Tapestry Inc.

A stable core, with upside from a turnaround and deleveraging

Reiterate Rating: BUY | PO: 50.00 USD | Price: 40.02 USD

Reiterate Buy; margin, FCF warrant higher PO

We reiterate our Buy rating as we expect TPR's superior margin profile and strong cash flow generation to allow for rapid debt repayment. Concerns for the stock have been centered around the CPRI acquisition, specifically the incremental leverage and the need for a Kors turnaround. These concerns are well-known and, in our view, TPR is positioned to execute on both fronts – the combined cash flow will support steady debt paydown and TPR's experience with reconfiguring distribution at Coach can be applied to Kors. We see room for multiple expansion from here. We are changing our Price Objective methodology to EV/EBITDA to encompass the entire capital structure (was 10x P/E). Our new $50 PO is based on 8x F2025E EV/EBITDA, a premium to peers at 7x to reflect its consistent growth profile and rapid deleveraging opportunity.

Modeling immediate double-digit EPS accretion

We view TPR's low double-digit accretion forecast as achievable, assuming $50mn in year-one synergies, and model 14% EPS accretion. The company stated a goal of $200mn in run-rate synergies within three years post-closing. TPR expects the deal to close in C24 and has taken on $6.1bn of debt in anticipation of that. As such, we are lowering our F24E EPS by 13% to $3.71 only on net interest expense. We have not yet included the CPRI EBITDA, which upon deal completion & synergies, would result in pro-forma EPS of $4.71.

Consistent debt paydown fueled by strong FCF

The deal will bring TPR leverage up from 1x to 4x. We expect this leverage to fall below 3x within two years using FCF to repay debt and could see faster delevering in the case of quicker synergies or EBITDA upside. Monetization of any of the ancillary brands could allow for a more rapid reduction in leverage.

Well-prepared to fix Kors wholesale

TPR's Coach underwent a significant unwind of its wholesale business back in F17 (exited 250 doors), and wholesale now accounts for only 12% of the total company's business. We think TPR will likely use its past learnings and pursue a similarly rapid exit of unproductive Kors partnerships post deal closure. This, along with enhanced digital presence, should increase the combined company's DTC penetration over time.

Estimates (Jun) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	3.47	3.88	3.71	3.65	3.90
GAAP EPS	3.17	3.88	3.62	3.65	3.90
EPS Change (YoY)	16.8%	11.8%	-4.4%	-1.6%	6.8%
Consensus EPS (Bloomberg)			4.14	4.48	4.86
DPS	1.00	1.20	1.40	1.40	1.40
Valuation (Jun)					
P/E	11.5x	10.3x	10.8x	11.0x	10.3x
GAAP P/E	12.6x	10.3x	11.1x	11.0x	10.3x
Dividend Yield	2.5%	3.0%	3.5%	3.5%	3.5%
EV / EBITDA*	9.1x	9.5x	9.2x	8.8x	8.4x
Free Cash Flow Yield*	7.1%	7.4%	8.7%	8.2%	8.7%

* For full definitions of *iQmethod*SM measures, see page 11.

Refer to important disclosures on page 12 to 14. Analyst Certification on page 10. Price Objective Basis/Risk on page 10. **12654379**

Timestamp: 02 February 2024 12:16AM EST

02 February 2024

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	42.00	50.00
2024E EPS	4.12	3.71
2025E EPS	4.36	3.65
2026E EPS	4.56	3.90

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Stock Data

Price	40.02 USD
Price Objective	50.00 USD
Date Established	2-Feb-2024
Investment Opinion	B-1-7
52-Week Range	25.99 USD - 47.48 USD
Mrkt Val (mn) / Shares Out (mn)	10,625 USD / 265.5
Free Float	99.4%
Average Daily Value (mn)	131.49 USD
BofA Ticker / Exchange	TPR / NYS
Bloomberg / Reuters	TPR US / TPR.N
ROE (2024E)	33.9%
Net Dbt to Eqty (Jun-2023A)	41.0%
ESGMeter™	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".

