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Tapestry, Inc. (TPR) CEO Jide Zeitlin on Q1 2020 Results - Earnings Call Transcript

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FQ1: 11-05-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.4 beats by $0.03 | Revenue of $1.36B (-1.69% Y/Y) misses by $-17.72M

Earning Call Audio

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TAPESTRY, INC. (NYSE:TPR)

Q1 2020 Earnings Conference Call

November 5, 2019 08:30 AM ET

Company Participants

Andrea Shaw Resnick - Global Head of Investor Relations & Corporate Communications

Jide Zeitlin - Chairman and Chief Executive Officer

Todd Kahn - President and Chief Administrative Officer and Chief Legal Officer

Josh Schulman - Chief Executive Officer and Brand President, Coach

Joanne Crevoiserat - Chief Financial Officer

Conference Call Participants

Bob Drbul - Guggenheim Securities

Irwin Boruchow - Wells Fargo

Erinn Murphy - Piper Jaffray

Alex Walvis - Goldman Sachs

Oliver Chen - Cowen & Company

Mark Altschwager - Baird

Paul Trussell - Deutsche Bank

Omar Saad - Evercore ISI.

Michael Binetti - Credit Suisse

Rick Patel - Needham & Company

Brian Nagel - Oppenheimer & Co.

Operator

Good day and welcome to the Tapestry Conference Call. Today's call is being recorded. [Operator Instructions] At this time, for opening remarks and introductions, I would like to turn the call over to the Global Head of Investor Relations & Corporate Communications at Tapestry, Andrea Shaw Resnick.

Andrea Shaw Resnick

Good morning and thank you for joining us. With me today to discuss our quarterly results are Jide Zeitlin, Tapestry's Chairman and Chief Executive Officer and Joanne Crevoiserat, Tapestry's Chief Financial Officer.

Before we begin, we must point out that this conference call will involve certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act, including projections for our business in the current or future quarters or fiscal years. Forward-looking statements are not guarantees and our actual results may differ materially from those expressed or implied in the forward-looking statements. Please refer to our Annual Report on Form 10-K, the press release we issued this morning and our other filings with the Securities and Exchange Commission for a complete list of risks and important factors that could impact our future results and performance. Non-GAAP financial measures are included in our comments today and in our presentation slides. You may find the corresponding GAAP financial information as well as the related reconciliations on our website www.tapestry.com/investors and then viewing the earnings release and the presentation slides posted today.

Now, let me outline the speakers and topics for this conference call. Jide will provide an overall summary of our fiscal first quarter 2020 results for Tapestry as well as our three brands. Joanne will continue with details on financial and operational results of the quarter and our outlook for FY '20. Following that, we will hold a question-and-answer session, where we will be joined by Todd Kahn, Tapestry's President and Chief Administrative Officer and Chief Legal Officer; and Josh Schulman, CEO and Brand President of Coach. Following Q&A, we will conclude with some brief summary remarks.

I would now like to turn it over to Jide Zeitlin, Tapestry's Chairman and CEO.

Jide Zeitlin

Good morning. Thank you, Andrea and thank you to each of you for joining our earnings call. Although this is my first as CEO, this is Tapestry's 77th call since Coach as IPO in 2000. I still remember how exciting it was to listen to that first call 19 years ago, when I joined the call as an advisor to the company. Having seen this journey progress over the years, my principle takeaway relates to the resilience of this remarkable organization. The combination of a powerful brand with exceptional people and culture has enabled this company to reinvent itself to fix historical mistakes and to address new competitors and evolving consumer desires.

I’ve approached my first two months of CEO with an optimism born of our history and an appreciation that this history has been defined by innovation and change. I’ve immersed myself in day-to-day operations and key decision-making. My experience during this period of time has deepened my conviction that our three brands have powerful equities that connect meaningfully with significant and distinct consumer segments globally.

I believe that each brand benefits from our shared set of resources that drive efficiencies and allow for sharing best practices across divisions. I’m excited by the work ahead of us to reignite growth by bringing a more consumer centric focus to our investment decisions and by improving our execution.

While our first quarter EPS was better than the forecast we shared with you in August, embedded in our results are external and internal challenges ranging from the situation in Hong Kong to competitive pressures to self-induced mistakes. We will touch on a number of these headwinds throughout the course of this call.

Now, let me turn to results by brand. We achieved solid and consistent performance at Coach. This was our 8th consecutive quarter of positive comps, which speaks to how our product resonated with consumers globally, driven by brand interest and vibrancy.

Coach's digital and international channels again led growth this quarter. In fact, I recently returned from China where all of Coach's international store managers gathered including those from London to Tokyo to Sydney and many points in between. This group and the store associates they work with are exceptional. Although I am admittedly biased, I believe, that they’re the best store team at scale in all of retail.

Turning to Kate Spade. Revenue performed in line with expectations. The business realized a mid-teens decline in comparable store sales, which reflected the product and merchandising challenges we’ve previously identified and are actively working to address. Kate Spade's geographic mix is also more skewed to North America than Coach, thus leaving the brand more exposed to a domestic market that is facing greater traffic and promotional challenges than many of our key international markets.

