

Americas Branded Consumer Goods: Apparel & Accessories

Initiate on Apparel and Brands: Focus on fundamentals with a framework of brand, channel, and margin

We initiate coverage of the Apparel and Brands sector. As the sector emerges from an unprecedented eighteen months of volatility, the post-COVID recovery period has been supportive for apparel and brands. We forecast continued strong growth, margin expansion, and returns for our coverage universe. However, we acknowledge YTD sector outperformance (+27% vs. S&P500 +16%) and thus recommend investors stay selective as we look into 2022.

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The Backdrop: (1) Macro tailwinds from a strong consumer and supportive discretionary retail spend; (2) Sequentially strong cyclical tailwinds such as improving wholesale orders, reduced promotionality, and rising traffic, but partially offset by rising cost pressures including freight / input costs and supply chain disruptions; and (3) Realization of benefits from structural cost actions taken during the pandemic such as channel rebalancing and cost leverage optimization.

Our stock selection framework:

- **BRAND:** Seek exposure to idiosyncratic brand momentum: LULU (Buy, on CL), YETI (Buy), KTB (Buy), CSPR (Sell), VFC (Sell)
- **CHANNEL:** Prefer companies with channel-shift driven upside to profit: RL (Buy), LEVI (Buy), PVH (Buy); YETI (Buy)
- **MARGIN:** Screen for margin durability with an eye towards structural support vs. cyclical tailwinds: LULU (Buy), YETI (Buy), KTB (Buy)
- We consider this along with catalysts and valuation to reach our top ideas.

Recommend to Buy: LULU (on CL), YETI, KTB, RL, PVH, and LEVI.

Recommend to Sell: VFC and CSPR.

Neutral: CPRI, GOOS, GPS, and TPR.

Our Top Idea: Buy LULU (on CL). We see best in class premium brand positioning and believe new category momentum (men's / international / inclusive sizing / footwear) will propel sales and margins, supported by upside from membership initiatives driving consumer engagement.

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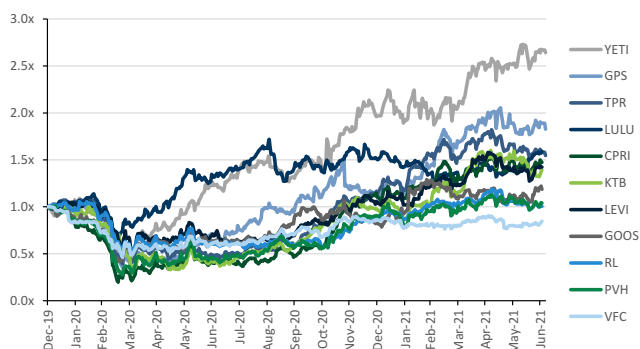
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Portfolio Manager Summary

Focus on fundamentals post a period of unprecedented volatility. Following a volatile 2020, the apparel sector has outperformed in 1H21. Reopening momentum in apparel YTD has been enabled by a vaccine program in the US, healthy materialization of consumer demand, and favorable supply/demand balances. Traffic levels have demonstrated sequential recovery and strength in online demand has persisted. Stocks in our coverage group are now largely trading at or above pre-COVID levels, with recovery in price related to the proportion of EBITDA recaptured and potential for post-pandemic growth.

Exhibit 1: Stocks across our coverage universe have broadly recovered to the levels of late 2019 following a trough in early April 2020

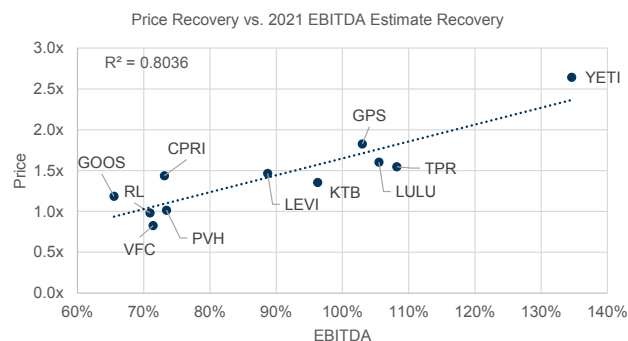
Stock price as a ratio of December 31, 2019 levels over time



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: Stock price recovery since December 31, 2019 indicates a relationship with investor expectations of 2021 EBITDA recovery

Plot of 2021 EBITDA consensus estimate recovery (July 2021 estimate / Dec 2019 estimate) vs. stock price recovery ratio over the same time period

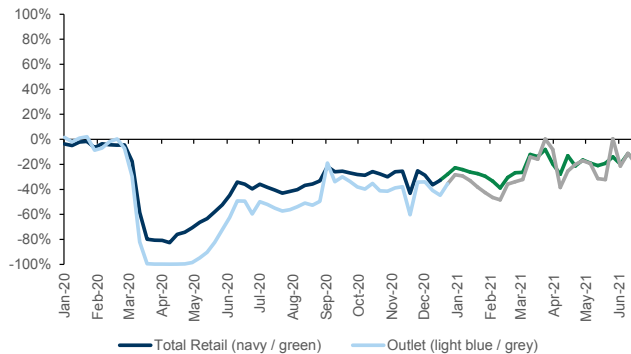


Source: FactSet, Goldman Sachs Global Investment Research

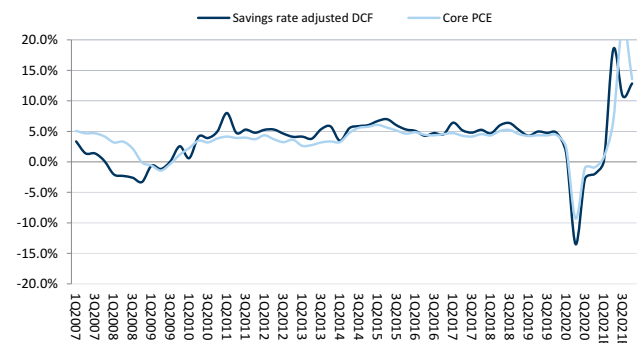
Macro tailwinds from a strong consumer for the balance of 2021. We anticipate continued recovery in consumer apparel and accessory sales, where we see tailwinds from solid consumer balance sheets, a strong back to school and back to work season, and a return to outside-the-home events to provide meaningful top-line momentum despite ongoing pressure from tourists and traffic. We believe companies have guided conservatively and consensus estimates are light, suggesting continued upside to numbers into 2H.

Exhibit 3: US traffic indicators are starting to show normalization to pre-COVID levels

Shoppertrak Total Retail and Outlet same store traffic vs. 2019 (color change represents shift to 2-yr vs. 1-yr compare given the series is shown vs. 2019)



Source: Shoppertrak

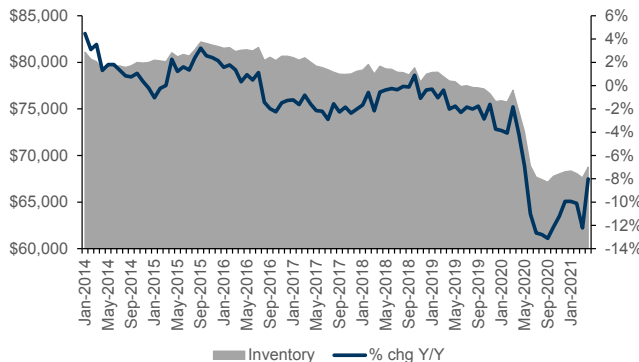
Exhibit 4: Robust recovery in adjusted consumer discretionary cash flow is expected to drive higher PCE (R-squared of 82%)

Source: US Bureau of Economic Analysis (BEA), Goldman Sachs Global Investment Research

Cyclical tailwinds and some cost headwinds: Past sector headwinds are currently acting as sequential tailwinds, with consumer traffic returning to stores, wholesale orders improving, and the industry realizing reduced promotionality. We anticipate these will normalize. We are also closely watching incremental headwinds from rising costs of freight, inflating and raw material input costs, and supply chain disruptions.

Exhibit 5: Combined downstream ecosystem inventories (retailers + department stores) remain down double digits vs. prior year, supporting lower promotional intensity across the industry

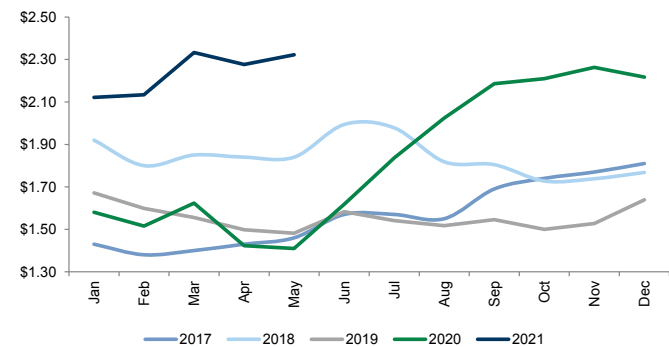
Combined clothing and accessory retail store and department store inventory levels, \$mn (LHS) and % chg Y/Y (RHS)



Source: Haver Analytics, Census Bureau, Goldman Sachs Global Investment Research

Exhibit 6: But costs are rising and supply chains have been disrupted

US monthly van spot rates ex-fuel

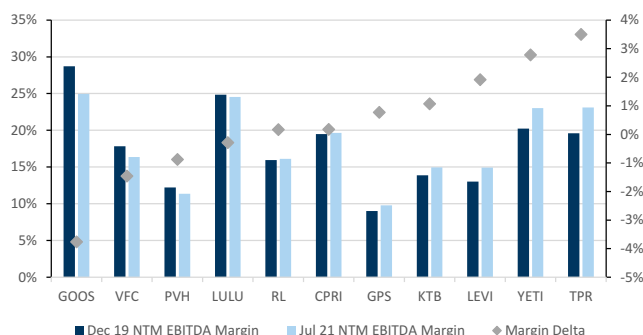


Source: Truckstop

Structural shifts accelerated. The pandemic provided an opportunity for businesses to accelerate structural shifts such as channel rebalancing and cost leverage optimization (divestitures / headcount reductions). These shifts can provide durable margin opportunity and can fuel investments, and companies with guidance for meaningfully higher margins vs. pre-pandemic levels have seen outperformance.

Exhibit 7: Consensus is modeling higher EBITDA margins on an NTM basis vs. pre-pandemic for several companies in our coverage universe

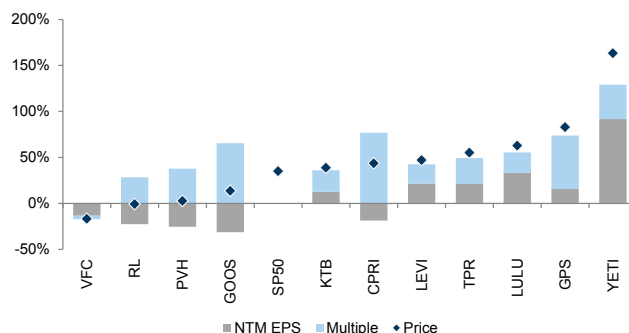
FactSet consensus NTM EBITDA margins, December 31, 2019 vs July 11, 2021 (LHS) and point margin delta (RHS)



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 8: Several stocks in our coverage universe that have outperformed since December 31, 2019 are those where consensus NTM EBITDA margin is higher vs. pre-pandemic

Anatomy of stock performance since December 31, 2019; excludes CSPR given the stock was not publicly traded on that date



Source: FactSet, Goldman Sachs Global Investment Research

Our framework is informed by three key pillars that we believe will drive estimates and stock performance going forward: (1) BRAND: We seek exposure to idiosyncratic brand momentum; (2) CHANNEL: We prefer companies with channel-shift driven upside to profit; and (3) MARGIN: We screen for margin durability with an eye towards structural support and acknowledge cyclical factors and their directional input.

These factors inform our ratings:

- **Buy:** LULU (on CL), YETI, KTB, RL, PVH, and LEVI
- **Sell:** VFC, CSPR
- **Neutral:** CPRI, GOOS, GPS, and TPR

Our Top Idea: Buy LULU (on CL). This structural winner accelerated market share gains and invested for growth during COVID-19, and we believe the brand is better positioned to drive long-term top and bottom line growth. We see emerging tailwinds from accelerating men's, international, membership, footwear, and long-term opportunity from Mirror to drive durable outperformance.