CPRI: Capri Holdings

DD: Double digit

DTC: Direct to consumer

FCF: Free cash flow

LSD: Low single digit

MSD: Mid single digit

CAAC: Civil Aviation Administration of China

*iQprofile*SM Tapestry Inc.

iQ**method* SM – **Bus Performance

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Return on Capital Employed	15.6%	16.4%	10.7%	8.2%	8.3%
Return on Equity	33.8%	41.0%	33.9%	27.6%	25.2%
Operating Margin	18.2%	17.6%	18.1%	18.3%	18.6%
Free Cash Flow	759	791	928	869	925

iQ**method* SM – **Quality of Earnings

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Cash Realization Ratio	0.9x	1.0x	1.3x	1.2x	1.2x
Asset Replacement Ratio	0.5x	1.0x	1.1x	0.9x	1.0x
Tax Rate	18.1%	18.1%	19.6%	19.6%	19.6%
Net Debt-to-Equity Ratio	39.4%	41.0%	14.3%	-4.2%	-18.8%
Interest Cover	20.8x	42.5x	8.5x	5.7x	6.4x

Income Statement Data (Jun)

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales	6,685	6,661	6,731	6,989	7,278
% Change	16.3%	-0.4%	1.1%	3.8%	4.1%
Gross Profit	4,650	4,715	4,859	5,062	5,290
% Change	14.2%	1.4%	3.1%	4.2%	4.5%
EBITDA	1,414	1,355	1,401	1,468	1,536
% Change	7.6%	-4.2%	3.5%	4.7%	4.6%
Net Interest & Other Income	(75)	(29)	(145)	(223)	(211)
Net Income (Adjusted)	**937**	**936**	**863**	**850**	**915**
% Change	**11.3%**	**-0.1%**	**-7.8%**	**-1.6%**	**7.8%**

Free Cash Flow Data (Jun)

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Net Income from Cont Operations (GAAP)	937	936	863	850	915
Depreciation & Amortization	195	182	183	188	185
Change in Working Capital	(367)	(217)	53	6	6
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	88	74	28	0	0
Capital Expenditure	(94)	(184)	(199)	(175)	(182)
Free Cash Flow	**759**	**791**	**928**	**869**	**925**
% Change	**-37.1%**	**4.2%**	**17.4%**	**-6.4%**	**6.5%**
Share / Issue Repurchase	(1,600)	(704)	0	0	0
Cost of Dividends Paid	(264)	(283)	(324)	(326)	(328)
Change in Debt	48	(31)	6,110	(303)	0

Balance Sheet Data (Jun)

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Cash & Equivalents	790	726	7,362	7,602	8,198
Trade Receivables	252	212	214	222	231
Other Current Assets	1,532	1,426	1,386	1,405	1,427
Property, Plant & Equipment	544	565	580	566	563
Other Non-Current Assets	4,147	4,189	4,194	4,194	4,194
Total Assets	**7,265**	**7,117**	**13,736**	**13,989**	**14,613**
Short-Term Debt	31	25	0	0	0
Other Current Liabilities	1,438	1,262	1,250	1,282	1,319
Long-Term Debt	1,659	1,636	7,765	7,462	7,462
Other Non-Current Liabilities	1,852	1,917	1,903	1,903	1,903
Total Liabilities	**4,980**	**4,839**	**10,917**	**10,647**	**10,684**
Total Equity	**2,286**	**2,278**	**2,819**	**3,343**	**3,930**
Total Equity & Liabilities	**7,265**	**7,117**	**13,736**	**13,989**	**14,613**

* For full definitions of *iQmethod*SM measures, see page 11.

