

Tapestry Inc.

TPR | \$29.00

In Line | TARGET PRICE: \$25.00

Earnings Report

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Company Statistics

Market Capitalization (M)	\$7,047
52-Week Range	\$18.54 - \$39.70

Earnings Summary

	2018	2019	2020E
EPS	\$2.63	\$2.59	\$2.20

Jide Takes the Reins

Tapestry delivered a solid 3Q (comp beats at both the Kate and Coach), but what stood out was the thoughtful assessment, new initiatives, methodical approach, and proactive tone from new CEO Jide Zeitlin in the first call since his "intensive review" of the business. Although the company's brands still face the secular headwinds of athleisure and recommerce, Zeitlin seems to understand well that the biggest opportunity for the Tapestry platform is to develop and deploy technology-enabled capabilities (data, apps, AI, predictive technology, CRM, digital marketing, etc.) across its brand portfolio.

CEO Zeitlin described on today's call a new approach that will focus on "asking questions of and listening to consumers and adopting a very rapid test and learn set of processes that feed real-time insights back into our business to inform decision-making and to inform results." Tapestry's platform of brands uniquely gives it a diversified view of customer trends across price points, categories, geographies, and channels in the apparel/accessories/footwear categories. We're encouraged that Zeitlin is focused on using this powerful data to be proactive rather than reactive to drive predictive, fact-based decision-making "that will impact everything from supply chain to demand planning to product allocation to buying decisions." And with the management changes announced (new brand CEOs at Kate Spade and Stuart Weitzman starting March 1), it is also clear that Zeitlin has been empowered by the board to make whatever changes necessary. We look forward to hearing a more detailed plan at the Investor Day this summer.

In the meantime, we were encouraged that both Coach and Kate Spade are starting the new calendar year with organic momentum. At Coach, the most important takeaway for us was that the brand was able to successfully pass through price increases on its newly updated handbags, especially in Outlet. Coach was able to pass through a 10-15% price increase (with its more price-sensitive customers) with the re-launch of its top five bag styles in the quarter by adding fresh new detailing and increased functionality. At Kate Spade, there is still clearly work to be done (comps still negative, likely still more excess inventory to clear), but it was a promising sign that 2Q comps handily beat expectations (-4% vs guidance of -HSD). The Kate Spade will continue to launch new products of satchels and crossbodies (to take advantage of the hands-free trend) into the market in the current quarter, as well as the launch of footwear in February.

Unsurprisingly, TPR had to lower its earnings guidance on the Coronavirus impact (the company expects its China business to be down 70-80% through June due to store closures and weak traffic in the region (CPRI guided a ~70% impact through the current calendar quarter). But we're encouraged that Zeitlin commented on the call that management still sees growth in FY21 from FY20 levels excluding the impact of the Coronavirus (i.e., off a base of ~\$2.60, rather than the Coronavirus-diminished \$2.15-2.25 expected for this year. We are lowering our FY20 EPS estimate to \$2.20 from \$2.55 to reflect the impact of the Coronavirus on FY20 earnings.

