



Tapestry Inc. (TPR)

Updated March 10th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	12.7%	Market Cap:	\$8.6 B
Fair Value Price:	\$47	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/03/22
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.6%	Dividend Payment Date:	03/28/22
Dividend Yield:	2.1%	5 Year Price Target	\$60	Years of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

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 primary brands. These products include various leather goods, footwear, accessories, clothes, fragrances, and jewelry. Tapestry has a market capitalization of approximately \$8.6 billion, over 20,000 employees, and \$5.7 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 second-quarter results for Fiscal Year (FY)2022 on February 10, 2022. Sales totaled \$2,141.2 million for the quarter compared to \$1,685.4 million in the prior year, representing a 27% increase year over year. Also, sales grew 18% compared to pre-pandemic levels, which was driven by a significant acceleration by Kate Spade and Coach. Other brands outperformed expectations as well for the quarter. The company had another quarter of solid sales growth in Digital, which rose approximately 30% versus last year and nearly tripled compared to pre-pandemic levels. For the six months, sales are up 26.8% compared to the six months of FY2021. Net income for the quarter was \$317.9 million, with earnings per diluted share of \$1.15 per share. This is compared to the net income of \$311.0 million with earnings per diluted share of \$1.11 per share in the prior year. On a non-GAAP basis, net income for the quarter was \$368 million, with earnings per diluted share of \$1.33. Compared to non-GAAP net income of \$323 million with earnings per diluted share of \$1.15 in the prior-year period.

The company provided the FY2022 outlook in the report. Tapestry's management team expects the company to make \$6.75 billion in sales and earn between \$3.60 - \$3.65 per share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.53	\$3.72	\$3.10	\$1.92	\$1.98	\$2.15	\$2.63	\$2.57	\$0.97	\$2.95	\$3.62	\$4.62
DPS	\$0.98	\$1.24	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.02	\$1.00	\$1.00	\$1.00
Shares¹	285.1	281.9	274.4	276.6	278.5	281.9	288.0	286.8	278.0	283.0	283.0	283.0

Tapestry had experienced negative earnings growth of (2.0)% since 2012, when it earned \$3.53 per share, but has had 6.5% annual growth over the past five years. Revenue has continued to grow at a CAGR of 9.5% for the past five years, while operating margins have deteriorated, resulting in flat and choppy earnings in recent years. We expect earnings to grow 5.0% for the next five years. Still, the outcome is highly dependent on Tapestry's ability to maintain margins and sustain at least mild topline growth.

¹ Share count is in millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	18.4	14.9	16.2	19.4	17.4	18.3	17.4	15.2	13.7	14.6	9.8	13.0
Avg. Yld.	1.5%	2.2%	2.7%	3.6%	3.9%	3.4%	3.0%	3.5%	0.0%	0.0%	2.1%	1.7%

Over the past decade, Tapestry has averaged a P/E ratio of 16.6. However, the company consisted entirely of the Coach brand for most of that period and enjoyed higher returns on invested capital. With slowing sales and declining margins in a competitive environment of online competition and slower global growth, we consider a P/E ratio of 13 to be fair until the company can demonstrate a resumption of growth and stabilized margins. The company has a tailwind of 5.6% valuation multiple towards the mean of a P/E ratio of 13. Thus, the stock looks to be undervalued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

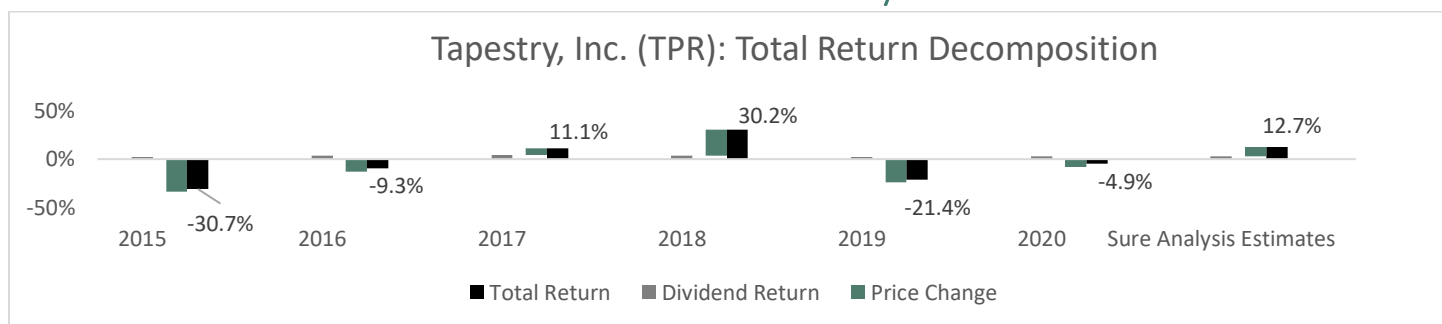
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27.8%	33.3%	43.5%	70.3%	68.2%	62.8%	51.3%	52.5%	105%	33.9%	28%	22%