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	3,287,558

Quarterly Earnings Estimates

	2023	**2024**
Q1	0.79A	0.93A
Q2	1.36A	1.39E
Q3	0.78A	0.60E
Q4	0.95A	0.79E

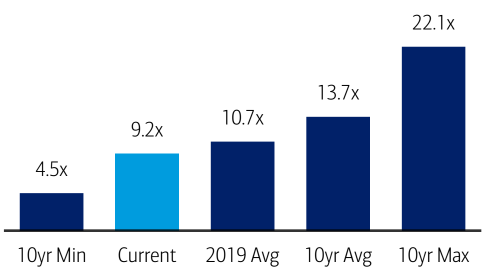
Compelling valuation given superior margin, FCF profile

We think TPR's superior margin profile and strong & consistent cash flow generation warrants a higher multiple. Concerns for the stock have been centered around the CPRI acquisition, specifically the incremental leverage taken on for the deal and the need for a Kors turnaround. These concerns are well-known and, in our view, TPR is positioned to execute on both fronts – the combined company's cash flow will support steady debt paydown and TPR's experience with reconfiguring distribution of the Coach brand will be applied to Kors.

M&A news hurt the stock but we think reaction is overdone

Immediate reaction to the M&A news was not favorable for TPR – the stock declined 16% on the day of the announcement (8/10/2023) and continued to fall in the weeks after. The stock troughed on 11/1/2023 (same timing as overall market dip), closing down 36% from the day prior to the news (versus the S&P -5% during the same time period). The stock has rebounded but still trades at a 9.2x P/E (1yr Fwd), below the 6 month average prior to the news of 10.1x. We acknowledge that the transaction changed the TPR narrative from one of slow and steady growth with strong shareholder return to a turnaround story with high leverage. However, we view the stock reaction as overly punitive and think execution on debt paydown and synergy realization could help unlock shareholder value from here.

Exhibit 1: TPR current and historical P/E on consensus estimates, 1yr fwd
TPR currently trades at a discount to its historical average.



Source: Bloomberg
1yr Fwd P/E

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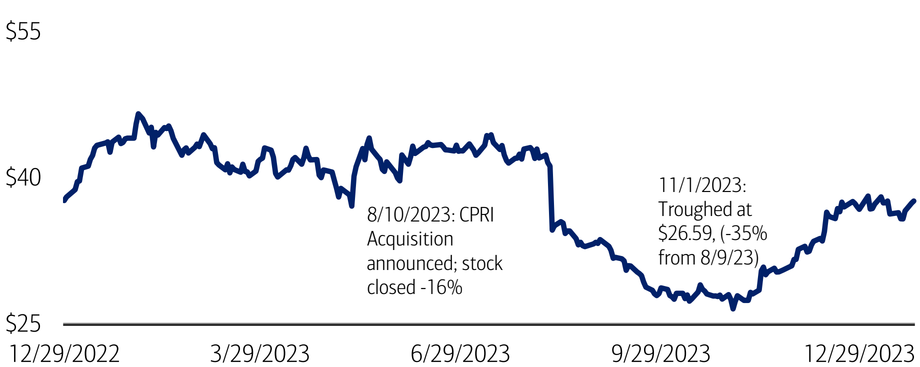
Exhibit 2: TPR stock price reaction to CPRI acquisition news
TPR closed -16% on the day of the M&A news.



Source: Bloomberg

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Revising estimates to include new debt

We are lowering our EPS estimates to account for incremental interest expense from the recent financing activities; TPR raised $6.1bn in debt financing in November 2023. This brings TPR's total debt to $7.8bn. Assuming the company earns a 4.5% rate on this incremental cash, we now expect net interest expense for F24E of $144mn (approximately $25mn in 2Q as the deal closed in November; $56mn in 3Q-4Q); this compares to the company's prior guidance of $20mn in net interest expense for F24. The company has also secured $1.4bn in delay draw term loans; these will be drawn on at the time of the acquisition, so interest payments for these are not yet reflected in our model. Our F24 EPS estimate of $3.71 is 10% below consensus of $4.14, but consensus has not yet factored in the new debt and still projects interest expense of approximately $20mn for the fiscal year.

Exhibit 3: TPR EPS estimate changes

We are lowering our EPS estimates to account for incremental interest expense from the recent financing activities.

