

Ralph Lauren

“Polo”rizing results send shares higher; Remains top vendor pick

Reiterate Rating: BUY | PO: 207.00 USD | Price: 171.85 USD

Brand heat improving, margin story intact

We reiterate our Buy rating and think RL continues to offer the best risk/reward amongst the apparel vendors: brand heat is improving (evident in the accelerating retail comps), margin opportunities remain, and consistency in results is becoming more apparent despite a volatile global backdrop. RL reported 3Q adj EPS of \$4.17, beating our \$3.56 est due to higher sales during a strong holiday selling season. We are increasing our F24E/F25E EPS by 7%/5% to \$10.27/\$11.60; respectively, to reflect the beat and stronger margin expansion in F25E. We are increasing our PO to \$207 (from \$165) due to our higher ests and 11x FY25E EV/EBITDA (from 9x) to reflect increased confidence in sustainable margin expansion.

Europe drives 3Q sales beat; China still a long term oppty

Total comparable sales increased 9% in 3Q, led by Asia (+14%), Europe (+11%), and North America (+5%). The upside to total sales during the quarter was driven by Europe despite various macro headwinds as DTC remained resilient and the company's largest digital pureplay customer returned to growth. We see 140bp of upside to RL's 4Q sales guidance and model 3.4% total ccy growth in 4Q. A continuation of positive trends in the global DTC business will be the expectation given the stock's strong run and we think RL can deliver. Over the medium term, we continue to see the most upside out of China, which is only 6% of the business today (China sales up 50%/20%/30% in 1Q-3Q).

Visibility in margin trajectory improving

We remain confident that management can achieve its 15%+ ccy operating margin target in F25E (compared to 14.1% in F24E). Importantly, we don't view 15% (ccy) as the ceiling over the long term. We expect mix (both channel and int'l) coupled with more modest AUR gains (compared to 9% in 3Q) will drive further GM upside. The other key driver will be the unwind of cotton inflation, which we estimate were a 200-250bp 2yr headwind. We expect the company will recoup the vast majority of this over the next two years. **Where we could see further upside:** Our base case forecast for F25 includes flat global wholesale growth. Stronger sales (2H at the earliest) could drive more margin expansion (lower GM, but accretive to EBIT).

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.38	8.35	10.27	11.60	12.79
GAAP EPS	8.07	7.58	9.99	11.60	12.79
EPS Change (YoY)	392.9%	-0.4%	23.0%	13.0%	10.3%
Consensus EPS (Bloomberg)			9.50	10.64	12.15
DPS	2.06	3.00	3.00	3.00	3.00
Valuation (Mar)					
P/E	20.5x	20.6x	16.7x	14.8x	13.4x
GAAP P/E	21.3x	22.7x	17.2x	14.8x	13.4x
Dividend Yield	1.2%	1.7%	1.7%	1.7%	1.7%
EV / EBITDA*	12.0x	12.8x	12.1x	10.6x	9.8x
Free Cash Flow Yield*	4.4%	1.5%	5.2%	4.5%	6.8%

* For full definitions of *IQmethod*SM measures, see page 6.

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	165.00	207.00
2024E Rev (m)	6,579.9	6,637.1
2025E Rev (m)	6,934.3	6,944.6
2026E Rev (m)	7,321.0	7,325.8
2024E EPS	9.61	10.27
2025E EPS	11.10	11.60
2026E EPS	12.53	12.79

Christopher Nardone

Research Analyst
BofAS
+1 646 743 2016
christopher.nardone@bofa.com

Lorraine Hutchinson, CFA

Research Analyst
BofAS
+1 646 855 0951
lorraine.hutchinson@bofa.com

Stock Data

Price	171.85 USD
Price Objective	207.00 USD
Date Established	8-Feb-2024
Investment Opinion	B-1-7
52-Week Range	103.17 USD - 148.84 USD
Mrkt Val (mn) / Shares Out (mn)	12,614 USD / 73.4
Free Float	83.0%
Average Daily Value (mn)	125.26 USD
BofA Ticker / Exchange	RL / NYS
Bloomberg / Reuters	RL US / RLN
ROE (2024E)	27.4%
Net Dbt to Eqty (Mar-2023A)	-17.6%
ESGMeter™	High

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"](#).

