Aug 26, 2020

Ralph Lauren Corp. (RL)

$69.12 (As of 08/25/20)

Price Target (6-12 Months): **$59.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/19/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:D
	Value: C | Growth: F | Momentum: C	

Summary

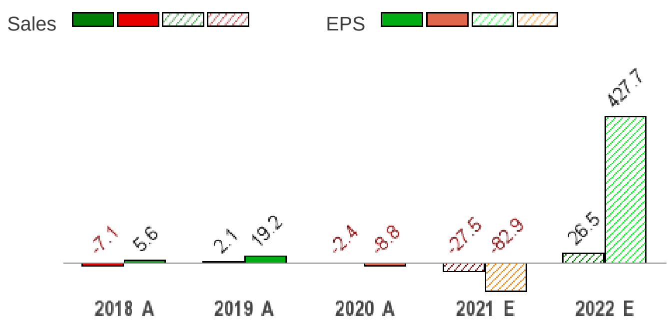
Ralph Lauren's shares declined and lagged the industry year to date due to the impacts of the coronavirus outbreak, which also marred first-quarter fiscal 2021 results. Notably, both top and bottom lines declined year over year. Management expects COVID-19 impacts and uncertainty to continue in the second quarter and fiscal 2021. Additionally, elevated operating expenses and tough economic environment stemming from the coronavirus pandemic remain headwinds. It continues to witness impacts from adverse currency rates. Despite significant top-line headwinds stemming from the pandemic, AUR rose high-single digits in the fiscal first quarter. Further, the company has reopened majority of its stores across all regions. Additionally, its solid online performance, driven by strong online capabilities like BOPUS and curbside pickup, bodes well.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$128.29 - $59.82**
20 Day Average Volume (sh)	**1,337,174**
Market Cap	**$5.0 B**
YTD Price Change	**-41.0%**
Beta	**1.26**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Textile - Apparel**
Zacks Industry Rank	**Bottom 17% (209 out of 252)**
Last EPS Surprise	**-19.0%**
Last Sales Surprise	**-26.2%**
EPS F1 Est- 4 week change	**-60.2%**
Expected Report Date	**11/05/2020**
Earnings ESP	**0.0%**
P/E TTM	**23.8**
P/E F1	**61.7**
PEG F1	**5.2**
P/S TTM	**1.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,161 E	1,519 E	1,690 E	1,356 E	5,655 E
2021	488 A	1,124 E	1,513 E	1,298 E	4,469 E
2020	1,429 A	1,706 A	1,751 A	1,274 A	6,160 A

EPS Estimates

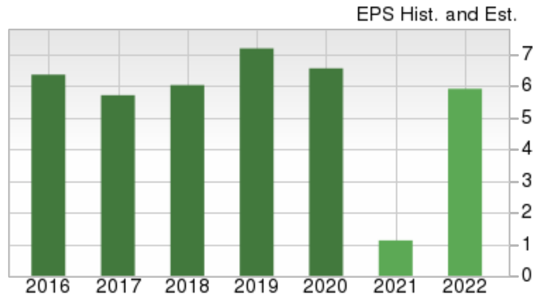
	Q1	Q2	Q3	Q4	Annual*
2022	$0.39 E	$2.07 E	$2.44 E	$0.48 E	$5.91 E
2021	-$1.82 A	$0.68 E	$1.93 E	$0.35 E	$1.12 E
2020	$1.77 A	$2.55 A	$2.86 A	-$0.68 A	$6.56 A

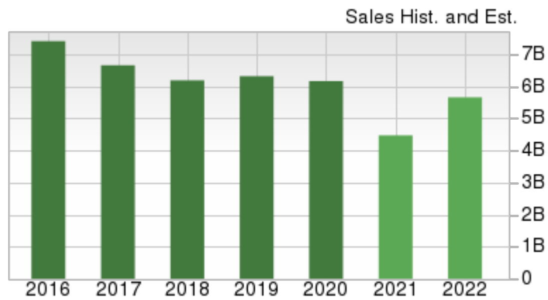
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/25/2020. The reports text is as of 08/26/2020.

Overview

Ralph Lauren Corp. is a major designer, marketer and distributor of premium lifestyle products in North America, Europe, Asia, and internationally. It offers products in the apparel, footwear, accessories, home furnishings, and other licensed product categories. The company possesses a strong portfolio of globally recognized brand names such as Polo Ralph Lauren, Ralph Lauren Purple Label, Ralph Lauren Collection, Double RL, Lauren Ralph Lauren, Polo Golf Ralph Lauren, Ralph Lauren Golf, RLX Ralph Lauren, Polo Ralph Lauren Children, Chaps, Club Monaco and American Living.





