

Tapestry, Inc. (TPR)

\$18.43 (As of 03/09/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Shares of Tapestry have slid and underperformed the industry in the past three months. The stock came under pressure in spite of the company reporting better-than-expected second-quarter fiscal 2020 results, wherein both the top and the bottom lines grew year over year. Management highlighted that Coach posted ninth straight quarter of comps growth, while comps at Kate Spade improved sequentially. However, sales at Stuart Weitzman were hurt by weak demand across channels. Also, margins remained soft across Kate Spade due to promos. Again, the impact of higher SG&A expenses on margins cannot be ignored. Moreover, Tapestry lowered its fiscal 2020 view on account of coronavirus outbreak in China, which it believes is considerably impacting its business. Also, softness in Hong Kong and impact of consumption tax increase in Japan remain deterrents.

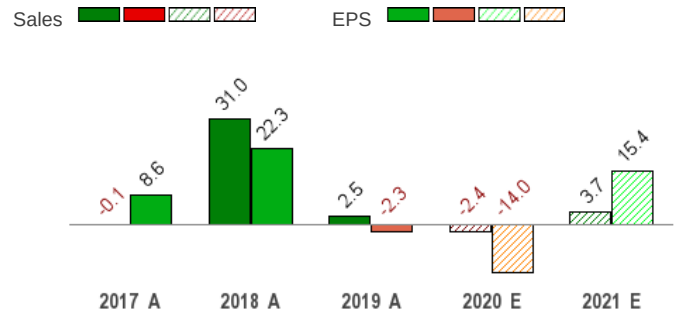
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.06 - \$18.13
20 Day Average Volume (sh)	4,681,601
Market Cap	\$5.1 B
YTD Price Change	-31.7%
Beta	0.95
Dividend / Div Yld	\$1.35 / 7.3%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 31% (78 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.2%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	05/14/2020
Earnings ESP	24.6%
P/E TTM	7.3
P/E F1	8.3
PEG F1	0.8
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,409 E	1,871 E	1,374 E	1,534 E	6,104 E
2020	1,358 A	1,816 A	1,280 E	1,439 E	5,885 E
2019	1,381 A	1,801 A	1,331 A	1,514 A	6,027 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.50 E	\$1.13 E	\$0.39 E	\$0.56 E	\$2.55 E
2020	\$0.40 A	\$1.10 A	\$0.29 E	\$0.43 E	\$2.21 E
2019	\$0.48 A	\$1.07 A	\$0.42 A	\$0.61 A	\$2.57 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 03/09/2020. The reports text is as of 03/10/2020.

Overview

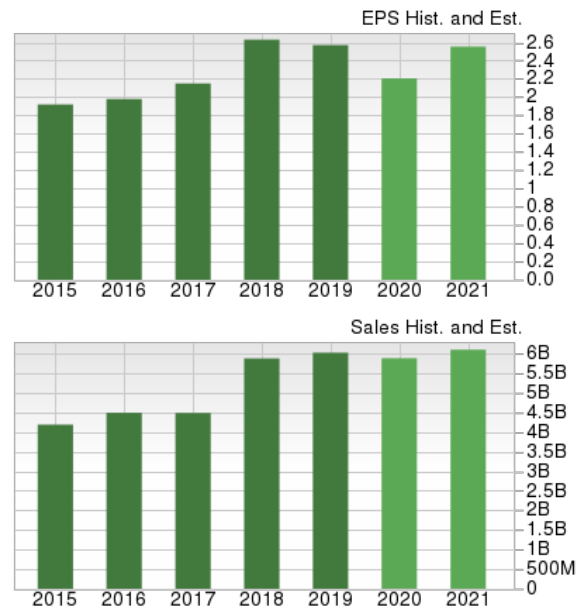
Founded in 1941 and headquartered in New York, Tapestry, Inc. (TPR), which was formerly known as Coach, Inc., is the designer and marketer of fine accessories and gifts for women and men in the United States and internationally. The Company offers lifestyle products, which include handbags, women's and men's accessories, footwear, jewelry, seasonal apparel collections, sunwear, travel bags, fragrance and watches. Tapestry now operate under three segments comprising Coach brand (North America and International - 71% of FY19 Sales), Stuart Weitzman (6% of FY19 Sales) and Kate Spade & Company (23% of FY19 Sales).

Coach Brand North American segment includes sales to customers via North American company-owned stores, including the Internet, and sales to North American wholesale customers and distributors.