At Stuart Weitzman, sales were negatively impacted by softer wholesale demand, which offset growth in the brands direct business. That said, gross margin expansion resulted in an operating loss equal to plan and to the prior year quarter. As we look ahead, we're maintaining our total Tapestry outlook for fiscal year '20. We understand that to meet this guidance, we need to continue to drive growth at Coach, while simultaneously improving trends from current levels at Kate Spade and Stuart Weitzman.

Our imperative is to fuel desire for our brands and make investment decisions through a consumer centric lens. We're focused on becoming more agile, continuously leveraging data and technology to increase our productivity and speed to market. These improvements will enable us to fund additional brand building initiatives and to return capital to shareholders. To this end, we’ve commenced an in-depth comprehensive and efficient review of our business to address both near-term and long-term opportunities.

Let us now turn -- now discuss results by brand in greater detail, starting with Coach. Global comparable store sales rose 1% in the first quarter, led by outperformance in our international channels and across our e-commerce platforms. Excluding the pressures from Hong Kong, which intensified over the period, comps were up roughly 2%. The drivers of our global brick-and-mortar comparable store sales were conversion, reflecting our strong product offering as well as traffic.

Coach delivered overall positive comps across most international regions, including Europe and Asia. As anticipated, results in Japan were strong benefiting from a pull forward of demand in advance of the consumption tax increase, which was affected on October 1. Our Greater China business was constrained by the situation in Hong Kong, however, we continue to drive positive same-store sales on the Mainland as well as in Taiwan.

Our international wholesale business also rose on a POS basis in the quarter. Comps in North America were flat to prior year, despite the negative impact of lower tourist spend. In addition, while our North America wholesale shipments were below prior year in part due to timing, our business at POS increased despite fewer promotional event days. We are particularly proud of the brand's performance in North America in light of the weaker mall traffic trends in both outlet and full priced retail.

Looking at our first quarter progress against Coach's brand strategies for fiscal year '20. First, we accelerated product innovation and disruption across our good, better, best price architecture in retail with the introductions of Tabby, Troupe and Hadley, and an outlet with a Disney collaboration along with several new styles both sporty and functional.

We comp the comp in signature in both channels, particularly exciting was an increase in global and North America outlet handbag AUR against a highly promotional backdrop. In addition, we drove outsized growth beyond bags in our less developed women's and men's footwear and ready-to-wear categories.

Second, we drove fashion authority through cultural relevance. Examples this quarter include our September, in New York Fashion Week Runway show on the High Line attended by global influencers and a number of celebrities including actor, producer and face of Coach men's Michael B. Jordan. In addition, we released a new "Dream It Real" campaign, which featured a global cast including MBJ, Yara Shahidi and CDD and Kiko Mizuhara. More recently, since quarter end, we launched a collaboration with MBJ featuring the anime franchise Naruto, which generated strong excitement and sell-throughs in the men's category.

Third, we injected excitement into the store experience. One of the highlights of this quarter was an art of signature pop up next to the vessel at Hudson yards. We also had a Coach Originals store takeover in New York during Fashion Week, set to coincide with our Spring 2020 show on the High Line. Coach Originals celebrated the heritage of the brand in a modern way with distinct product stories, including restored vintage bags, remade updates of archival styles and remixed bags, which are individually handcrafted combinations of Vintage Coach bags. These activations not only drove strong sales in their respective locations, but just as importantly drove significant digital engagement.

Based on the positive reaction to Coach Originals and its link to the spring collection, we will rollout Coach Originals pop-ups in high profile locations globally. We are looking forward to holiday where we can -- we will continue to innovate in our core families, while disrupting with new drops that include the Tabby shop. The Tabby shop drops show the full breadth of this best-selling style across new novelty iterations as well as our new take on our original icon the Horse & Carriage logo.

In outlet, we will be launching a Star Wars collaboration and in both channels we're excited about our robust gifting assortments. In summary, we're optimistic about the holiday season in the balance of fiscal year '20 for our largest brand. We remain confident about the opportunity for continued growth as we look to accelerate innovation and relevance globally.

Moving to Kate Spade, total sales declined 6% on both a reported basis and in constant currency with the mid-teens comp decline offset by -- in part by new store distribution as well as the acquisition of the brand's operations in Singapore, Malaysia and Australia, which we have not yet anniversaried. Comparable store sales matched our expectations, declining 16% on an aggregate basis impacted by the brand's exposure to the difficult North America market as well as the product voids and merchandising challenges discussed on our August call.

In our bricks-and-mortar business, average ticket was positive for the quarter, which together with the brand's relatively stable gross margin speaks to our deliberate management of in-store promotions. Traffic comp remained under significant pressure and was a primary cause of the decrease in comp store sales. On the other hand, international markets continue to outpace our domestic business with positive comps in Mainland China and Japan.

Turning to product and brand strategy at Kate Spade. The team has began to address initial learnings including broadening the product assortment in retail through increased breadth of key silhouettes and a diversity of materials in order to more fully satisfy consumer usage occasions. We are also bringing in more color in novelty for holiday and beyond. These are playful elements that are with the hallmark of the brand's unique personality and that we believe drive direct and indirect demand.

In addition, we're evolving our marketing with a nod to the past which we saw in the first quarter with our campaign The Featured Anna Kendrick, our beloved brand ambassador. Further, our Spring Runway show at New York Fashion Week featured a diverse cast of women. This show and notably the product was well received as feminine, optimistic, democratic and relatable.

