility through October 31, 2019, with a reduced borrowing capacity of up to 30 billion South Korean Won (approximately \$27 million).

During the first quarter of Fiscal 2019, the Company repaid approximately \$10 million in borrowings that were previously outstanding under its Pan-Asia Credit Facilities. As of September 29, 2018, there were no borrowings outstanding under the Pan-Asia Credit Facilities.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Refer to Note 11 of the Fiscal 2018 10-K for additional discussion of the terms and conditions of the Company's debt and credit facilities.

11. Fair Value Measurements

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

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

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

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

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

	September 29, 2018		March 31, 2018	
	(millions)			
Investments in commercial paper ^{(a)(b)}	\$286.9	\$234.2		
Derivative assets ^(a)	13.7	12.3		
Derivative liabilities ^(a)	40.1	110.0		

(a) Based on Level 2 measurements.

As of September 29, 2018, \$19.9 million was included within cash and cash equivalents and \$267.0 million was included within short-term investments in the consolidated balance sheet. As of March 31, 2018, \$15.0

(b) million was included within cash and cash equivalents and \$219.2 million was included within short-term investments in the consolidated balance sheet.

The Company's investments in commercial paper are classified as available-for-sale and recorded at fair value in its consolidated balance sheets using external pricing data, based on interest rates and credit ratings for similar issuances with the same remaining term as the Company's investments. To the extent the Company invests in bonds, such investments are also classified as available-for-sale and recorded at fair value in its consolidated balance sheets based on quoted prices in active markets.

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

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

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

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

credit facilities, if any, are estimated using external pricing data, based on interest rates and credit ratings for similar issuances with the same remaining term as the Company's outstanding borrowings. Due to their short-term nature, the fair values of the Company's commercial paper notes and borrowings outstanding under its credit facilities, if any, generally approximate their carrying values.

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

	September 29, 2018	March 31, 2018	
	Carrying Value ^{(a),(b)}	Carrying Value ^(a)	Fair Value ^(b)
	(millions)		
\$300 million 2.125% Senior Notes	\$—	\$298.1	\$299.4
\$300 million 2.625% Senior Notes	288.7	288.0	298.7
\$400 million 3.750% Senior Notes	395.2	—	—
Borrowings outstanding under credit facilities	—	10.1	10.1

(a) See Note 10 for discussion of the carrying values of the Company's senior notes.

(b) Based on Level 2 measurements.

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

Non-financial Assets and Liabilities

The Company's non-financial assets, which primarily consist of goodwill, other intangible assets, and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at carrying value. However, on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be fully recoverable (and at least annually for goodwill and indefinite-lived intangible assets), non-financial assets are assessed for impairment and, if applicable, written down to and recorded at fair value, considering external market participant assumptions.

During the six-month periods ended September 29, 2018 and September 30, 2017, the Company recorded non-cash impairment charges of \$11.1 million and \$20.9 million, respectively, to fully write off the carrying values of certain long-lived assets based upon their assumed fair values of zero. The fair values of these assets were determined based on Level 3 measurements. Inputs to these fair value measurements included estimates of the amount and timing of the assets' net future discounted cash flows based on historical experience, current trends, and market conditions. See Note 7 for further discussion of the non-cash impairment charges recorded by the Company during the fiscal periods presented.

No goodwill impairment charges were recorded during either of the six-month periods ended September 29, 2018 or September 30, 2017. The Company performed its annual goodwill impairment assessment using a qualitative approach as of the beginning of the second quarter of Fiscal 2019. In performing the assessment, the Company identified and considered the significance of relevant key factors, events, and circumstances that affected the fair values and/or carrying amounts of its reporting units with allocated goodwill. These factors included external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as the Company's actual and expected financial performance. Additionally, the results of the Company's most recent quantitative goodwill impairment test indicated that the fair values of these reporting units significantly exceeded their respective carrying values. Based on the results of its qualitative goodwill impairment assessment, the Company concluded that it is not more likely than not that the fair values of its reporting units are less than their respective carrying values, and there were no reporting units at risk of impairment.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Financial Instruments

Derivative Financial Instruments

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

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its consolidated balance sheets as of September 29, 2018 and March 31, 2018:

Derivative Instrument ^(a)	Notional Amounts		Derivative Assets				Derivative Liabilities			
	September 29, 2018	March 31, 2018	September 29, 2018	March 31, 2018	September 29, 2018	March 31, 2018	September 29, 2018	March 31, 2018	September 29, 2018	March 31, 2018
			Balance Sheet Line ^(b)	Fair Value	Balance Sheet Line ^(b)	Fair Value	Balance Sheet Line ^(b)	Fair Value	Balance Sheet Line ^(b)	Fair Value
	(millions)									
Designated Hedges:										
FC — Cash flow hedges	\$621.3	\$514.5	(e)	\$12.4	PP	\$1.1	AE	\$2.1	(f)	\$13.5
IRS — Fixed-rate debt	300.0	600.0		—		—	ONCL	10.6	(g)	12.4
Net investment hedges ^(c)	721.4	1,081.2		—	PP	0.1	ONCL	26.5	(h)	82.6
Total Designated Hedges	1,642.7	2,195.7		12.4		1.2		39.2		108.5
Undesignated Hedges:										
FC — Undesignated hedges ^(d)	202.5	459.2	PP	1.3	PP	11.1	AE	0.9	AE	1.5
Total Hedges	\$1,845.2	\$2,654.9		\$13.7		\$12.3		\$40.1		\$110.0

(a) FC = Forward foreign currency exchange contracts; IRS = Interest rate swap contracts

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

(c) Includes cross-currency swaps and forward foreign currency exchange contracts designated as hedges of the Company's net investment in certain foreign operations.