Coach Brand International segment includes sales via company-operated outlets (including the Internet) and concession store-in-stores in — Japan, mainland China, Hong Kong, Macau, Singapore, Taiwan, Malaysia, South Korea, the United Kingdom, France, Ireland, Spain, Portugal, Germany, Italy, Austria, Belgium, the Netherlands and Switzerland. Additionally, International includes sales to consumers through the Internet in Japan, mainland China, the United Kingdom and South Korea, as well as sales to wholesale customers and distributors in about 55 countries.

Stuart Weitzman segment includes sales generated by the Stuart Weitzman brand globally, principally via department stores in North America and international locations, within numerous independent third party distributors and within Stuart Weitzman operated stores, comprising the Internet, in the U.S., Canada and Europe.

Kate Spade & Company, which designs and markets accessories and apparel under two multichannel lifestyle brands – kate spade new york and Jack Spade New York.



Reasons To Buy:

▲ **Better-than-Expected Q2 Results:** Tapestry posted second-quarter fiscal 2020 results, wherein both the top and the bottom lines not only surpassed the Zacks Consensus Estimate but also increased year over year. The company posted adjusted quarterly earnings of \$1.10 per share that beat the consensus estimate of 98 cents and improved 3% from the year-ago period on account of higher net sales, lower tax rate and reduced share count. Net sales came in at \$1,816 million, up 1% year over year on both reported and constant currency basis. The metric also came ahead of the Zacks Consensus Estimate of \$1,804.1 million, following a miss in the preceding four quarters.

Tapestry has undertaken transformation initiatives revolving around, product, stores and marketing. Also, the company is introducing modern luxury concept stores in key markets.

Management highlighted that Coach registered ninth straight quarter of comparable store sales growth. North America steered the global comparable store sales. International business was flat with the prior year with sturdy comparable store sales growth in Other Asia, Europe and Mainland China. We also note that comparable store sales at Kate Spade improved on a sequential basis, courtesy of merchandising actions.

▲ **Growth Drivers:** Being a leading American marketer of fine accessories and gifts, Tapestry boasts a proven strategy of investing in stores to enhance store sales productivity through product innovation, compelling pricing strategy, new merchandise assortments, and a cost-effective global sourcing model, which we believe should help drive comparable-store sales and operating margins in the long run. The company's long-term growth drivers include expansion of global distribution model, venturing into under-penetrated markets and enhancement of digital and data analytics capabilities. Tapestry continues to focus on Asian markets, primarily China for long-term growth. The company launched Coach Create, a platform to customize bags either online or in outlets. The company expanded offering in sport category and also launched smartwatch with Fossil, while its Signature brand continues to gain traction. The company entered into a multi-year licensing agreement with Incipio Group to launch mobile device accessories with Coach and also continued with its partnership with Disney. Tapestry also enters into a strategic alliance with Alibaba's Tmall, China's largest B2C ecommerce platform.

▲ **Undergoing Brand Transformation:** Tapestry has undertaken transformation initiatives revolving around, product, stores and marketing. The acquisitions of Stuart Weitzman and Kate Spade have facilitated it to emerge as a multi-brand company. Also, the company is introducing modern luxury concept stores in key markets. Moreover, the company has undertaken strategic measures involving upgrading of core technology platforms and enhancement of international supply chain. The company is focusing beyond bags into women's and men's footwear and ready-to-wear categories.

▲ **Tapping Growth Opportunities:** The company remains optimistic about its dual-gender Legacy lifestyle collection, dedicated men's stores and international growth opportunities. The company is also aggressively expanding its e-commerce platform. The company is introducing Coach own branded women's footwear. Also, management has undertaken initiatives to have direct control over international distribution. The company concluded the buybacks of the Kate Spade operations in Singapore, Malaysia and Australia. It also completed the buyback of the Stuart Weitzman business in Southern China. The company also acquired the Stuart Weitzman business in Australia from its distribution partner. Such moves help the company to directly operate these businesses, look for growth opportunities in international markets and enhance brand development.

▲ **Shareholder Friendly Moves:** Tapestry did not make any buybacks during the second quarter of fiscal 2020. Notably, in the first quarter, the company repurchased approximately 12 million shares for a total of roughly \$300 million. The company still had \$600 million remaining under its current buyback program. The company plans to return about \$700 million to its shareholders in fiscal 2020 via share buybacks and dividends. The company had returned about \$490 million to shareholders through dividends and share repurchases during fiscal 2019. The company had earlier announced \$1 billion share buyback program.