Exhibit 9: GS Apparel and Brands Summary - Ratings, Price Targets, and Key Thesis

Company	Ticker	Rating	Last Close	Target Price	Upside to PT	Key Thesis
lululemon athletica inc.	LULU	Buy*	371	447	21%	LULU's best in class premium brand positioning and new category momentum (men's / international / inclusive sizing / footwear) should propel sales and margins. This is supported by upside from consumer engagement as LULU's innovative membership program is extended.
Ralph Lauren Corp.	RL	Buy	115	147	28%	Improving fundamentals following a multi-year reset in North America wholesale with potential upside from improving DTC.com growth. Company has several structural drivers of operating margin expansion, and has demonstrated strong ability to deliver AUR improvement.
Levi Strauss & Co.	LEVI	Buy	29	36	25%	LEVI's strong global brand positioning enables it to be a key winner of the industrywide shift to DTC.com. We see tailwinds from an emerging denim cycle and believe a healthier NA wholesale business and structural business changes will drive EPS upside.
YETI Holdings	YETI	Buy	92	113	22%	Premium lifestyle brand where current product categories have momentum (near-term upside from channel restocking) and we see upside from emerging strength in new categories and geographies. Ongoing DTC shift fueling margin and ROIC expansion.
Kontoor Brands Inc.	KTB	Buy	57	69	21%	We are constructive on KTB's several levers for margin-accretive growth, including: (1) emerging brand momentum supported by an improving denim backdrop, (2) new distribution, (3) category extensions into outdoor and tops, (4) geographic expansion, and (5) strengthening DTC.com momentum.
PVH Corp.	PVH	Buy	105	127	21%	We believe initiatives taken by a new management team will crystallize margin upside for this portfolio of brands. In particular, we are constructive on an accelerated shift to DTC.com and margin gains following structural business model changes.
Gap Inc.	GPS	Neutral	31	35	11%	Transformational changes executed throughout the pandemic are now well-understood. Athleta strong and Yeezy Gap collaboration a potential driver of recovery at Gap brand, but we believe this is offset by potential for fading merchandise margins into 2022 on normalizing promotionality.
Canada Goose Holdings	GOOS.TO	Neutral	52	57	9%	Strong local customer luxury demand and potential for a healthy winter coat cycle drives recovery in sales + long-term upside from footwear launch. However, this is offset by fading brand momentum indicators in key markets, international tourism headwinds, and a full valuation.
Capri Holdings	CPRI	Neutral	53	56	5%	We are constructive on growing momentum and profitability at the Versace brand, and believe Jimmy Choo has reopening potential. However, we believe this is offset by softening brand momentum indicators at Michael Kors and potential for fading tailwinds from lower promotionality.
Tapestry Inc.	TPR	Neutral	42	42	1%	The Coach brand has momentum, and TPR has successfully executed a margin-led transformation. This is now understood, and we see rising risk from toughening compares, less reopening upside, and normalizing promotions at Coach brand. Kate Spade not yet driving growth, and Stuart Weitzman mix impact small.
VF Corp.	VFC	Sell	82	79	-3%	We see rising competitive pressures and normalizing brand heat for Vans, which we believe will constrain sales and margin growth into 2022. While other brands have momentum, TNF up against tough compares, Timberland growth comes at lower margins, and Supreme upside is capped to retain scarcity.
Casper Sleep Inc.	CSPR	Sell	8	7	-9%	Brand momentum is fading and CSPR has not demonstrated pricing power in an inflationary cost environment. While we expect some sales growth in 2021 on coastal city reopening and wholesale expansion, this is well understood. We expect sales momentum to fade into 2022 as focus shifts to sell-through vs. sell-in.

*Shares of LULU are on the Americas Conviction List

Target price has a 12-month time horizon.

Source: FactSet, Goldman Sachs Global Investment Research

BRAND: Seek idiosyncratic brand momentum

The apparel sector is idiosyncratic. While key overarching industry themes and macro data points have an impact on stock performance, the sector does have idiosyncratic alpha opportunity driven by divergence in sales and profit growth. Our stock selection begins with a view of brand momentum, product cycles, and idiosyncratic inflection points that can be critical drivers of sales and earnings regardless of point-in-time cyclical or macro impacts.

We believe brands with momentum are more likely to be able to withstand macro challenges, deliver pricing power, leverage fixed costs, and drive earnings growth.

- **Look for strong positioning and product cycles.** We prefer brands that have exposure to high growth categories (such as active) or product cycles that are gaining momentum (premium / luxury / outdoor / denim). Examples of this include active and outdoor, including **Lululemon (LULU; Buy, on CL)**, **YETI (YETI; Buy)**, and **Athleta (GPS; Neutral)**. Denim demand is strong as consumers shift to alternate silhouettes - examples include **Wrangler (KTB; Buy)**, **Lee (KTB; Buy)**, and **Levi's (LEVI; Buy)**. We also believe premium / luxury is performing well, which favors select brands such as **YETI (Buy)**, **GOOS (Neutral)** and brands in the portfolios of **CPRI (Neutral)** and **TPR (Neutral)**.
- **We favor brands with momentum and strength.** We look for evidence that a

brand is top of mind, has control of distribution, is driving consumer connection, and is maintaining its position through new innovation. We introduce our consolidated brand momentum tracker in this report, which screens for several of these variables.

CHANNEL: We prefer companies with upside from the shift to DTC

We favor DTC (Direct-to-Consumer). We believe brands with strong control of distribution have a stronger opportunity to connect with their consumers and control critical areas of brand perception such as pricing / promotionality / product presentation.

The pandemic accelerated the shift to DTC digital. Critical within this shift is that many brands successfully drove an inflection in the profitability of DTC.com over the last year. We are most constructive on brands where DTC.com channel shift drives wholesale profit pool recapture (i.e. they are not deleveraging their own stores as the donor channel). We highlight opportunity for Buy-rated **RL, PVH, LEVI, KTB**. Neutral-rated **GOOS, CPRI** and Sell-rated **VFC** also have opportunity to recapture the profit pool, but we believe this is offset by other factors (including brand momentum / sentiment). We also see tailwinds from DTC.com shift enabling stronger consumer connection, where we believe **LULU** has opportunity here following the recent integration of Mirror and upcoming membership expansion, but see upside for **RL** and **YETI** as they increase data in their customer journey.

Improve organizational efficiency through digital. Incremental digital tools can enable faster supply chains, stronger inventory utilization across omnichannel retail networks, and markdown optimization. The pandemic accelerated opportunity for brands to adopt digital sampling. We believe **LEVI and PVH** have meaningful opportunity here for incremental gains.

MARGIN: Screen for margin durability with an eye towards structural shifts

Structural changes reshuffle the playing field. The pandemic provided several businesses an opportunity to accelerate years of planned business model changes, including fleet restructuring, digital and technological acceleration, and portfolio actions. Wholesale-led businesses that traditionally had seen challenges managing partner door productivity had an opportunity to accelerate their focus on DTC and reassess their wholesale footprint. We believe these actions have provided some opportunity for brands to drive stronger control of their business through-cycle.

- **Structural cost-outs taken during the pandemic provide opportunity for leaner organizations into 2022 and beyond.** Large structural cost-outs include (alphabetically listed) **CPRI, CSPR, GPS, LEVI, PVH, RL, TPR**. We note smaller programs or expense savings initiatives were enacted at **GOOS, LULU, and VFC**.
- **Fresh management and new perspectives.** Several companies in our coverage universe have new leadership at the helm of the organization who have taken a fresh approach to drive the organization. We highlight: **PVH, GPS, TPR**.
- **More focused business models.** Key actions include divestiture of non-core brands (**PVH / RL / GPS**), closure of select geographies of business (**TPR / CSPR / KTB**), and store fleet optimization acceleration (**GPS / TPR / among others**). Companies

with larger wholesale distribution networks now have an opportunity to selectively rebuild into these with a fresh perspective following a year of reset (**RL / PVH / CPRI**).

Consider durability of gross margin gains achieved during the pandemic. A robust supply/demand backdrop and structural business model changes have led to stronger than expected margin delivery in early 2021. In part, this has also been fueled by cyclically low promotionality given a strong consumer backdrop. Several management teams have also outlined plans to achieve structurally higher through-cycle margins following the business model shifts of the pandemic (on higher digital / organizational efficiency). We believe the durability of margin gains, and the outlook to achieve incremental improvements in margins from here will thus become a critical focal point for investors. We favor brands with margin gains that are durable regardless of inventory level (driven by structural changes in the business), factor in benefits recently gained from merchandise margin, and look for brands with pricing power and low historical margin volatility as costs inflate. **Buy LULU (on CL), YETI.**

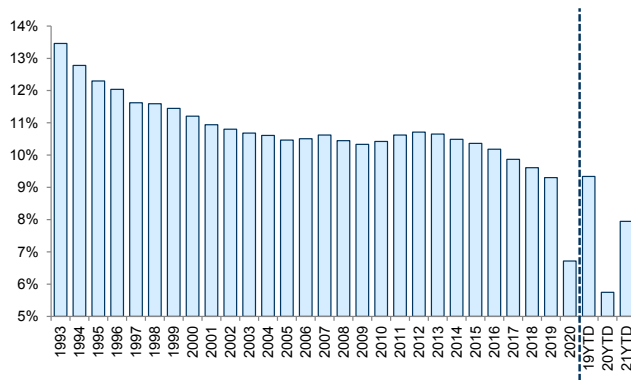
The status quo: Strong apparel market as reopening drives recovery in consumer spend

Apparel has outperformed in 2021, with the sector up 30% YTD (median) and 27% (average) vs. the S&P 500 of 16%. The post-COVID recovery period has been (and we believe will continue to be) supportive for apparel and brands, with strong consumer demand bolstered by limited supply, stimulus / closet restocking, and reduced promotionality. We discuss the key drivers of this below.

Reopening momentum driving a solid apparel backdrop

Strong consumer backdrop with discretionary retail spend drivers supportive of growth. Consumer apparel spend on clothing & accessories sales declined meaningfully in 2020 and early 2021 as a result of behavioral changes associated with the pandemic. YTD we've seen improvements in this spend as the economy reopens, and we see an attractive consumer backdrop for a rebound in apparel spend. Consumer balance sheets are healthy, consumer confidence is improving, and traffic is gradually returning to the stores.

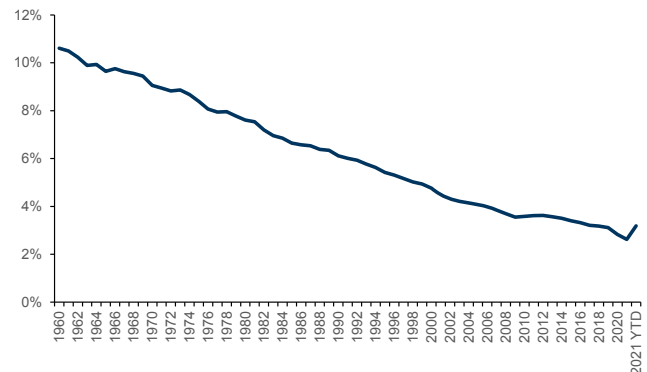
Exhibit 10: US apparel sales as a percentage of core retail sales saw a meaningful decline during the pandemic as consumer behavior shifted; this has begun to show signs of Y/Y improvement YTD and we anticipate a healthy recovery through 2021
Clothing & accessories sales as a percentage of core retail sales annually



Source: Haver, Census Bureau, Goldman Sachs Global Investment Research

Exhibit 11: While apparel's share of wallet has been declining for decades, 2021 YTD is showing some rebound following a tough 2020

Apparel as a percent of core PCE over time, nominal



Source: Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 12: Apparel share of wallet fell sharply in 2020, though has been a share donor pre-pandemic; we believe a normalization to trend offers meaningful upside to apparel sales in 2021 and 2022

Categories of spending - share of total	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	LT avg	Share Δ shift (bps)
Gasoline and other energy goods (NDG)	3.9%	3.8%	3.7%	3.4%	2.5%	2.2%	2.3%	2.5%	2.3%	1.8%	3.0%	-124
Clothing and footwear (NDG)	3.1%	3.1%	3.1%	3.1%	3.0%	2.9%	2.8%	2.8%	2.8%	2.5%	3.0%	-50
Luggage and similar personal items (DG)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	-3
Physician services (S)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	-3
Dental services (S)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	-5
Motor vehicle services (S)	2.0%	2.0%	2.0%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	1.9%	2.1%	-13
Ground transportation (S)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.2%	0.4%	-14
Air transportation (S)	0.7%	0.7%	0.8%	0.8%	0.7%	0.7%	0.7%	0.8%	0.8%	0.4%	0.7%	-27
Water transportation (S)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-1
Membership clubs, sports centers, parks, theaters (S)	1.4%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%	0.7%	1.4%	-64
Gambling (S)	1.0%	1.0%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.7%	1.0%	-30
Food services (S)	5.3%	5.4%	5.4%	5.5%	5.7%	5.7%	5.8%	5.8%	5.8%	5.1%	5.5%	-39
Accommodations - Hotels, Motels, Housing at Schools (S)	1.0%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	0.5%	1.0%	-45
Personal care services (S)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.1%	1.1%	0.7%	1.0%	-33
Clothing/ footwear services - laundry, dry cleaning, etc. (S)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	-3
Foreign travel by U.S. residents (S)	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.2%	1.2%	1.2%	0.4%	1.0%	-69
Aggregate of the above listed categories	22.5%	22.6%	22.6%	22.5%	21.7%	21.4%	21.6%	21.9%	21.7%	16.4%	21.7%	