The company offers lifestyle product collections in 4 categories – Apparel, which includes men's, women's, and children's clothing; Home, which includes bedding and bath products, furniture, fabric and wallpaper, paint, tabletop and giftware; Accessories, comprising footwear, eyewear, watches, fashion and fine jewelry, and leather goods; and Fragrance and skin care products sold under the Glamorous, Romance, Polo, Lauren, Safari, and Polo Sport brands.

The company's reportable segments include North America, Europe and Asia. These segments contributed roughly 51%, 26.5% and 16.5% respectively to net revenue in fiscal 2020. The rest of the contribution came from other non-reportable segments.

The company operates through wholesale, retail and licensing channels of distribution. It sells products to department stores, specialty stores, and golf and pro shops through the wholesale channel. It also sells directly to consumers through an integrated retail channel, which includes retail stores, concession-based shop-within-shops, and its digital commerce sites. It also licenses to third parties for specified periods the right to access its trademarks in connection with the licensees' manufacture and sale of designated products.

As of Jun 27, 2020, Ralph Lauren had 533 directly-operated stores and 654 concession shops globally. The directly-operated stores included 140 Ralph Lauren, 72 Club Monaco and 321 Polo factory stores. Additionally, the company had 273 global licensed stores.

Reasons To Sell:

- **Dismal Q1 Results**: Shares of Ralph Lauren have slumped 41% year to date compared with the industry's 11.5% decline. The stock has been in doldrums due to impacts of the coronavirus pandemic, which has been hurting quarterly results. The company reported dismal first-quarter fiscal 2021 results, wherein both top and bottom lines declined year over year. Notably, first-quarter fiscal 2021 revenues declined 66% on a reported basis and 65% on a constant-currency basis. Soft revenues mainly resulted from lower sales across all regions, stemming from supply-chain disruptions related to COVID-19 and currency headwinds. The pandemic also led to revenue declines of 77%, 76% and 34% in North America, Europe and Asia segments, respectively. Going ahead, management expects COVID-19 impacts to continue in the second quarter and fiscal 2021 as there are uncertainties regarding the path of recovery.

> Ralph Lauren's Q1 results were marred by the impacts of the ongoing coronavirus outbreak. Management expects COVID-19 impacts and uncertainty to continue in the second quarter and fiscal 2021.

- **Higher Operating Expense Rate**: Ralph Lauren's adjusted operating expenses declined 30% year over year. However, operating expense, as a percentage of sales, increased significantly to 107.5% compared to 52.3% in the prior year period. Driven by a soft sales and higher operating expense rate, the company reported an adjusted operating loss of $174 million in the quarter under review. Moreover, the company reported adjusted operating loss of $40 million in North America and $18 million in Europe, while it posted adjusted operating income of $13 million in Asia.

- **Currency Headwinds**: Ralph Lauren's earnings and sales for the fiscal first quarter continued to be impacted by foreign currency headwinds due to strong U.S. dollar. Notably, adverse foreign currency rates marred total revenue by 100 bps in the fiscal first quarter. Further, the adjusted operating margin for the Europe and Asia segments reflected negative currency impacts of 910 bps and 120 bps, respectively, in the reported quarter.

- **Competitive Pressure**: Ralph Lauren operates in a highly fragmented market and competes with a number of well-established players such as Estee Lauder, Coach, V.F. Corp., Phillips-Van Heusen, Jones Apparel, Liz Claiborne and Kenneth Cole Productions. The company primarily competes on the basis of fashion, quality and service. Failure to offer high-quality distinguished products at a competitive price may hamper Ralph Lauren's market share, resulting in lower earnings and sales .

- **Macroeconomic Headwinds May Dampen Operating Performance**: Consumer confidence and spending behavior may be affected by macroeconomic factors, including increase in fuel and energy costs, credit availability, high unemployment levels, and high household debt levels. These may affect disposable income of consumers. This, in turn, could affect the company's growth and profitability. Although the company remains committed toward its Next Great Chapter growth initiative, it expects to witness a more volatile global retail backdrop.

Risks

- **Store Re-opening Plan**: With restrictions easing off, Ralph Lauren has been re-opening stores on a market-by-market basis in coherence with the government guidelines. As of May 27, it re-opened about two-thirds of its stores in Europe and nearly half of its stores in North America. Notably, majority of its stores have reopened across North America, Europe and Asia with limited working hours and as per local health guidelines. We believe that improved trends in reopened stores will be able to provide some cushion to the company's top line in the near term.