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

(e) \$11.4 million included within prepaid expenses and other current assets and \$1.0 million included within other non-current assets.

(f) \$12.9 million included within accrued expenses and other current liabilities and \$0.6 million included within other non-current liabilities.

(g) \$1.6 million included within accrued expenses and other current liabilities and \$10.8 million included within other non-current liabilities.

(h) \$44.8 million included within accrued expenses and other current liabilities and \$37.8 million included within other non-current liabilities.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company records and presents the fair values of all of its derivative assets and liabilities in its consolidated balance sheets on a gross basis, even when they are subject to master netting arrangements. However, if the Company were to offset and record the asset and liability balances of all of its derivative instruments on a net basis in accordance with the terms of each of its master netting arrangements, spread across eight separate counterparties, the amounts presented in the consolidated balance sheets as of September 29, 2018 and March 31, 2018 would be adjusted from the current gross presentation as detailed in the following table:

	September 29, 2018			March 31, 2018		
	Gross			Gross		
	Amounts			Amounts		
	Gross	Not Offset		Gross	Not Offset	
	Amounts	the		Amounts	the	
	Present	Balance	Net	Present	Balance	Net
	in the	Sheet that	Amount	in the	Sheet that	Amount
	Balance	are Subject		Balance	are Subject	
	Sheet	to Master		Sheet	to Master	
	Netting	Agreements		Netting	Agreements	
	(millions)			(millions)		
Derivative assets	\$13.7	\$ (3.9)	\$ 9.8	\$12.3	\$ (10.7)	\$ 1.6
Derivative liabilities	40.1	(3.9)	36.2	110.0	(10.7)	99.3

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

The following tables summarize the pretax impact of gains and losses from the Company's designated derivative instruments on its consolidated financial statements for the three-month and six-month periods ended September 29, 2018 and September 30, 2017:

	Gains (Losses) Recognized in OCI			
	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Designated Hedges:				
FC — Cash flow hedges	\$1.3	\$ (6.8)	\$27.4	\$ (25.9)
Net investment hedges — effective portion	2.8	(22.4)	40.2	(62.7)
Net investment hedges — portion excluded from assessment of hedge effectiveness	(8.5)	—	(6.7)	—
Total Designated Hedges	\$(4.4)	\$ (29.2)	\$60.9	\$ (88.6)

Location and Amount of Gains (Losses) from Cash Flow Hedges Reclassified from AOCI to Earnings							
Three Months Ended				Six Months Ended			
September 29, 2018		September 30, 2017		September 29, 2018		September 30, 2017	
Cost of goods sold	Other income (expense), net	Cost of goods sold	Other income (expense), net	Cost of goods sold	Other income (expense), net	Cost of goods sold	Other income (expense), net
(millions)							

Total amounts presented in the consolidated statements of operations in which the effects of related cash flow hedges are recorded

	\$ (661.6)	\$ 0.4	\$ (668.4)	\$ 0.2	\$ (1,156.5)	\$ (1.6)	\$ (1,164.3)	\$ (0.3)
Effects of cash flow hedging:								
FC — Cash flow hedges	0.7	0.7	(2.4)	(0.4)	(5.5)	2.1	1.6	(1.0)

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Gains (Losses) from Net Investment Hedges				Location of Gains (Losses) Recognized in Earnings
	Recognized in Earnings				
	Three Months Ended		Six Months Ended		
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017	
Net Investment Hedges					
Net investment hedges — portion excluded from assessment of hedge effectiveness ^(a)	\$ 4.8	\$ 2.0	\$ 9.1	\$ 3.8	Interest expense
Total Net Investment Hedges	\$ 4.8	\$ 2.0	\$ 9.1	\$ 3.8	

Amounts recognized in other comprehensive income (loss) ("OCI") related to the effective portion of the
^(a) Company's net investment hedges would be recognized in earnings only upon the sale or liquidation of the hedged net investment.

As of September 29, 2018, it is estimated that \$11.8 million of pretax net gains on both outstanding and matured derivative instruments designated as cash flow hedges deferred in AOCI will be recognized in earnings over the next twelve months. The amounts ultimately recognized in earnings will depend on exchange rates in effect when outstanding derivative instruments are settled.

The following table summarizes the pretax impact of gains and losses from the Company's undesignated derivative instruments on its consolidated financial statements for the three-month and six-month periods ended September 29, 2018 and September 30, 2017:

	Gains (Losses) Recognized in Earnings				Location of Gains (Losses) Recognized in Earnings
	Three Months Ended		Six Months Ended		
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017	
	(millions)				
Undesignated Hedges:					
FC — Undesignated hedges	\$ 2.6	\$ (0.5)	\$ 5.7	\$ 2.1	Other income (expense), net
Total Undesignated Hedges	\$ 2.6	\$ (0.5)	\$ 5.7	\$ 2.1	

Risk Management Strategies

Forward Foreign Currency Exchange Contracts

The Company uses forward foreign currency exchange contracts to reduce its risk related to exchange rate fluctuations on inventory transactions made in an entity's non-functional currency, intercompany royalty payments made by certain of its international operations, the settlement of foreign currency-denominated balances, and the translation of certain foreign operations' net assets into U.S. dollars. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro, the Japanese Yen, the South Korean Won, the Australian Dollar, the Canadian Dollar, the British Pound Sterling, the Swiss Franc, the Swedish Krona, the Chinese Renminbi, the New Taiwan Dollar, and the Hong Kong Dollar, the Company hedges a portion of its foreign currency exposures anticipated over a two-year period. In doing so, the Company uses forward foreign currency exchange contracts that generally have maturities of two months to two years to provide continuing coverage throughout the hedging period of the respective exposure.

