Tapestry Inc. (TPR)

Updated November 18th, 2019 by Lyn Alden

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	7.9%	**Volatility Percentile:**	86.5%
Fair Value Price:	$26	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	6.9%
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Growth Percentile:**	40.2%
Dividend Yield:	5.0%	**5 Year Price Target**	$33	**Valuation Percentile:**	66.6%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	69.0%

Overview & Current Events

Tapestry Inc. (TPR) was founded in 2017 as a transformation from Coach IP Holdings LLC (founded in 1941) and is a leading American multinational luxury fashion holding company. The company is based in New York and is the parent company of three brands: Coach, Kate Spade, and Stuart Weitzman. The company's renaming came after Coach acquired Stuart Weitzman and Kate Spade and expanded from making Coach-brand handbags to producing a wider variety of products through their three major brands. These products include a variety of leather goods, footwear, accessories, clothes, fragrances, and jewelry. Tapestry has a market capitalization of approximately $7.4 billion, over 20,000 employees, and $6 billion in annual revenue. Coach continues to make up 70% of company sales, Kate Spade represents about a quarter of sales, and Stuart Weitzman is a small but growing segment in the overall business. The company sells products worldwide from its 1,500+ branded retail locations, brand websites, and through thousands of distributor retail locations.

Tapestry reported first-quarter results on November 5th, 2019, for the period ended September 28th. Revenue was down -2% from the year-ago period, or 1-% on a constant currency basis. GAAP earnings per share reduced substantially to $0.07 from $0.42 last year. However, non-GAAP earnings fell only moderately to $0.40 from $0.48 last year.

Management's outlook for 2020 is for revenue to increase at a low single-digit rate and for earnings per share to remain flat. In September, Tapestry announced a new partnership with Alibaba to sell Tapestry products online in China. This should help with the company's international growth plans.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.33	$2.92	$3.53	$3.72	$3.10	$1.92	$1.98	$2.15	$2.63	$2.57	***$2.57***	***$3.28***
DPS	$0.38	$0.68	$0.98	$1.24	$1.35	$1.35	$1.35	$1.35	$1.35	$1.35	***$1.35***	***$1.35***
Shares[1]	296.9	288.5	285.1	281.9	274.4	276.6	278.5	281.9	288.0	286.8	***285.0***	***260.0***

Tapestry has experienced negative earnings growth over the past six years from a high point, but has had 7% annual growth over the past ten years. Revenue has continued to grow while operating margins have deteriorated, resulting in flat and choppy earnings in recent years. We expect stabilization and 4.0% forward earnings growth, largely due to share buybacks at low valuations along with continued slow revenue growth, but the outcome is highly dependent on Tapestry's ability to maintain margins and sustain at least mild topline growth.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.2	17.3	18.4	14.9	16.2	19.4	17.4	18.3	17.4	15.2	***10.5***	***10.0***
Avg. Yld.	1.1%	1.3%	1.5%	2.2%	2.7%	3.6%	3.9%	3.4%	3.0%	3.5%	***5.0%***	***4.1%***

Over the past decade, Tapestry has averaged a P/E ratio of 16.6. However, for most of that period, the company consisted entirely of the Coach brand, and enjoyed higher returns on invested capital. With slowing sales and declining

[1] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

margins in a competitive environment of online competition and slower global growth, we consider a P/E ratio of 10 to be fair until the company can demonstrate a resumption of growth and stabilized margins. The company has considerable upside valuation potential even with a partial reversion towards the mean of a P/E ratio of 12 or 13, but likely only if the company demonstrates improvement.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	16%	23%	28%	33%	44%	70 %	68%	63%	51%	***53%***	***53%***	***41%***

Tapestry's luxury brands, especially Coach, give the company at least a small economic moat. This is evidenced by the company's historically high returns on invested capital and considerable market outperformance since Coach went public in the early 2000's. However, the company's returns on invested capital have been declining in recent years which may indicate a deterioration in brand strength or could just be cyclical in nature as online retail puts margin pressure on all physical retailers. Overall, their investment returns and profitability remain above average, but diminishing. The ongoing trade dispute between the United States and China puts further pressure on Tapestry, as a small portion of its products are made in China but a large portion of its sales are earned from China.

