

Tapestry Inc.

Reiterate Buy; another quarter of strong margins and cash flow

Reiterate Rating: BUY | PO: 52.00 USD | Price: 44.04 USD

Coach sales accelerate, margin profile remains strong

We reiterate our Buy rating on Tapestry Inc. (TPR) as we think the strong margin profile and cash flow generation warrant a higher multiple versus the current 7x EV/EBITDA. TPR reported 2Q adj EPS of \$1.63, above our/VA consensus of \$1.39/\$1.44 on better sales and GM (our estimates also included interest related to recent deal financing; we have now moved that out of adjusted EPS to align with reporting until the deal closes). Sales growth of 3% ccy beat our estimate by 1%, led by strength at Coach. TPR maintained F24 sales guidance of \$6.7bn, reflecting Coach outperformance and lower expectations for KS and SW. Management raised EPS guidance by 10c to \$4.20-4.25, flowing through some of the 2Q beat while also reinvesting a portion, and expects 3Q EPS of \$0.65. We are raising our PO to \$52, still 8x EV/EBITDA on our higher EBITDA estimate (raised by 2.6%).

Coach momentum continues

Coach strength continued in 2Q with sales +7% ccy, fueled by gains across iconic platforms & lifestyle. Global handbag AUR grew MSD, including gains in NA; we see opportunity for continued gains through pricing (driven by innovation) & reduced promos from disciplined inventory management. KS sales were pressured as declines in carryover families offset momentum of new products. Management plans to increase penetration of new product featuring new materials, silhouettes, & distinct branding through 2H and into 2025.

Margin improvements across the portfolio

GM improved 300bp, led by 170bp benefit from lower freight, along with benefits from geographic mix and pricing. Tight inventory management and a disciplined approach to promos also contributed to GM improvements across all brands. We model F24 GM +200bp. On the Red Sea disruption, management currently expects a modest increase in lead times and freight costs in 2H and minimal impact to operating results and customer experience.

Greater China to grow MSD in F24

Greater China sales grew 19% as the company lapped Covid-impacted results. Sales to Chinese consumers globally grew mid-teens as the company noted a continued uptick in travel spend in Asia & Europe; still, tourism remains below pre-pandemic levels. Management maintained expectations for MSD growth in Greater China for F24.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.47	3.88	4.25	4.52	5.76
GAAP EPS	3.17	3.88	4.45	5.57	5.76
EPS Change (YoY)	16.8%	11.8%	9.5%	6.4%	27.4%
Consensus EPS (Bloomberg)			4.14	4.49	4.87
DPS	1.00	1.20	1.40	1.40	1.40
Valuation (Jun)					
P/E	12.7x	11.4x	10.4x	9.7x	7.6x
GAAP P/E	13.9x	11.4x	9.9x	7.9x	7.6x
Dividend Yield	2.3%	2.7%	3.2%	3.2%	3.2%
EV / EBITDA*	10.4x	10.8x	10.3x	9.7x	9.3x
Free Cash Flow Yield*	6.5%	6.8%	8.0%	6.9%	8.9%

* For full definitions of *iQmethod*SM measures, see page 7.

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 08 February 2024 01:09PM EST

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	50.00	52.00
2024E Rev (m)	6,731.3	6,742.9
2025E Rev (m)	6,988.9	7,011.4
2026E Rev (m)	7,278.4	7,297.0
2024E EPS	3.71	4.25
2025E EPS	3.65	4.52
2026E EPS	3.90	5.76

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Stock Data

Price	44.04 USD
Price Objective	52.00 USD
Date Established	8-Feb-2024
Investment Opinion	B-1-7
52-Week Range	25.99 USD - 46.57 USD
Mkt Val (mn) / Shares Out (mn)	11,693 USD / 265.5
Free Float	99.4%
Average Daily Value (mn)	149.94 USD
BofA Ticker / Exchange	TPR / NYS
Bloomberg / Reuters	TPR US / TPR.N
ROE (2024E)	39.1%
Net Dbt to Eqty (Jun-2023A)	41.0%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