- **Digital Strength**: Expansion of digital platforms is a key aspect of Ralph Lauren's growth strategy. The company has developed a winning digital ecosystem, including directly-operated flagship sites, wholesale digital, pure plays and social commerce. The company continued to invest in digital partnerships and capabilities during the fiscal first quarter. Driven by these efforts, Ralph Lauren's e-commerce websites across all three regions performed well in the reported quarter, reporting solid comps. Also, wholesale digital businesses remained positive year over year. Encouragingly, management introduced Buy Online Pick Up in Store and curbside pickup in North America. Apart from these, digital clienteling and Buy Online Ship from Store were launched on a global basis.

  Average unit retail (AUR) across Ralph Lauren's direct-to-consumer network increased 25% in the first quarter of fiscal 2021, driven by positive shifts in geographic and retail channel along with ongoing initiatives for brand elevation as well as improved quality of sales. Prior to this, the company delivered positive AUR growth across all three regions for the fourth quarter and fiscal 2020. Despite significant top-line headwinds stemming from the pandemic, AUR rose high-single digits. Notably, AUR grew in double digit in North America and Europe, each.

- **Strategic Growth Plan – Next Great Chapter**: Despite the impacts of COVID-19, Ralph Lauren is on track to exceed its top and bottom line targets under the "Next Great Chapter" plan that was announced in June 2018. The growth plan focuses on delivering sustainable long term growth and value creation. The company expects to execute this growth plan through by five strategic priorities including – winning over a new generation of customers; energizing core products and accelerating under developed categories; drive targeted expansion in its regions and channels; lead with digital; and operate with discipline to fuel growth. As part of the plan, the company targets delivering low to mid-single digit revenue compounded annual growth rate (CAGR) and mid-teen operating margin by fiscal 2023, in constant currency. Additionally, it anticipates marketing spend to grow nearly 5% of revenue by fiscal 2023, while capital expenditure is expected to represent 4-5% of revenue. Furthermore, the company plans returning 100% free cash flow to shareholders in the next five years, amounting to about $2.5 billion on a cumulative basis through fiscal 2023 in the form of dividends and share repurchases.

- **Financial Stability**: Ralph Lauren's cash and short-term investments at the end of first-quarter fiscal 2021 increased 51.3% sequentially to $2,451.3 million. Notably, the company's cash position remains sufficient to fund its short-term obligations of about $615 million as of Jun 27, 2020. Although, its long-term debt of $3,148 million (including non-current operating lease liabilities) surged 60.2% sequentially, its debt-to-capitalization ratio of 0.60 compares favorably with the industry's ratio of 0.65. Moreover, the company concluded issuing $500 million of 1.7% 2-year notes and $750 million of 2.95% 5-year notes, in a bid to compensate the $475 million it had withdrawn from its Global Credit Facility in the fiscal fourth quarter as part of precautionary measures to preserve cash and strengthen liquidity to navigate through the global pandemic. It has also taken several other measures to preserve cash and liquidity amid the coronavirus crisis, including stringent expense management, reduced capital expenditure and inventory commitments, halting share repurchases, and temporary suspension of quarterly dividends.

Last Earnings Report

Ralph Lauren's Q1 Earnings and Sales Miss Estimates

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	-26.22%
EPS Surprise	-18.95%
Quarterly EPS	-1.82
Annual EPS (TTM)	2.91

Ralph Lauren reported dismal first-quarter fiscal 2021 results, wherein both top and bottom lines declined year over year. The results have been primarily marred by the impacts of the coronavirus outbreak. Management expects COVID-19 impacts and uncertainty to continue in the second quarter and fiscal 2021. As a result, it did not provide any fiscal view.

Q1 in Detail

Ralph Lauren reported an adjusted loss per share of $1.82 in the fiscal first quarter, wider than the Zacks Consensus Estimate of a loss of $1.53. The bottom line also compares unfavorably with adjusted earnings of $1.77 reported in the prior-year quarter. On a reported basis, the company posted a loss of $1.75 per share against earnings of $1.47 in the year-ago quarter.

Net revenues declined 66% year over year to $487.5 million and missed the Zacks Consensus Estimate of $661 million. On a constant-currency basis, revenues were down 65% from the prior-year quarter. Soft revenues mainly resulted from lower sales across all regions, stemming from supply-chain disruptions related to COVID-19 and currency headwinds of nearly 100 basis points (bps).