The share donor categories (services + gas + clothing) have historically constituted about 22% of PCE historically but accounted for only 16.4% in 2020

Abbreviation note: NDG is nondurable goods; DG is durable goods; S is services

Source: US Bureau of Economic Analysis (BEA), Goldman Sachs Global Investment Research

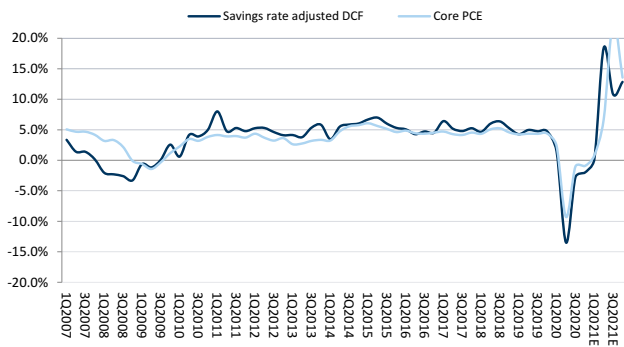
Exhibit 13: Our consumer research team expects adjusted discretionary cash flow to surge in 2021 given strong income, led by stimulus, and a wind down of excess savings

	2017	2018	2019	1Q20	2Q20	3Q20	4Q20	2020	1Q21E	2Q21E	3Q21E	4Q21E	2021E	
Disposable Personal Income	\$14,902	\$15,767	\$16,349	\$4,175	\$4,590	\$4,416	\$4,317	\$17,497	\$4,612	\$4,843	\$4,497	\$4,493	\$18,444	
% change	4.9%	5.8%	3.7%	3.1%	12.9%	7.7%	4.4%	7.0%	10.5%	5.5%	1.8%	4.1%	5.4%	
Cash adjustments	\$345	\$391	\$442	\$117	\$126	\$109	\$100	\$451	\$123	\$105	\$109	\$109	\$447	
% change	16.2%	13.8%	12.8%	2.0%	12.6%	-8.6%	-8.6%	2.2%	6.3%	-16.7%	0.6%	9.8%	-1.0%	
"Cash income"	\$15,246	\$16,158	\$16,790	\$4,291	\$4,716	\$4,524	\$4,417	\$17,949	\$4,735	\$4,948	\$4,606	\$4,602	\$18,891	----- 2021 cash income is up 5% from 2020, led by continued support on income support policies
% change	5.2%	6.0%	3.9%	3.1%	12.9%	7.5%	4.2%	6.9%	10.3%	4.9%	1.8%	4.2%	5.3%	
Mortgage equity withdrawals ⁽¹⁾	\$76	\$81	\$84	\$28	\$24	\$47	\$50	\$149	\$30	\$26	\$44	\$48	\$148	----- Housing is solid, leading consumers to draw equity
% change	87.7%	4.1%	3.4%	126.7%	-19.1%	80.7%	212.2%	77.8%	7.5%	-8.8%	-6.0%	-5.5%	-0.9%	
Borrowing	\$191	\$167	\$160	\$35	\$69	\$20	\$24	\$10	\$15	\$20	\$20	\$31	\$34	
% change	31.9%	-2.0%	-3.7%	-26.0%	NM	-59.2%	-38.1%	-94.5%	-56.3%	-113.2%	41.5%	31.8%	754.2%	
Total household cash flow	\$15,816	\$16,425	\$17,054	\$4,355	\$4,671	\$4,591	\$4,491	\$18,106	\$4,780	\$4,963	\$4,679	\$4,681	\$19,123	----- Total 2021 cash flow up solid following a strong 2020 as the economy recovers and further stimulus helps
% change	5.6%	5.9%	3.8%	3.1%	9.9%	7.2%	4.6%	6.2%	9.8%	6.7%	1.9%	4.2%	6.6%	
Financial obligations	\$2,207	\$2,383	\$2,490	\$634	\$631	\$630	\$628	\$2,522	\$681	\$720	\$673	\$677	\$2,752	
% of DPI	15.4%	15.1%	15.2%	15.2%	13.7%	14.3%	14.5%	14.4%	14.8%	14.9%	15.0%	15.1%	14.9%	
% change	4.0%	3.8%	4.5%	3.4%	1.8%	0.6%	-0.6%	1.3%	7.5%	14.2%	6.8%	7.9%	9.1%	
Essential spending ⁽²⁾	\$2,063	\$2,174	\$2,219	\$573	\$552	\$567	\$565	\$2,257	\$601	\$595	\$607	\$600	\$2,404	
% change	4.7%	5.4%	2.1%	4.3%	-0.8%	1.8%	1.5%	1.7%	4.9%	7.9%	7.0%	6.2%	6.5%	
Discretionary cash flow	\$11,156	\$11,669	\$12,345	\$3,148	\$3,489	\$3,294	\$3,298	\$13,329	\$3,498	\$3,667	\$3,399	\$3,404	\$13,969	----- DCF +5% in 2021 off an unusually strong 2020 on continued fiscal support and economic recovery
\$ change	\$649.5	\$713.3	\$476.3	\$86.7	\$413.2	\$292.0	\$191.2	\$983.8	\$349.6	\$175.0	\$4.6	\$105.9	\$639.1	
% change	6.2%	6.4%	4.0%	2.8%	13.4%	9.4%	6.2%	8.0%	11.1%	5.1%	0.1%	3.2%	4.8%	
Savings adjustment														
Savings rate (% of income)	7.2%	7.8%	7.5%	9.6%	26.0%	15.7%	13.0%	16.1%	16.6%	17.7%	8.9%	7.0%	12.5%	----- "Forced" savings accumulated in 2020, should run down in 2021, but not all the way
YoY chg	0.3%	0.7%	-0.3%	1.2%	18.7%	8.5%	5.8%	8.5%	7.0%	-8.3%	-6.8%	-0.1%	-3.5%	
Savings from cash flow	\$1,263	\$1,404	\$1,412	\$434	\$1,123	\$714	\$596	\$2,822	\$780	\$867	\$428	\$344	\$2,396	
Adj. discretionary cash flow	\$9,894	\$10,445	\$10,933	\$2,714	\$2,365	\$2,681	\$2,712	\$10,507	\$2,717	\$2,801	\$2,971	\$3,060	\$11,572	----- 2021 savings adjusted DCF rises by > \$1tn as the savings rate moderates from peak levels of 2020
% change	5.4%	5.6%	4.7%	1.5%	-13.5%	-2.8%	-2.0%	-3.9%	0.1%	18.4%	10.8%	12.8%	10.1%	

(2) Includes Energy goods and services, food at home, out of pocket medical spending

Source: BEA, BLS, Federal Reserve, EIA, CMS, Goldman Sachs Global Investment Research

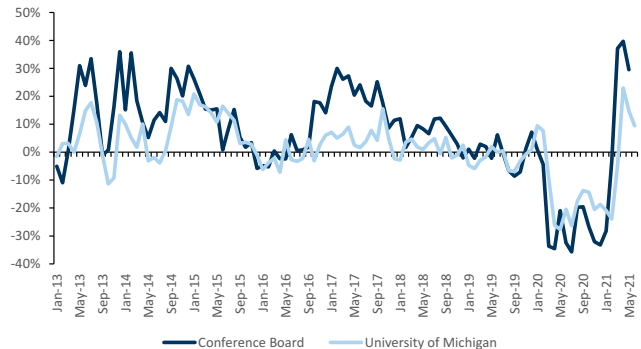
Exhibit 14: Robust recovery in adjusted consumer discretionary cash flow is expected to drive higher PCE (R-squared of 82%)



Source: US Bureau of Economic Analysis (BEA), Goldman Sachs Global Investment Research

Exhibit 15: Consumer confidence is normalizing following a challenging year

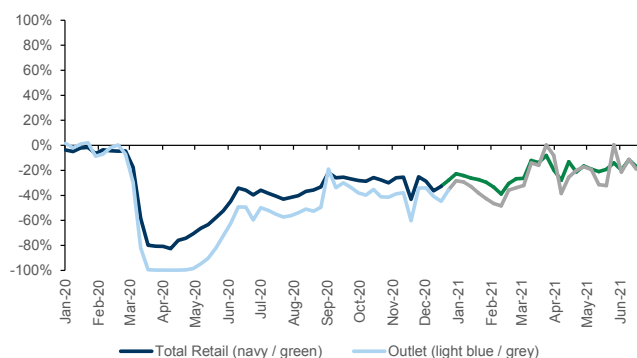
Consumer Confidence - The Conference Board and University of Michigan



Source: Haver Analytics, The Conference Board, University of Michigan

Exhibit 16: US traffic indicators are starting to show normalization to pre-COVID levels

Shoppertrak Total Retail and Outlet same store traffic vs. 2019 (color change represents shift to 2-yr vs. 1-yr compare given the series is shown vs. 2019)



Source: Shoppertrak

Exhibit 17: And mobility indices in regions where our brands have store presences is starting to see normalization

Google Mobility index overlaid with store portfolios of select brands in our coverage universe; in collaboration with our GS Data Works team

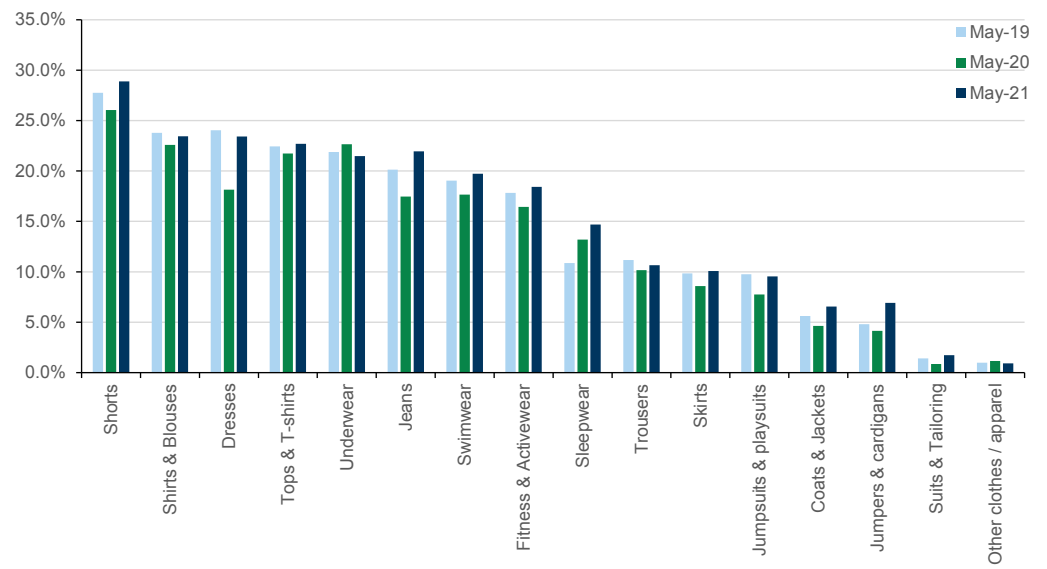


Source: Google COVID-19 Community Mobility Reports, Thinknum, Company data, Goldman Sachs Global Investment Research

Wardrobe refresh activities driving momentum across categories
Consumers are looking for fresh apparel / accessories as they return to pre-pandemic activities.

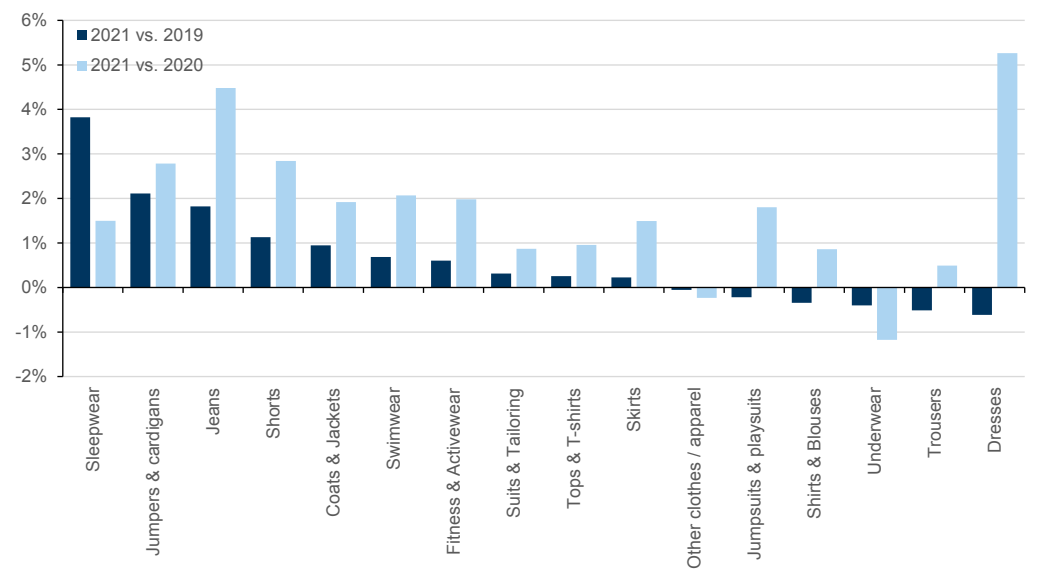
We continue to anticipate secular shifts towards comfort and casual wardrobes (vs. tailored clothing), but have observed meaningful pickup in consumer interest for select wardrobe categories as they return to in-person events, weddings, work, and out-of-home activities. We thus anticipate strength across categories in apparel this year. That said, we note that vs. pre-pandemic levels, consumer interest in casual / comfy and stay-at-home categories such as sleepwear remains elevated vs pre-pandemic levels, indicating that the shift to comfort could be somewhat sticky. Longer term, we believe secular trends of casualization of wardrobes will continue to bolster companies with product category exposure in athletic and casual, and act as a headwind to companies with more exposure to dressy categories.