TPR Model

	FY15	FY16	FY17	FY18	1Q	2Q	3Q	4Q	FY19	1Q	2Q	3Q	4Q	FY20E	1Q	2Q	3Q	4Q	FY21E	FY22E
Revenues	4,192	4,492	4,488	5,880	1,381	1,801	1,331	1,514	6,027	1,358	1,816	1,262	1,468	5,904	1,408	1,891	1,390	1,617	6,306	6,572
Coach	4,192	4,148	4,114	4,222	961	1,249	965	1,097	4,271	966	1,270	901	1,026	4,163	986	1,297	990	1,129	4,402	4,534
Kate		Kate acq'd 7/12/17		1,285	325	428	281	332	1,367	306	430	289	365	1,390	333	472	317	400	1,522	1,637
Stuart Weitzman	313	345	374	374	95	124	85	85	389	87	116	72	77	351	89	121	83	88	382	401
Growth	(12.8)%	7.2 %	(0.1)%	31.0 %	7.2 %	0.9 %	0.7 %	2.0 %	2.5 %	(1.7)%	0.8 %	(5.2)%	(3.0)%	(2.0)%	3.7 %	4.1 %	10.1 %	10.2 %	6.8 %	4.2 %
Growth const fx							2.0 %	4.0 %	4.0 %	(1.0)%	1.0 %									
Growth (Coach brand const F)	(11.1)%	0.2 %	2.0 %	2.0 %	4.0 %	2.0 %	1.0 %	2.0 %	2.0 %	1.0 %	2.0 %	(6.0)%	(6.0)%	(2.1)%	2.3 %	2.2 %	10.0 %	10.0 %	5.8 %	3.0 %
Growth (Kate brand)				(5.8)%	7.8 %	(1.4)%	4.3 %	6.4 %	6.4 %	(6.1)%	0.5 %	3.0 %	10.0 %	1.7 %	8.9 %	9.8 %	9.6 %	9.6 %	9.5 %	7.5 %
Growth (SW brand)		10.0 %	8.4 %	0.1 %	(1.3)%	2.6 %	1.4 %	16.9 %	4.1 %	(9.0)%	(6.5)%	(15.0)%	(10.0)%	(9.8)%	3.0 %	5.0 %	15.0 %	15.0 %	8.7 %	5.0 %
Comp (Coach global, incl ecomm)				1.1 %	4.0 %	1.0 %	1.0 %	2.0 %	2.0 %	1.0 %	2.0 %	(6.0)%	(6.0)%	(2.1)%	2.0 %	2.0 %	10.0 %	10.0 %	5.7 %	3.0 %
Comp (Kate global, incl ecomm)				(7.0)%	(5.0)%	(11.0)%	(3.0)%	(6.0)%	(7.0)%	(16.0)%	(4.0)%	(2.0)%	5.0 %	(4.3)%	4.0 %	6.0 %	7.0 %	7.0 %	6.0 %	5.0 %
COGS	1,273	1,439	1,405	1,910	446	594	411	496	1,946	439	605	397	498	1,939	454	628	419	525	2,026	2,102
Gross profit	2,918	3,052	3,084	3,970	936	1,207	921	1,018	4,082	919	1,211	865	970	3,965	954	1,263	970	1,092	4,280	4,470
Gross margin	69.6 %	68.0 %	68.7 %	67.5 %	67.7 %	67.0 %	69.2 %	67.2 %	67.7 %	67.6 %	66.7 %	68.5 %	66.1 %	67.2 %	67.8 %	66.8 %	69.8 %	67.5 %	67.9 %	68.0 %
SG&A	2,130	2,276	2,271	2,978	750	805	780	797	3,132	752	838	773	819	3,182	778	870	839	869	3,356	3,484
SG&A growth	0.1 %	6.9 %	(0.2)%	31.1 %	9.6 %	2.6 %	7.0 %	2.0 %	5.1 %	0.3 %	4.1 %	(0.8)%	2.7 %	1.6 %	3.5 %	3.8 %	8.5 %	6.1 %	5.4 %	3.8 %
SG&A rate	50.8 %	50.7 %	50.6 %	50.7 %	54.3 %	44.7 %	58.6 %	52.7 %	52.0 %	55.4 %	46.1 %	61.3 %	55.8 %	53.9 %	55.3 %	46.0 %	60.4 %	53.7 %	53.2 %	53.0 %
Operating income	789	777	812	992	186	402	141	221	950	167	373	92	151	783	176	393	132	223	924	986
Growth	(37)%	(2)%	5 %	22 %	10 %	(2)%	(23)%	(3)%	(4)%	(10)%	(7)%	(35)%	(31)%	(18)%	6 %	5 %	43 %	48 %	18 %	7 %
Operating margin	18.8 %	17.3 %	18.1 %	16.9 %	13.5 %	22.3 %	10.6 %	14.6 %	15.8 %	12.3 %	20.6 %	7.3 %	10.3 %	13.3 %	12.5 %	20.8 %	9.5 %	13.8 %	14.7 %	15.0 %
Interest expense (income)	6	27	19	74	13	13	11	11	48	12	14	12	12	50	12	12	12	12	48	48
Other expense (income)					5					13	(6)									
Pretax income	782	750	794	918	168	389	131	210	902	142	365	80	139	733	164	381	120	211	876	938
Income taxes	251	198	185	158	27	79	9	34	149	28	62	14	24	128	29	67	21	37	153	164
Tax rate	32.1 %	26.4 %	23.3 %	17.2 %	15.8 %	20.3 %	6.7 %	16.4 %	16.5 %	19.5 %	16.9 %	17.5 %	17.5 %	17.4 %	17.5 %	17.5 %	17.5 %	17.5 %	17.5 %	17.5 %
Minority intrest																				
Net Income	531	552	609	760	142	310	122	175	753	114	304	66	115	605	135	315	99	174	723	774
Growth	(39)%	4 %	10 %	25 %	18 %	1 %	(23)%	(0)%	(1)%	(20)%	(2)%	(46)%	(34)%	(20)%	19 %	4 %	50 %	52 %	19 %	7 %
Net margin	12.7 %	12.3 %	13.6 %	12.9 %	10.3 %	17.2 %	9.1 %	11.6 %	12.5 %	8.4 %	16.7 %	5.2 %	7.8 %	10.2 %	9.6 %	16.6 %	7.1 %	10.8 %	11.5 %	11.8 %
Diluted EPS	\$ 1.92	\$ 1.98	\$ 2.15	\$ 2.63	\$ 0.48	\$ 1.07	\$ 0.42	\$ 0.61	\$ 2.59	\$ 0.40	\$ 1.10	\$ 0.24	\$ 0.43	\$ 2.20	\$ 0.52	\$ 1.21	\$ 0.38	\$ 0.69	\$ 2.80	\$ 3.10
Growth	(38)%	3 %	9 %	22 %	16 %	(0)%	(23)%	0 %	(2)%	(18)%	3 %	(42)%	(28)%	(15)%	29 %	11 %	59 %	58 %	27 %	11 %
Diluted share count	277	279	283	288.6	292	291	291	290	291	286	277	271	264	275	262	259	256	254	258	249
YoY	(1)%	1 %	1 %	2 %	2 %	2 %	0 %	(1)%	1 %	(2)%	(5)%	(7)%	(9)%	(6)%	(8)%	(6)%	(6)%	(4)%	(6)%	(3)%