Segment Details

North America: During the fiscal first quarter, the segment's revenues declined 77% from the year-ago quarter to $165 million. The retail channel in the region witnessed a significant decline, with a 64% slump in comparable store sales (comps) and a 3% rise in digital commerce. Revenues from the North America wholesale business plunged 93% from the prior-year period.

Europe: The segment's revenues fell 67% year over year to $121 million, with a 64% decline in currency-neutral revenues. Comps at retail stores in Europe declined 62% due to a 75% decrease in brick-and-mortar stores, somewhat offset by 44% growth in digital platform. Revenues for the segment's wholesale business fell 71% on a reported basis and 68% in constant currency.

Asia: The segment's revenues decreased 34% year over year to $172 million on a reported basis and 32% on a currency-neutral basis. Comps in Asia dropped 33% as a 68% rise in digital operations in the quarter was more than offset by a 35% loss in brick-and-mortar comps due to store closures in the wake of the coronavirus outbreak.

Margins

Ralph Lauren's adjusted gross profit margin expanded 730 basis points (bps) to 71.8%, driven by positive regional and channel mix shifts stemming from COVID-19 along with enhanced AUR in all regions.

Adjusted operating expenses declined 30% from the year-ago period to $524 million in the fiscal first quarter. The decline can be attributable to savings related to employee furloughs, reduced rent, and lesser corporate and selling expenses. However, adjusted operating expenses, as a percentage of sales, increased significantly to 107.5%. Driven by soft sales and a higher operating expense rate, the company reported an adjusted operating loss of $174 million in the quarter under review.

Financials

Ralph Lauren ended the quarter with cash and short-term investments of $2,451.3 million, total debt of $1.6 billion and total shareholders' equity of $2,555.5 million. Inventory dropped nearly 22% from a year ago to $773 million at the end of the quarter, with a double-digit decline in all regions.

Moreover, the company concluded issuing $500 million of 1.7% 2-year notes and $750 million of 2.95% 5-year notes. The net proceeds from this will be utilized to compensate the $475 million that the company withdrew from its Global Credit Facility in the fiscal fourth quarter as part of precautionary measures to preserve cash and strengthen liquidity to navigate through the global pandemic.

Store Update

As of Jun 30, 2020, Ralph Lauren had 533 directly-operated stores and 654 concession shops globally. The directly-operated stores included 140 Ralph Lauren, 72 Club Monaco and 321 Polo factory stores. Additionally, the company operated 273 licensed stores globally.

COVID-19 Updates

The company witnessed strong conversion rates, driven by initiatives like its signature Pride campaign and capsule, RL @ Home program; exclusive capsules with Zalando and Asos; and the "Polo Shirt: Design For Good" competition on the Polo app. During the temporary store closures, it invested in value-based and digital activities. Such well-chalked efforts led to lesser marketing expenses to the tune of 34%.

Despite significant top-line headwinds stemming from the pandemic, AUR rose high-single digits. Notably, AUR grew in double digit in North America and Europe, each. E-commerce performed well in the reported quarter with solid comps in Ralph Lauren websites across all three regions. Also, wholesale digital businesses remained positive year over year. Encouragingly, management introduced Buy Online Pick Up in Store and curbside pickup in North America. Apart from these, digital clienteling and expansion of Buy Online Ship from Store were launched on a global basis.

Valuation

Ralph Lauren shares are down 40.9% in the year-to-date period and 19% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 11.5% and 3.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 9.5% and 8.5%, respectively.

The S&P 500 index is up 6.9% in the year-to-date period and 20.3% in the past year.

The stock is currently trading at 22.57X forward 12-month earnings, which compares to 29.36X for the Zacks sub-industry, 34.39X for the Zacks sector and 23.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.15X and as low as 8.16X, with a 5-year median of 15.92X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $59 price target reflects 19.27X forward 12-month earnings.