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Timestamp: 08 February 2024 04:37PM EST

iQprofileSM Ralph Lauren

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.3%	9.9%	11.9%	12.8%	13.3%
Return on Equity	24.2%	23.2%	27.4%	27.9%	27.0%
Operating Margin	13.4%	12.0%	12.4%	13.6%	14.0%
Free Cash Flow	549	194	660	570	854

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	0.7x	1.3x	1.2x	1.5x
Asset Replacement Ratio	0.7x	1.0x	0.9x	1.2x	1.1x
Tax Rate	20.8%	24.1%	19.4%	23.0%	23.0%
Net Debt-to-Equity Ratio	-37.9%	-17.6%	-17.7%	-15.4%	-22.6%
Interest Cover	15.4x	19.1x	20.1x	21.6x	22.9x

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,219	6,444	6,637	6,945	7,326
% Change	41.3%	3.6%	3.0%	4.6%	5.5%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	1,061	991	1,051	1,193	1,302
% Change	131.4%	-6.6%	6.1%	13.5%	9.2%
Net Interest & Other Income	(44)	(12)	26	20	3
Net Income (Adjusted)	623	576	683	743	793
% Change	390.8%	-7.6%	18.7%	8.7%	6.8%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	623	576	683	743	794
Depreciation & Amortization	230	221	229	248	275
Change in Working Capital	(170)	(425)	(109)	(175)	18
Deferred Taxation Charge	(46)	4	(29)	(29)	(29)
Other Adjustments, Net	79	36	95	83	96
Capital Expenditure	(167)	(218)	(210)	(300)	(300)
Free Cash Flow	549	194	660	570	854
% Change	101.0%	-64.8%	241.1%	-13.7%	49.8%
Share / Issue Repurchase	(493)	(489)	(441)	(400)	(400)
Cost of Dividends Paid	(150)	(198)	(196)	(192)	(186)
Change in Debt	0	(500)	0	0	0

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,598	1,566	1,593	1,570	1,837
Trade Receivables	405	448	485	546	616
Other Current Assets	1,214	1,311	1,273	1,344	1,420
Property, Plant & Equipment	970	956	903	955	980
Other Non-Current Assets	2,538	2,510	2,508	2,537	2,566
Total Assets	7,725	6,790	6,762	6,952	7,420
Short-Term Debt	500	0	0	0	0
Other Current Liabilities	1,494	1,227	1,198	1,155	1,319
Long-Term Debt	1,137	1,139	1,140	1,140	1,140
Other Non-Current Liabilities	664	586	539	539	539
Total Liabilities	5,189	4,359	4,212	4,169	4,333
Total Equity	2,536	2,431	2,550	2,784	3,087
Total Equity & Liabilities	7,725	6,790	6,762	6,952	7,420

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Apparel

Company Description

Ralph Lauren designs and distributes apparel, accessories, housewares and fragrances through wholesale department stores, specialty stores, retail stores and online.

Investment Rationale

We think the shares are attractively valued given our confidence in strong revenue trends continuing given the brand's global diversification and management's ability to pull cost levers in this environment.