AUR: average unit retail

GM: gross margin

KS: Kate Spade

MSD: mid single digit

NA: North America

VA: Visible Alpha

iQprofileSM Tapestry Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.6%	16.4%	10.9%	8.4%	8.6%
Return on Equity	33.8%	41.0%	39.1%	34.8%	30.6%
Operating Margin	18.2%	17.6%	18.5%	18.9%	19.2%
Free Cash Flow	759	791	934	809	1,045

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.0x	1.1x	0.9x	1.1x
Asset Replacement Ratio	0.5x	1.0x	0.9x	1.0x	1.0x
Tax Rate	18.1%	18.1%	19.9%	19.9%	19.9%
Net Debt-to-Equity Ratio	39.4%	41.0%	35.9%	15.6%	-5.3%
Interest Cover	20.8x	42.5x	NM	NM	NM

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,685	6,661	6,743	7,011	7,297
% Change	16.3%	-0.4%	1.2%	4.0%	4.1%
Gross Profit	4,650	4,715	4,905	5,131	5,357
% Change	14.2%	1.4%	4.0%	4.6%	4.4%
EBITDA	1,414	1,355	1,424	1,506	1,577
% Change	7.6%	-4.2%	5.1%	5.7%	4.7%
Net Interest & Other Income	(75)	(29)	(18)	(20)	(20)
Net Income (Adjusted)	937	936	986	1,047	1,103
% Change	11.3%	-0.1%	5.3%	6.2%	5.4%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	937	936	986	1,047	1,103
Depreciation & Amortization	195	182	175	179	179
Change in Working Capital	(367)	(217)	4	3	6
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	88	74	(76)	(244)	(60)
Capital Expenditure	(94)	(184)	(154)	(175)	(182)
Free Cash Flow	759	791	934	809	1,045
% Change	-37.1%	4.2%	18.1%	-13.4%	29.2%
Share / Issue Repurchase	(1,600)	(704)	0	0	0
Cost of Dividends Paid	(264)	(283)	(323)	(324)	(327)
Change in Debt	48	(31)	6,140	(303)	0

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	790	726	6,797	6,979	7,697
Trade Receivables	252	212	214	223	232
Other Current Assets	1,532	1,426	2,000	2,020	2,041
Property, Plant & Equipment	544	565	560	557	561
Other Non-Current Assets	4,147	4,189	4,234	4,234	4,234
Total Assets	7,265	7,117	13,805	14,011	14,764
Short-Term Debt	31	25	25	25	25
Other Current Liabilities	1,438	1,262	1,253	1,284	1,320
Long-Term Debt	1,659	1,636	7,765	7,462	7,462
Other Non-Current Liabilities	1,852	1,917	1,994	1,994	1,994
Total Liabilities	4,980	4,839	11,037	10,764	10,801
Total Equity	2,286	2,278	2,769	3,247	3,963
Total Equity & Liabilities	7,265	7,117	13,805	14,011	14,764

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Retailing-Specialty

Company Description

Tapestry (TPR) is a leading specialty retailer positioned in an appealing segment of the market (affordable luxury). Tapestry is comprised of the Coach, Kate Spade, and Stuart Weitzman brands and is best known for accessories (especially handbags). Its products are primarily sold through retail stores, outlet stores, and online. The brands have a strong presence in select department stores and specialty retailer locations.

Investment Rationale

We expect consistent strong EPS growth, driven by a stable and growing Coach brand and comp improvement and margin expansion at Kate Spade. We expect the multiple to expand as investors become more comfortable with the margin profile of both core businesses. We expect Tapestry to continue to return capital to shareholders in an accelerated manner given its strong free cash flow generation.

