Tapestry Inc. (TPR)

Updated May 26th, 2024 by Felix Martinez

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	11.5%	**Market Cap:**	$9.7 B
Fair Value Price:	$51	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	06/07/24
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.8%	**Dividend Payment Date:**	06/24/24
Dividend Yield:	3.3%	**5 Year Price Target**	$65	**Years of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 $9.7 billion, over 20,000 employees, and $6.7 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 third-quarter results for Fiscal Year (FY)2024 on May 9th., 2024. The company's earnings surpassed expectations due to strategic brand building and operational excellence. Crevoiserat emphasized the ongoing dedication of Tapestry's global teams to advance long-term goals, innovate, and connect with consumers. Looking ahead, she expressed confidence in the company's vision and potential for sustainable growth and enhanced shareholder value. Throughout the fiscal third quarter, Tapestry made significant strides in its strategic priorities. The company strengthened customer relationships by acquiring approximately 1.2 million new customers in North America, with a significant portion being Gen Z and Millennials. Despite a challenging consumer environment, Tapestry's global growth initiatives resulted in steady revenue, with notable international gains in Europe and Asia. Additionally, the company achieved robust operational and free cash flow, exceeding $900 million year-to-date, which supports its strategic growth agenda. Innovative retail experiences and strong digital positioning, with digital sales more than tripling pre-pandemic levels, further contributed to these accomplishments. In terms of financial performance, Tapestry reported net sales of $1.48 billion, a slight decrease from the previous year's $1.51 billion, but maintained gross profit and expanded gross margins. Operating income on a non-GAAP basis was $239 million, with an operating margin of 16.1%, outperforming the prior year. The company also managed inventory efficiently, reducing levels by 12% year-over-year. Despite some challenges, such as a decline in North American sales and currency fluctuations, Tapestry remained financially robust with strong cash reserves and manageable debt, positioning it well for future growth. Additionally, Tapestry is moving forward with the acquisition of Capri Holdings Limited, anticipating significant strategic and financial benefits from this expansion into the global luxury market.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.10	$1.92	$1.98	$2.15	$2.63	$2.57	$0.97	$2.95	$3.47	$3.88	***$4.24***	***$5.41***
DPS	$1.35	$1.35	$1.35	$1.35	$1.35	$1.35	$1.02	$1.00	$1.00	$1.20	***$1.40***	***$1.70***
Shares[1]	274.4	276.6	278.5	281.9	288.0	286.8	278.0	283.0	270.0	241.0	***241.0***	***241.0***

[1] Share count is in millions.

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Tapestry has experienced earnings growth of 2.5% since 2014, when it earned $3.10 per share, but has had 8.6% annual growth over the past five years. Revenue has continued to grow at a CAGR of 2.5% 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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.2	19.4	17.4	18.3	17.4	15.2	13.7	14.6	8.9	11.0	***10.0***	***12.0***
Avg. Yld.	2.7%	3.6%	3.9%	3.4%	3.0%	3.5%	0.0%	0.0%	3.3%	2.8%	***3.3%***	***2.6%***

Over the past decade, Tapestry has averaged a P/E ratio of 15.2x. 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 12.0x to be fair until the company can demonstrate a resumption of growth and stabilized margins. The company has a tailwind of 3.8% valuation multiple towards the mean of a P/E ratio of 12.0x. Thus, the stock looks to be undervalued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