	F24	F25	F26
Prior EPS estimate (TPR)	$4.12	$4.36	$4.56
New EPS estimate (TPR)	$3.71	$3.65	$3.90
Pro forma EPS (New TPR est and CPRI)	$4.71		

Source: BofA Global Research estimates

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CPRI Acquisition: Modeling immediate DD EPS accretion

We view TPR's low double-digit accretion forecast as achievable, assuming $50mn in year-one synergies, and model 14% EPS accretion (Exhibit 4). The company stated a goal of $200mn in run-rate synergies within three years post-closing, though noted the synergies are likely to be back-half weighted. In Exhibit 5, we provide various synergy scenarios and associated accretion metrics. If zero year-one synergies are realized, EPS still meets the DD target, though we expect there will likely be immediate elimination of duplicate corporate costs and other operating costs. On the supply chain side, we see opportunity for TPR to leverage its distribution platform, scale, and logistics & transportation to unlock further synergies within the planning horizon.

Exhibit 4: TPR/CPRI Merger Model

We view TPR's low double-digit accretion forecast as achievable, assuming $50mn in year-one synergies, and model 14% EPS accretion.

FY24	**TPR**	**CPRI**	**TPR remain co with synergies & costs**
Sales	$6,731	$5,463	$12,195
EBITDA	$1,401	$836	$2,238
Synergies	0	50	$50
Interest expense	$25	$12	$37
Incremental interest expense	-	-	$521
D&A	$183	$178	$361
Earnings before tax	$1,194	$646	$1,369
Income taxes	$234	$93	$274
Adjusted net income	$959	$554	$1,095
Share count	233	118	232.5
Adj. EPS	**$4.12**	**$4.71**	**$4.71**
Accretion/dilution (absolute basis)			$0.59
Accretion/dilution (% basis)			**14.3%**
Key metrics			
EBITDA margin	20.8%	15.3%	18.3%
Synergies as a % of sales	-	-	0.9%
Effective tax rate	19.6%	14.4%	**20.0%**

Source: BofA Global Research estimates
CPRI estimates calendarized to match TPR's fiscal year end

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Exhibit 5: EPS Accretion across various Synergy Scenarios
Every $25mn in additional year-one synergies results in 2pt additional accretion.

Scenarios:				
Synergies - Year One	$0	$50	$75	$100
Accretion (% basis)	10.1%	14.3%	16.4%	18.4%

Source: BofA Global Research estimates

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Addressing key concerns on the deal

The key concerns related to the CPRI acquisition are 1) leverage moving to 4x from 1x, and 2) Kors wholesale turnaround story. While we acknowledge the incremental debt taken on for the deal puts leverage higher than peers, we see a path to bring leverage down below 3x within two years. TPR's prior experience in reconfiguring distribution of Coach product gives us confidence that the Kors turnaround will be successful.

1) Expect paydown post-deal to be fueled by strong FCF

The company completed its deal financing of $7.5bn in senior unsecured notes and delayed draw term loans. The all-in debt interest rate, which includes TPR's existing debt, is 6.5%; the rate on the incremental debt for the deal is 6.9%. We have incorporated the notes offering ($6.1bn) and associated net interest income into our updated model; we have not contemplated deal closure into our EBITDA. Once it closes, the deal will bring TPR's debt/EBITDA of 1x to 4x. Our base case suggests the company can delever half a turn annually which would place it below 3x (a key metric for rating agencies) in two years. We show various EBITDA upside/downside scenarios in Exhibit 7.

In our base case, we assume TPR EBITDA growth of 5% annually, and CPRI EBITDA growth of 3% on a low base; management laid out expectations for CPRI sales to grow LSD over the planning horizon, with profits following the same trend. After layering in an incremental $520mn in interest payments, and maintaining the dividend payments of $325mn annually, we think TPR could reach a 2.8x leverage ratio in F26E.

Our cash flow includes the continuation of the dividend, which management is committed to. TPR issued a 17% increase to its dividend in conjunction with the deal announcement and expects to achieve a payout ratio of 35-40% over time.

Exhibit 6: Base Case Debt Paydown Scenario
Our base case shows the company can delever half a turn annually, which would place it below 3x (a key metric for rating agencies) in two years.

