

Ralph Lauren

Conference takeaways: Confident in path to more margin improvement

Maintain Rating: BUY | PO: 207.00 USD | Price: 182.81 USD

F25 op margin target of 15% ccy remains achievable

We hosted Jane Nielsen, CFO and COO for investor meetings at our consumer conference in Miami. We maintain our Buy rating and remain confident that RL will be able to achieve its operating margin target of 15% ccy, inclusive of both gross margin expansion and SG&A leverage by F25. Importantly, the company remains on track to successfully achieve its \$400mn gross cost savings program over this same time frame, with the last 1/3 of cost savings expected to be skewed toward SG&A. No change of our forecast for operating margins to expand 120bp in F25 to 13.6% (or 15.3% ccy).

More gross margin levers to pull

We expect AUR growth will normalize to the mid to high single digit range compared to the 9-10% growth over the last two quarters. We remain confident as AUR should continue to benefit from geographic mix (Asia AUR 60% higher than US), channel mix (although we estimate DTC remains dilutive to operating margins), product mix, and potential for lower promos given advancements on personalization and cleaner inventory. Moreover, we expect RL will recoup just under 200bp from lower cotton costs over the next two years, with the benefit improving throughout the two years.

International strength should continue

We came away confident about the health of the core RL consumer globally despite the various geopolitical and macro uncertainties. In Asia, we expect growth will continue to be led by China (currently 7% of the global business) and remain encouraged by positive trends in Korea and Japan. In Europe, mgmt kept its cautious tone, but acknowledged they have been surprised by the resilience of the European consumer. During the holiday, RL saw strong results in key markets like Germany, France, and Italy and called out some weakness in the UK. In EU wholesale, RL has been gaining share.

North America: wholesale mixed, retail showing strength

Mgmt confirmed expectations for sell in and sell out trends in North America to converge in F4Q (we forecast North America wholesale down 5%) compared to the disparity seen in F3Q (sell in down 15%, sell out down 5%). RL continues to invest in its top 100 doors. In terms of the retail business, we expect the trend of positive comps will continue. Mgmt noted investments in service, leaning more into core product, and improved marketing have all contributed to the improvement in the US retail business.

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)		10.22	11.19	12.61	
DPS	2.06	3.00	3.00	3.00	3.00
Valuation (Mar)					
P/E	21.8x	21.9x	17.8x	15.8x	14.3x
GAAP P/E	22.7x	24.1x	18.3x	15.8x	14.3x
Dividend Yield	1.1%	1.6%	1.6%	1.6%	1.6%
EV / EBITDA*	12.7x	13.6x	12.9x	11.3x	10.4x
Free Cash Flow Yield*	4.1%	1.4%	4.9%	4.2%	6.4%

* For full definitions of *IQmethod*SM measures, see page 4.

14 March 2024

Equity

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Stock Data

Price	182.81 USD
Price Objective	207.00 USD
Date Established	8-Feb-2024
Investment Opinion	B-1-7
52-Week Range	103.17 USD - 190.41 USD
Mkt Val (mn) / Shares Out (mn)	13,418 USD / 73.4
Free Float	83.0%
Average Daily Value (mn)	217.42 USD
BofA Ticker / Exchange	RL / NYS
Bloomberg / Reuters	RL US / RLN
ROE (2024E)	27.4%
Net Dbt to Eqty (Mar-2023A)	-17.6%
ESGMeter TM	High

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Key terms

AUR: average unit retail

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Timestamp: 14 March 2024 05:00AM EDT

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 4.

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 1,189,347

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

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

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US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	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
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
	Skechers USA Inc	SKX	SKX US	Christopher Nardone
	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
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
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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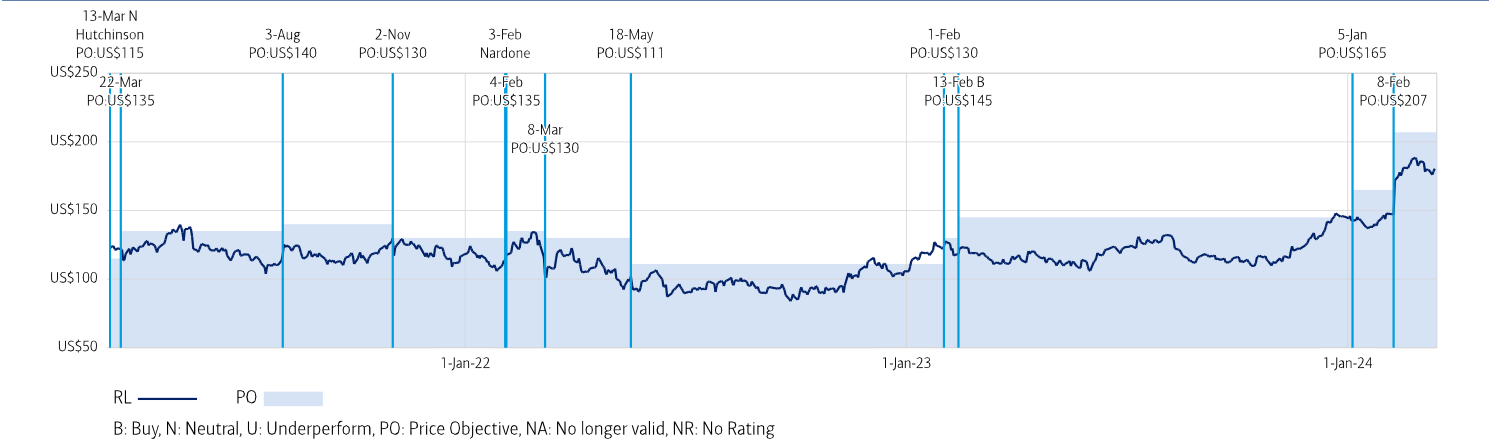
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Ralph Lauren (RL) Price Chart



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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.

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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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