Stock Data

Average Daily Volume 3,404,618

Quarterly Earnings Estimates

	2023	2024
Q1	0.79A	0.93A
Q2	1.36A	1.63A
Q3	0.78A	0.65E
Q4	0.95A	1.05E

**Exhibit 1: TPR Income Statement**

TPR reported 2Q adj EPS of \$1.63, above our/VA consensus of \$1.39/\$1.44 on better sales and GM

	FY 2022	1Q 23 Sept	2Q 23 Dec	3Q 23 Mar	4Q 23 Jun	FY 2023	1Q 24 Sept	2Q 24 Dec	3Q 24E Mar	4Q 24E Jun	FY 2024E	1Q 25E Sept	2Q 25E Dec	3Q 25E Mar	4Q 25E Jun	FY 2025E	1Q 26E Sept	2Q 26E Dec	3Q 26E Mar	4Q 26E Jun	FY 2026E
Coach	4,921.3	1,119.3	1,449.7	1,144.0	1,247.4	4,960.4	1,157.4	1,541.9	1,157.9	1,279.2	5,136.3	1,181.9	1,586.2	1,206.3	1,335.7	5,310.1	1,230.5	1,638.6	1,246.1	1,379.8	5,495.0
Kate Spade	1,445.5	321.9	490.3	297.2	309.5	1,418.9	303.2	460.4	288.2	305.5	1,357.3	328.1	491.1	307.3	325.7	1,452.1	356.1	522.9	327.1	346.7	1,552.8
Stuart Weitzman	317.7	65.3	85.4	68.3	62.6	281.6	52.6	82.2	58.1	56.3	249.2	52.6	82.2	58.1	56.3	249.2	52.6	82.2	58.1	56.3	249.2
Total Sales	\$6,684.5	\$1,506.5	\$2,025.4	\$1,509.5	\$1,619.5	\$6,660.9	\$1,513.2	\$2,084.5	\$1,504.1	\$1,641.0	\$6,742.9	\$1,562.6	\$2,159.4	\$1,571.6	\$1,717.7	\$7,011.4	\$1,639.2	\$2,243.7	\$1,631.2	\$1,782.8	\$7,297.0
COGS	2,034.1	451.9	636.1	411.2	446.8	1,946.0	415.5	591.3	393.9	437.0	1,837.7	422.9	603.2	404.6	449.9	1,880.6	439.7	620.7	416.1	463.0	1,939.5
Gross profit	4,650.4	1,054.6	1,389.3	1,098.3	1,172.7	4,714.9	1,097.7	1,493.2	1,110.2	1,204.0	4,905.2	1,139.7	1,556.3	1,167.0	1,267.8	5,130.7	1,199.5	1,623.0	1,215.1	1,319.9	5,357.5
Total SG&A	3,431.8	800.3	971.1	872.0	899.1	3,542.5	824.9	1,017.3	917.4	896.2	3,655.8	853.0	1,053.9	958.7	937.9	3,803.4	895.2	1,094.9	995.6	973.9	3,959.6
Operating profit	1,218.6	254.3	418.2	226.3	273.6	1,172.4	272.8	475.9	192.8	307.9	1,249.4	286.7	502.4	208.3	329.9	1,327.3	304.3	528.0	219.6	346.0	1,397.9
Interest inc (Expense)	(58.7)	(7.4)	(7.9)	(6.1)	(6.2)	(27.6)	(6.6)	(5.1)	(5.0)	(5.0)	(21.7)	(5.0)	(5.0)	(5.0)	(5.0)	(20.0)	(5.0)	(5.0)	(5.0)	(5.0)	(20.0)
Other Income (Expense)	(16.4)	(10.7)	6.6	3.0	(0.6)	(1.7)	(1.4)	4.7	0.0	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax income	1,143.5	236.2	416.9	223.2	266.8	1,143.1	264.8	475.5	187.8	302.9	1,231.0	281.7	497.4	203.3	324.9	1,307.3	299.3	523.0	214.6	341.0	1,377.9