In outlet, as we've discussed, we're heightening the overall level of innovation, including our first-ever collaboration designed for the channel. We expect that these actions -- we expect these actions to support sequential progress in comps as we move through the year. As mentioned, we're currently in the process of an intensive review of our business. The key focus is the Kate Spade brand.

Our intent is to reengage our core consumer and attract new customers. We need to find the right balance between sophistication and witty novelty and color across all aspects of the brand. Our internal research has shown that the consumer continues have an admiration and affection for the brand, but we must ensure that we've product that is compelling and relevant to her lifestyle, supporting -- supported by marketing, the more effectively connects her emotionally with the brand.

Turning to Stuart Weitzman. While top line sales results were weak, we did make progress on a number of key strategic initiatives in the quarter. In product, we broadened our footwear offering beyond boots and sandals, notably with growth in sneakers and keeping with market trends. We continue to build our awareness globally.

Our fall campaign, the featured Kendall Jenner and Yang Mi garnered over a billion impressions. We also drove local buzz and editorial coverage in China following the Plaza 66 pop-up launch in Shanghai and landing the cover of Vogue China. As we look forward, we are working to improve our execution from concept to market. Simply put, this means offering fashion innovation, while ensuring that we meet our high quality expectations and delivery on commitments.

Stuart Weitzman has always represented a fusion of fashion and fit, a key differentiator for the brand one that is highly valued by our customers. Therefore we're addressing our challenges through investment in talent, operational process improvements and a focus on the fashion sensibility of the core design aesthetic. I'm confident we can leverage the brand's core equities to drive revenue growth and improved profitability.

To recap, we delivered first quarter results that were in line with our plan and our teams are now focused on the holiday season. These are exciting times at Tapestry and there is continued opportunity to better connect consumers with our brands. Each of our brands have powerful equities that resonate meaningfully with distinct consumer segments, bringing diversification to our portfolio. Each brand leverages Tapestry's infrastructure and core capabilities, including local market knowledge and a wealth of talent to drive significant benefits.

With that, let's turn to Joanne for the financial review of the quarter and our outlook. Joanne?

Joanne Crevoiserat

Thanks, Jide, and good morning, everyone. As Jide has just taken you through the highlights and strategies, I will cover some of the important financial details of the quarter as well as our outlook for fiscal year '20.

Before I began, please keep in mind that my comments are based on non-GAAP results. Corresponding GAAP results and the related reconciliations can be found in the earnings release posted on our website today. In addition, as noted in our press release, beginning in fiscal year '20, we are presenting the impact of foreign currency gains and losses within other expense and income. Accordingly, our Q1 results are presented on this basis and our prior year results have been recast for comparability.

Turning to our first quarter financial results. Total sales were in line with our expectations, with revenue declining 2% on a reported basis and 1% in constant currency. As Jide mentioned, Coach showed continued momentum with global comps increasing 1%. Kate Spade revenue declined by 6% with comps decreasing 16% in line with our projection, while Stuart Weitzman sales decreased 9% reflecting softer wholesale demand.

Gross margin was down 20 basis points in the quarter, primarily due to FX headwinds at Coach. In addition, gross margin results reflected incremental pressure related to tariffs, principally at Kate Spade given the brand's higher penetration of ready-to-wear and jewelry, which are primarily manufactured in China.

At Stuart Weitzman, gross margin expanded significantly driven by channel mix with the growth in direct sales. SG&A for the quarter was even with prior year and better than forecast as we tightly controlled cost in the context of a challenging environment. We also benefited from favorable expense timing with some costs originally planned for Q1, now shifting into the second quarter. Favorability in SG&A was partially offset by an FX loss in the quarter, primarily related to the devaluation of the RMB. Earnings per share of $0.40 was ahead of our guidance of $0.35 to $0.37.

During the quarter, as highlighted in our press release, across Tapestry, we added a net of four locations driven by international expansion at Kate Spade and Stuart Weitzman. We ended the quarter with 1,544 directly operated stores globally.

Turning to our balance sheet and cash flows. At the end of the quarter, cash and short-term investments were approximately $788 million, while borrowings outstanding were $1.6 billion consisting primarily of senior notes. As noted in our press release, during the quarter, we recorded impairment charges of $76 million related to store assets including the lease assets recorded in connection with the adoption of the new lease accounting standard.

Inventory ended the quarter at $880 million, up 7% versus last year, consistent with our expectations for sequential improvement during the quarter. We expect inventories to remain elevated in the second quarter, but end the fiscal year approximately even with last year. For the first quarter, net cash from operating activities was an inflow of $6 million versus an outflow of $19 million a year-ago.

CapEx spending was $72 million versus $55 million a year-ago and reflected the shift in spend from the fourth quarter as mentioned on our August call. We continue to expect CapEx to be approximately $300 million for the year. Free cash flow for the quarter with an outflow of $66 million versus an outflow of $75 million last year.

Now turning to capital allocation. In this fiscal year, we're dedicating our resources to driving organic growth rather than pursuing strategic acquisitions, while returning capital to shareholders through dividends and share repurchases. To that end and consistent with our expectations for the fiscal year, we bought back $300 million of common stock in the first quarter. Together with our current annual dividend payout, we're on track to return approximately $700 million to shareholders this fiscal year.