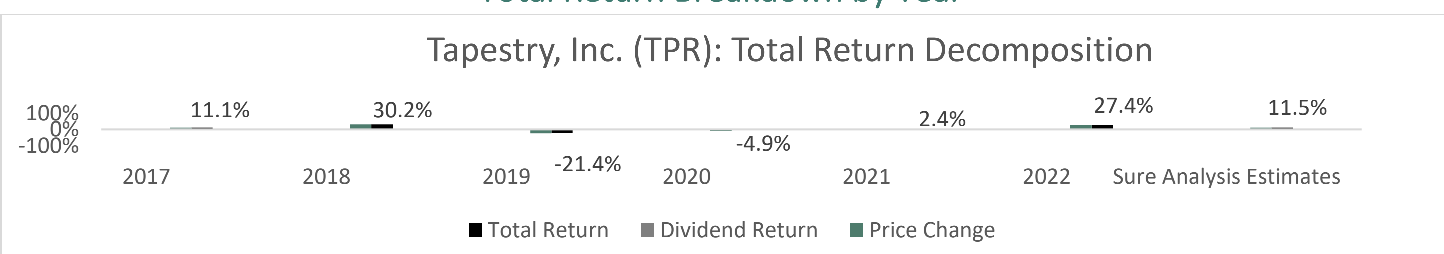
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2028
Payout	43.5%	70.3%	68.2%	62.8%	51.3%	52.5%	105%	33.9%	28.8%	30.9%	***33%***	***31%***

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. 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 3.5. 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, 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 11.5% 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 buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,806	4,192	4,492	4,488	5,880	6,027	4,961	5,746	6,685	6,661
Gross Profit	3,297	2,909	3,051	3,081	3,849	4,054	3,239	4,082	4,650	4,715
Gross Margin	68.6%	69.4%	67.9%	68.6%	65.5%	67.3%	65.3%	71.0%	69.6%	70.8%
SG&A Exp.	2,177	2,291	2,398	2,294	3,177	3,234	3,312	3,114	3,475	3,542
D&A Exp.	189	192	211	213	260	268	248	219	195	182
Operating Profit	1,120	618	654	787	672	820	-73	968	1,176	1,172
Operating Margin	23.3%	14.7%	14.5%	17.5%	11.4%	13.6%	-1.5%	16.8%	17.6%	17.6%
Net Profit	781	402	461	591	398	643	-652	834	856	936
Net Margin	16.3%	9.6%	10.3%	13.2%	6.8%	10.7%	-13.1%	14.5%	12.8%	14.1%
Free Cash Flow	766	728	353	571	730	518	202	1208	759	791
Income Tax	341	209	166	168	199	123	28	63	191	207

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,663	4,667	4,893	5,832	6,678	6,877	7,924	8,382	7,265	7,117
Cash & Equivalents	592	1,292	859	2,673	1,243	969	1,426	2,008	790	726
Accounts Receivable	199	220	245	268	314	298	193	200	252	212
Inventories	526	485	459	470	674	778	737	735	994	920
Goodwill & Int. Ass.	371	794	849	821	3,217	3,228	2,681	2,671	2,608	2,588
Total Liabilities	1,243	2,177	2,210	2,830	3,434	3,364	5,648	5,123	4,980	4,839
Accounts Payable	154	223	187	195	264	244	131	445	521	417
Long-Term Debt	141	890	876	1,580	1,594	1,597	2,299	1,591	1,690	1,661
Shareholder's Equity	2,421	2,490	2,683	3,002	3,245	3,513	2,276	3,259	2,286	2,278
LTD/E Ratio	0.06	0.36	0.33	0.53	0.49	0.45	1.01	0.49	0.74	0.73

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	21.7%	9.7%	9.6%	11.0%	6.4%	9.5%	-8.8%	10.2%	10.9%	13.0%
Return on Equity	32.4%	16.4%	17.8%	20.8%	12.7%	19.0%	-22.5%	30.1%	30.9%	41.0%
ROIC	31.4%	13.5%	13.3%	14.5%	8.4%	12.9%	-13.5%	17.7%	19.4%	23.7%
Shares Out.	274.4	276.6	278.5	281.9	288.0	286.8	278.0	283.0	270.1	241.3
Revenue/Share	17.14	15.12	16.08	15.87	20.37	20.73	17.81	20.30	24.75	27.60
FCF/Share	2.73	2.62	1.26	2.02	2.53	1.78	0.72	4.27	2.81	3.28

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