Taxes	207.0	40.9	87.0	36.5	42.7	207.1	48.5	98.8	37.6	60.6	245.4	51.6	103.3	40.7	65.0	260.6	54.8	108.7	42.9	68.2	274.6
Tax rate	18.1%	17.3%	20.9%	16.4%	16.0%	18.1%	18.3%	20.8%	20.0%	20.0%	19.9%	18.3%	20.8%	20.0%	20.0%	19.9%	18.3%	20.8%	20.0%	20.0%	19.9%
Net income	936.5	195.3	329.9	186.7	224.1	936.0	216.3	376.7	150.3	242.3	985.6	230.1	394.0	162.6	259.9	1,046.7	244.5	414.4	171.7	272.8	1,103.3
Earnings per share	\$3.47	\$0.79	\$1.36	\$0.78	\$0.95	\$3.88	\$0.93	\$1.63	\$0.65	\$1.05	\$4.25	\$0.99	\$1.70	\$0.70	\$1.12	\$4.52	\$1.05	\$1.77	\$0.73	\$1.17	\$4.72
Average shares out.	270.1	246.8	243.3	239.7	235.4	241.3	232.5	231.7	231.7	231.7	231.9	231.7	231.7	231.7	231.7	231.7	233.7	233.7	233.7	233.7	233.7
Dividends per share	\$1.00	\$0.30	\$0.30	\$0.30	\$0.30	\$1.20	\$0.35	\$0.35	\$0.35	\$0.35	\$1.40	\$0.35	\$0.35	\$0.35	\$0.35	\$1.40	\$0.35	\$0.35	\$0.35	\$0.35	\$1.40
Margins																					
Gross profit margin	69.6%	70.0%	68.6%	72.8%	72.4%	70.8%	72.5%	71.6%	73.8%	73.4%	72.7%	72.9%	72.1%	74.3%	73.8%	73.2%	73.2%	72.3%	74.5%	74.0%	73.4%
bp change y/y	(132)	(216)	53	284	353	121	254	304	105	96	196	39	44	44	44	43	24	27	24	23	24
SG&A expense	51.3%	53.1%	47.9%	57.8%	55.5%	53.2%	54.5%	48.8%	61.0%	54.6%	54.2%	54.6%	48.8%	61.0%	54.6%	54.2%	54.6%	48.8%	61.0%	54.6%	54.3%
bp change y/y	(49)	169	212	8	262	184	139	86	322	(91)	103	7	0	1	(1)	3	3	(0)	3	2	2
SG&A dollar growth	15.2%	5.1%	-1.0%	5.1%	4.6%	3.2%	3.1%	4.8%	5.2%	-0.3%	3.2%	3.4%	3.6%	4.5%	4.7%	4.0%	5.0%	3.9%	3.8%	3.8%	4.1%
Operating income	18.2%	16.9%	20.6%	15.0%	16.9%	17.6%	18.0%	22.8%	12.8%	18.8%	18.5%	18.3%	23.3%	13.3%	19.2%	18.9%	18.6%	23.5%	13.5%	19.4%	19.2%
bp change y/y	(83)	(386)	(159)	276	92	(63)	115	218	(217)	187	93	32	43	43	44	40	21	27	21	20	23
Year-over-Year Change																					
Total Sales (%)	16.3%	1.7%	-5.4%	5.0%	-0.3%	-0.4%	0.4%	2.9%	-0.4%	1.3%	1.2%	3.3%	3.6%	4.5%	4.7%	4.0%	4.9%	3.9%	3.8%	3.8%	4.1%
SG&A dollar growth	15.2%	5.1%	-1.0%	5.1%	4.6%	3.2%	3.1%	4.8%	5.2%	-0.3%	3.2%	3.4%	3.6%	4.5%	4.7%	4.0%	5.0%	3.9%	3.8%	3.8%	4.1%
EBIT growth	11.3%	-17.2%	-12.2%	28.7%	5.4%	-3.8%	7.3%	13.8%	-14.8%	12.5%	6.6%	5.1%	5.6%	8.0%	7.2%	6.2%	6.1%	5.1%	5.4%	4.9%	5.3%
EPS (%)	17%	-4%	2%	52%	22%	12%	18%	20%	-17%	10%	10%	7%	5%	8%	7%	6%	5%	4%	5%	4%	5%