Interest Rate Swap Contracts

During Fiscal 2016, the Company entered into two pay-floating rate, receive-fixed rate interest rate swap contracts which it designated as hedges against changes in the respective fair values of its fixed-rate 2.125% Senior Notes and its fixed-rate 2.625% Senior Notes, attributed to changes in a benchmark interest rate (the "Interest Rate Swaps"). The interest rate swap related to the 2.125% Senior Notes (the "2.125% Interest Rate Swap"), which matured on September 26, 2018 in conjunction with the maturity of the related debt, had a notional amount of \$300 million and swapped the fixed interest rate on the 2.125% Senior Notes for a variable interest rate based on the 3-month London Interbank Offered Rate ("LIBOR") plus a fixed spread. The interest rate swap

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

related to the 2.625% Senior Notes (the "2.625% Interest Rate Swap"), which matures on August 18, 2020 and also has a notional amount of \$300 million, swaps the fixed interest rate on the 2.625% Senior Notes for a variable interest rate based on 3-month LIBOR plus a fixed spread. Changes in the fair values of the Interest Rate Swaps were offset by changes in the fair values of the 2.125% Senior Notes and 2.625% Senior Notes attributed to changes in the benchmark interest rate, with no resulting net impact reflected in earnings during any of the fiscal periods presented. The following table summarizes the carrying values of the 2.125% and 2.625% Senior Notes and the impacts of the related fair value hedging adjustments as of September 29, 2018 and March 31, 2018, as applicable:

Hedged Item	Balance Sheet Line in which the Hedged Item is Included	Carrying Value of the Hedged Item		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Value of the Hedged Item	
		September 29, 2018	March 31, 2018	September 29, 2018	March 31, 2018
\$300 million 2.125% Senior Notes	Current portion of long-term debt	N/A	\$ 298.1	N/A	\$ (1.6)
\$300 million 2.625% Senior Notes	Long-term debt	\$288.5	288.0	\$(10.6)	(10.8)

Cross-Currency Swap Contracts

During Fiscal 2016, the Company entered into two pay-floating rate, receive-floating rate cross-currency swap contracts, with notional amounts of €280 million and €274 million, that were designated as hedges of its net investment in certain of its European subsidiaries. The €280 million notional cross-currency swap, which was settled during the second quarter of Fiscal 2019, swapped the U.S. Dollar-denominated variable interest rate payments based on 3-month LIBOR plus a fixed spread (as paid under the 2.125% Interest Rate Swap discussed above) for Euro-denominated variable interest rate payments based on the 3-month Euro Interbank Offered Rate ("EURIBOR") plus a fixed spread, which, in conjunction with the 2.125% Interest Rate Swap, economically converted the Company's previously-outstanding \$300 million fixed-rate 2.125% Senior Notes obligation to a €280 million floating-rate Euro-denominated obligation. Similarly, the €274 million notional cross-currency swap, which matures on August 18, 2020, swaps the U.S. Dollar-denominated variable interest rate payments based on 3-month LIBOR plus a fixed spread (as paid under the 2.625% Interest Rate Swap discussed above) for Euro-denominated variable interest rate payments based on 3-month EURIBOR plus a fixed spread, which, in conjunction with the 2.625% Interest Rate Swap, economically converts the Company's \$300 million fixed-rate 2.625% Senior Notes obligation to a €274 million floating-rate Euro-denominated obligation.

Additionally, in August 2018, the Company entered into pay-fixed rate, receive-fixed rate cross-currency swap contracts with an aggregate notional amount of €346 million that were designated as hedges of its net investment in certain of its European subsidiaries. These contracts, which mature on September 15, 2025, swap the U.S.

Dollar-denominated fixed interest rate payments on the Company's 3.750% Senior Notes for Euro-denominated 1.29% fixed interest rate payments, thereby economically converting the Company's \$400 million fixed-rate 3.750% Senior Notes obligation to a €346 million fixed-rate 1.29% Euro-denominated obligation.

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

Investments

As of September 29, 2018, the Company's short-term investments consisted of \$1.053 billion of time deposits and \$267.0 million of commercial paper, and its non-current investments consisted of \$69.9 million of time deposits. As of March 31, 2018, the Company's short-term investment consisted of \$480.2 million of time deposits and \$219.2 million

of commercial paper, and its non-current investments consisted of \$86.2 million of time deposits.

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

Refer to Note 3 of the Fiscal 2018 10-K for further discussion of the Company's accounting policies relating to its investments.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Commitments and Contingencies

Lease Obligations

During the first quarter of Fiscal 2019, the Company entered into a 16-year lease with optional renewal periods for a new corporate office in New Jersey, which it expects to take possession of during its fiscal year 2020. Additionally, during the third quarter of Fiscal 2019, the Company amended an existing lease agreement for a corporate office in New York City, whereby it expanded the square footage to be leased and extended the lease term through December 31, 2029, with optional renewal periods. The following table summarizes the Company's future minimum rental payments relating to these lease agreements:

	Minimum Lease Payments ^(a) (millions)
Remainder of Fiscal 2019	\$ —
Fiscal 2020	10.2
Fiscal 2021	19.4
Fiscal 2022	27.5
Fiscal 2023	27.7
Fiscal 2024 and thereafter	261.8
Total minimum rental payments	\$ 346.6

Excludes future minimum commitments related to the original lease term and space for the corporate office in New York City, which were previously included in the minimum lease payments table in Note 14 of the Fiscal 2018 10-K.