Reasons To Sell:

- ▼ **Coronavirus Outbreak Weighs on Outlook:** In spite of better-than-expected results, management revisited its fiscal 2020 projection on account of coronavirus outbreak in China, which it believes is considerably impacting its business. The company has to close majority of its outlets on the Mainland. Given the current scenario in China, Tapestry now expects sales and earnings per share to be hit by approximately \$200-\$250 million and 35-45 cents a share, respectively, in the second half. The company now envisions fiscal 2020 net sales to be approximately \$5.9 billion and earnings per share in the band of \$2.15-\$2.25. This indicates year-over-year decline from net sales of \$6.03 billion and earnings of \$2.57 per share reported in fiscal 2019. The company had earlier guided fiscal 2020 net sales increase at a low-single-digit rate with earnings per share expected to be even with the prior year. Shares of Tapestry have plunged 28.6% compared with the industry's decline of 24.6% in the past three months.
- ▼ **Weakness in Stuart Weitzman:** Tapestry acquired the Stuart Weitzman brand in January 2015 with hope to consolidate its position as a multi-brand company. However, the brand's performance failed to live up to management's expectations. Net sales for Stuart Weitzman during the second quarter of fiscal 2020 totaled \$115.7 million, down 7% on a reported and 6% on a constant currency basis. This follows a decline of 9% on a reported and 8% on a constant currency basis in the first quarter. Sales at Stuart Weitzman were hurt by weak demand across channels.
- ▼ **Higher SG&A Expenses May Hurt Margins:** SG&A expenses have been increasing for quite some time now. Certainly, any deleverage in the same has a direct bearing on margins. During the second quarter of fiscal 2020, adjusted SG&A expenses came in at \$837.9 million, up 4% from the year-ago period. As a percentage of net sales, the same increased 120 basis points to 46.1%. The increase in SG&A expenses can be attributed to the shift in timing of expenses from the first quarter into the second quarter and higher marketing spend year-over-year at Kate Spade. A reflection of same was visible in Kate Spade margins. We note that the segment's adjusted operating income declined 27.4% to \$69 million, while operating margin shrunk 620 basis points to 15.9%. To this end, we note that overall adjusted operating income of \$373.3 million fell 6% from the prior-year quarter figure, while operating margin shrunk 150 basis points to 20.6% during the quarter under review.
- ▼ **Fashion Obsolescence A Threat:** Fashion obsolescence remains the main concern for Tapestry's business model, which involves a sustained focus on product and design innovation. The company's pioneering position may be compromised by delays in its product launches. The company operates in the highly competitive premium handbag and accessories segment. The company faces stiff competition from European luxury brands as well as private label retailers on distinctiveness, innovativeness, quality and pricing, which may weigh on its results.
- ▼ **Adverse Currency Fluctuations May Hurt Results:** Tapestry generates a significant amount of net sales outside the U.S. Due to high exposure to international markets the company remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the U.S. An increase in price may have an adverse impact on the demand for the products.

Softness in Kate Spade is likely to persist in the near term and may hurt Tapestry's sales. Also, expectation of higher SG&A expenses in the second quarter may hurt margins to an extent.

Last Earnings Report

Tapestry's Q2 Earnings Beat Estimates, Increase Y/Y

Tapestry, Inc. came out with its second-quarter fiscal 2020 results, wherein both the top and the bottom lines not only surpassed the Zacks Consensus Estimate but also increased year over year.

The company posted adjusted quarterly earnings of \$1.10 per share that beat the Zacks Consensus Estimate of 98 cents. The bottom line also improved 3% from the year-ago period figure of \$1.07 on account of higher net sales, lower tax rate and reduced share count.

Net sales of this New York-based company came in at \$1,816 million, up 1% year over year on both reported and constant currency basis. The metric also came ahead of the Zacks Consensus Estimate of \$1,804.1 million, following a miss in the preceding four quarters. Sales increase in Coach and Kate Spade brands were offset by decline at Stuart Weitzman.

Management highlighted that Coach registered ninth straight quarter of comparable store sales (comps) growth. North America steered the global comp. International business was flat with the prior year with sturdy comps growth in Other Asia, Europe and Mainland China. This was partly offset continued sluggishness in Hong Kong SAR and a marginal decline in Japan. We also note that comps at Kate Spade improved on a sequential basis, courtesy of merchandising actions. However, sales at Stuart Weitzman were hurt by weak demand across channels.