Exhibit 18: Consumers plan to purchase a variety of items as they emerge from the pandemic, and planned purchase trends have rebounded strongly across several categories vs. pre-pandemic levels
Consumer planned purchase activity in the next month, T28D average as of May 2019, 2020, and 2021



Source: WGSN

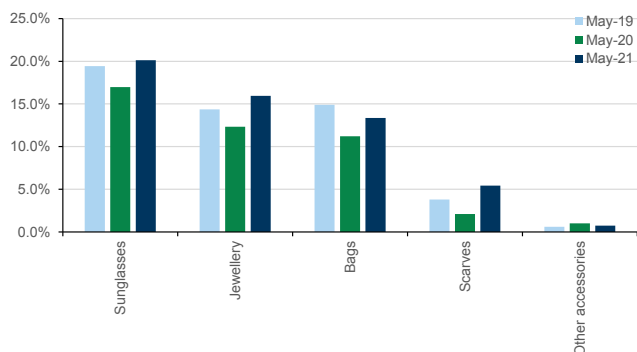
Exhibit 19: On a point difference basis vs. 2019, consumer interest in casual categories such as sleep, sweaters, jeans, and shorts remain elevated while interest in tailored apparel is still somewhat below pre-pandemic levels
2021 vs. 2019 and 2021 vs. 2020 point change differences in consumer planned purchase of various apparel categories



Source: WGSN, Goldman Sachs Global Investment Research

Exhibit 20: We see a similar trend for accessories, with strong incremental interest in select categories that are utilized as consumers return to in-person events such as sunglasses and jewelry

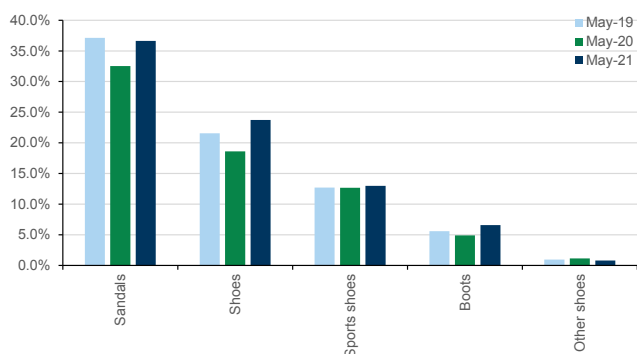
Consumer planned purchase activity in the next month, T28D average as of May 2019, 2020, and 2021



Source: WGSN

Exhibit 22: In footwear, most categories are showing strong purchase intent vs. the prior year and pre-pandemic levels

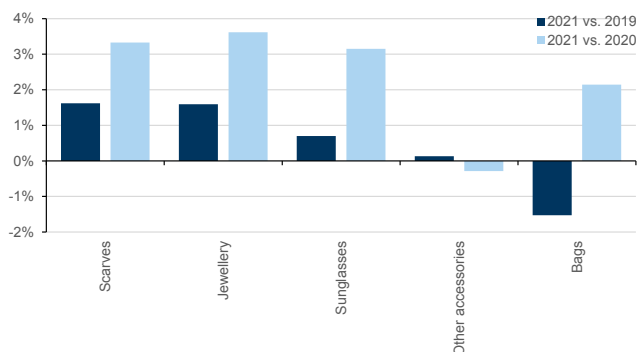
Consumer planned purchase activity in the next month, T28D average as of May 2019, 2020, and 2021



Source: WGSN

Exhibit 21: Consumer purchase intent is higher vs. 2019 levels for several accessory categories such as scarves, jewellery, and sunglasses; however, handbag purchase intent has not yet recovered to pre-pandemic levels

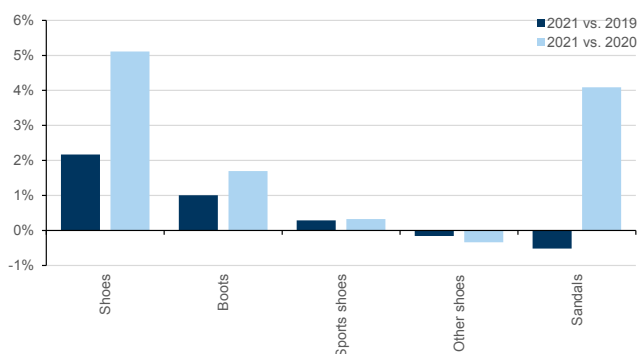
2021 vs. 2019 and 2021 vs. 2020 point change differences in consumer planned purchase of various accessory categories



Source: WGSN, Goldman Sachs Global Investment Research

Exhibit 23: We are particularly encouraged to see purchase intent higher vs. 2019 in both boots and sports shoes, indicating still-strong interest in categories typically offered by brands in our coverage universe

2021 vs. 2019 and 2021 vs. 2020 point change differences in consumer planned purchase of various footwear categories



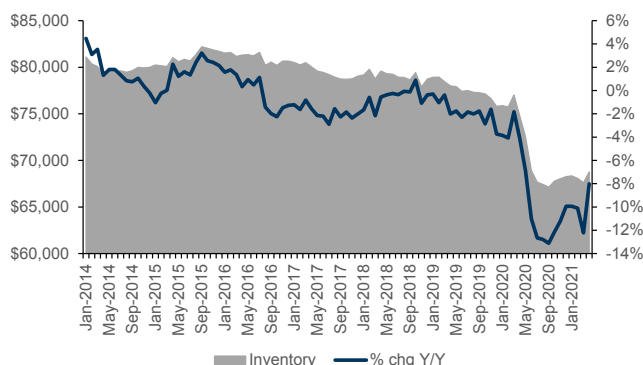
Source: WGSN, Goldman Sachs Global Investment Research

Robust supply/demand backdrop with inventories well-controlled

Lean industry inventory levels have provided a robust selling environment. Strong reopening demand, supply chain delays, and lean prior buys at retail have contributed to healthy inventory levels across the apparel ecosystem. This has been supported by conservative inventory order patterns by brands and retailers throughout the holiday season, and demand trends stronger than initially expected this spring and early summer. We see risk that this benefit will fade as inventory levels normalize in aggregate.

Exhibit 24: Combined downstream ecosystem inventories (retailers + department stores) are low vs. normalized run-rate levels

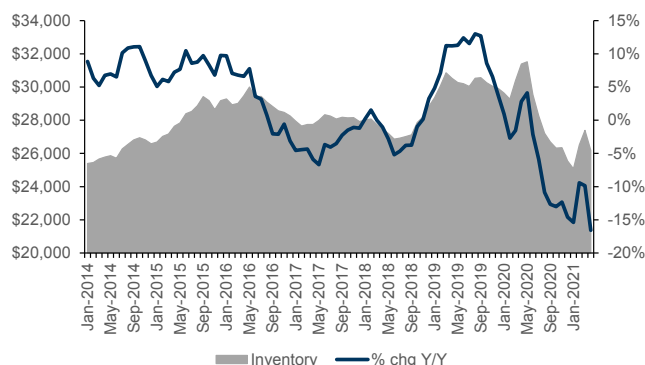
Combined clothing and accessory retail store and department store inventory levels, \$mn (LHS) and % chg Y/Y (RHS)



Source: Haver Analytics, Census Bureau, Goldman Sachs Global Investment Research

Exhibit 25: Apparel inventories at wholesalers are well controlled vs. prior years

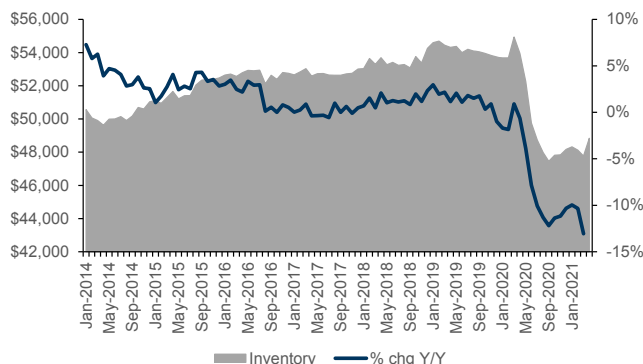
Monthly merchant wholesaler apparel inventories, \$mn (LHS) and Y/Y % chg (RHS)



Source: Haver Analytics, Census Bureau, Goldman Sachs Global Investment Research

Exhibit 26: Clothing and accessory store inventories have declined materially

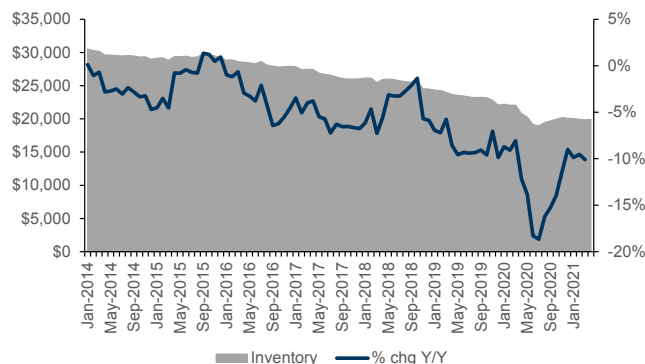
Monthly clothing and accessory store retail inventories, \$mn (LHS) and Y/Y % change (RHS)



Source: Haver Analytics, Census Bureau, Goldman Sachs Global Investment Research

Exhibit 27: This trend is also visible at department stores

Monthly department stores inventories ex-leased departments, \$ (LHS) and Y/Y % change (RHS)



Source: Haver Analytics, Census Bureau, Goldman Sachs Global Investment Research

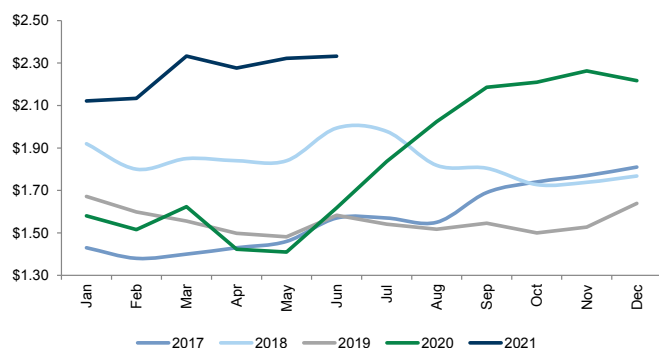
Rising costs and marketplace disruptions

Highly uncertain cost environment with meaningful supply chain uncertainty.

While the demand environment has surprised to the upside YTD, we also note that supply chain disruption is also elevated. Costs are inflationary across the supply chain, including raw material costs (which are likely to appear in product costs into 2022), freight, and distribution. Further, with an uneven vaccine rollout globally, the industry has faced volatility of production timing as certain factories face labor shortages and/or shutdowns. Demand for shipment is elevated as several industries look to restock, and this demand is coming at a time when COVID-19 disruptions at ports and in transportation networks are elevated, resulting in capacity constraints in global freight and high spot rates. We anticipate cost headwinds across these line items to be a headwind to margins for the foreseeable future. Given this uncertainty, we prefer brands with pricing power and supply chain agility.