Customs Audit

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

In October 2014, the Company filed an appeal of the pre-assessment notice in accordance with the standard procedures established by the relevant customs authorities. In response to the filing of the Company's appeal of the pre-assessment notice, the review committee instructed the customs officials to reconsider their assertion of the alternative duty method and conduct a re-audit to evaluate the facts and circumstances noted in the pre-assessment notice. In December 2015, the Company received the results of the re-audit conducted and a customs audit assessment notice in the amount of \$34.1 million, which the Company recorded within restructuring and other charges in its consolidated statements of operations during the third quarter of Fiscal 2016. Although the Company disagreed with the assessment notice, in order to secure the Company's rights, the Company was required to pay the assessment amount and then subsequently file an appeal with the customs authorities.

In October 2017, the tax tribunal presiding over the Company's appeal instructed the customs officials to reconsider their assertions under the alternative duty method and conduct a second re-audit to evaluate the facts and circumstances noted in the pre-assessment notice. In March 2018, the Company received the results of the second re-audit conducted and a related net refund in the amount of \$15.6 million. Additionally, in March 2018 and May 2018, the Company filed voluntary disclosure requests to the relevant customs authorities for certain post-audit periods and made related payments of \$40.6 million and \$7.1 million, respectively, in order to secure its rights to recover value-added tax of \$14.8 million and \$3.3 million, respectively. In connection with the re-audit refund

received and the non-tax portion of the voluntary disclosure payment made, the Company recorded net charges of \$10.2 million and \$3.8 million, respectively, within restructuring and other charges in its consolidated statements of operations during the fourth quarter of Fiscal 2018 and first quarter of Fiscal 2019, respectively.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Although the Company believes its original filing position was appropriate, in June 2018, the Company decided to resolve the dispute and not further appeal the re-audit decision within the courts for the periods covered by the re-audit in order to avoid incurring additional management time, costs, and uncertainty associated with litigation, as the customs officials' revised methodology results in an incremental annual duty charge that is not material to the Company.

Other Matters

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

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

14. Equity

Summary of Changes in Equity

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

	Six Months Ended	
	September 30,	September 30,
	2018	2017
	(millions)	
Balance at beginning of period	\$3,457.4	\$ 3,299.6
Comprehensive income	270.0	266.3
Dividends declared	(101.0)	(81.2)
Repurchases of common stock, including shares surrendered for tax withholdings	(223.9)	(14.6)
Stock-based compensation	42.8	39.4
Shares issued pursuant to stock-based compensation arrangements	21.8	0.1
Cumulative adjustment from adoption of new accounting standards (see Note 4)	(5.1)	—
Balance at end of period	\$3,462.0	\$ 3,509.6

Common Stock Repurchase Program

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

	Six Months Ended	
	September 30,	September 30,
	2018	2017
	(millions)	
Cost of shares repurchased	\$ 192.3	\$ —
Number of shares repurchased	1.4	0.0

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On June 4, 2018, the Company's Board of Directors approved an expansion of the Company's existing common stock repurchase program that allows it to repurchase up to an additional \$1.000 billion of Class A Common stock. As of September 29, 2018, the remaining availability under the Company's Class A common stock repurchase program was approximately \$907 million. Repurchases of shares of Class A common stock are subject to overall business and market conditions.

In addition, during the six-month periods ended September 29, 2018 and September 30, 2017, 0.3 million and 0.2 million shares of Class A common stock, respectively, at a cost of \$31.6 million and \$14.6 million, respectively, were surrendered to or withheld by the Company in satisfaction of withholding taxes in connection with the vesting of awards under the Company's 1997 Long-Term Stock Incentive Plan, as amended (the "1997 Incentive Plan"), and its Amended and Restated 2010 Long-Term Stock Incentive Plan (the "2010 Incentive Plan").

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

Dividends

Since 2003, the Company has maintained a regular quarterly cash dividend program on its common stock. On June 4, 2018, the Company's Board of Directors approved an increase to the Company's quarterly cash dividend on its common stock from \$0.50 to \$0.625 per share. The second quarter Fiscal 2019 dividend of \$0.625 per share was declared on September 14, 2018, was payable to stockholders of record at the close of business on September 28, 2018, and was paid on October 12, 2018. Dividends paid amounted to \$91.3 million and \$81.1 million during the six-month periods ended September 29, 2018 and September 30, 2017, respectively.

15. Accumulated Other Comprehensive Income (Loss)

The following table presents OCI activity, net of tax, which is accumulated in equity:

	Foreign Currency Translation Gains (Losses) ^(a)	Net Unrealized Gains (Losses) on Cash Flow Hedges ^(b)	Net Unrealized Gains (Losses) on Defined Benefit Plans ^(c)	Total Accumulated Other Comprehensive Income (Loss)
	(millions)			
Balance at April 1, 2017	\$ (206.2)	\$ 14.6	\$ (6.8)	\$ (198.4)
Other comprehensive income (loss), net of tax:				
OCI before reclassifications	87.7	(23.9)	(0.7)	63.1
Amounts reclassified from AOCI to earnings	—	(0.4)	0.3	(0.1)
Other comprehensive income (loss), net of tax	87.7	(24.3)	(0.4)	63.0
Balance at September 30, 2017	\$ (118.5)	\$ (9.7)	\$ (7.2)	\$ (135.4)
Balance at March 31, 2018	\$ (79.3)	\$ (16.0)	\$ (3.2)	\$ (98.5)
Other comprehensive income (loss), net of tax:				
OCI before reclassifications	(36.9)	24.4	0.2	(12.3)
Amounts reclassified from AOCI to earnings	—	3.1	(0.1)	3.0
Other comprehensive income (loss), net of tax	(36.9)	27.5	0.1	(9.3)
Balance at September 29, 2018	\$ (116.2)	\$ 11.5	\$ (3.1)	\$ (107.8)

^(a) OCI before reclassifications to earnings related to foreign currency translation gains (losses) includes an income tax provision of \$3.4 million for the six months ended September 29, 2018, and includes an income tax benefit of \$20.1 million for the six months ended September 30, 2017. OCI before reclassifications to earnings for the six-month periods ended September 29, 2018 and September 30, 2017 includes a gain of \$25.4 million (net of an \$8.1 million income tax provision) and a loss of \$39.0 million (net of a \$23.7 million income tax benefit), respectively, related to

changes in the fair values of instruments designated as hedges of the Company's net investment in certain foreign operations (see Note 12).