Stock Data

Average Daily Volume 728,915

Quarterly Earnings Estimates

	2023	2024
Q1	1.88A	2.34A
Q2	2.23A	2.10A
Q3	3.35A	4.17A
Q4	0.90A	1.67E



Exhibit 1: RL Income Statement

We are increasing our F24E EPS to \$10.27

Ralph Lauren	FY23 Mar- 2023	1Q24 Jun-2023	2Q24 Sep- 2023	3Q24 Dec-2023	4Q24E Mar- 2024	FY24E Mar- 2024	1Q25E Jun-2024	2Q25E Sep- 2024	3Q25E Dec-2024	4Q25E Mar- 2025	FY25E Mar- 2025	1Q26E Jun-2025	2Q26E Sep- 2025	3Q26E Dec-2025	4Q26E Mar- 2026	FY26E Mar- 2025
Income statement																
Net revenues	\$6,444	\$1,497	\$1,633	\$1,934	\$1,574	\$6,637	\$1,540	\$1,703	\$2,049	\$1,652	\$6,945	\$1,627	\$1,792	\$2,164	\$1,744	\$7,326
COGS	2,262.4	466.3	564.7	648.9	549.4	2,229.3	464.5	571.9	667.1	560.2	2,263.7	489.0	599.8	702.2	589.5	2,380.6
Gross profit	4,181	1,030.2	1,068.3	1,285.1	1,024.2	4,407.8	1,075.7	1,131.1	1,382.3	1,091.8	4,680.8	1,137.9	1,191.7	1,461.6	1,154.1	4,945.2
SG&A	3,411.0	830.1	896.6	967.6	891.9	3,586.2	855.5	933.6	1,014.6	932.5	3,736.2	897.7	976.3	1,064.1	979.5	3,917.7
Operating income	770.2	200.1	171.7	317.5	132.3	821.6	220.2	197.5	367.7	159.2	944.6	240.1	215.4	397.5	174.5	1,027.5
FX gains (losses)	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
Interest expense	(40.4)	(10.0)	(10.0)	(10.6)	(10.2)	(40.8)	(10.2)	(11.2)	(11.2)	(11.2)	(43.8)	(11.2)	(11.2)	(11.2)	(11.2)	(44.8)
Interest and other income, net	32.2	15.7	15.8	20.7	18.0	70.2	17.0	16.0	14.0	13.0	60.0	12.0	12.0	10.0	10.0	44.0
Equity in losses of equity-method investees	(4.1)	(1.5)	(4.8)	2.0	1.0	(3.3)	1.0	1.0	1.0	1.0	4.0	1.0	1.0	1.0	1.0	4.0
Pre-tax income	757.9	204.3	172.7	329.6	141.1	847.7	228.0	203.3	371.5	162.0	964.8	241.9	217.2	397.3	174.3	1,030.7
Taxes	182.3	46.3	31.8	54.5	31.7	164.3	52.4	46.8	85.4	37.3	221.9	55.6	50.0	91.4	40.1	237.1
Tax rate	24.1%	22.7%	18.4%	16.5%	22.5%	19.4%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Net income	575.6	158.0	140.9	275.1	109.3	683.3	175.5	156.5	286.0	124.8	742.9	186.3	167.2	305.9	134.2	793.7
Adj EPS	\$8.35	\$2.34	\$2.10	\$4.17	\$1.67	\$10.27	\$2.71	\$2.43	\$4.49	\$1.97	\$11.60	\$2.97	\$2.69	\$4.95	\$2.19	\$12.79
Shares outstanding	66.4	65.9	65.6	65.0	64.1	64.1	63.6	63.1	62.5	62.1	62.1	61.6	61.1	60.6	60.1	60.1
Basic weighted average shares outstanding	67.8	65.9	65.6	65.0	64.6	65.3	63.9	63.3	62.8	62.3	63.1	61.8	61.3	60.9	60.4	61.1
Diluted weighted average shares outstanding	69.0	67.4	67.2	66.0	65.6	66.5	64.8	64.3	63.8	63.3	64.0	62.8	62.3	61.8	61.3	62.0
GAAP EPS	\$7.58	\$1.96	\$2.19	\$4.19	\$1.67	\$9.99	\$2.71	\$2.43	\$4.49	\$1.97	\$11.60	\$2.97	\$2.69	\$4.95	\$2.19	\$12.79
GAAP shares	69.0	67.4	67.2	66.0	65.6	66.5	64.8	64.3	63.8	63.3	64.0	62.8	62.3	61.8	61.3	62.0
Margins																
Gross margin	64.9%	68.8%	65.4%	66.4%	65.1%	66.4%	69.8%	66.4%	67.4%	66.1%	67.4%	69.9%	66.5%	67.5%	66.2%	67.5%
bp change y/y	(159)	88	81	125	325	152	100	100	100	100	99	10	10	10	10	10
vs C19		435	391	424	494											
SG&A ratio	52.9%	55.5%	54.9%	50.0%	56.7%	54.0%	55.5%	54.8%	49.5%	56.4%	53.8%	55.2%	54.5%	49.2%	56.2%	53.5%
bp change y/y	(16)	26	368	87	(29)	110	8	(8)	(52)	(23)	(23)	(36)	(33)	(33)	(27)	(32)
% change y/y	3.3%	0.9%	10.8%	7.4%	1.6%	5.1%	3.1%	4.1%	4.9%	4.5%	4.2%	4.9%	4.6%	4.9%	5.0%	4.9%
Operating margin	12.0%	13.4%	10.5%	16.4%	8.4%	12.4%	14.3%	11.6%	17.9%	9.6%	13.6%	14.8%	12.0%	18.4%	10.0%	14.0%
bp change y/y	(141)	62	(287)	38	354	43	92	108	152	123	122	46	43	43	37	42
Operating margin (ccy)	13.7%					14.1%					15.3%					15.8%
% change y/y																
Revenue growth	3.6%	0.4%	3.4%	5.6%	2.1%	3.0%	2.9%	4.3%	6.0%	5.0%	4.6%	5.6%	5.2%	5.6%	5.5%	5.5%
SG&A	3.3%	0.9%	10.8%	7.4%	1.6%	5.1%	3.1%	4.1%	4.9%	4.5%	4.2%	4.9%	4.6%	4.9%	5.0%	4.9%
Operating income growth	-7.3%	5.3%	-18.8%	8.0%	76.6%	6.7%	10.0%	15.0%	15.8%	20.4%	15.0%	9.0%	9.1%	8.1%	9.6%	8.8%
Net income growth	-7.7%	17.4%	-8.5%	21.7%	79.5%	18.7%	11.1%	11.1%	4.0%	14.1%	8.7%	6.1%	6.8%	6.9%	7.6%	6.8%
EPS growth	-0.4%	24.5%	-6.1%	24.2%	85.6%	23.1%	15.5%	16.1%	7.6%	18.3%	13.0%	9.6%	10.3%	10.4%	11.0%	10.3%