Exhibit 28: Van spot rates continue to rise Y/Y

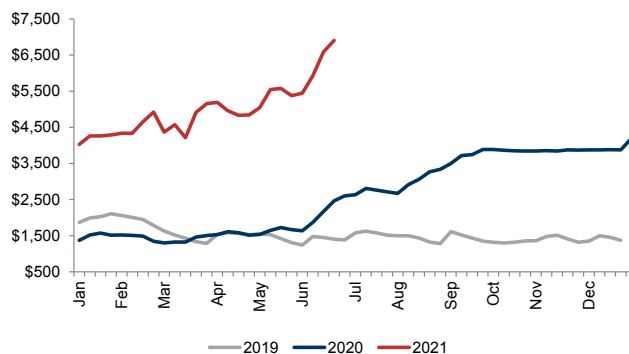
US monthly van spot rates ex-fuel



Source: Truckstop

Exhibit 29: Ocean freight rates are well above prior year levels

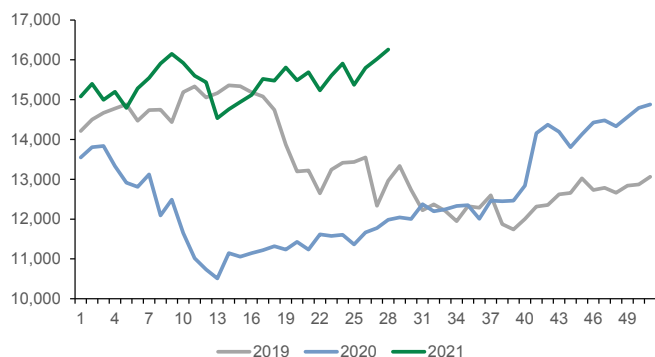
China / East Asia to North America West Coast Ocean Freight Container Index



Source: Freightos Baltic

Exhibit 30: China cotton prices are rising

China cotton price index (ZCE Cotton #1) RMB/Ton by week number



Source: Refinitiv Eikon, Data compiled by Goldman Sachs Global Investment Research

BRAND: Seek exposure to idiosyncratic brand momentum and inflection points

The apparel sector is idiosyncratic. While key overarching industry themes and macro data points do have an impact, stock performance in our sector is particularly driven by the top line momentum for emerging and maturing growth brands, and by EBIT for brands that are undergoing turnaround. Given the importance of top line growth in driving operating leverage and profits, we believe it is critical to watch for shifts in the ability for brands to drive revenue growth. Our stock selection process begins with a view of brand momentum and is informed by product cycles and idiosyncratic inflection points that can be critical drivers of sales and earnings regardless of point-in-time cyclical impacts.

Why brand momentum matters

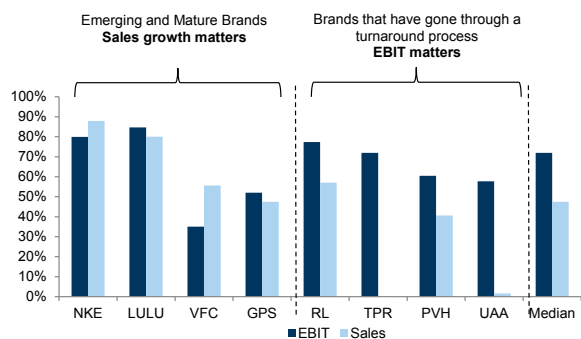
Stocks trade with earnings, and apparel is no different. Emerging and maturing

growth companies often trade with top line momentum, while brands that have undergone turnaround processes often trade with EBIT as operating margins are taken into closer consideration as a leading indicator of profitability ahead of any potential sales inflection.

Look for momentum to drive sales in a discretionary category. Brands in our sector compete for consumer share of wallet, and brands in our coverage universe must drive consumer connection to enable top line growth.

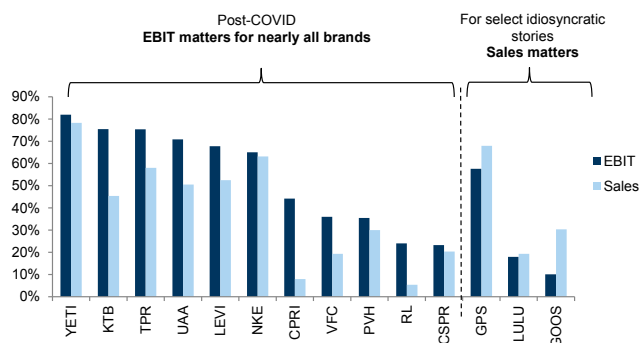
We believe brands with momentum are more likely to be able to withstand macro challenges, deliver pricing power, leverage fixed costs, and drive earnings growth.

Exhibit 31: Stock performance in our sector is traditionally related to sales growth for emerging and mature brands, but brands that are undergoing turnarounds often trade on EBIT improvements
RSQ between stock price and sales/EBIT since 2010



Source: Company data, FactSet, Goldman Sachs Global Investment Research

Exhibit 32: Since COVID-19, investors have been particularly focused on EBIT across nearly all brands, and stocks in our coverage have been most correlated with EBIT trends
RSQ between stock price and sales/EBIT since March 1, 2020



Source: Company data, FactSet, Goldman Sachs Global Investment Research

Category positioning and product cycles

Where you play matters. Top line and operating profit growth drives stock performance in the apparel and brands sector. As such, an average brand that is positioned in a high-growth category, has exposure to product cycles with momentum, or has outsized exposure to stronger channels/geographies may report stronger growth momentum than a best-in-class brand positioned in a challenged category. *Product cycles we like include active/outdoor (LULU / YETI / select brands within VFC), premium/luxury (LULU / YETI / RL), and denim (LEVI / KTB).*

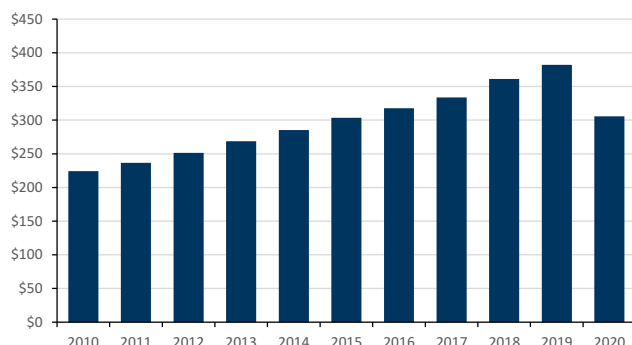
Growth in activewear is a lifestyle shift we expect will continue. While apparel's share of wallet has been declining in aggregate, US and global per capita consumption of activewear has grown meaningfully. The US sportswear market has grown at a 6.6% CAGR from 2015-2019, while the total US apparel and footwear market has grown only 2.0% in the same time period, per Euromonitor. We believe this is driven by a shift towards more casual wardrobes and comfort, and anticipate this will continue.

Product cycles can be powerful drivers of momentum. In addition to secular shifts towards casualization, we also see several product cycles that are driving momentum. These cycles may be more dependent on consumer sentiment or fashion aesthetic, but are also often informed by lifestyle shifts. We believe product cycles that are currently

gaining momentum include denim, premiumization, outdoor, slide sandals, and luxury.

Exhibit 33: Sportswear is increasingly gaining share of wallet among US consumers

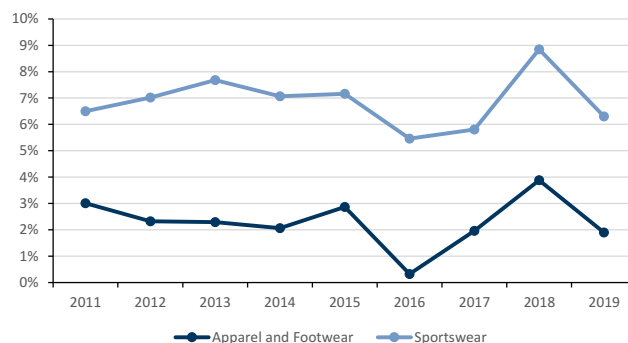
Per capita spend on sportswear per year



Source: Euromonitor

Exhibit 34: The sportswear and activewear market has consistently outgrown the total apparel and footwear market in the US

Y/Y growth rates for the total apparel and footwear market and the sportswear market in the USA



Source: Euromonitor

Exhibit 35: We see an emerging denim cycle

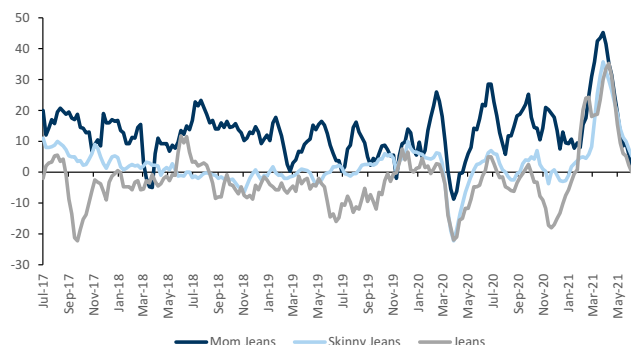
Google Trends for Jeans in the US



Source: Google Trends

Exhibit 36: Within this emerging denim cycle, we believe this is driven by a shift to alternate silhouettes such as relaxed fit ("mom jeans") vs. the skinny dark wash that dominated fashion trends for most of the 2010's

Y/Y pt change in jeans trends, including "mom jeans", "skinny jeans", and "jeans"



Source: Google Trends, Goldman Sachs Global Investment Research

We favor brands with momentum and strength

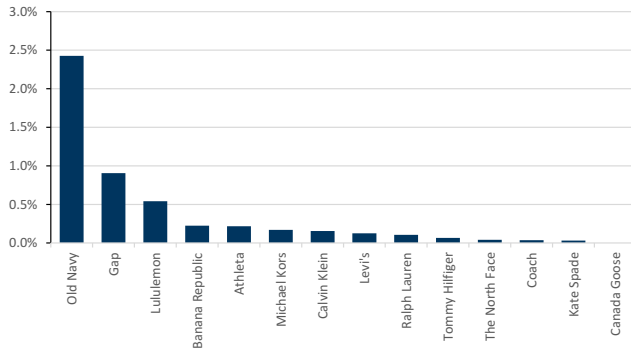
Strong brands are more likely to drive consistent sales growth. We look for evidence of strong consumer connection and a competitive moat around the brand, meaning consumers consistently gravitate towards the brand even when other competitors enter the space and potentially imitate the product. We believe brands stay relevant through innovation, newness, developing and nurturing leadership in select products and categories, and remaining top of mind through relevant marketing and integrating within a customer's lifestyle. On balance, companies that are strong stewards of brands with healthy consumer connection often result in strong return on invested capital, healthy margin profiles (as they can leverage customer acquisition cost and drive strong LTV/CAC), and stronger growth on average.

When evaluating brand strength and consumer connection, we look for evidence

that: (1) A brand is top of mind, (2) The brand has control of distribution and product presentation, and (3) Evidence that the brand has pricing power. We overlay the company's use of data in driving this connection, loyalty program participation, and customer repeat rates where applicable.

Exhibit 37: We believe there are competitive advantages to being "top of mind" among consumers in gaining entry to the consideration set, scaling LTV/CAC, and connecting with consumers

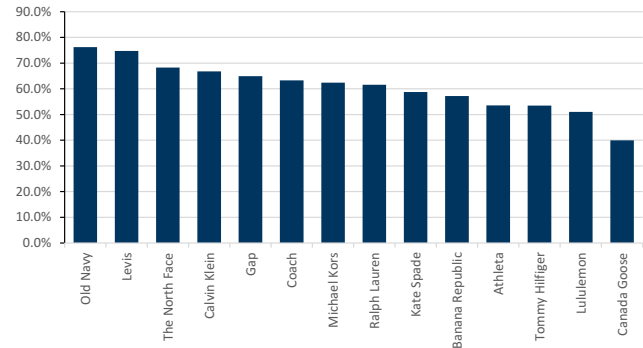
When thinking about womenswear retailers, which names come to mind? First mentioned name is recorded.