Coronavirus Outbreak Weighs on Outlook

In spite of better-than-expected results, management revisited its fiscal 2020 projection on account of coronavirus outbreak in China, which it believes is considerably impacting its business. The company has to close majority of its outlets on the Mainland.

Given the current scenario in China, Tapestry now expects sales and earnings per share to be hit by approximately \$200-\$250 million and 35-45 cents a share, respectively, in the second half. The company now envisions fiscal 2020 net sales to be approximately \$5.9 billion and earnings per share in the band of \$2.15-\$2.25.

Margin Discussions

Consolidated adjusted gross profit came in at \$1,211.2 million, almost flat with the year-ago period. However, gross margin contracted 30 basis points to 66.7%. Further, adjusted operating income of \$373.3 million fell 6% from the prior-year quarter figure, while operating margin shrunk 150 basis points to 20.6%. We note that adjusted SG&A expenses came in at \$837.9 million, up 4% from the year-ago period. As a percentage of net sales, the same increased 120 basis points to 46.1%.

Segment Details

Net sales for Coach came in at \$1,269.9 million, up 2% year over year on both reported and constant currency basis. Comparable-store sales rose 2%, comprising roughly a 200 basis-point benefit due to a rise in global e-commerce. While adjusted gross margin for the segment increased 20 basis points to 69.1%, adjusted operating margin expanded 10 basis points to 30.1%.

Kate Spade sales came in at \$430.4 million, up 0.5% on a reported basis. Comparable-store sales slid 4%, including the benefit of about 300 basis points from global e-commerce. We note that the rate of decline has decelerated sharply from 16% witnessed in the preceding quarter. While adjusted gross margin for the segment shrank 320 basis points to 61%, adjusted operating margin shrunk 620 basis points to 15.9%.

Net sales for Stuart Weitzman totaled \$115.7 million, down 7% on a reported and 6% on a constant currency basis. The segment's adjusted gross margin expanded 370 basis points to 61.8%, while adjusted operating margin increased 60 basis points to 9.8%.

Store Update

At the end of the quarter, the company operated 393 Coach stores, 222 Kate Spade outlets and 72 Stuart Weitzman stores in North America. Internationally, the count was 596, 205 and 87 for Coach, Kate Spade and Stuart Weitzman, respectively.

During the quarter, the company added a net of 31 locations across Tapestry driven primarily by net openings at Kate Spade and Stuart Weitzman. The company ended the quarter with 1,575 directly operated stores globally.

Other Financial Details

Tapestry ended the quarter with cash, cash equivalents and short-term investments of \$1,166.7 million, long-term debt of 1,598 million and shareholders' equity of \$ 3,322.4 million. Management incurred capital expenditures of \$50 million during the quarter under review. The company plans to return about \$700 million to its shareholders in fiscal 2020 via share buybacks and dividends.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	0.66%
EPS Surprise	12.24%
Quarterly EPS	1.10
Annual EPS (TTM)	2.53

Recent News

Coach Launches Coach CitySole – February 3, 2020

Coach announced the launch of Coach CitySole. The collection offers three sneaker styles — CitySole Court, CitySole Runner and CitySole Lowline — which fuse the codes of American sportswear with Coach's proprietary CitySole technology.

Tapestry Partners With Alibaba's Tmall – September 12, 2019

Tapestry enters into a strategic alliance with Alibaba's Tmall, China's largest B2C ecommerce platform. As a result, Coach, Kate Spade and Stuart Weitzman brands will all have flagship stores on Tmall Luxury Pavilion, Alibaba Group's dedicated platform for luxury and premium brands.

Valuation

Tapestry shares are down 31.7% in the year-to-date period and 45.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 27.1% and 8.4%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is down 46.6% but the sector is up 2.2%.

The S&P 500 index is down 14.8% in the year-to-date period and 2.3% in the past year.

The stock is currently trading at 7.53X forward 12-month earnings, which compares to 9.33X for the Zacks sub-industry, 22.79X for the Zacks sector and 15.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22X and as low as 6.79X, with a 5-year median of 16.48X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 8.06X forward 12-month earnings.