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Ralph Lauren (RL)

Our PO of \$207 is based on 11x FY25E EV/EBITDA, slightly higher than peers due stronger margins and sales growth. We think RL should trade at a slight premium to peers given its long-term brand value, strong balance sheet, and stronger margins.

Upside risks to our PO are a faster-than-expected sales turnaround, higher-than-expected benefits from ongoing cost savings initiatives, and significant improvements in the overall global apparel retail environment. Downside risks are worse-than-expected trends at wholesale, incremental US department store closures, higher-than-expected reinvestment spending, and deterioration in the global macro environment.

Analyst Certification

I, Christopher Nardone, 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
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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

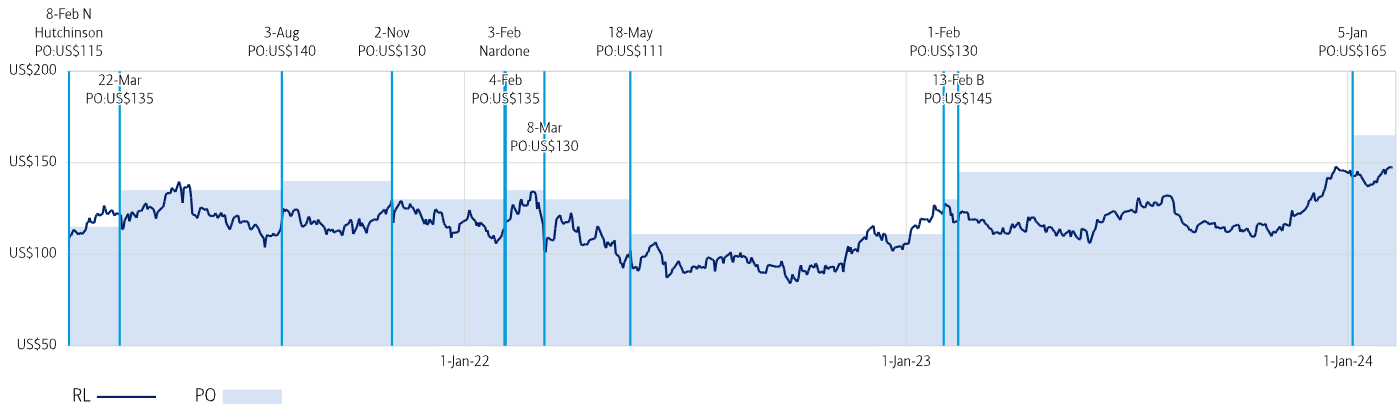
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Disclosures

Important Disclosures

Ralph Lauren (RL) Price Chart



RL — PO ■
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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%

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