Source: WGSN, Goldman Sachs Global Investment Research

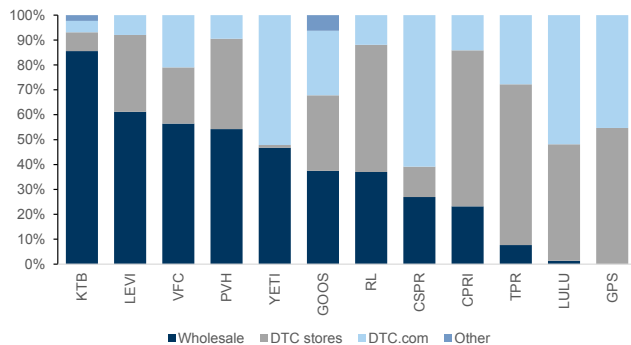
Exhibit 38: However, knowledge of a brand is not enough to convert to purchase. Here, we screen for brands where consumers report they have affinity for the brand

The proportion of respondents who state their view of a retailer is love, like a lot, or like a little out of total respondents who are familiar with the retailer



Source: WGSN, Goldman Sachs Global Investment Research

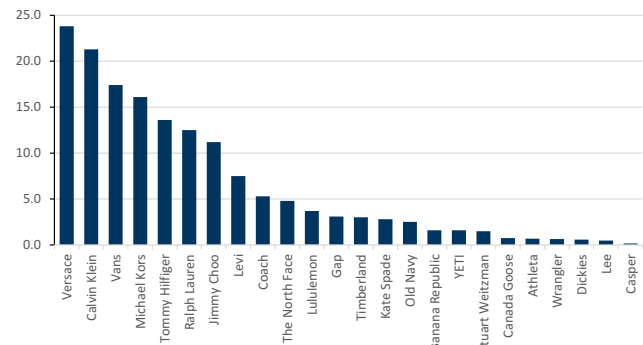
Exhibit 39: Brands with control of their distribution (either through DTC stores or DTC.com) have a direct line of communication with their core customers. These brands often also have better access to data which can enable a stronger consumer connection
Estimated 2020 channel penetration for each of our covered companies



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 40: Digital channels such as social media provide another opportunity for brands to increase the frequency of communication with their consumers

Million Instagram followers by brand as of June 2021



Source: Instagram, Goldman Sachs Global Investment Research

New product innovation and ownership of hero categories and product are brand differentiators. We believe brands are often strongest when they have particularly close consumer affinity within select product categories, a "hero" product that consumers can consistently reach for when they are looking for an item in the space. We believe brands that consistently provide hero products and/or brand codes across categories are able to create sub-brands within their product architecture that have intangible value, and that these products differentiate brands vs. their competitors. Key examples of this include lululemon's align pant franchise and ABC men's pants, Old Navy flip flops or Rockstar pants, Calvin Klein's underwear product category, among others.

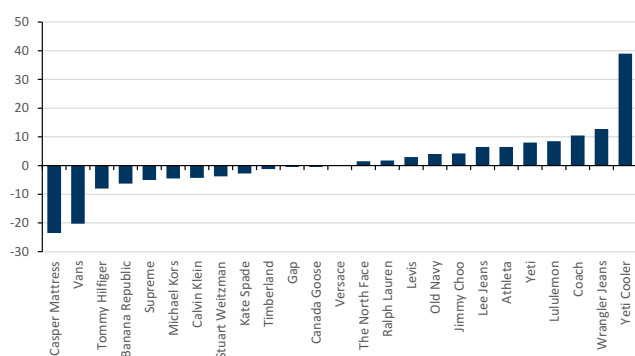
Inflection points in brand momentum can signal changing earnings power for a brand

Look for the inflection points. Our framework looks for inflection points in momentum of both top line and operating income. Within this, we incorporate a variety of factors that influence momentum. On the top line, we look for innovation and creative direction, evidence of improved consumer connection (and capture / use of relevant data), marketing, product cycles, category exposure, and improving brand indicators. Across the supply chain and operating structure, we look for structural business model changes, shifts in leadership, inventory control, channel improvements, and pricing discipline.

Search trends a proxy for momentum. We utilize Google Trends as one indicator in our brand momentum mosaic. However, we also note that consumer macro factors during the pandemic also make it tougher to compare year on year trends (for example, high heels vs. sleepwear). As such, we show these trends vs. their comparable week in 2019 to look through the impact of the pandemic.

Exhibit 41: We see a wide discrepancy in average search trends among our covered brands vs. 2019 levels, which we believe is indicative of momentum

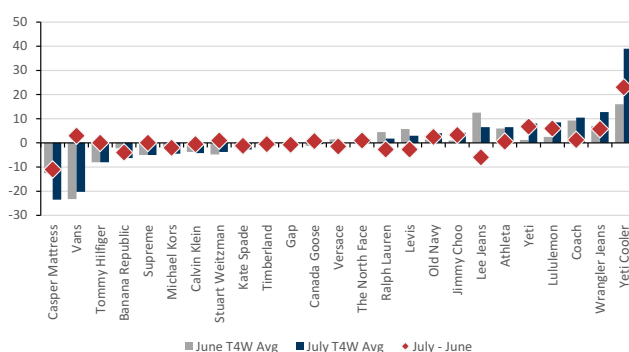
Google Trends vs. 2019 for select brands in our coverage universe, T4W average



Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 42: Despite reopening, we continue to see strength in trends for brands with exposure to athletic / casual / outdoor; here, we show the T4W vs. 2019 trend in July vs. that of June

T4W vs. 2019 trend in June 2021 vs. T4W vs. 2019 trend the first week of July 2021, and the point difference shown in red marker



Source: Google Trends, Goldman Sachs Global Investment Research

We introduce our momentum dashboard for select apparel brands. This dashboard reports the change in trend among several factors that we believe screen for brand health and momentum, and utilizes results from a daily survey conducted by WGSN as the primary input. Our indicators utilize T28D average results, smooths them to account for volatility, and then compares to pre-pandemic monthly 2019 trends. We screen for (1) Top of Mind, which reports the proportion of US women who report the brand as the retailer that comes to mind first for womenswear; (2) Consideration, which reports a percentage of all respondents who think they would consider buying clothes, footwear, and accessories from each brand; (3) Affinity, which is shown as a percentage of respondents familiar with the retailer that reports their view of the brand as love, like a lot, or like a little; (4) Net Buzz, which is a net figure of US women who have reported they have heard something positive about the retailer in the last month after netting out the proportion of consumers who have heard something negative about the retailer in the last month; (5, 6, and 7) Bought indicators, which report the proportion of consumers who have reported buying from the retailer in each reported channel in the last month.

We caveat that the data source we utilize for this brand momentum dashboard has a shorter duration of historical data from which to backtest conclusions (we utilize consistent Y/Y data for all indicators since 2019). Further, we recognize that the disruptions of COVID-19 mean momentum indicators during 2020 are less useful in comparing with realized comparable sales growth and Y/Y ex-FX growth figures for companies in our coverage universe. In the near-term, we compare our dashboard indicators to pre-COVID (2019) levels to normalize for the impacts of the pandemic.

Brand momentum in practice - an illustrative Old Navy case study: To illustrate our brand momentum dashboard data in practice, we compared the brand trends indicated by our dashboard with that of Old Navy same store sales in 2019. We utilized Old Navy as a case study as the brand (1) is predominantly exposed to US domestic consumers and did not see meaningful impact from shifting tourist trends that occurred in 2019, and (2) saw volatility in SSS during the year. We believe these two factors help us in comparing shifts in momentum observed in our dashboard with changes in brand SSS. We recognize that the components of our brand momentum dashboard indicators are somewhat volatile, and we thus create a point average of each indicator to create an overall monthly metric which we chart against quarterly comps. We note that the directional change in our brand momentum indicators largely follows that seen in the reported quarterly SSS, albeit with some month to month volatility.

Exhibit 43: In our illustrative Old Navy case study, we assess brand momentum throughout 2019, and observe that momentum was weak Y/Y in the summer months

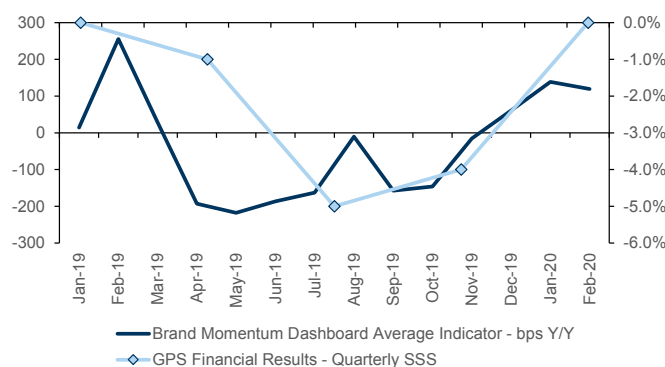
Brand momentum dashboard for Old Navy during 2019, bps Y/Y

Brand Momentum Dashboard For Select Apparel Brands - bps Y/Y																	
	Company	Brand	Metric	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
GPS		Old Navy	Point Average	14	256	29	-193	-218	-186	-163	-11	-157	-146	-15	61	139	120
			Top of Mind	14	12	4	7	5	-16	-34	-16	-22	-19	17	-10	33	20
			Consideration	-307	436	-320	-674	-752	-691	-691	4	-342	-388	49	-44	262	228
			Affinity	-228	510	-71	-396	-386	-413	-174	-177	-84	-318	109	89	533	276
			Net Buzz	-106	93	-312	-537	-447	-150	31	21	-169	80	15	51	128	386
			Bought Overall	302	310	390	58	8	26	-84	58	-151	-131	-121	121	-1	-59
			Bought Online	182	159	154	121	46	197	-51	2	-64	-156	-82	46	30	3
			Bought In-Store	241	269	357	71	2	-74	-136	34	-270	-90	-92	175	-14	-16

Source: WGSN, Goldman Sachs Global Investment Research

Exhibit 44: We observe a relationship between our brand momentum average indicator and reported Old Navy SSS throughout 2019, though do acknowledge we have limited historical data with which to show directional trends

Brand momentum dashboard average indicator for Old Navy, bps Y/Y (LHS); Old Navy quarterly SSS (RHS)



Source: WGSN, Company data, Goldman Sachs Global Investment Research

Exhibit 45: Our brand momentum dashboard screens for a variety of indicators; we compare across brands and look for areas where recent trends are inflecting vs. prior; part 1

Y/Y pt change in select brand momentum indicators, monthly average of US womenswear rolling 28 days

Brand Momentum Dashboard For Select Apparel Brands - bps vs. 2019															
Company	Brand	Metric	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	T3M vs. 3M Prior
CPRI	Michael Kors	Point Average	-140	-112	-101	-64	-185	-77	-176	-122	23	-37	-112	-154	-9
		Top of Mind	-24	-23	-18	-17	-12	-13	-32	-16	-23	-25	-23	-10	4
		Consideration	-200	-459	-328	-470	-698	-380	-623	-354	-130	-344	-138	-368	86
		Affinity	-205	-84	-159	135	-227	-17	-373	-227	148	133	-137	-211	79
		Net Buzz	-519	-240	-5	-140	-319	-75	13	-369	74	-100	-273	-362	-151
		Bought Overall	-14	10	-75	19	-8	-21	-100	48	41	35	-95	-60	-36
		Bought Online	16	13	-34	30	17	-13	-73	58	13	-13	-55	-13	-26
		Bought In-Store	-34	-1	-89	-4	-47	-17	-47	3	37	52	-62	-54	-19
GOOS	Canada Goose	Point Average	199	86	-182	59	231	41	-24	77	114	110	-13	58	-4
		Top of Mind	0	0	0	0	0	0	0	0	0	0	-1	0	0
		Consideration	55	237	-166	176	149	-92	9	45	59	4	42	18	-16
		Affinity	1277	514	-983	0	1370	406	-244	320	688	745	-154	206	11
		Net Buzz	49	-117	-96	257	121	-26	68	161	53	19	28	215	-7
		Bought Overall	4	-15	-14	-9	-12	0	1	5	0	0	-4	-16	-8
		Bought Online	0	-22	-14	8	-10	0	1	5	0	0	0	0	-2
		Bought In-Store	4	7	0	-17	-2	0	0	0	0	0	-4	-16	-7
TPR	Coach	Point Average	-199	-233	-177	-167	-147	-155	-124	-95	-156	-24	-178	-65	36
		Top of Mind	-4	-17	6	-17	-3	-31	-2	-7	-3	-34	-44	-18	-28
		Consideration	-404	-628	-355	-190	-641	-607	-603	-240	-504	-522	-543	-282	0
		Affinity	-485	-571	-385	-639	-182	-99	-29	-388	-330	127	-573	51	117
		Net Buzz	-377	-246	-375	-186	-333	-310	-125	10	-110	277	-106	-293	34
		Bought Overall	-51	-64	-58	-61	66	1	-33	-14	-60	-11	18	46	53
		Bought Online	-13	-45	-48	-23	77	-34	-42	-4	-50	-2	52	56	67
		Bought In-Store	-61	-58	-24	-52	-14	-3	-32	-26	-37	-3	-46	-18	9
TPR	Kate Spade	Point Average	-92	-101	-82	-110	-73	58	13	-111	-82	-85	-291	-251	-149
		Top of Mind	-26	-31	-18	0	3	-28	-17	-19	-7	-6	-2	-21	5
		Consideration	-331	-308	-135	-193	-482	-113	-366	-701	-419	-143	-687	-842	-62
		Affinity	145	-250	-273	-435	91	278	345	-125	-100	-218	-905	-377	-540
		Net Buzz	-414	-225	-206	-214	-164	127	102	-50	16	-12	-366	-520	-322
		Bought Overall	-5	43	21	32	20	46	8	50	-15	-108	-27	5	-57
		Bought Online	2	57	33	44	26	77	29	50	-25	-68	-34	-14	-56
		Bought In-Store	-18	9	3	-5	-4	19	-9	21	-24	-44	-13	12	-11

Source: WGSN, Goldman Sachs Global Investment Research

Exhibit 46: Our brand momentum dashboard screens for a variety of indicators; we compare across brands and look for areas where recent trends are inflecting vs. prior; part 2