Source: Company filings and reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 2: TPR Balance Sheet

We reiterate our Buy rating as we think the strong margin profile and cash flow generation warrant a higher multiple versus the current 7x EV/EBITDA.

Balance Sheet	FY 2022	1Q 23	2Q 23	3Q 23	4Q 23	FY 2023	1Q 24	2Q 24	3Q 24E	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E	1Q 26E	2Q 26E	3Q 26E	4Q 26E	FY 2026E
Assets																					
Cash and equivalents	\$789.8	\$526.5	\$830.2	\$637.2	\$726.1	\$726.1	\$622.1	\$6,833.1	\$6,621.0	\$6,797.3	\$6,797.3	\$6,610.3	\$7,300.5	\$7,068.5	\$6,978.7	\$6,978.7	\$6,843.8	\$7,610.2	\$7,424.5	\$7,696.8	\$7,696.8
Short-term investments	163.4	30.6	16.0	14.6	15.4	15.4	16.7	629.2	629.2	629.2	629.2	629.2	629.2	629.2	629.2	629.2	629.2	629.2	629.2	629.2	629.2
Accounts receivable	252.3	269.6	252.8	240.8	211.5	211.5	264.8	245.6	242.8	214.1	214.1	269.8	250.7	250.5	222.6	222.6	281.5	261.9	261.2	231.7	231.7
Merchandise inventories	994.2	1,139.8	975.8	934.1	919.5	919.5	942.5	824.9	887.4	873.5	873.5	942.5	824.9	887.4	873.5	873.5	942.5	824.9	887.4	873.5	873.5
Deferred income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid expenses and other	<u>374.1</u>	<u>420.9</u>	<u>423.8</u>	<u>392.2</u>	<u>491.0</u>	<u>491.0</u>	<u>562.9</u>	<u>509.7</u>	<u>395.4</u>	<u>497.0</u>	<u>497.0</u>	<u>573.4</u>	<u>520.3</u>	<u>408.0</u>	<u>516.8</u>	<u>516.8</u>	<u>598.4</u>	<u>543.5</u>	<u>425.5</u>	<u>537.9</u>	<u>537.9</u>
Total Current Assets	2,573.8	2,387.4	2,498.6	2,218.9	2,363.5	2,363.5	2,409.0	9,042.5	8,775.8	9,011.1	9,011.1	9,025.1	9,525.6	9,243.6	9,220.9	9,220.9	9,295.4	9,869.6	9,627.8	9,969.2	9,969.2
Property and other equipment, net	544.4	526.3	571.1	578.2	564.5	564.5	539.6	539.2	552.3	560.3	560.3	555.4	566.7	564.4	556.9	556.9	554.2	567.6	566.8	560.7	560.7
Operating lease right-of-use assets	1,281.6	1,281.6	1,358.8	1,363.8	1,378.7	1,378.7	1,352.1	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0	1,371.0
Long term investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	<u>2,865.5</u>	<u>2,884.7</u>	<u>2,829.2</u>	<u>2,823.5</u>	<u>2,810.1</u>	<u>2,810.1</u>	<u>2,841.8</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>	<u>2,862.7</u>
TOTAL ASSETS	3	0	7	4	8	\$7,116.8	5	4	\$13,561.8	\$13,805.2	\$13,805.2	\$13,814.3	\$14,326.0	\$14,041.7	\$14,011.4	\$14,011.4	\$14,083.2	\$14,671.0	\$14,428.3	\$14,763.5	\$14,763.5
Liabilities and Equity																					
Accounts payable	520.7	510.9	436.7	331.0	416.9	416.9	386.5	462.9	305.0	393.7	393.7	373.4	461.0	308.3	402.9	402.9	384.0	475.4	318.1	415.5	415.5
Accrued expenses and other	628.2	489.8	594.2	495.4	547.1	547.1	487.1	654.1	499.5	553.8	553.8	496.2	667.8	515.3	575.9	575.9	517.8	697.4	537.4	599.3	599.3
Current op. lease liabilities	288.7	282.7	282.7	294.7	297.5	297.5	295.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6
Current debt	31.2	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Revolver	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Current Liabilities	1,468.8	1,308.4	1,338.6	1,146.1	1,286.5	1,286.5	1,194.2	1,447.6	1,135.1	1,278.1	1,278.1	1,200.3	1,459.3	1,154.3	1,309.4	1,309.4	1,232.4	1,503.4	1,186.1	1,345.5	1,345.5
Long term debt	1,659.2	1,653.4	1,647.5	1,641.6	1,635.8	1,635.8	1,629.9	7,714.4	7,764.9	7,764.9	7,764.9	7,764.9	7,764.9	7,764.9	7,461.5	7,461.5	7,461.5	7,461.5	7,461.5	7,461.5	7,461.5
Long-term op. lease liabilities	1,282.3	1,273.3	1,348.4	1,332.0	1,333.7	1,333.7	1,296.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7	1,294.7
Other liabilities	569.5	589.5	610.0	601.3	583.0	583.0	606.0	698.9	698.9	698.9	698.9	698.9	698.9	698.9	698.9	698.9	698.9	698.9	698.9	698.9	698.9
Total Stockholders Equity	2,285.5	\$2,255.4	\$2,313.2	\$2,263.4	\$2,277.8	2,277.8	\$2,415.7	\$2,659.8	\$2,668.2	\$2,768.6	2,768.6	\$2,855.5	\$3,108.2	\$3,128.9	\$3,247.0	3,247.0	\$3,395.7	\$3,712.5	\$3,787.1	\$3,963.0	3,963.0
TOTAL LIABILITIES AND EQUITY	3	0	7	4	8	\$7,116.8	5	4	\$13,561.8	\$13,805.2	\$13,805.2	\$13,814.3	\$14,326.0	\$14,041.7	\$14,011.4	\$14,011.4	\$14,083.2	\$14,671.0	\$14,428.3	\$14,763.5	\$14,763.5

