



Financial - Business

Tapestry's Shares Fall as Q3 Beats on EPS, Revenues

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Growth at Coach fueled Tapestry Inc.'s third-quarter earnings, led by a strong performance in North America, but shares slid on weakness at its other brands.

For the three months ended March 31, net income rose 14.8 percent to \$140.3 million, or 48 cents a diluted share, from \$122.2 million, or 43 cents, a year ago. On an adjusted basis, net income was \$158 million, or 54 cents. Net sales rose 32.9 percent to \$1.32 billion from \$995.2 million. The company said gross margin was 68.7 percent versus 70.9 percent a year ago.

Wall Street's consensus estimates pegged the quarter's EPS at 50 cents on revenues of \$1.3 billion.

By brand, net sales for Coach rose 6 percent to \$969 million, with global comparable-store sales up 3 percent, helped by an increase in global e-commerce sales. At Kate Spade, sales were \$269 million, and global comparable sales were down 9 percent. The brand's strategy over the last few quarters has included a pullback in "wholesale distribution and online flash sales," the company said. Net sales for Stuart Weitzman rose 5 percent to \$84 million.

Victor Luis, chief executive officer of Tapestry, said, "Results were driven by continued growth at Coach, where comparable-store sales rose, led by outperformance in North America, and reflected our strong global relaunch of Signature in retail."

He said the company on the operations front "leveraged" the sales gains, tightly controlled costs and delivered operating income growth ahead of the top-line increase.

Luis added that the company continued progress on its integration efforts of the Kate Spade brand, which it acquired last year. The company recently named Anna Bakst as ceo and brand president for Kate Spade, and Nicola Glass its creative director.

The Tapestry ceo said that the Stuart Weitzman brand was impacted negatively by production delays and lower sell-through of key carryover styles, which pressured sales and margins. He noted that some of the issues are likely to continue through the fall and winter seasons. The footwear brand also has a new ceo and brand president in place, the former Salvatore Ferragamo ceo Eraldo Poletto. Giovanni Morelli is the brand's creative director.

Investors weren't happy with the weakness at the Kate Spade and Stuart Weitzman brands and sent shares of Tapestry down 10.7 percent to \$47.99 in pre-market trading at 7:38 a.m.

In recapping the quarter's results, Luis also said Tapestry completed the buyback of the Coach business in Australia and New Zealand, as well as the Stuart Weitzman business in Northern China. The company also took operational control of the Kate Spade joint ventures for mainland China, Hong Kong, Macau and Taiwan.

"As we've demonstrated with our past experiences, we believe that controlling these businesses directly allows us to accelerate international growth and enhance each brand's development in these markets," Luis said.

For fiscal 2018, the company said it continues to expect revenues to rise 30 percent to between \$5.8 billion to \$5.9 billion. EPS is projected in the range of \$2.57 to \$2.60.

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