Y/Y pt change in select brand momentum indicators, monthly average of US womenswear rolling 28 days

Brand Momentum Dashboard For Select Apparel Brands - bps vs. 2019															
Company	Brand	Metric	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	T3M vs. 3M Prior
GPS	Gap	Point Average	-59	-97	-86	25	-78	-124	-208	-134	-135	-157	-154	-257	-31
		Top of Mind	2	51	20	-4	9	25	17	-30	-29	-5	-9	-37	-3
		Consideration	-210	-490	-50	-128	-434	-530	-660	-790	-805	-481	-691	-826	86
		Affinity	152	-57	103	373	66	-148	-397	-104	-118	-271	-480	-599	-243
		Net Buzz	-118	-222	-314	-77	-143	-114	66	101	21	-108	56	-63	-101
		Bought Overall	-89	20	-155	0	-18	-44	-192	-24	-12	-102	39	-97	23
		Bought Online	20	42	-58	31	14	63	-66	27	57	-43	27	-31	-22
		Bought In-Store	-172	-21	-150	-23	-38	-120	-222	-120	-58	-93	-24	-146	46
GPS	Athleta	Point Average	-117	-37	-42	136	106	122	84	45	66	128	32	-14	-16
		Top of Mind	4	-1	19	2	-1	6	20	12	-1	8	-4	6	-7
		Consideration	-251	-179	-30	113	208	-23	147	-124	-13	36	-109	-45	-43
		Affinity	-139	127	-425	383	521	535	157	276	382	544	28	4	-79
		Net Buzz	-388	-138	87	267	78	255	244	180	94	138	155	-118	-114
		Bought Overall	-14	-33	30	82	-34	23	10	-16	-5	70	68	35	61
		Bought Online	-13	-51	53	106	-34	25	7	-4	20	56	64	9	36
		Bought In-Store	-19	18	-30	-1	0	36	3	-13	-13	45	23	8	33
GPS	Banana Republic	Point Average	-118	-138	-131	6	81	-98	-126	-142	-152	-2	-134	-57	76
		Top of Mind	-6	16	-10	11	2	-4	-6	-17	6	-3	7	-22	0
		Consideration	-475	-303	-332	-68	-322	-545	-514	-425	-559	-351	-508	-369	90
		Affinity	-144	-361	-153	53	633	277	9	-297	-464	126	-346	181	238
		Net Buzz	-13	-233	-296	-113	14	-300	-212	-179	-13	22	-45	-113	89
		Bought Overall	-82	-34	-69	67	100	-57	-80	-32	-12	85	-20	-33	52
		Bought Online	-97	3	12	36	76	31	5	13	20	79	-19	-7	5
		Bought In-Store	-6	-55	-71	59	61	-89	-87	-54	-39	30	-7	-39	55
GPS	Old Navy	Point Average	-451	-405	-165	-218	-328	21	-189	-136	-110	-112	-59	-154	37
		Top of Mind	27	-38	19	-45	45	30	-5	12	44	18	62	41	23
		Consideration	-1077	-811	-355	-564	-939	-179	-441	-484	-463	-248	-303	-352	162
		Affinity	-341	-121	304	117	-17	570	-8	-228	12	-245	82	-35	8
		Net Buzz	-853	-1060	-575	-567	-500	210	-106	310	138	-57	-164	-335	-300
		Bought Overall	-407	-382	-241	-273	-415	-198	-334	-228	-193	-109	-4	-201	147
		Bought Online	28	-90	42	65	8	-13	-78	-63	-81	10	-78	26	60
		Bought In-Store	-534	-332	-345	-261	-475	-273	-355	-268	-226	-152	-9	-219	156

Source: WGSN, Goldman Sachs Global Investment Research

Exhibit 47: Our brand momentum dashboard screens for a variety of indicators; we compare across brands and look for areas where recent trends are inflecting vs. prior; part 3

Y/Y pt change in select brand momentum indicators, monthly average of US womenswear rolling 28 days

Brand Momentum Dashboard For Select Apparel Brands - bps vs. 2019															
Company	Brand	Metric	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	T3M vs. 3M Prior
LEVI	Levi	Point Average	-23	-174	-140	-54	-90	-100	-148	-216	-86	-168	-25	-250	2
		Top of Mind	5	11	17	2	3	16	-6	17	9	7	5	-5	-4
		Consideration	-202	-814	-626	9	-227	-600	-747	-987	-538	-458	-292	-862	220
		Affinity	246	-195	-372	-24	-145	-146	-150	-570	-373	-146	237	-89	365
		Net Buzz	-183	-118	-295	-315	-312	11	-143	-123	307	-247	-129	-489	-302
		Bought Overall	-28	-60	130	-12	23	-9	-3	72	1	-133	12	-120	-104
		Bought Online	76	17	174	36	11	12	35	19	-37	-82	11	-74	-54
		Bought In-Store	-76	-56	-8	-74	17	14	-19	58	29	-114	-19	-112	-105
LULU	Lululemon	Point Average	57	11	-106	96	61	187	172	166	0	304	405	270	214
		Top of Mind	33	26	-3	26	20	57	59	64	52	62	53	23	-12
		Consideration	-139	-68	-56	223	-118	536	439	407	-84	674	745	316	325
		Affinity	258	-194	-804	544	232	421	477	200	-108	487	1071	708	566
		Net Buzz	49	-51	-112	-241	45	79	177	453	125	502	667	496	303
		Bought Overall	68	160	82	54	118	102	45	24	16	164	143	148	123
		Bought Online	75	125	102	58	40	55	37	47	-8	82	107	141	85
		Bought In-Store	59	83	51	10	88	63	-31	-36	7	158	47	60	108
PVH	Tommy Hilfiger	Point Average	-10	48	59	-59	86	-19	35	95	35	47	-8	-151	-93
		Top of Mind	-1	-2	-3	6	-8	-8	3	-9	-20	-9	-10	-4	1
		Consideration	-338	-201	-147	-268	199	33	-78	-157	-294	-93	-89	-349	-1
		Affinity	188	-51	-69	45	231	-259	118	694	425	261	-114	-189	-426
		Net Buzz	54	429	478	-92	38	69	5	110	11	139	-9	-415	-137
		Bought Overall	17	66	51	-39	63	5	97	4	40	12	78	-48	-33
		Bought Online	39	65	28	-25	-31	36	1	-23	23	-5	45	-26	4
		Bought In-Store	-31	33	75	-44	108	-12	100	46	62	24	40	-23	-56
PVH	Calvin Klein	Point Average	-134	-82	-76	-105	90	-72	-116	-100	54	53	-150	-112	-15
		Top of Mind	-24	-10	3	-10	-15	-12	-15	7	-2	-8	13	-14	0
		Consideration	-725	-449	-515	-360	196	-255	-546	-660	-332	-121	-583	-533	101
		Affinity	-50	-15	-100	-250	447	-12	-273	-271	219	115	149	69	219
		Net Buzz	-83	-154	-54	-92	-147	-171	-102	285	326	187	-648	-393	-454
		Bought Overall	-24	32	60	4	64	-20	63	-25	79	78	0	25	-4
		Bought Online	42	47	95	6	71	0	46	2	67	77	6	34	1
		Bought In-Store	-76	-22	-20	-33	11	-34	12	-42	20	39	17	30	32
RL	Ralph Lauren	Point Average	-24	-144	-172	-201	-191	-95	-164	-123	-60	-112	-132	-127	-7
		Top of Mind	-5	-3	-2	-7	-18	-15	-9	-13	-7	-20	-13	-1	-2
		Consideration	-302	-680	-771	-515	-234	-361	-594	-923	-425	-719	-526	-693	1
		Affinity	230	-134	-199	-352	-501	19	-164	-157	-84	-44	-230	-1	43
		Net Buzz	-51	-27	-160	-521	-332	-209	-402	213	77	-59	-187	-236	-123
		Bought Overall	-19	-69	-26	-12	-121	-49	4	6	9	30	15	11	12
		Bought Online	-15	-59	29	19	-93	-19	2	20	5	17	-8	7	-3
		Bought In-Store	-4	-40	-78	-20	-40	-35	12	-9	4	13	27	27	20
VFC	The North Face	Point Average	-64	-130	-249	-40	-186	-73	-176	-154	13	-57	-118	-163	-7
		Top of Mind	-1	1	5	1	0	-2	4	1	0	0	-3	2	-2
		Consideration	-36	-652	-750	29	-488	-139	-689	-716	-304	-281	-373	-485	190
		Affinity	224	173	-616	-6	-206	127	-25	-269	65	-24	-164	-576	-178
		Net Buzz	-511	-409	-530	-269	-579	-245	-160	99	221	-95	-235	-328	-272
		Bought Overall	-43	-1	72	-9	-20	-95	-169	-94	44	-6	-41	109	94
		Bought Online	-33	1	68	16	17	-77	-141	-111	54	16	-18	102	99
		Bought In-Store	-48	-27	5	-44	-23	-81	-50	11	9	-7	8	38	23

Source: WGSN, Goldman Sachs Global Investment Research

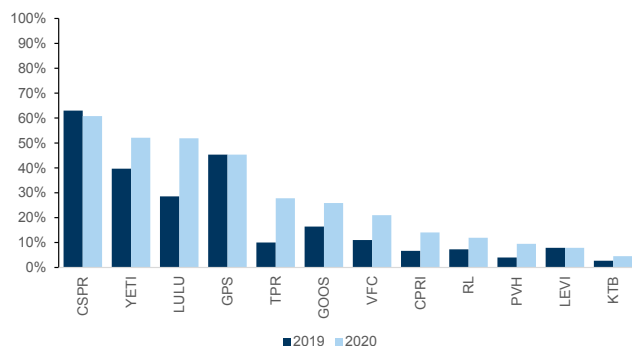
CHANNEL: We prefer companies with upside from the shift to DTC

The shift to DTC.com is not a new secular trend in the apparel industry. However, the pandemic accelerated this shift and drove meaningful inflections in the profitability of this channel. As we look ahead, we believe the structural tailwinds from this shift will be one of the defining factors of the industry through 2030. In particular, we are focused on brands' ability to utilize channel shift to drive (1) wholesale profit pool recapture, (2) stronger consumer connection, (3) and better inventory management.

COVID-19 was an accelerating catalyst. Many brands were still in the early stages of their digital transformation pre-pandemic, with digital penetration fairly low and growth a headwind to profitability. While work was actively being done to optimize websites, increase data use, and drive enhanced personalization, these efforts were often carefully (and in many cases slowly) implemented. We view the pandemic as a catalyst that drove an acceleration of structural shifts already at play, including secular shifts away from brick and mortar mall-based retailing to omnichannel and online. This shift enabled

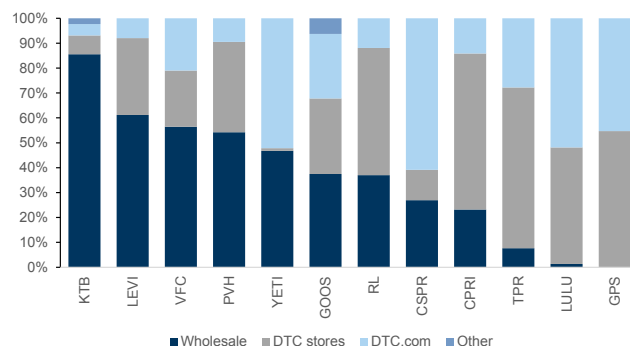
brands to shift to more agile implementation of digital initiatives, source a higher proportion of revenue through DTC.com, and drive meaningful scale on prior ecommerce investments. As a result, this channel is now more profitable. While we anticipate some normalization in DTC.com penetration as in-person traffic resumes, we believe several of these changes are sticky and believe the shift to digital will be a key determinant of winners and losers in the apparel ecosystem for the next decade.

Exhibit 48: DTC.com penetration accelerated during the pandemic for nearly all of our covered companies, and the channel now represents >20% of sales for over half of our coverage group
DTC.com penetration estimated in 2019 and 2020



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 49: While digital penetration has accelerated, there is still meaningful room for it to grow as wholesale remains the predominant channel of distribution
Estimated 2020 channel penetration for each of our covered companies



Source: Company data, Goldman Sachs Global Investment Research

Assessing the opportunity of the DTC shift for brands

Potential for profit pool recapture as brands shift to DTC. We see significant opportunity for expanded earnings power for brands that successfully navigate the shift to DTC from wholesale. At a high level, shifting a sale from the wholesale channel to DTC allows the brand to capture the retailer mark up, driving stronger top line revenues and stronger associated margin on cost of goods sold. We acknowledge higher levels of other costs associated with DTC, both fixed and variable, but believe some of these expense items can be optimized and scaled over time to drive stronger profitability.