Moving to our 2020 outlook. Consistent with our prior practice, the following guidance is presented on a non-GAAP basis and replaces all previous guidance, starting with the second quarter. We are projecting revenue to be similar to prior year. This guidance incorporates continued low single-digit comp growth at Coach. At Kate Spade, we expect comps to decline at a high single-digit rate, while revenue at Stuart Weitzman is expected to be approximately even with last year.

Operating income is expected to decline in the quarter due to a contraction in gross margin as well as mid single-digit increase in SG&A growth, including the shift in timing of expenses from the first quarter. We expect earnings-per-share to be $0.95 to $1 in Q2.

Now turning to our full-year outlook where we are reaffirming key elements of our guidance. We continue to expect total revenues for Tapestry to increase at a low single-digit rate from fiscal 2019. This includes the expectation for low single-digit growth at Coach, driven by continued positive low single-digit comps. We expect Kate Spade to deliver low to mid single digit sales growth driven by distribution.

At Stuart Weitzman, we now project slight growth, reflecting weaker than expected performance in Q1 as well as continued soft wholesale demand. In addition, we are still projecting a modest decline in gross margin for the year, including the negative impacts associated with bringing the Kate Spade footwear business in-house in the second half of the fiscal year along with pressure's from currency, primarily at Coach.

The gross margin projection now also incorporates the impact of non-U.S tariffs on imports from China, including the 30% tariff on handbags and small leather goods enacted on October 1 as well as the 15% tariff for categories such as footwear, ready-to-wear and jewelry. For context, we have a diversified manufacturing base and our exposure to China is relatively limited for handbags and small leather goods where we've migrated our production.

However, in footwear, ready-to-wear and jewelry, which are smaller but fast-growing categories for Tapestry, we currently have more exposure to China. We continue to expect SG&A growth to be approximately in-line with top line growth, reflecting the important investments we've made in the long-term health of our business, including systems, new stores and regional buybacks stores and regional buybacks.

Net interest expense is now expected to be approximately $50 million for the year, reflecting lower interest income related to the recent federal rate cuts. The full-year tax rate is still projected to be approximately 17.5%. Overall, we continue to project earnings per diluted share to be roughly even with last year.

Touching on distribution. Across Tapestry, our distribution expansion efforts will focus on international markets. By brand, we expect little change in our Coach directly operated store count with closures in North America offset by modest net openings in international markets. At Stuart Weitzman, we expect to open a net of 15 to 20 locations globally. And at Kate Spade, we're projecting 30 to 40 net openings in this fiscal year.

In closing, we are focused on sharpening our execution and delivering our financial plan with the important holiday season underway. As Jide discussed, we're working to address both near-term and long-term opportunities with a consumer centric mindset.0 We are also looking to be more agile and invest in areas that maximize returns.

Overall, our strategic initiatives are intended to drive sustainable growth and productivity across our brands and unlock the inherent value in our multi-brand model. At the same time, we're committed to returning meaningful capital to shareholders supported by our strong balance sheet and cash flows.

I'd now like to open it up to Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Bob Drbul of Guggenheim.

Bob Drbul

Hi. good morning. I guess my first question, Jide, I know its early days, but can you just give us your assessment of the business from where we are and why you are still a proponent of the multi-brand strategy, assuming that you're?

Jide Zeitlin

Terrific. Good morning, Bob, and thank you for your question. Let me address it perhaps both through a rearview mirror perspective as well as one that's forward looking. So as noted, 60 days end and my perspective I believe is balanced somewhere between realism and optimism. If we take a look backwards for just a moment, we did what we told you we would do, right? We delivered an inline quarter and the start to the year was as expected.

We repurchased $300 million in stock and we're on track to return a total of $700 million to our shareholders this fiscal year inclusive clearly of our dividend. And this represents an increase of 40% year-on-year and underscores our commitment to return capital to our owners. And then lastly backward looking, we've maintained our outlook for fiscal year '20 even in the face of internal and external headwinds such as Hong Kong.

That said, looking forward, we need to sharpen our focus on execution. And as such, we're asking a lot of hard questions here internally. First principles for us are to focus on driving organic growth and you heard me say a number times in my prepared comments and you heard Joanne also reiterated, we are very focused on being consumer centric. And what we mean by that? We really mean that we need to ensure that our core consumer is at the heart of everything we do from product to marketing to store design. And this is a key element of the work that we've launched here in recent weeks. We need to make sure that we're really in a position to how relevant brand stories that really connect our consumers with the values of our brands.

The second, real area of focus is on as you drive growth, how do you really ensure that you've got operating leverage in the business. So how was it that we can become more agile, more efficient and really do believe that there is an opportunity to better leverage the data and technology to increase our speed to market. We also need to be more efficient frankly in productive across many different areas from market strategies, in terms of concept to market strategies, in terms of product assortment, in terms of our stores and also the ways that we work. And I think if we're able to do this, it will allow us to ultimately unlock resources and -- that we can distort in terms of investing more in brand building, at the same time is returning capital to our shareholders.