Base Case	**F24**	**F25**	**F26**
TPR EBITDA	$1,401	$1,468	$1,536
CPRI EBITDA	836	861	887
TPR FCF	1,024	1,032	1,079
CPRI FCF	500	515	530
Synergies		50	150
(-) Incremental interest expense		-521	-462
(+) tax adjustment from lower taxable income		104	92
Total FCF		$1,180	$1,390
(-) Dividends		325	325
Remaining cash for debt paydown		**$855**	**$1,065**
Remaining total debt		$8,253	$7,188
Net debt/EBITDA		3.5x	2.8x

Source: BofA Global Research estimates

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Exhibit 7: Leverage ratio scenarios
TPR will delever faster if EBITDA comes in above our expectations

Upside / Downside to EBITDA	F25	F26
10%	3.1x	2.4x
5%	3.3x	2.6x
Base	3.5x	2.8x
-5%	3.7x	3.0x
-10%	3.9x	3.2x

Source: BofA Global Research estimates

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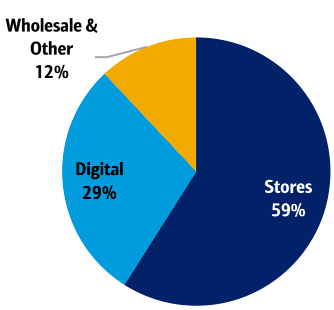
2) Prior experience with wholesale reduction should aid Kors turnaround

CPRI's outsized wholesale exposure (32% Wholesale & Other – LTM 7/1/2023) has been a drag on performance and one of our main concerns. Declining traffic at US department stores has negatively impacted partners like CPRI as demand in the channel has softened. TPR's Coach underwent a significant unwind of its wholesale business in F17, and wholesale now accounts for only 12% of the total company's business and is mostly duty-free and international. During F17, the company exited 250 doors and reduced days on sale by over 35% for the year. 120 of the door closures were completed in F1Q17, one quarter following the company's announcement of this strategic decision, so we think TPR could pursue a similarly rapid exit of unproductive Kors partnerships post deal closures.

On a pro forma basis, the combined company's Wholesale & Other penetration is 21%, still well below the peer average. We see opportunity to increase DTC penetration over time through the exiting of unproductive doors and further enhancing the brands' online presence. CPRI's digital penetration is much lower than TPR's, representing opportunity as TPR has expertise in building a strong digital platform (digital penetration is 3x higher than pre-pandemic levels; more details below).

Exhibit 8: TPR Channel Mix
TPR DTC penetration is ~90%.



Source: Company presentation

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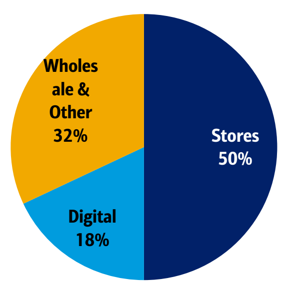
Exhibit 9: CPRI Channel Mix
CPRI has outsized wholesale exposure of over 30%.



Source: Company presentation

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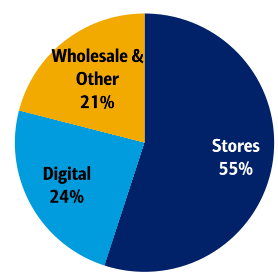
Exhibit 10: Pro Forma TPR Channel Mix
On a combined company basis, DTC represents ~80% of the business.



Source: Company presentation

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Sum of the Parts: Looking at strategic options for Versace and Jimmy Choo

Versace and Jimmy Choo are the two true luxury brands within the combined company's portfolio. CPRI management has been making slow progress on execution on these brands; we think strategies that work for an aspirational brand like Kors do not translate well to the pure play luxury names, and could see these brands being better suited under another owner. The company has been asked on public calls about trimming the brand portfolio, and management has said they are excited to be owners of the brands. We conducted a theoretical sum of the parts analysis to see what potential monetization could look like. For Versace, we used Kering, Prada, and Moncler as comps given the similar sales growth and gross margin profiles, and apply a 9.3x EV/EBITDA on our F25 estimates. We discount that multiple to 8.3x for Jimmy Choo given the slightly slower sales growth and gross margin. Based on our analysis, we estimate that combined, monetizing these brands could potentially generate $1.6bn in cash. Using these proceeds would remove 0.5x of leverage immediately, giving TPR a solid start towards their goal of hitting 2.5x.