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

OCI before reclassifications to earnings related to net unrealized gains (losses) on cash flow hedges are presented net of an income tax provision of \$3.0 million and an income tax benefit of \$2.0 million for the six-month periods ended September 29, 2018 and September 30, 2017, respectively. The tax effects on amounts reclassified from AOCI to earnings are presented in a table below.

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

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

	Three Months Ended		Six Months Ended		Location of Gains (Losses) Reclassified from AOCI to Earnings
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017	
	(millions)				
Gains (losses) on cash flow hedges ^(a) :					
FC — Cash flow hedges	\$0.7	\$ (2.4)	\$ (5.5)	\$ 1.6	Cost of goods sold
FC — Cash flow hedges	0.7	(0.4)	2.1	(1.0)	Other income (expense), net
Tax effect	(0.1)	—	0.3	(0.2)	Income tax provision
Net of tax	\$1.3	\$ (2.8)	\$ (3.1)	\$ 0.4	

(a) FC = Forward foreign currency exchange contracts.

16. Stock-based Compensation

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

Refer to Note 17 of the Fiscal 2018 10-K for a detailed description of the Company's stock-based compensation awards, including information related to vesting terms, service and performance conditions, and payout percentages (also refer to "Performance-based RSUs" below for information related to payout percentages for certain performance-based RSUs granted during the second quarter of Fiscal 2019). Additionally, during the second quarter of Fiscal 2019, in lieu of granting certain performance-based RSUs to its senior executives and other key employees, the Company granted a new type of award for which vesting is dependent on a market condition based on total shareholder return ("TSR"). Refer to "Market-based RSUs" below for a detailed description.

Impact on Results

A summary of total stock-based compensation expense and the related income tax benefits recognized during the three-month and six-month periods ended September 29, 2018 and September 30, 2017 is as follows:

	Three Months Ended		Six Months Ended		
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017	
	(millions)				
Compensation expense	\$21.3	\$ 17.8	\$42.8	\$ 39.4	(a)
Income tax benefit	(3.3)	(6.7)	(6.5)	(14.6)	

The six months ended September 30, 2017 includes \$2.1 million of accelerated stock-based compensation expense recorded within restructuring and other charges in the consolidated statements of operations (see Note 8). All other stock-based compensation expense was recorded within SG&A expenses.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company issues its annual grants of stock-based compensation awards in the first half of each fiscal year. Due to the timing of the annual grants and other factors, including the timing and magnitude of forfeiture and performance goal achievement adjustments, as well as changes to the size and composition of the eligible employee population, stock-based compensation expense recognized during any given fiscal period is not indicative of the level of compensation expense expected to be incurred in future periods.

Stock Options

A summary of stock option activity under all plans during the six months ended September 29, 2018 is as follows:

	Number of Options (thousands)
Options outstanding at March 31, 2018	1,151
Granted	—
Exercised	(162)
Cancelled/Forfeited	(134)
Options outstanding at September 29, 2018	855

Restricted Stock Awards and Service-based RSUs

The fair values of restricted stock awards granted to non-employee directors are determined based on the fair value of the Company's Class A common stock on the date of grant. No such awards were granted during the six-month periods ended September 29, 2018 and September 30, 2017. Effective beginning Fiscal 2019, non-employee directors are granted service-based RSUs.

The fair values of service-based RSUs granted to certain of the Company's senior executives and other employees, as well as non-employee directors, are based on the fair value of the Company's Class A common stock on the date of grant, adjusted to reflect the absence of dividends for any awards not entitled to accrue dividend equivalents while outstanding. The weighted-average grant date fair values of service-based RSU awards granted were \$114.27 and \$72.70 per share during the six-month periods ended September 29, 2018 and September 30, 2017, respectively.

A summary of restricted stock and service-based RSU activity during the six months ended September 29, 2018 is as follows:

	Number of Shares Restricted Stock Service-based RSUs (thousands)
Nonvested at March 31, 2018	19 1,072
Granted	— 560
Vested	(9) (412)
Forfeited	— (95)
Nonvested at September 29, 2018	10 1,125

Performance-based RSUs

The fair values of the Company's performance-based RSUs granted to its senior executives and other key employees are based on the fair value of the Company's Class A common stock on the date of grant, adjusted to reflect the absence of dividends for any awards not entitled to accrue dividend equivalents while outstanding. The weighted-average grant date fair values of performance-based RSUs granted were \$129.78 and \$69.40 per share during the six-month periods ended September 29, 2018 and September 30, 2017, respectively.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Additionally, beginning with awards granted in the second quarter of Fiscal 2019, the number of shares that may be earned for performance-based RSUs subject to cliff vesting ranges between 0% (if the specified threshold performance level is not attained) and 200% (if performance meets or exceeds the maximum achievement level) of the awards originally granted. For such awards granted in recent years prior to Fiscal 2019, the payout percentages range from 0% to 150%.

A summary of performance-based RSU activity during the six months ended September 29, 2018 is as follows:

	Number of Performance-based RSUs (thousands)	
Nonvested at March 31, 2018	1,157	
Granted	154	
Change due to performance condition achievement	(29))
Vested	(232))
Forfeited	(20))
Nonvested at September 29, 2018	1,030	

Market-based RSUs

During the second quarter of Fiscal 2019, the Company granted cliff vesting RSU awards to its senior executives and other key employees, which, in addition to being subject to continuing employment requirements, are also subject to a market condition based on TSR performance. The number of shares that vest upon the completion of a three-year period of time is determined by comparing the Company's TSR relative to that of a pre-established peer group over the related three-year performance period. Depending on the Company's level of achievement, the number of shares that ultimately vest may range from 0% to 200% of the awards originally granted.