More specifically to your -- to the part of your question on our multi-brand strategy, one of the things that clearly we're very focused on how to unlock even further benefits of our multi-brand model. And I very much believe that our brands are stronger together as a result of our shared platform. This said, let's acknowledge that Tapestry is a relatively young multi-brand company and we're doing a lot of work to better define that balance between corporate and brand functions, and do so in a way that’s appropriate to our brands and to our culture.

So the diagnostic work has just begun, but it's one that we’re moving forward with quite rapidly and we want to include it relatively soon, so that we're in a position to address both near-term and long-term opportunities. We are clear that we face a number of challenges and we're clear about those challenges. At the same time, frankly, we're confident that these challenges are fixable and the [technical difficulty] that the solutions are largely within our control. So as we go forward, we are committed to being transparent in our communications and we will openly acknowledge where we see issues and at the same time we are going to move very swiftly to apply the learnings from the work we’ve done in the learnings from just the deep experience in this organization. Thank you, Bob.

Bob Drbul

Got it. And if I could just ask a second question, I think the guidance is for sequential Kate Spade improvement in comps in the second quarter. I just wanted to know if you could just give us a read in terms of your confidence in there? What are the key drivers that you’re seeing within that business on the sequential improvement expected? Thanks.

Jide Zeitlin

Absolutely, Bob, and hopefully nothing, if not consistent on that front in terms of being very focused on our product architecture, in terms of broadening that, being very focused on our merchandising. So introducing more color, for example, in outlet really working to find that right balance between sophistication and faithful witty elements in our product and in our marketing and in our store environment that are consistent with the brand. So it's a lot of -- kind of a very fundamental steps in terms just broadening the reach of the brand and of the product and of the business.

Operator

[Operator Instructions] Your next question comes from the line of Irwin Boruchow of Wells Fargo.

Irwin Boruchow

Hey. Good morning, everyone. So my one question will be regarding the progress at Kate Spade. So I guess just curious, within your guidance for the fiscal year, is there a plan to see a positive comp in any quarter for the remainder of the fiscal year? And then, just when we kind of think about the inflection in the business that is going to loom at some point. Jide, would you expect to see comps inflect positive before or able to see Kate's margin stabilize or could EBIT margin actually begin to improve ahead of comp growth. Just trying to understand the cost side, the pricing side, basically what's going on at the brand overall.

Jide Zeitlin

You cut out just a moment. Do you mind repeating the second half of your question? I got the first half in terms of -- would you mind repeating the second half?

Irwin Boruchow

Yes. I was just basically asking is it possible that we could see the Kate Spade EBIT margins stabilize ahead of comp growth? Just trying to understand on the cost side and pricing, like how do we think about EBIT margin inflection in relation to comp inflection?

Jide Zeitlin

Yes, understood. So a couple of things. First of all, we are calling for sequential improvement as the year unfolds and particularly in the second half of the year. Footwear will be additive to the business as we brought in that license in the second half of the year. And in terms of calling specifically a positive comp or calling margin enhancement, that's not something that I'm prepared to do at this moment.

Joanne Crevoiserat

Yes, I can jump in. Our guidance thus reflects sequential improvement in the Kate business as we see those merchandising actions really gain traction as we move through the year. Near-term we expect some gross margin challenges related to both tariff pressure, which is more exacerbated at the Kate Spade brand based on the penetration of ready-to-wear and footwear and jewelry, which are manufactured in China. Although we are working on diversifying our sourcing in that brand there are near-term pressures related to tariffs as well as bringing footwear in-house although it will have a top line benefit, it will have a -- versus the license agreement it will weigh on margins a bit in the back half. And then, we expect some heightened promotional activity as we clear through some inventory levels at Kate. So that's the near-term story of gross margin for the brand.

Operator

Your next question comes from the line of Erinn Murphy of Piper Jaffray.

Erinn Murphy

Great. Thanks. Good morning. I guess my question today is on the Coach brand and the consistency there. You've referenced the North American business bit flat. Could you share kind of what you saw between full price in outlet during the quarter? And then what did tourism into the North American market looks like this quarter in context relative to the prior view? Thank you so much.

Jide Zeitlin

Thank you. Josh?

Josh Schulman

Yes, I will take that one. Good morning, Erinn. As we said, the North America market was flat quarter this quarter and given the tough trends in both retail and outlet mall traffic, we were pleased with our ability to outperform the mall traffic in both of those relative sectors. And we did that through a variety of methods. You can see the -- there was an acceleration in our strategy around collaborations and we saw that when we do those, those tend to drive big inflection in traffic, particularly in the outlet malls. So we thought that with Disney in July, we had a graffiti artist capsule in August and so we've been getting better at executing those and we see the traffic cost in outlet. Jide also mentioned something on the horizon. Our big Star Wars collaboration which will be hitting in advance of Black Friday this year. So that's something to look forward to on that front. Your question about tourism, tourism has been tough for all of fiscal '19 and that trend continued into Q1. So the traction that we've seen in North America retail and outlet has been primarily through the domestic customer.

Operator

Your next question comes from the line of Alex Walvis of Goldman Sachs.

Alex Walvis

Great. Thanks so much. A little bit of a follow-up to the previous question. Can you talk a little bit about that the Coach brand continues to deliver solid results in North America, despite challenges seen elsewhere. Can you comment on the backdrop for consumer spending and overall retail traffic, where are we versus where we are 3 months ago? How are you expecting those trends to progress?