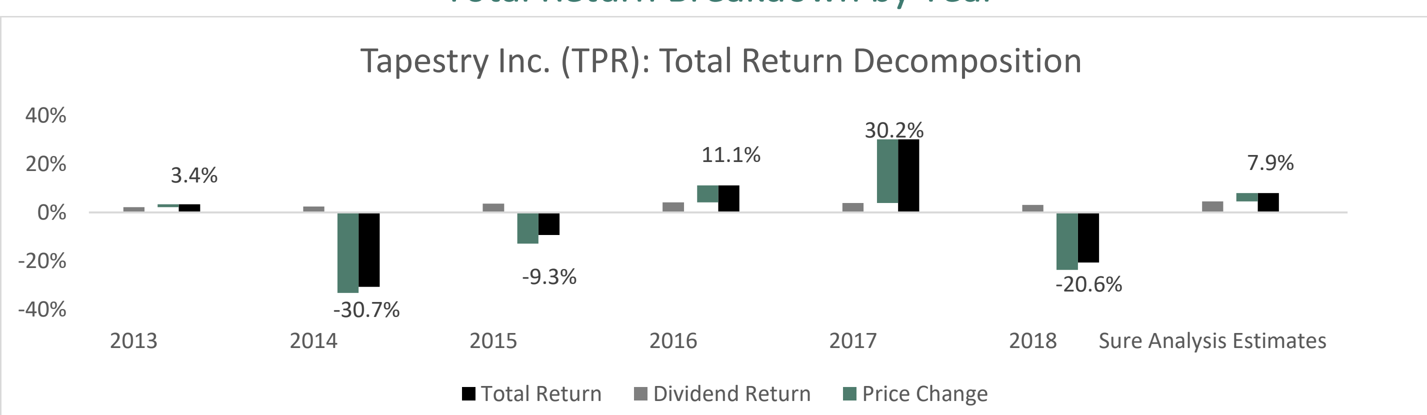
Tapestry currently has a BBB- credit rating, which puts them on the low side of investment grade. However, the company has net debt (cash equivalents minus total debt) equal to less than one year's worth of net income, which is quite strong. The company's balance sheet strength is very high, but the inconsistency of their earnings and economic vulnerability of the company appear to be driving lower overall credit quality from the ratings agencies.

The company pays a large but flat dividend, which is not a sign of strength. The company may be useful for current income with a high yield and reasonable payout ratio, but the security does necessarily not offer growth or stability that many retirees rely on. The company did remain highly profitable during the previous two recessions as the primary Coach brand, but the expanded Tapestry company is untested by a recession in its current form.

Final Thoughts & Recommendation

Tapestry has decent brands but is facing strong competition, global tariff uncertainty, and diminishing profitability along with the rest of the retail sector. The good news is that Tapestry is a producer of its products, rather than just a middleman, and has various online platforms from which to grow. We expect moderate forward returns of 7.9% per annum from Tapestry as a baseline case, but the result is expected to be highly variable. The dividend yield is high and well covered by earnings, but the dividend is flat, and overall business uncertainty remains high. We consider Tapestry to be a hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Tapestry Inc. (TPR)

Updated November 18th, 2019 by Lyn Alden

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3608	4159	4763	5075	4806	4192	4492	4488	5880	6027
Gross Profit	2634	3024	3466	3698	3297	2909	3051	3081	3849	4054
Gross Margin	73.0%	72.7%	72.8%	72.9%	68.6%	69.4%	67.9%	68.6%	65.5%	67.3%
SG&A Exp.	1484	1719	1954	2174	2177	2291	2398	2294	3178	3240
D&A Exp.	127	125	133	163	189	192	211	213	260	268
Operating Profit	1150	1305	1512	1525	1120	618	654	787	671	814
Operating Margin	31.9%	31.4%	31.7%	30.0%	23.3%	14.7%	14.5%	17.5%	11.4%	13.5%
Net Profit	735	881	1039	1034	781	402	461	591	398	643
Net Margin	20.4%	21.2%	21.8%	20.4%	16.3%	9.6%	10.3%	13.2%	6.8%	10.7%
Free Cash Flow	910	886	1037	1173	766	728	353	571	729	518
Income Tax	423	420	467	486	341	209	166	168	199	123

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2467	2635	3104	3532	3663	4667	4893	5832	6678	6877
Cash & Equivalents	596	700	917	1063	592	1292	859	2673	1243	969
Accounts Receivable	109	143	174	175	199	220	245	268	314	298
Inventories	363	422	504	525	526	485	459	470	674	778
Goodwill & Int. Ass.	316	341	386	355	371	794	849	821	3217	3228
Total Liabilities	962	1023	1111	1123	1243	2177	2210	2830	3434	3364
Accounts Payable	106	119	155	179	154	223	187	195	264	244
Long-Term Debt	25	24	23	1	141	890	876	1580	1594	1597
Shareholder's Equity	1505	1613	1993	2409	2421	2490	2683	3002	3245	3513
D/E Ratio	0.02	0.02	0.01	0.00	0.06	0.36	0.33	0.53	0.49	0.45

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	29.2%	34.5%	36.2%	31.2%	21.7%	9.7%	9.6%	11.0%	6.4%	9.5%
Return on Equity	45.9%	56.5%	57.6%	47.0%	32.4%	16.4%	17.8%	20.8%	12.7%	19.0%
ROIC	45.1%	55.6%	56.9%	46.7%	31.4%	13.5%	13.3%	14.5%	8.4%	12.9%
Shares Out.	296.9	288.5	285.1	281.9	274.4	276.6	278.5	281.9	288.0	286.8
Revenue/Share	11.42	13.79	16.19	17.73	17.14	15.12	16.08	15.87	20.37	20.73
FCF/Share	2.88	2.94	3.53	4.10	2.73	2.62	1.26	2.02	2.53	1.78

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.