The weighted-average grant date fair value of TSR awards granted during the six months ended September 29, 2018 was \$177.13 per share. The Company estimates the fair value of its TSR awards on the date of grant using a Monte Carlo simulation valuation model. This pricing model uses multiple simulations to evaluate the probability of the Company achieving various stock price levels to determine its expected TSR performance ranking relative to the peer group. Compensation expense, net of estimated forfeitures, is recorded regardless of whether the market condition is ultimately satisfied. The assumptions used to estimate the fair value of TSR awards granted during the six months ended September 29, 2018 were as follows:

	Six Months Ended September 29, 2018	
Expected term (years)	2.6	
Expected volatility	33.5	%
Expected dividend yield	1.9	%
Risk-free interest rate	2.6	%

A summary of market-based RSU activity during the six months ended September 29, 2018 is as follows:

	Number of Market-based RSUs (thousands)
Nonvested at March 31, 2018	—
Granted	80
Change due to market condition achievement	—
Vested	—

Forfeited	—
Nonvested at September 29, 2018	80

35

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Segment Information

The Company has three reportable segments based on its business activities and organization:

North America — The North America segment primarily consists of sales of Ralph Lauren branded apparel, accessories, home furnishings, and related products made through the Company's wholesale and retail businesses in the U.S. and Canada, excluding Club Monaco. In North America, the Company's wholesale business is comprised primarily of sales to department stores, and to a lesser extent, specialty stores. The Company's retail business in North America is comprised of its Ralph Lauren stores, its factory stores, and its digital commerce site, www.RalphLauren.com.

Europe — The Europe segment primarily consists of sales of Ralph Lauren branded apparel, accessories, home furnishings, and related products made through the Company's wholesale and retail businesses in Europe and the Middle East, excluding Club Monaco. In Europe, the Company's wholesale business is comprised of a varying mix of sales to both department stores and specialty stores, depending on the country. The Company's retail business in Europe is comprised of its Ralph Lauren stores, its factory stores, its concession-based shop-within-shops, and its various digital commerce sites.

Asia — The Asia segment primarily consists of sales of Ralph Lauren branded apparel, accessories, home furnishings, and related products made through the Company's wholesale and retail businesses in Asia, Australia, and New Zealand. The Company's retail business in Asia is comprised of its Ralph Lauren stores, its factory stores, its concession-based shop-within-shops, and its digital commerce site, www.RalphLauren.cn, which launched in September 2018. In addition, the Company sells its products online through various third-party digital partner commerce sites. In Asia, the Company's wholesale business is comprised primarily of sales to department stores, with related products distributed through shop-within-shops.

No operating segments were aggregated to form the Company's reportable segments. In addition to these reportable segments, the Company also has other non-reportable segments, which primarily consist of (i) sales of Club Monaco branded products made through its retail businesses in the U.S., Canada, and Europe, and its licensing alliances in Europe and Asia, (ii) sales of Ralph Lauren branded products made through its wholesale business in Latin America, and (iii) royalty revenues earned through its global licensing alliances, excluding Club Monaco.

The Company's segment reporting structure is consistent with how it establishes its overall business strategy, allocates resources, and assesses performance of its business. The accounting policies of the Company's segments are consistent with those described in Notes 2 and 3 of the Fiscal 2018 10-K. Sales and transfers between segments are generally recorded at cost and treated as transfers of inventory. All intercompany revenues are eliminated in consolidation and are not reviewed when evaluating segment performance. Each segment's performance is evaluated based upon net revenues and operating income before restructuring-related charges, impairment of assets, and certain other one-time items, if any. Certain corporate overhead expenses related to global functions, most notably the Company's executive office, information technology, finance and accounting, human resources, and legal departments, largely remain at corporate. Additionally, other costs that cannot be allocated to the segments based on specific usage are also maintained at corporate, including corporate advertising and marketing expenses, depreciation and amortization of corporate assets, and other general and administrative expenses resulting from corporate-level activities and projects. Net revenues and operating income for each of the Company's segments are as follows:

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Net revenues:				
North America	\$888.2	\$ 875.6	\$1,585.8	\$ 1,585.3
Europe	459.2	463.0	809.8	786.5
Asia	244.7	216.8	492.7	425.9
Other non-reportable segments	98.8	108.8	193.2	213.6
Total net revenues	\$1,690.9	\$ 1,664.2	\$3,081.5	\$ 3,011.3

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Operating income ^(a) :				
North America	\$209.8	\$ 202.2	\$369.7	\$ 352.7
Europe	126.6	125.5	200.5	192.6
Asia	32.7	26.5	75.4	56.7
Other non-reportable segments	24.5	26.8	55.3	59.8
	393.6	381.0	700.9	661.8
Unallocated corporate expenses	(167.7)	(169.1)	(322.5)	(322.8)
Unallocated restructuring and other charges ^(b)	(15.9)	(18.6)	(38.3)	(55.4)
Total operating income	\$210.0	\$ 193.3	\$340.1	\$ 283.6

Segment operating income and unallocated corporate expenses during the three-month and six-month periods ^(a) ended September 29, 2018 and September 30, 2017 included certain restructuring-related inventory charges (see Note 8) and asset impairment charges (see Note 7), which are detailed below:

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Restructuring-related inventory charges:				
North America	\$—	\$ (0.1)	\$—	\$ (0.8)
Europe	—	(0.1)	—	(0.1)
Other non-reportable segments	—	(0.4)	—	(0.4)
Total restructuring-related inventory charges	\$—	\$ (0.6)	\$—	\$ (1.3)
	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Asset impairment charges:				
North America	\$(0.3)	\$ (0.3)	\$(0.3)	\$ (0.9)
Europe	—	—	(0.2)	(1.2)
Asia	(3.5)	(0.8)	(3.7)	(0.9)
Other non-reportable segments	(5.8)	(8.5)	(6.6)	(8.6)
Unallocated corporate expenses	(0.2)	(1.6)	(0.3)	(9.3)
Total asset impairment charges	\$(9.8)	\$ (11.2)	\$(11.1)	\$ (20.9)

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (b) The three-month and six-month periods ended September 29, 2018 and September 30, 2017 included certain unallocated restructuring and other charges (see Note 8), which are detailed below:

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Unallocated restructuring and other charges:				
North America-related	\$(0.6)	\$(1.2)	\$(3.5)	\$(13.2)
Europe-related	(2.4)	(5.0)	(7.4)	(5.1)
Asia-related	0.3	(2.4)	0.2	0.9
Other non-reportable segment-related	(2.0)	(2.0)	(2.8)	(6.8)
Corporate-related	(7.7)	(6.7)	(13.6)	(19.7)
Unallocated restructuring charges	(12.4)	(17.3)	(27.1)	(43.9)
Other charges (see Note 8)	(3.5)	(1.3)	(11.2)	(11.5)
Total unallocated restructuring and other charges	\$(15.9)	\$(18.6)	\$(38.3)	\$(55.4)

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

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Depreciation and amortization:				
North America	\$20.3	\$ 20.6	\$40.1	\$ 41.6
Europe	8.1	8.6	16.4	16.6
Asia	12.0	12.1	24.6	23.6
Other non-reportable segments	1.9	2.8	3.9	5.6
Unallocated corporate expenses	23.9	26.2	48.0	52.3
Unallocated restructuring and other charges (see Note 8)	3.5	3.5	7.0	7.0
Total depreciation and amortization	\$69.7	\$ 73.8	\$140.0	\$ 146.7

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

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Net revenues ^(a) :				
The Americas ^(b)	\$984.2	\$ 980.8	\$1,773.6	\$ 1,792.3
Europe ^(c)	461.6	466.1	814.4	792.3
Asia ^(d)	245.1	217.3	493.5	426.7
Total net revenues	\$1,690.9	\$ 1,664.2	\$3,081.5	\$ 3,011.3

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

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Includes the U.S., Canada, and Latin America. Net revenues earned in the U.S. during the three-month and six-month periods ended September 29, 2018 were \$923.3 million and \$1.662 billion, respectively, and \$917.9 million and \$1.683 billion during the three-month and six-month periods ended September 30, 2017, respectively.
- (c) Includes the Middle East.
- (d) Includes Australia and New Zealand.

18. Additional Financial Information

Reconciliation of Cash, Cash Equivalents, and Restricted Cash

A reconciliation of cash, cash equivalents, and restricted cash as of September 29, 2018 and March 31, 2018 from the consolidated balance sheets to the consolidated statements of cash flows is as follows:

	September 29, 2018	March 31, 2018
	(millions)	
Cash and cash equivalents	\$553.1	\$ 1,304.6
Restricted cash included within prepaid expenses and other current assets	11.5	15.5
Restricted cash included within other non-current assets	31.9	35.4
Total cash, cash equivalents, and restricted cash	\$596.5	\$ 1,355.5

Amounts included in restricted cash relate to cash placed in escrow with certain banks as collateral, primarily to secure guarantees in connection with certain international tax matters and real estate leases.

Cash Interest and Taxes

Cash paid for interest and income taxes is as follows:

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(millions)			
Cash paid for interest	\$5.1	\$ 3.0	\$ 8.1	\$ 5.6
Cash paid for income taxes	27.3	7.5	30.6	28.3

Non-cash Transactions

Non-cash investing activities included capital expenditures incurred but not yet paid of \$41.2 million and \$37.5 million for the six-month periods ended September 29, 2018 and September 30, 2017, respectively. Additionally, the Company recorded capital lease assets and corresponding capital lease obligations of \$2.3 million within its consolidated balance sheet during the six months ended September 30, 2017.

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

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

Special Note Regarding Forward-Looking Statements

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

- the loss of key personnel, including Mr. Ralph Lauren, or other changes in our executive and senior management team or to our operating structure, and our ability to effectively transfer knowledge during periods of transition;
- our ability to successfully implement our long-term growth strategy and achieve anticipated operating enhancements and cost reductions from our restructuring plans;
- the impact to our business resulting from investments and other costs incurred in connection with the execution of our long-term growth strategy, including restructuring-related charges, which may be dilutive to our earnings in the short term;
- our ability to continue to expand or grow our business internationally and the impact of related changes in our customer, channel, and geographic sales mix as a result;
- our ability to open new retail stores, concession shops, and digital commerce sites in an effort to expand our direct-to-consumer presence;
- the impact to our business resulting from changes in consumers' ability, willingness, or preferences to purchase premium lifestyle products that we offer for sale and our ability to forecast consumer demand, which could result in either a build-up or shortage of inventory;
- our ability to continue to maintain our brand image and reputation and protect our trademarks;
- our ability to effectively manage inventory levels and the increasing pressure on our margins in a highly promotional retail environment;
- the impact to our business resulting from potential costs and obligations related to the early closure of our stores or termination of our long-term, non-cancellable leases;
- the impact of economic, political, and other conditions on us, our customers, suppliers, vendors, and lenders;
- our ability to secure our facilities and systems and those of our third-party service providers from, among other things, cybersecurity breaches, acts of vandalism, computer viruses, or similar Internet or email events;
- our efforts to successfully enhance, upgrade, and/or transition our global information technology systems and digital commerce platform;
- the potential impact to our business resulting from the imposition of additional duties, tariffs, taxes, and other charges or barriers to trade, including those resulting from current trade developments with China;
- a variety of legal, regulatory, tax, political, and economic risks, including risks related to the importation and exportation of products which our operations are currently subject to, or may become subject to as a result of potential changes in legislation, and other risks associated with our international operations, such as compliance with the Foreign Corrupt Practices Act or violations of other anti-bribery and corruption laws prohibiting improper payments, and the burdens of complying with a variety of foreign laws and regulations, including tax laws, trade and labor restrictions, and related laws that may reduce the flexibility of our business;
- changes in our tax obligations and effective tax rate due to a variety of other factors, including potential additional changes in U.S. or foreign tax laws and regulations, accounting rules, or the mix and level of earnings by jurisdiction in future periods that are not currently known or anticipated;