Josh Schulman

You know it's been very consistent. The data that we see about the consumer is that the consumer is in a good place. However, the traffic has been challenging consistently through fiscal '19 and into Q1 and whether that's retail malls or the outlet malls, the traffic has been tough. And so that really speaks to the execution of the teams in-house there driving excitement, so that we get an outsize share of the traffic that is coming to the mall and increasingly the customer shopping in an omni-channel ecosystem and engaging with us online where we're seeing very robust growth. And when we talked about the digital growth and international growth outpacing a lot of that digital growth that's happening in North America obviously.

Operator

Your next question comes from the line of Oliver Chen of Cowen & Company.

Oliver Chen

Hi.

Jide Zeitlin

Good morning, Oliver.

Oliver Chen

Jide, regarding -- good morning. Regarding the brand architecture at Kate Spade, what's your hypothesis regarding balance and thinking about product versus some entity versus novelty? And as we seek to understand the opportunity ahead at Kate Spade, would love your thoughts on sequencing the change, because there's different things that are happening whether it would be silhouettes, options and thinking about the speed of execution? Would love your thoughts on how this unfolds and how are you thinking about timing and what should come earlier versus later as you also test read and react in the marketplace? Thank you.

Jide Zeitlin

Thank you. So let me just make an overall comments about Kate, because questions come up a number of times. And we talk a lot about and you've heard us and both Joanne and me talk in our opening comments and Josh in his last response about kind of brand equities and connecting consumers emotionally with these values. And as you know that's a process that is part science and part are -- but it's also a 100% experience and its one where -- when you look at a premium fashion brand you do not turn it on the dine. And so you go back 6 or 7 years when we had overextended the Coach brand, the process of rebuilding the health of that critical brand did not happen overnight. And I still personally remember how there was a period of time after we taken some dramatic steps to reconnect the brand with its core consumer when we did not immediately see green shoots. So we had to at that time have confidence in the relevance of our brand values and in the experience of brand building.

And in many ways, Oliver, this is where we are met today with Kate Spade, right? Since acquiring the brand we've changed both the creative and commercial leadership of the brand. We understand what the process is for building brand health and growing the business. And we also as part of that, we understand that it's not a straight line, but it's one that we believe will -- we will get right. It's just -- it's part of our DNA. And I got -- we really believe we're not telling ourselves stories, we are not telling you stories, when we look at the core pillars of this brand and we see a lot of white space, a lot of alignment with the values, the desires of a large group of consumers globally. So the brand work we’ve done and more recently done with the help of some outside consultants, since I became CEO has only confirmed and deepened our internal analysis in terms of just the size of potential market that really has a alignment with the Kate Spade brand pillars.

So, as I said earlier we are -- when working with premium fashion brands, positioning yourself for sustained growth has not happened in a straight line. It's a process that we know well and it's a process that we're confident that we will get right. There are a number of near-term tactical steps that we're taking including adding more novelty to the product line, broadening the assortment in specially, particularly around satchels, more innovation in outlet. But all of those are steps or durations along the way towards a process that we've went through before and that we’re confident that we will ultimately get right.

Operator

Your next question comes from the line of Mark Altschwager of Baird.

Mark Altschwager

Great. Good morning. Thank you. I wanted to ask a question on Coach. So recently the Coach comp has been led by international. Just given the pull forward in Japan that benefited Q1 and some of the intensifying pressure in Hong Kong, does the performance in North America need to accelerate in order for the brand to maintain its positive comps? Overall, I’m just trying to better understand your level of confidence and the sustainability of the positive comps at Coach, given some of those intensifying macro pressures internationally? Thank you.

Josh Schulman

Good morning. We continue to be confident in our ability to drive low single-digit comp for the remainder of the year. in each quarter. And we understand that there will be puts and takes given some of the macro trends, but we are confident in our guidance.

Operator

Your next question comes from the line of Paul Trussell of Deutsche Bank.

Paul Trussell

Good morning. Thanks for taking our question. I wanted to ask about gross margins. Perhaps, first starting with the reported quarter, maybe break down for us some of the puts and takes across FX, product sourcing costs, mix and days of promotion in terms of the overall companies and specifically the Coach banners, GPM, and how should we think about those same puts and takes looking forward?

Jide Zeitlin

Yes. This is Joanne, Paul. I will jump on that. The gross margin it makes sense I think that this aggregate by brand and talk about what happened in Q1. In the Coach brand, the gross margin performance was primarily driven by FX, so they decrease in gross margin. Promo activity was up a little bit, but much less than what we saw in Q4. In Kate Spade, the gross margin performance was fairly stable year-over-year and far or less promotional than we had been in Q4. We were very focused on carefully balancing promotional activity and brand health in the Kate Spade brand and that continues to be a focus as we move forward.

And with Stuart Weitzman, we saw a significant increase in gross margin primarily due to channel mix with the increase in direct business through the impact of the distributor buybacks that we've invested in a new store openings that we’ve seen there. So that was the story for the first quarter. As we look to gross margin for the year, the modest decline in gross margin -- really, the mix at Hong Kong impacting Coach, in Kate Spade along with I should say, along with FX pressures in the Coach brand. In Kate Spade we continue to see pressures as we right size inventory. So there will be some promotional pressures related to tariffs as I mentioned before. And related to bringing footwear in-house, which again as -- from the change from being a licensed business to bringing in-house weighs [ph] a little bit on our gross margins there. So those are the primary contributors to the gross margin outlook for the year.