Exhibit 11: Theoretical Sum of the Parts Analysis
Using these proceeds would remove 0.5x of leverage immediately, giving TPR a solid start towards their goal of hitting 2.5x.

		BofA Estimates			Valuation Multiples		Implied EV ($m)
		F24E	F25E	F26E	F25E	F26E	Using F25E
Jimmy Choo	EBITDA	$26	$32	$51	8.3x		$266
Versace	EBITDA	$123	$140	$159	9.3x		$1,305
					EV: Jimmy Choo + Versace		$1,571

Source: BofA Global Research estimates

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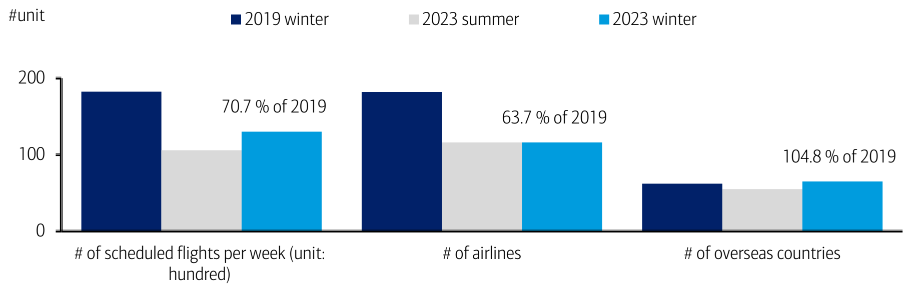
China remains sizeable growth opportunity

The macro environment in China remains volatile, but we think TPR is well-positioned to continue investing behind its brands in the region and view this as a growth opportunity over the longer-term. Brand awareness for Coach and Kate Spade in the region is still relatively low and the physical footprint is small. The company plans to open 10 new Kate Spade locations on the mainland in F24, along with investing in marketing and partnerships to promote awareness, which we think will be a tailwind to growth. As the China business grows (Greater China currently ~15% of TPR sales), we expect a lift to margins given the superior profitability of this region.

Business in China rebounded in F2H23, with 50% (ex-fx) growth in 4Q as traffic improved; COVID-related headwinds pressured results in the first half of the FY. TPR has noted improving tourist trends in Asia and Europe for the past two quarters, and we see further opportunity for recapture considering tourism is still below pre-pandemic levels. Still, the macro backdrop will pressure results in the near-term; mgmt cut guidance last quarter to account for continued uncertainty, and now forecasts MSD growth for F24 (vs HSD prior), led by 1H gains from lapping COVID-related restrictions.

Recent trends in travel are encouraging and should support the company's F24 MSD growth plans. According to CAAC, scheduled international passenger flights in China are expected to return to 70.7% of 2019's level in the next six months, higher than the current recovery ratio of sub-60% (Exhibit 12). Meanwhile, the flights between the US and China are also expected to increase to 70 per week (vs. 48 previously). As for domestic activities, intra-city mobility remained above previous years' levels (Exhibit 13).

Exhibit 12: China scheduled international passenger flights is expected to return to 70.7% of 2019's level in the next six months
2023 winter/2024 spring flight schedule: international flights



Source: CAAC

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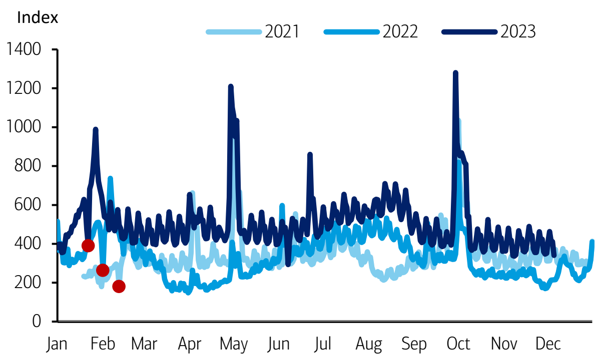
Exhibit 13: Inter-city trips remained above previous years' levels
Baidu migration index