Source: Company filings and reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



**Exhibit 3: TPR Cash Flow Statement**

We are raising our PO to \$52, still 8x EV/EBITDA on our higher EBITDA est (raised by 2.6%).

Statement of Cash Flows	FY 2022	1Q 23	2Q 23	3Q 23	4Q 23	FY 2023	1Q 24	2Q 24	3Q 24E	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E	1Q 26E	2Q 26E	3Q 26E	4Q 26E	FY 2026E
Cash from Operations																					
Net income	\$856.3	\$195.3	\$329.9	\$186.7	\$224.1	\$936.0	\$195.0	\$322.3	\$89.5	\$181.5	\$788.2	\$168.0	\$333.8	\$101.8	\$199.1	\$802.8	\$230.5	\$398.6	\$156.5	\$257.6	\$1,043.2
Depreciation	195.3	43.8	44.8	41.9	51.7	182.2	44.3	41.5	39.6	49.4	174.7	44.0	42.7	41.6	50.5	178.7	43.7	42.6	41.6	50.7	178.6
Tax benefit of stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in deferred tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Working capital changes	(366.8)	(399.5)	218.0	(131.8)	96.5	(216.8)	(213.7)	391.4	(257.9)	84.0	3.8	(278.9)	448.8	(254.9)	88.0	2.9	(286.3)	463.1	(261.2)	90.4	5.9
Other	168.4	(10.0)	40.1	15.6	28.1	73.8	49.7	71.3	0.0	0.0	121.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CASH FROM OPERATIONS	853.2	(170.4)	632.8	112.4	400.4	975.2	75.3	826.5	(128.9)	314.8	1,087.8	(66.9)	825.3	(111.5)	337.6	984.5	(12.1)	904.3	(63.1)	398.7	1,227.8
Cash from Investing Activities																					
Capital expenditures	(93.9)	(27.3)	(81.5)	(40.8)	(34.6)	(184.2)	(20.9)	(22.8)	(52.6)	(57.4)	(153.8)	(39.1)	(54.0)	(39.3)	(42.9)	(175.3)	(41.0)	(56.1)	(40.8)	(44.6)	(182.4)
Dispositions of property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net proceeds from investments	(540.4)	0.0	(4.3)	(2.0)	(0.4)	(6.7)	(1.9)	(609.4)	0.0	0.0	(611.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Building investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions, net of cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	380.7	174.1	19.6	2.8	0.1	196.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CASH FROM INVESTING	(253.6)	146.8	(66.2)	(40.0)	(34.9)	5.7	(22.8)	(632.2)	(52.6)	(57.4)	(765.1)	(39.1)	(54.0)	(39.3)	(42.9)	(175.3)	(41.0)	(56.1)	(40.8)	(44.6)	(182.4)