The table below shows summary valuation data for TPR

Valuation Multiples - TPR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.53	9.33	22.79	15.75
	5-Year High	22	18.38	26.2	19.34
	5-Year Low	6.79	9.33	19.07	15.18
	5-Year Median	16.48	14.2	23.01	17.42
P/S F12M	Current	0.84	0.45	0.94	2.91
	5-Year High	2.96	1.34	1.11	3.44
	5-Year Low	0.84	0.45	0.8	2.54
	5-Year Median	2.13	0.81	0.93	3
EV/EBITDA TTM	Current	7.66	7.64	14.69	11.04
	5-Year High	14.01	8.91	16.01	12.87
	5-Year Low	5.19	4.71	10.45	8.49
	5-Year Median	9.64	6.76	12.48	10.79

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 253)



Top Peers

Ralph Lauren Corporation (RL)	Outperform
Abercrombie & Fitch Company (ANF)	Neutral
Fossil Group, Inc. (FOSL)	Neutral
Guess?, Inc. (GES)	Neutral
The Gap, Inc. (GPS)	Neutral
Vera Bradley, Inc. (VRA)	Neutral
Capri Holdings Limited (CPRI)	Underperform
L Brands, Inc. (LB)	Underperform

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	TPR Neutral	X Industry	S&P 500	CPRI Underperform	FOSL Neutral	VRA Neutral
VGM Score	A	-	-	A	B	C
Market Cap	5.09 B	553.28 M	19.13 B	3.02 B	245.29 M	243.91 M
# of Analysts	11	3	13	9	1	3
Dividend Yield	7.32%	0.00%	2.26%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	B
Cash/Price	0.19	0.19	0.05	0.07	0.80	0.13
EV/EBITDA	6.86	6.69	11.99	6.18	9.60	7.43
PEG Ratio	0.76	0.87	1.68	0.93	NA	NA
Price/Book (P/B)	1.53	1.20	2.64	1.17	0.49	0.84
Price/Cash Flow (P/CF)	5.26	4.69	10.70	3.04	6.30	6.74
P/E (F1)	8.14	9.61	15.44	4.52	NA	6.80
Price/Sales (P/S)	0.85	0.37	2.05	0.53	0.11	0.53
Earnings Yield	11.99%	9.83%	6.47%	22.17%	-3.09%	14.76%
Debt/Equity	1.05	0.93	0.70	1.09	0.93	0.40
Cash Flow (\$/share)	3.50	1.44	7.01	6.66	0.77	1.08
Growth Score	B	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	8.67%	-0.23%	10.85%	2.44%	-57.44%	-9.75%
Proj. EPS Growth (F1/F0)	-14.18%	5.42%	6.25%	-9.95%	51.61%	15.95%
Curr. Cash Flow Growth	-0.32%	6.03%	6.09%	6.03%	-63.28%	-9.15%
Hist. Cash Flow Growth (3-5 yrs)	-0.81%	-1.98%	8.52%	6.04%	-39.32%	-12.78%
Current Ratio	2.01	1.50	1.24	0.77	1.89	2.25
Debt/Capital	51.30%	51.06%	42.57%	52.06%	48.13%	33.34%
Net Margin	9.72%	2.55%	11.69%	6.08%	-2.36%	2.67%
Return on Equity	21.24%	10.96%	16.74%	27.42%	-6.26%	7.46%
Sales/Assets	0.78	1.29	0.54	0.72	1.38	0.96
Proj. Sales Growth (F1/F0)	-2.35%	2.06%	3.76%	7.78%	-8.65%	11.95%
Momentum Score	B	-	-	A	F	B
Daily Price Chg	-15.07%	-7.16%	-7.65%	-11.86%	-1.42%	-12.02%
1 Week Price Chg	-7.46%	-5.83%	-0.67%	-11.19%	7.19%	-0.24%
4 Week Price Chg	-35.36%	-23.64%	-19.26%	-32.79%	-22.77%	-24.48%
12 Week Price Chg	-27.67%	-25.36%	-17.26%	-46.96%	-36.60%	-34.60%
52 Week Price Chg	-45.57%	-38.93%	-6.83%	-54.78%	-67.16%	-30.36%
20 Day Average Volume	4,681,601	313,457	2,684,709	3,676,426	1,834,506	256,293
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.07%	0.00%	-0.06%	0.01%	NA	-0.78%
(F1) EPS Est 12 week change	-12.24%	-1.73%	-0.46%	-8.41%	-200.00%	1.59%
(Q1) EPS Est Mthly Chg	5.99%	-2.58%	-0.40%	-0.04%	NA	-250.00%

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	A
Growth Score	B
Momentum Score	B
VGM Score	A

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.