the impact to our business resulting from the recently enacted U.S. tax legislation commonly referred to as the Tax Cuts and Jobs Act, including related changes to our tax obligations and effective tax rate in future periods, as well as the enactment-related charges that were recorded on a provisional basis based on a reasonable estimate and are subject to change, all of which could differ materially from our current expectations and/or investors' expectations;

the impact to our business resulting from the United Kingdom's decision to exit the European Union and the uncertainty surrounding the terms and conditions of such a withdrawal, as well as the related impact to global stock markets and currency exchange rates;

the impact to our business resulting from increases in the costs of raw materials, transportation, and labor, including healthcare-related costs;

our exposure to currency exchange rate fluctuations from both a transactional and translational perspective;

the potential impact to our business resulting from the financial difficulties of certain of our large wholesale customers, which may result in consolidations, liquidations, restructurings, and other ownership changes in the retail industry, as well as other changes in the competitive marketplace, including the introduction of new products or pricing changes by our competitors;

the potential impact on our operations and on our suppliers and customers resulting from natural or man-made disasters;

the impact to our business of events of unrest and instability that are currently taking place in certain parts of the world, as well as from any terrorist action, retaliation, and the threat of further action or retaliation;

our ability to maintain our credit profile and ratings within the financial community;

our ability to access sources of liquidity to provide for our cash needs, including our debt obligations, tax obligations, payment of dividends, capital expenditures, and potential repurchases of our Class A common stock, as well as the ability of our customers, suppliers, vendors, and lenders to access sources of liquidity to provide for their own cash needs;

the potential impact to the trading prices of our securities if our Class A common stock share repurchase activity and/or cash dividend payments differ from investors' expectations;

our intention to introduce new products or enter into or renew alliances;

changes in the business of, and our relationships with, major department store customers and licensing partners; and

our ability to make certain strategic acquisitions and successfully integrate the acquired businesses into our existing operations.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. A detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations is included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018 (the "Fiscal 2018 10-K"). There are no material changes to such risk factors, nor have we identified any previously undisclosed risks that could materially adversely affect our business, operating results, and/or financial condition, as set forth in Part II, Item 1A — "Risk Factors" of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

In this Form 10-Q, references to "Ralph Lauren," "ourselves," "we," "our," "us," and the "Company" refer to Ralph Lauren Corporation and its subsidiaries, unless the context indicates otherwise. We utilize a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2019 will end on March 30, 2019 and will be a 52-week period ("Fiscal 2019"). Fiscal year 2018 ended on March 31, 2018 and was also a 52-week period ("Fiscal 2018"). The second quarter of Fiscal 2019 ended on September 29, 2018 and was a 13-week period. The second quarter of Fiscal 2018 ended on September 30, 2017 and was also a 13-week period.

INTRODUCTION

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

Overview. This section provides a general description of our business, global economic conditions and industry trends, and a summary of our financial performance for the three-month and six-month periods ended September 29, 2018. In addition, this section includes a discussion of recent developments and transactions affecting comparability that we believe are important in understanding our results of operations and financial condition, and in anticipating future trends.

Results of operations. This section provides an analysis of our results of operations for the three-month and six-month periods ended September 29, 2018 as compared to the three-month and six-month periods ended September 30, 2017.

Financial condition and liquidity. This section provides a discussion of our financial condition and liquidity as of September 29, 2018, which includes (i) an analysis of our financial condition as compared to the prior fiscal year-end; (ii) an analysis of changes in our cash flows for the six months ended September 29, 2018 as compared to the six months ended September 30, 2017; (iii) an analysis of our liquidity, including the availability under our commercial paper borrowing program and credit facilities, common stock repurchases, payments of dividends, and our outstanding debt and covenant compliance; and (iv) a description of any material changes in our contractual and other obligations since March 31, 2018.

Market risk management. This section discusses any significant changes in our risk exposures related to foreign currency exchange rates, interest rates, and our investments since March 31, 2018.

Critical accounting policies. This section discusses any significant changes in our critical accounting policies since March 31, 2018. Critical accounting policies typically require significant judgment and estimation on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 3 of the Fiscal 2018 10-K.

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

OVERVIEW

Our Business

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

We diversify our business by geography (North America, Europe, and Asia, among other regions) and channel of distribution (wholesale, retail, and licensing). This allows us to maintain a dynamic balance as our operating results do not depend solely on the performance of any single geographic area or channel of distribution. Our wholesale sales are made principally to major department stores and specialty stores around the world, as well as to certain unrelated third party-owned stores to which we have licensed the right to operate in defined geographic territories using our trademarks. We also sell directly to consumers through our integrated retail channel, which includes our retail stores, concession-based shop-within-shops, and digital comme