The table below shows summary valuation data for RL

Valuation Multiples - RL

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.57	29.36	34.39	23.12
	5-Year High	26.51	29.36	34.39	23.12
	5-Year Low	8.16	13.28	16.13	15.25
	5-Year Median	15.92	18.13	19.86	17.58
P/S F12M	Current	1.02	2.52	2.43	3.77
	5-Year High	1.9	2.52	2.95	3.77
	5-Year Low	0.71	1.45	1.68	2.53
	5-Year Median	1.23	2.09	2.5	3.05
EV/EBITDA TTM	Current	16.74	25.59	11.21	13.09
	5-Year High	17.84	25.94	17.79	13.09
	5-Year Low	5.65	11.48	8.34	8.25
	5-Year Median	7.72	18.06	12.22	10.92

As of 08/25/2020

Industry Analysis **Zacks Industry Rank:** Bottom 17% (209 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Hanesbrands Inc. **(HBI)**	Outperform	1
HUGO BOSS **(BOSSY)**	Neutral	4
Carters, Inc. **(CRI)**	Neutral	3
GIII Apparel Group, LTD. **(GIII)**	Neutral	4
lululemon athletica inc. **(LULU)**	Neutral	3
PVH Corp. **(PVH)**	Neutral	3
V.F. Corporation **(VFC)**	Neutral	3
Guess, Inc. **(GES)**	Underperform	4

Industry Comparison Industry: Textile - Apparel

	RL	X Industry	S&P 500	Industry Peers HBI	LULU	VFC
Zacks Recommendation (Long Term)	Underperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	1	3	3
VGM Score	D	-	-	B	F	F
Market Cap	5.05 B	803.56 M	23.77 B	5.57 B	49.28 B	25.11 B
# of Analysts	6	4	14	6	17	10
Dividend Yield	0.00%	0.00%	1.65%	3.75%	0.00%	2.98%
Value Score	C	-	-	B	F	D
Cash/Price	0.55	0.22	0.07	0.13	0.02	0.12
EV/EBITDA	8.94	8.17	13.35	9.24	46.35	19.59
PEG Ratio	5.15	4.86	3.03	3.33	4.71	5.01
Price/Book (P/B)	1.98	1.66	3.17	5.16	26.84	8.62
Price/Cash Flow (P/CF)	6.55	6.62	12.81	7.39	61.10	14.90
P/E (F1)	61.31	36.85	21.72	10.99	86.28	58.80
Price/Sales (P/S)	0.97	0.64	2.47	0.84	12.80	2.52
Earnings Yield	1.62%	1.66%	4.45%	9.12%	1.16%	1.71%
Debt/Equity	1.23	0.86	0.75	4.03	0.35	2.31
Cash Flow ($/share)	10.55	2.28	6.93	2.17	6.20	4.32
Growth Score	F	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	-1.38%	-2.10%	10.41%	-0.24%	26.32%	0.26%
Proj. EPS Growth (F1/F0)	-82.95%	-60.40%	-4.92%	-17.23%	-11.01%	-59.10%
Curr. Cash Flow Growth	-10.72%	6.85%	5.20%	2.71%	26.75%	-3.63%
Hist. Cash Flow Growth (3-5 yrs)	-4.88%	3.96%	8.50%	2.82%	19.56%	-3.37%
Current Ratio	2.59	1.96	1.33	2.01	2.68	3.65
Debt/Capital	55.19%	48.61%	44.20%	80.11%	25.83%	69.75%
Net Margin	2.67%	-1.68%	10.25%	7.88%	15.01%	3.46%
Return on Equity	8.21%	1.00%	14.66%	55.54%	33.27%	21.07%
Sales/Assets	0.70	0.93	0.51	0.86	1.28	0.87
Proj. Sales Growth (F1/F0)	-27.45%	-6.50%	-1.45%	-8.91%	1.77%	-21.54%
Momentum Score	C	-	-	D	C	F
Daily Price Chg	-1.61%	0.00%	-0.03%	-0.19%	0.58%	-2.33%
1 Week Price Chg	-5.11%	-0.43%	-1.45%	-0.57%	5.62%	-4.02%
4 Week Price Chg	-3.19%	2.35%	3.76%	12.67%	17.31%	5.97%
12 Week Price Chg	-11.83%	9.00%	5.99%	49.35%	21.20%	8.58%
52 Week Price Chg	-19.08%	-23.17%	4.07%	18.59%	110.15%	-19.01%
20 Day Average Volume	1,337,174	110,470	1,880,903	6,779,460	1,255,819	1,905,372
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.68%	0.00%	0.00%
(F1) EPS Est 4 week change	-60.25%	0.00%	1.03%	59.49%	0.49%	-3.08%
(F1) EPS Est 12 week change	-65.78%	-44.83%	3.40%	142.78%	-1.55%	-3.08%
(Q1) EPS Est Mthly Chg	-57.98%	0.00%	0.00%	-4.09%	0.72%	-10.45%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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