Source: Baidu, Note: Dots indicate Lunar New Year (LNY) in each year, data as of Dec 5

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Leveraging omnichannel capabilities to fuel customer acquisition

TPR utilizes various channels to attract and serve customers, which is increasingly important as consumers' shopping habits evolve. The pandemic spurred a major shift to online shopping and digital remains an important channel for a consumer's shopping journey, whether it be discovering brands/products to ultimately making a purchase. A strong digital presence is especially important when attracting younger consumers.

DTC represents roughly 90% of the business, which we continue to view as a competitive advantage, particularly as the overall wholesale market remains pressured. TPR has executed on its digital strategies, growing its e-commerce business to 30% of the overall business, 3x pre-pandemic levels (for F23). Coach Outlet online transitioned to an open site during the pandemic (previously invitation-only), which has been important in attracting a younger, more value-oriented consumer. Announced on the F1Q24 call, the company launched Kate Spade outlet online (launched October 2023). This replaces the brand's surprise site and allows outlet consumers to discover and shop the brand online. Bringing outlet online enhances accessibility of the value product and provides another direct to consumer relationship; again, this is highly valuable in attracting a younger consumer, who transacts at higher AURs (average unit retail) overall. We see opportunity for TPR to roll out a similar strategy at Kors to replace some of the reduction in its wholesale business.

Broadening consumer reach with Amazon partnership

Last quarter, the company announced a Coach trial on Amazon (launched in September 2023). This broadens the brand's reach to even more consumers, especially for younger shoppers; Amazon has become a place for fashion discovery. The company has not seen any cannibalization from this trial. Wholesale revenue grew 4% y/y in the quarter, mainly reflecting the Amazon trial, but we expect the company to use this partnership strategically and ensure wholesale penetration remains at current levels.

Price objective basis & risk

Tapestry Inc. (TPR)

Our $50 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	EWCZ	EWCZ 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

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Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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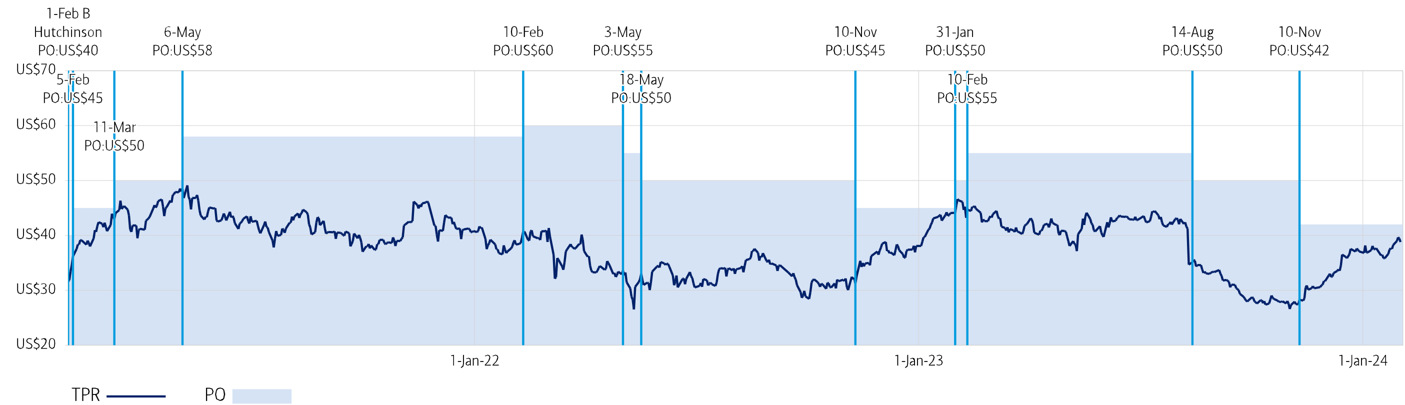

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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: 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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