Operator

Your next question comes from the line of Omar Saad of ISI.

Omar Saad

Good morning. Thanks for taking my question. Jide, as a follow-up to the multi-brand question. Maybe you could talk about your assessment of some of the kind of core competencies and capabilities, especially in the digital arena that Tapestry, the operating group has that it can really bring to bear unique capabilities and technologies it can bring to bear across multiple brands. where do you think some of those competencies are that we can watch unfold across all three brands over the coming years? Thanks.

Jide Zeitlin

Thank you, Omar. A couple of comments there. First, in terms of broadly some of the benefits of the multi-brand and then we will talk to more specifically to digitally, but as you likely heard us talk about before, first, it's just a diversified earnings stream reduces the pressure on -- not to be overly reliant on any one brand. Two, stronger -- we are stronger when dealing with landlords whether buy marketing, advertising and as well as creating a more robust platform for top tier talent to want to be on and so that is -- those are some of the benefits. As you’ve heard us talk about in earlier calls, we’ve also talked extensively about our data labs capability that we've built now over time that allows us to both take a very deep database and leverage the insights from that database everywhere from marketing to a promotional cadence to really thinking through our brand alignment in terms of product as well as store environment. Our new Chief Digital Officer, Noam, has really brought a lot of capacity to bear in terms of thinking through an enterprise plan that allows us to drive kind of efficiency across the platform. So we're actually one of the key aspects of the work we’re doing right now in terms of diagnostic work is very focused on how to better leverage our digital capability and that’s literally everything from thinking about strategic partners with people such -- with entity such as Tmall and how do we deepen that to thinking about other ways so in an omni-channel world, meeting our customer where she or he most looks to engage with the product. And there's some -- I think one of the benefits of this combination that we've talked about of experience management with new leaders coming in, is there have been certain aspects of digital that have perhaps been a little bit more out of -- ones that the organization was less willing to engage with that we're very much open to thinking about how whether or not it makes sense for us to engage with until leverage is part of driving the top line growth of this business.

Josh Schulman

Just building on what Jide mentioned, I think a great example of this is our work with Tmall. As we’ve mentioned, we’ve recently launched Coach on Tmall with a soft launch in September and we’ve seen terrific results with 90% of the customers being new customers to the brand, and with known partnership we're going to be able to more quickly leverage those learnings across not just Coach, but the other brand. So there's a lot of work here on how we can leverage insights from each other's digital activities for the greater good.

Operator

Your next question comes from the line of Michael Binetti of Credit Suisse.

Michael Binetti

Hey, guys. Thanks for taking all of our questions here. Let me ask you on -- Jide, I would love to know, if you’re willing to share whether the brands are trending today inline of our your outlook for the quarter? I know the low single-digit for Coach and high singles for Kate. And whether that includes the negative snapback in Japan that you guys have seen in the past after some of the change -- the spike and the change in the tax rate? And I guess bigger picture point though on Coach, on the Coach brand and the leverage point there. I’ve to say with that brand is -- its been remarkably consistent through good times and bad and where is the leverage point on that brand? Now you’ve done a nice a job of growing same-store sales for the past few years in that low single-digit rate. But the margins have been up every year. How do you think about the sustainability of that dynamic, given some of the natural inflation in that business.

Jide Zeitlin

Absolutely. So why don't I start and then Josh, you may want to jump in. First, its early days in the quarter and our guidance that we've given in terms of full-year guidance is predicated on our current view in terms of outlook for the quarter end and beyond. So I wouldn't say a lot more than that. But one comment I will make in terms of just Coach and the opportunity there, I very much believe and a lot of the initial work that we're doing is that there is actually substantial opportunity over the intermediate to long-term to actually to drive organic growth there to even more closely align the core brand values with where we believe consumers are today and where consumers are going. So if anything -- some of the early days of the work that we're doing would suggest that there is greater growth opportunity there as opposed to what I think was implicit in your question in terms of the opposite of that.

Josh Schulman

So I will comment actually on both aspects of the question. Just a few things to watch out for in the upcoming holiday season. With Coach, I mentioned the Star Wars collaboration in outlet. And we are also super excited about Coach's appearance as the first fashion luxury brand in the Macy's Thanksgiving Day Parade. And all of us will be watching on Thanksgiving morning as our mascot Rexy, flows to down Broadway. I think that's an example of the power of Coach. Coach is a powerful brand that has always astute for inclusivity and how we can even more fully own that in a culturally relevant way.

We are pleased with Coach and that the base we start with is a well-run machine with a 27% operating margin today. And as we think about product opportunities for us, our strategy is really focused on innovation in our core. We've talked about the need to innovate in the good, better and best price bucket. This quarter we specifically called out our handbag AUR in the outlet channel. We know a lot of you've been on the journey with us here, particularly in North America and we're so pleased with the progress that our teams are making on introducing new differentiated product, but also leveraging some of the insights from our data labs. In terms of finessing their promotional strategies to drive a better AUR. So innovation in core is key, because leather goods are today and will always be the core of Coach.