Tapestry's luxury brands, especially Coach, give the company at least a small economic moat. This is evidenced by its historically high returns on invested capital and considerable market outperformance since Coach went public in the early 2000s. However, the company's returns on invested capital have been declining in recent years, indicating a deterioration in brand strength or cyclical 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 is made in China, but a significant amount of its sales is earned from China. Tapestry currently has a BBB- credit rating, which puts them on the low side of investment grade. The company's balance has gotten better, with a Debt/Equity ratio of 1.1 compared to the last reported 1.7. Still, the inconsistency of their earnings and the company's economic vulnerability appears to drive lower overall credit quality from the rating agencies. The security does not necessarily 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 downturn in its current form.

Final Thoughts & Recommendation

Tapestry has decent brands but faces stiff competition, global tariff uncertainty, a lingering coronavirus outbreak, and diminishing profitability. The good news is that Tapestry is the manufacturer of its products, rather than just a middleman, and has various online platforms from which to grow. We expect returns going forward of 12.7% per annum from Tapestry as a baseline case, but the actual result is expected to be highly variable. Overall, business uncertainty remains high. However, we consider Tapestry a Buy after its good quarter and fiscal outlook.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,763	5,075	4,806	4,192	4,492	4,488	5,880	6,027	4,961	5,746
Gross Profit	3,466	3,698	3,297	2,909	3,051	3,081	3,849	4,054	3,239	4,082
Gross Margin	72.8%	72.9%	68.6%	69.4%	67.9%	68.6%	65.5%	67.3%	65.3%	71.0%
SG&A Exp.	1,954	2,174	2,177	2,291	2,398	2,294	3,177	3,234	3,312	3,114
D&A Exp.	133	163	189	192	211	213	260	268	248	219
Operating Profit	1,512	1,525	1,120	618	654	787	672	820	-73	968
Operating Margin	31.7%	30.0%	23.3%	14.7%	14.5%	17.5%	11.4%	13.6%	-1.5%	16.8%
Net Profit	1,039	1,034	781	402	461	591	398	643	-652	834
Net Margin	21.8%	20.4%	16.3%	9.6%	10.3%	13.2%	6.8%	10.7%	-13.1%	14.5%
Free Cash Flow	1,037	1,173	766	728	353	571	730	518	202	1208
Income Tax	467	486	341	209	166	168	199	123	28	63

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,104	3,532	3,663	4,667	4,893	5,832	6,678	6,877	7,924	8,382
Cash & Equivalents	917	1,063	592	1,292	859	2,673	1,243	969	1,426	2,008
Accounts Receivable	174	175	199	220	245	268	314	298	193	200
Inventories	504	525	526	485	459	470	674	778	737	735
Goodwill & Int. Ass.	386	355	371	794	849	821	3,217	3,228	2,681	2,671
Total Liabilities	1,111	1,123	1,243	2,177	2,210	2,830	3,434	3,364	5,648	5,123
Accounts Payable	155	179	154	223	187	195	264	244	131	445
Long-Term Debt	23	1	141	890	876	1,580	1,594	1,597	2,299	1,591
Shareholder's Equity	1,993	2,409	2,421	2,490	2,683	3,002	3,245	3,513	2,276	3,259
LTD/E Ratio	0.01	0.00	0.06	0.36	0.33	0.53	0.49	0.45	1.01	0.49

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	36.2%	31.2%	21.7%	9.7%	9.6%	11.0%	6.4%	9.5%	-8.8%	10.2%
Return on Equity	57.6%	47.0%	32.4%	16.4%	17.8%	20.8%	12.7%	19.0%	-22.5%	30.1%
ROIC	56.9%	46.7%	31.4%	13.5%	13.3%	14.5%	8.4%	12.9%	-13.5%	17.7%
Shares Out.	285.1	281.9	274.4	276.6	278.5	281.9	288.0	286.8	278.0	283.0
Revenue/Share	16.19	17.73	17.14	15.12	16.08	15.87	20.37	20.73	17.81	20.30
FCF/Share	3.53	4.10	2.73	2.62	1.26	2.02	2.53	1.78	0.72	4.27

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

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