Cash from Financing Activities																					
Issuance/ (Repurchase) of stock	(1,600.0)	(94.9)	(205.1)	(202.0)	(201.5)	(703.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend	(264.4)	(72.7)	(71.5)	(70.0)	(69.1)	(283.3)	(80.2)	(80.2)	(81.1)	(81.1)	(322.6)	(81.1)	(81.1)	(81.1)	(81.1)	(324.4)	(81.8)	(81.8)	(81.8)	(81.8)	(327.2)
Net repayment/borrowing of debt	47.8	0.0	(18.8)	(6.2)	(6.2)	(31.2)	0.0	6,089.5	50.5	0.0	6,140.0	0.0	0.0	0.0	(303.4)	(303.4)	0.0	0.0	0.0	0.0	0.0
Proceeds from exercise of options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	38.5	(58.6)	16.9	14.2	9.6	(17.9)	(69.2)	(50.7)	0.0	0.0	(119.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CASH FROM FINANCING	(1,778.1)	(226.2)	(278.5)	(264.0)	(267.2)	(1,035.9)	(149.4)	5,958.6	(30.6)	(81.1)	5,697.5	(81.1)	(81.1)	(81.1)	(384.5)	(627.8)	(81.8)	(81.8)	(81.8)	(81.8)	(327.2)
Effect of exchange rates	(39.4)	(13.5)	15.6	(1.4)	(9.4)	(8.7)	(7.1)	58.1													
Net increase (decrease) in cash	(1,217.9)	(263.3)	303.7	(193.0)	88.9	(63.7)	(104.0)	6,211.0	(212.1)	176.3	6,071.2	(187.0)	690.2	(231.9)	(89.9)	181.4	(134.9)	766.4	(185.6)	272.3	718.2
Beginning cash balance	\$2,007.7	\$789.8	\$526.5	\$830.2	\$637.2	\$789.8	\$726.1	\$622.1	\$6,833.1	\$6,621.0	\$726.1	\$6,797.3	\$6,610.3	\$7,300.5	\$7,068.5	\$6,797.3	\$6,978.7	\$6,843.8	\$7,610.2	\$7,424.5	\$6,978.7
Ending cash balance(a)	\$789.8	\$526.5	\$830.2	\$637.2	\$726.1	\$726.1	\$622.1	\$6,833.1	\$6,621.0	\$6,797.3	\$6,797.3	\$6,610.3	\$7,300.5	\$7,068.5	\$6,978.7	\$6,978.7	\$6,843.8	\$7,610.2	\$7,424.5	\$7,696.8	\$7,696.8
Free Cash Flow Calculation																					
Operating Cash	853	(170)	633	112	400	975	75	827	(129)	315	1,088	(67)	825	(112)	338	984	(12)	904	(63)	399	1,228
Less Capex	94	27	82	41	35	184	21	23	53	57	154	39	54	39	43	175	41	56	41	45	182
Free Cash Flow	\$759	(\$198)	\$551	\$72	\$366	\$791	\$54	\$804	(\$182)	\$257	\$934	(\$106)	\$771	(\$151)	\$295	\$809	(\$53)	\$848	(\$104)	\$354	\$1,045
y/y increase in FCF	-37.1%	1604.3%	-9.3%	-229.9%	67.8%	4.2%	-127.5%	45.8%	-353.5%	-29.6%	18.1%	-294.7%	-4.0%	-16.9%	14.5%	-13.4%	-49.9%	10.0%	-31.1%	20.2%	29.2%