Secondly, collaboration and co-creation. Whether that is a big traffic driving collaboration that we've done. We've mentioned Star Wars, which is coming up in the future. We've mentioned Disney, which drive a lot of traffic and sales, or Jide mentioned in his prepared remarks, a collaboration with Michael B. Jordan and Naruto, much smaller in scale actually driving scarcity and brand heat, both of those are super important.

And then, the third category of our focus here in product are acceleration categories. And as we've said that there are opportunities for us in footwear, in men's and to a lesser extent EEE in ready-to-wear, all of which are important focus is for us and you will be hearing more about our important footwear launch of the City Sole family, which we will launch in spring. City Sole is a new sneaker and a hybrid category, to be clear.

Operator

Your next question comes from the line of Rick Patel of Needham.

Rick Patel

Good morning. Thank you for taking the question. My question is on Kate Spade. So given what you're seeing with traffic, can you provide some additional color on the outlook for marketing? I'm curious if you will invest more in performance-based marketing or higher up the funnel, what you can do differently there. And as we think about financials, any context on how much marketing investment may change relative to last year?

Jide Zeitlin

Yes. I will say this, we don't anticipate any significant shifts in our marketing spend as we go forward. And although we are one of the conversations that we've had a lot of discussion on internally is the mix of performance versus brand building. And if you take a look at last year second quarter, we didn't spend effectively anything on marketing. This year we will spend on marketing.

Operator

Your next question comes from the line of Brian Nagel of Oppenheimer.

Brian Nagel

Hi. Good morning. Thank you for taking my question. So my one question, bigger picture, today and over the last few quarters we've been discussing the kind of the weakness. And you've done a really nice job of outlining the initiatives you're taking -- you undertake to drive better results at Kate and even Coach. But the question I have is, as we step back, how much of the weakness in the bags -- and again this is mostly Kate, but even to a certain extend Coach, you think is a function of internal missteps versus some shifts in the competitive landscape. And then the other question on top of that is, is there still within the context of your multi-brand strategy, is there still enough differentiation between Coach and Kate that they're not cannibalizing one another? Thank you.

Jide Zeitlin

Yes. Thank you and in many ways both questions are I think -- asking the same question in two different ways. But the work that we're doing is really intended to make sure, first part of it is to really make sure we get underneath the brand equity and that we have real clarity as to a distinct consumer basis for each of the brands. And the work we've done so far built on top of internal work that's been done, does underscore that they're distinct consumer basis. And as such, we think as we execute against those consumer basis that you will see even probably greater distinction between the positioning of the products and the brands between each of the brands. That said, inherent in that is a view that the Kate Spade brand, I'm sorry to repeat myself, but the Kate Spade brand does speak very clearly to a substantial core consumer, somebody who was looking for action, who is looking for fun, who is looking for a feminine product. And we think that there is a reasonable amount of white space around that positioning that creates real opportunity for that brand. So we're optimistic, but also mindful of the real work ahead of us to more fully achieve that potential.

Operator

We have time for one more question. Your final question will come from the line of Paul [indiscernible] of Citi.

Unidentified Analyst

Hey. Thanks, guys. You guys have talked about some industry headwinds facing the business. I'm curious would you consider to be the greatest pressure points in that North America business? Maybe talk about by brand, and if any of those headwinds are actually shown some signs of improvement or are they working against you even further? Thanks.

Jide Zeitlin

Right. So why don't we -- I mean the big headwind that we've talked about is traffic here domestically and largely driven by a fall off in tourism. But why don't we perhaps start with Coach and then we can talk as appropriate about the other brands.

Josh Schulman

Yes. I think we touched on it earlier. We are --overall, we're geographically agnostic in terms of where we are recognizing the revenue. So traffic -- tourist traffic trends ebb and flow over time, but clearly they have impacted North America now for a ongoing period. And that really just forces us to be sharper on our focus for the domestic customer and how do we get better serving the domestic customer. I think historically we may have had stores that were more tourist centric and those ones are being challenged to the most. But even in those locations, how do we focus most on the domestic customer, and what we find is that per shopping habits are changing. So when it's a domestic customer, she is more often to start her shopping during the online and want to continue that in the store channel, so how do we become more symbiotic between those channels in catering to the evolving needs of the domestic customer, really is one of our biggest focuses.

Jide Zeitlin

And just very briefly in terms of Kate Spade, the traffic trends are consistent there. So nothing really different to say there. And on Stuart Weitzman, the challenges, the historical one coming out of our supply chain challenges, which had an impact on our order book with -- at wholesale, which were very, very much focused on addressing. So thank you for the question.

Andrea Shaw Resnick

That will conclude our Q&A. Jide, I will turn it over to you for some brief closing comments.

Jide Zeitlin

Terrific. Thank you, Andrea. I want to just take a moment to thank our shareholders. We are mindful that it is your capital that enables us to come to work every day, seeking to connect consumers emotionally with our powerful brands. We take our responsibility as stewards of your capital very seriously. To my fellow employees, thank you for everything you do for our customers and thank you for your contributions to the culture of this house of remarkable brands. I'm grateful for the opportunity to work with each of you. Thank you.

Operator

Thank you for participating in this Tapestry conference call. You may now disconnect your lines and have a wonderful day.