VALUATION METHODOLOGY

Our Target Price of \$25 is ~9x P/E to our \$2.80 2021 EPS. A discount multiple is warranted given the muted outlook for the aspirational handbag category and the risks of operating a multi-brand platform.

RISKS

Downside risks include execution challenges at Coach, Kate Spade, and/or Stuart Weitzman, as well as the risk that category demand slows further.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2020-06-02)	Evercore ISI Target
1913.HK	Prada	In Line	€3.40	€25.00
ADS.GR	Adidas	In Line	€289.60	€260.00
BID	Sotheby's	In Line	\$56.99	\$57.00
BRBY.LN	Burberry Group plc	In Line	£20.17	£23.00
BURL	Burlington Stores, Inc	In Line	\$231.45	\$225.00
CPRI	Capri Holdings Limited	Outperform	\$31.34	\$45.00
FL	Foot Locker Inc	In Line	\$41.46	\$35.00
GES	Guess? Inc.	Outperform	\$22.02	\$26.00
GOOS	Canada Goose Holdings, Inc.	Outperform	\$33.30	\$50.00
HBI	Hanesbrands Inc.	Outperform	\$14.42	\$22.00
JWN	Nordstrom Inc.	Outperform	\$39.79	\$50.00
KER.FR	Kering (PPR)	Outperform	€572.00	€700.00
KSS	Kohl's Corp.	In Line	\$44.95	\$42.00
LB	L Brands, Inc.	In Line	\$23.98	\$18.00
LEVI	Levi Strauss & Co	Outperform	\$19.79	\$25.00
LULU	lululemon athletica inc.	Outperform	\$243.78	\$330.00
M	Macy's, Inc.	Outperform	\$16.95	\$22.00
MC.FP	LVMH	Outperform	€418.05	€550.00
MONC.IM	MONCLER	Outperform	€39.59	€50.00
NKE	NIKE, Inc.	Outperform	\$100.27	\$150.00
PNDORA.C				
O	Pandora A/S	Underperform	DKK372.50	DKK250.00
PVH	PVH Corp.	In Line	\$88.88	\$110.00
RL	Ralph Lauren Corp.	Outperform	\$121.42	\$170.00
ROST	Ross Stores Inc.	In Line	\$118.19	\$103.00
SKX	Skechers U.S.A., Inc.	Outperform	\$37.97	\$52.00
TJX	TJX Cos.	Outperform	\$61.82	\$70.00
TPR	Tapestry Inc.	In Line	\$29.00	\$25.00
UA	Under Armour Inc.	Outperform	\$18.40	\$25.00
ULTA	Ulta Beauty Inc.	Outperform	\$293.05	\$375.00
VFC	VF Corp.	Outperform	\$84.08	\$115.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe

In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe

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Evercore ISI rating (as of 02/06/2020)

Coverage Universe			Investment Banking Services I Past 12 Months		
Ratings	Count	Pct.	Ratings	Count	Pct.
Buy	407	53	Buy	94	23
Hold	282	36	Hold	36	13
Sell	43	6	Sell	6	14
Coverage Suspended	26	3	Coverage Suspended	10	38
Rating Suspended	16	2	Rating Suspended	4	25

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Price Charts

Tapestry Inc. Rating History as of 02/06/2020



Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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