Source: Company filings and reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Tapestry Inc. (TPR)

Our \$52 price objective is based on an EV/EBITDA of 8x our F2025 estimates. We think the company's robust total shareholder return plans, turnaround potential at its new brands, growth potential in Kate Spade, and continued strong margins and cash flow warrant a higher multiple (vs peer group avg of 7x).

Downside risks to our price objective are: troubles integrating the Kors business, significant weakness in NA consumer, potential slowing of Coach comps, deterioration of the Kate Spade comp and margins, and the disruption caused by global macro uncertainty.

Upside risks to our price objective are: immediate consumer acceptance of the new product, accelerating trends in outlet, faster recovery in China.

Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
RSTR	Macy's	M	M US	Lorraine Hutchinson, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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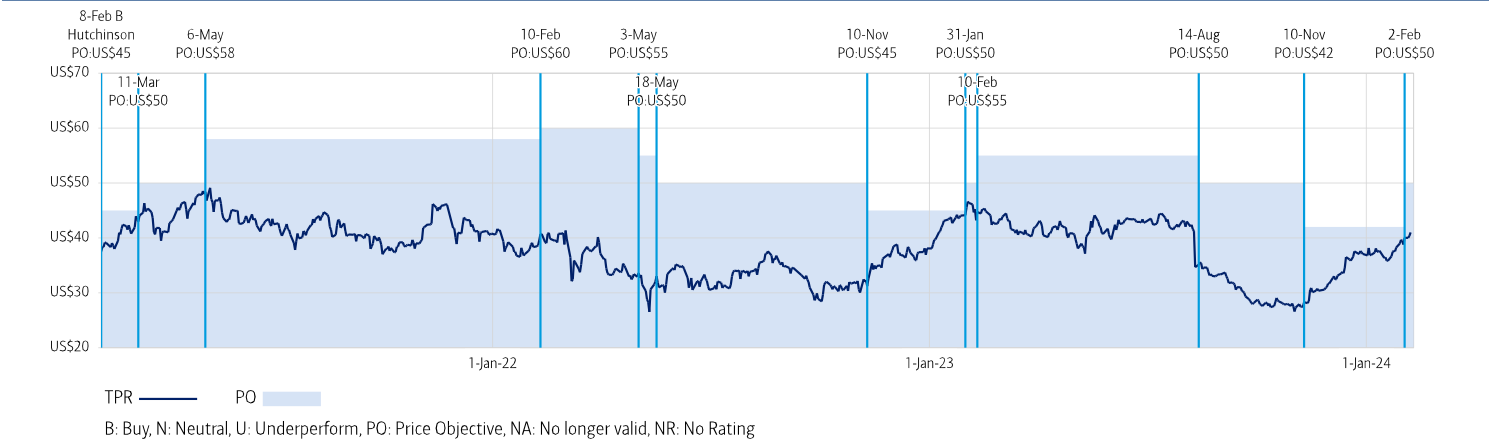
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Disclosures

Important Disclosures

Tapestry Inc. (TPR) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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