Tapestry Inc. (TPR)

Updated March 5th, 2023 by Felix Martinez

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$10.5 B
Fair Value Price:	$48	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	03/09/23
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.7%	**Dividend Payment Date:**	03/27/23
Dividend Yield:	2.7%	**5 Year Price Target**	$62	**Years of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 $10.5 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)2023 on Febuaury 9th, 2023. The company ends its fiscal year at the end of June. Sales totaled $2.02 billion for the quarter compared to $2.14 billion in the prior year, representing a slight decrease year over year of (5.4)%. Operating income totaled $418.2 million, which is a decrease of (9,6)% year-over-year. Operating income margin was 20.6%. Net income was $330 million, with EPS of $1.36. This compared to reported net income of $318 million and EPS of $1.15 in the prior year period. On a non-GAAP basis, net income was $368 million with EPS of $1.33 in the prior year period. Free cash flow for the second quarter was an inflow of $552 million compared to an inflow of $608 million in the prior year. This included CapEx and implementation costs related to cloud computing of $102 million versus $47 million a year ago. On a year-to-date basis, free cash flow was an inflow of $354 million compared to an inflow of $596 million in the prior year. This included CapEx and implementation costs related to cloud computing of $149 million versus $83 million a year ago.

The company provided the FY2023 outlook in the report. Tapestry's management team expects the company to make $6.6 billion in sales and earn between $3.70 - $3.75, representing nearly 7.5% growth versus the prior year fiscal year of 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.72	$3.10	$1.92	$1.98	$2.15	$2.63	$2.57	$0.97	$2.95	$3.47	***$3.73***	***$4.76***
DPS	$1.24	$1.35	$1.35	$1.35	$1.35	$1.35	$1.35	$1.02	$1.00	$1.00	***$1.20***	***$1.46***
Shares[1]	281.9	274.4	276.6	278.5	281.9	288.0	286.8	278.0	283.0	270.0	***270.0***	***270.0***

Tapestry has experienced negative earnings growth of (0.8)% since 2013, when it earned $3.72 per share, but has had 5.7% 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.

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[1] Share count is in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.9	16.2	19.4	17.4	18.3	17.4	15.2	13.7	14.6	8.9	***11.9***	***13.0***
Avg. Yld.	2.2%	2.7%	3.6%	3.9%	3.4%	3.0%	3.5%	0.0%	0.0%	3.3%	***2.7%***	***2.4%***

Over the past decade, Tapestry has averaged a P/E ratio of 15.6. However, the company consisted entirely of the Coach brand and enjoyed higher returns on invested capital for most of that period. With slowing sales and declining margins in a competitive environment of online competition and slower global growth, we consider a P/E ratio of 13.0x to be fair until the company can demonstrate a resumption of growth and stabilized margins. The company has a tailwind of 1.7% valuation multiple towards the mean of a P/E ratio of 13.0x. Thus, the stock looks to be undervalued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

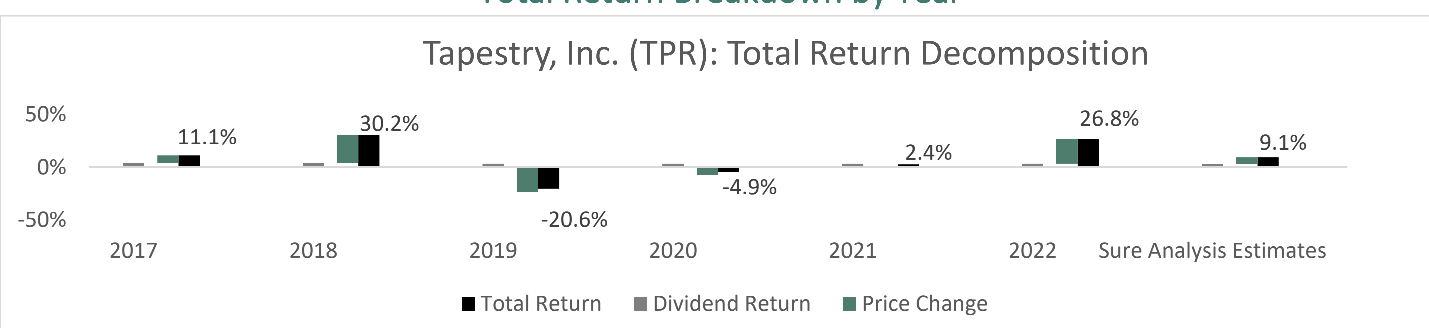
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33.3%	43.5%	70.3%	68.2%	62.8%	51.3%	52.5%	105%	33.9%	28.8%	***32%***	***31%***

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 cyclical deterioration in brand strength 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 1.4. 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 the 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 9.1% per annum returns 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 hold after its recent price run up.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5,075	4,806	4,192	4,492	4,488	5,880	6,027	4,961	5,746	6685
Gross Profit	3,698	3,297	2,909	3,051	3,081	3,849	4,054	3,239	4,082	4650
Gross Margin	72.9%	68.6%	69.4%	67.9%	68.6%	65.5%	67.3%	65.3%	71.0%	69.6%
SG&A Exp.	2,174	2,177	2,291	2,398	2,294	3,177	3,234	3,312	3,114	3475
D&A Exp.	163	189	192	211	213	260	268	248	219	195
Operating Profit	1,525	1,120	618	654	787	672	820	-73	968	1176
Operating Margin	30.0%	23.3%	14.7%	14.5%	17.5%	11.4%	13.6%	-1.5%	16.8%	17.6%
Net Profit	1,034	781	402	461	591	398	643	-652	834	856
Net Margin	20.4%	16.3%	9.6%	10.3%	13.2%	6.8%	10.7%	-13.1%	14.5%	12.8%
Free Cash Flow	1,173	766	728	353	571	730	518	202	1208	759
Income Tax	486	341	209	166	168	199	123	28	63	191

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,532	3,663	4,667	4,893	5,832	6,678	6,877	7,924	8,382	7265
Cash & Equivalents	1,063	592	1,292	859	2,673	1,243	969	1,426	2,008	790
Accounts Receivable	175	199	220	245	268	314	298	193	200	252
Inventories	525	526	485	459	470	674	778	737	735	994
Goodwill & Int. Ass.	355	371	794	849	821	3,217	3,228	2,681	2,671	2608
Total Liabilities	1,123	1,243	2,177	2,210	2,830	3,434	3,364	5,648	5,123	4980
Accounts Payable	179	154	223	187	195	264	244	131	445	521
Long-Term Debt	1	141	890	876	1,580	1,594	1,597	2,299	1,591	1690
Shareholder's Equity	2,409	2,421	2,490	2,683	3,002	3,245	3,513	2,276	3,259	2286
LTD/E Ratio	0.00	0.06	0.36	0.33	0.53	0.49	0.45	1.01	0.49	0.74

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	31.2%	21.7%	9.7%	9.6%	11.0%	6.4%	9.5%	-8.8%	10.2%	10.9%
Return on Equity	47.0%	32.4%	16.4%	17.8%	20.8%	12.7%	19.0%	-22.5%	30.1%	30.9%
ROIC	46.7%	31.4%	13.5%	13.3%	14.5%	8.4%	12.9%	-13.5%	17.7%	19.4%
Shares Out.	281.9	274.4	276.6	278.5	281.9	288.0	286.8	278.0	283.0	270.1
Revenue/Share	17.73	17.14	15.12	16.08	15.87	20.37	20.73	17.81	20.30	24.75
FCF/Share	4.10	2.73	2.62	1.26	2.02	2.53	1.78	0.72	4.27	2.81

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