We believe there are six key factors to determine the opportunity for brands to grow DTC profitably:

- **Strong consumer connection with potential to scale CAC.** Recapturing customer demand in DTC channels is not always an easy transition. We believe that strong brands positioned in product categories that have momentum are more likely to recapture customer demand through direct channels. Critical within this is efforts to drive continued engagement and repeat purchases, which can help enable LTV/CAC optimization. This can be achieved in a variety of ways, but is enabled by that brand being top of mind for a category, membership or loyalty programs, mobile apps, strong social media or email/text marketing engagement, use of data to drive intelligent replenishment through customer segmentation, and limited edition product drops or newness which drive brand heat and engagement. We also note that the repeat / replenishment characteristics of the product can also be a driver of LTV/CAC scale over time. In short, top line growth matters, but equally important is the cost to achieve that transaction.

Exhibit 50: We highlight select digital and customer connection metrics which factor in to our view of profitability over time, including loyalty/app engagement opportunity, social media, and top of mind / affinity scores

Customer connection dashboard

Customer Connection Select Metrics Dashboard								
Company	Brand	Loyalty Program Offered	Mobile App Offered	NPS Score (T26W)	Online Satisfaction (T26W)	Top Of Mind Score (T26W)	Affinity	Instagram Followers (mn)
CPRI	Versace	✗	✗	N/A	N/A	N/A	N/A	23.8
CPRI	Jimmy Choo	✗	✗	N/A	N/A	N/A	N/A	11.2
CPRI	Michael Kors	✓	✓	55	79%	0%	62%	16.1
CSPR	Casper	✗	✗	N/A	N/A	N/A	N/A	0.2
GOOS	Canada Goose	✗	✗	N/A	N/A	N/A	N/A	0.7
GPS	Gap	✓	✓	37	74%	1%	65%	3.1
GPS	Athleta	✓	✓	56	82%	0%	51%	0.7
GPS	Banana Republic	✓	✓	45	75%	0%	54%	1.6
GPS	Old Navy	✓	✓	47	78%	2%	74%	2.5
KTB	Wrangler	✗	✗	N/A	N/A	N/A	N/A	0.6
KTB	Lee	✗	✗	N/A	N/A	N/A	N/A	0.5
LEVI	Levi	✗	✓	46	74%	0%	74%	7.5
LULU	Lululemon	!	✓	57	76%	1%	50%	3.7
PVH	Tommy Hilfiger	✗	✗	40	70%	0%	55%	13.6
PVH	Calvin Klein	✓	✗	46	72%	0%	66%	21.3
RL	Ralph Lauren	✗	✓	47	75%	0%	60%	12.5
TPR	Coach	✗	✗	52	76%	0%	62%	5.3
TPR	Kate Spade	✗	✗	51	80%	0%	59%	2.8
TPR	Stuart Weitzman	✗	✗	N/A	N/A	N/A	N/A	1.5
VFC	Vans	✓	✓	N/A	N/A	N/A	N/A	17.4
VFC	The North Face	✓	✓	50	78%	0%	73%	4.8
VFC	Timberland	✗	✓	N/A	N/A	N/A	N/A	3.0
VFC	Dickies	✗	✗	N/A	N/A	N/A	N/A	0.6
YETI	YETI	✗	✗	N/A	N/A	N/A	N/A	1.6

NPS, Online Satisfaction, Top of Mind, and Affinity are on a T26W average basis and are measured among US women by WGSN.

Source: WGSN, Instagram, Company data, Goldman Sachs Global Investment Research

- **Basket size in dollars.** The economics of a transaction through DTC.com are often more favorable when basket size (or average order value) is high relative to the cost of fulfillment. Brands with higher basket sizes, and particularly those with higher price point per item (AUR) are likely to see more favorable profitability as they shift to the DTC.com channel. Within this we also factor in other items that could drive an unfavorable basket size to cost of shipping, such as weight or shape of the item. Ultimately, we believe that companies with both high AOVs and high AURs as best positioned.

Exhibit 51: We estimate that basket sizes are largely in the \$50+ range for most brands in our coverage universe

Estimated basket size by brand

GS Estimates of Basket Size					
Company	Brand	\$0-49	\$50-99	\$99-149	\$150+
CPRI	Versace				✓
CPRI	Jimmy Choo				✓
CPRI	Michael Kors				✓
CSPR	Casper				✓
GOOS	Canada Goose				✓
GPS	Gap		✓		
GPS	Athleta			✓	
GPS	Banana Republic		✓		
GPS	Old Navy		✓		
KTB	Wrangler	✓			
KTB	Lee	✓			
LEVI	Levi		✓		
LULU	Lululemon			✓	
PVH	Tommy Hilfiger			✓	
PVH	Calvin Klein		✓		
RL	Ralph Lauren				✓
TPR	Coach				✓
TPR	Kate Spade			✓	
TPR	Stuart Weitzman				✓
VFC	Vans		✓		
VFC	The North Face			✓	
VFC	Timberland			✓	
VFC	Dickies	✓			
YETI	YETI		✓		✓

Source: WGSN, Goldman Sachs Global Investment Research

- **Gross margin.** Ceteris paribus, we believe that brands with higher gross margins are better positioned to drive strong profitability in DTC.com channels. Strong gross margins provide more opportunity to offset increased variable costs associated with direct sales such as marketing, shipping, and technology.
- **Return rates.** We believe the cost of shipping product to the customer is one of the most significant variable costs associated with shifting a sale to DTC.com. Reverse logistics of returns can often be a particularly large drain on profitability for retailers as the company not only handles return shipping, but also cost of restocking and handling potentially damaged goods. All else equal, we prefer companies that have low return rates and optimized cost of returns. This low return rate can be enabled by appropriate fit/sizing (we believe stretchy clothing with more give in the garment is less likely to be returned than a highly fitted item), repeat vs. one-time purchases (do customers already know their size in a particular item such as a hero / replenishment product), and price can also be optimized through select omnichannel initiatives to accept returns in-store.
- **Operating expense per basket.** We believe the net operating cost of DTC.com fulfillment is a critical driver of profitability. Within this, companies have opportunity to optimize this through localized fulfillment, reducing split shipments, efficient and

automated distribution centers, reducing size and air volume of packages sent to customers, and scaling of fixed technology and corporate costs that support DTC.com efforts.

- **Deleverage from channels “donating” the sale.** We believe that DTC.com channels can potentially be highly profitable at scale, particularly for brands that have optimized their consumer connection, have scaled LTV/CAC, have high basket sizes, strong gross margins, low return rates, and optimized operating expense per basket. However, if the DTC.com channel is growing by shifting share out of channels with high fixed costs (such as stores), the brand could see deleverage on fixed costs in one channel even as it adds newly variable costs in the DTC.com channel. We believe brands benefit the most when they are recapturing share from wholesale partner channels rather than channel shifting away from their owned stores.

Exhibit 52: In our hypothetical channel shift model which assumes a base case AUR of \$100, a channel breakdown of 60% wholesale and 40% DTC, and a retailer markup of 1.8x, we illustrate that channel shift to scaled and owned DTC can be accretive to revenues, EBIT dollars, and profitability

Hypothetical estimates of profitability by channel				
Gross Margin Build	Wholesale	Wholesale.com	Stores	DTC.com
AUR	100.0	100.0	100.0	100.0
Retailer mark up	1.8	1.8	1.0	1.0
Sale price	55.6	55.6	100.0	100.0
COGS	-31.0	-31.0	-31.0	-46.0
Production / Material costs	-27.0	-27.0	-27.0	-27.0
Merchandise Margin	51.4%	51.4%	73.0%	73.0%
Freight	-2.0	-2.0	-2.0	-2.0
Shipping and handling costs	0.0	0.0	0.0	-15.0
Other costs	-2.0	-2.0	-2.0	-2.0
Gross Profit	24.6	24.6	69.0	54.0
Gross Margin	44.2%	44.2%	69.0%	54.0%
SG&A Build	Wholesale	Wholesale.com	Stores	DTC.com
SG&A Expense \$	16.7	16.7	52.0	33.5
SG&A % of sales	30.0%	30.0%	52.0%	33.5%
Rent \$	0.6	0.6	12.0	1.5
Rent %	1.0%	1.0%	12.0%	1.5%
D&A \$	1.1	1.1	4.0	3.0
D&A %	2.0%	2.0%	4.0%	3.0%
Store labor %	0.0	0.0	12.0	0.0
Store labor %	0.0%	0.0%	12.0%	0.0%
Marketing	3.9	3.9	9.0	9.0
Marketing %	7.0%	7.0%	9.0%	9.0%
Corporate and other	11.1	11.1	15.0	20.0
Corporate and other %	20.0%	20.0%	15.0%	20.0%
EBIT \$s	7.9	7.9	17.0	20.5
EBIT (% of sales)	14.2%	14.2%	17.0%	20.5%

Source: Goldman Sachs Global Investment Research

We are constructive on global brands with meaningful sales and profit upside from recapture of wholesale sales through direct channels. We highlight opportunity for Buy-rated **LEVI, KTB, RL, and PVH** here, and believe potential for inflecting DTC.com sales growth at **RL** could be well received by investors following a reset of their NA network in 2020. We also acknowledge that Neutral-rated **CPRI** and **GOOS** and Sell-rated **VFC** are beneficiaries of the DTC shift.

Other Key Benefits of Digital Acceleration

Own the direct consumer connection. The DTC.com shift enables brands to speak directly to their consumers and capture incremental data from each interaction, allowing brands to be better prepared for the subsequent interaction and drive stronger customer lifetime value. At a high level, we believe best-in-class brands build a lifestyle where customers want to engage with the brand in both online and offline channels. The shift to DTC.com enables brands to better build and integrate engagement-driving activities such as a strong transactional experience from start to finish, a unique (and non-promotionally driven) loyalty program, apps, and online-to-offline community. Over time, these programs and initiatives enable better brand-to-consumer engagement which we believe drives transactions. Best positioned for online-to-offline consumer connection: **LULU**.

Digital data opportunity. Organizations that integrate data throughout their upstream and downstream processes have meaningful opportunities to improve supply chain, speed to market, merchandising / markdowns, and consumer connection. Within this, we believe brands with scaled DTC.com businesses have a competitive advantage given data capture at the customer level.

- **Consumer-focused data:** We are closely focused on inflections in company use of consumer / data initiatives such as loyalty programs, apps, personalization, and other data-driven omnichannel consumer initiatives. While key sportswear brands have led the way in this initiative, we believe **LULU**'s innovative opportunity for omnichannel membership and Mirror integration has the most upside. We are also constructive on **RL**'s increased use of data in their customer journey, **GPS**'s emerging rewards program, and **VFC**'s more nimble forward approach to product drops and loyalty.
- **Reduce volatility through digitizing the workplace.** Incremental digital tools can enable faster supply chains, stronger inventory utilization across omnichannel retail networks, and markdown optimization. The pandemic accelerated opportunity for brands to adopt digital sampling to create faster supply chains. Downstream, stronger personalization and inventory awareness can help drive inventory allocation between stores and select distribution centers to optimize profit per item sold.

Digital e-concessions another opportunity for brand-right growth. We are constructive on multibrand partners that are shifting towards e-concession and vendor direct models. These business models enable the brand (such as RL / PVH) to retain control and a greater share of the economics of a sale but still provide opportunities to capture traffic through large website aggregators in a brand-right experience. ASOS and Farfetch in Europe and Tmall in China are leading this digital journey, but we see opportunity for improvements among key US department stores to be an incremental driver of sales for brands that are wary of growing through store-based legacy models (given their historic volatility / markdown risk).

MARGIN: Screen for margin durability with an eye towards structural support

The pandemic provided several businesses an opportunity to accelerate years of planned business model changes, including fleet restructuring, digital and technological acceleration, and portfolio actions. We believe these actions, combined with the price actions of these stocks, have reshuffled the playing field for apparel and accessories into 2022, driving stronger control of brand cycles. Below, we highlight the key areas of focus that we believe will drive durable changes to organizations and improve margins through-cycle. We also discuss other key factors in our view of margin durability, including margin realization from lower promotionality (which may be more transient), absolute margin level, and pricing power (which can help insulate brands from cost-driven pressures).

Structural cost-outs taken during the pandemic provide opportunity for leaner organizations into 2022 and beyond. The pandemic offered meaningful opportunities to cut fixed costs and restructure operations. With a seemingly overnight shutdown to normal operations, we believe companies in our coverage universe adopted a more nimble approach to working, budgeting, and planning than they would have done in a normal environment. Organizational restructuring actions taken by several of our covered companies provided incremental opportunity to either reinvest in growth drivers (marketing / digital) or drop those savings to the bottom line to fuel higher profitability. We highlight select cost-outs taken by our covered companies below.

Exhibit 53: Several companies in our coverage universe announced permanent and structural cost savings programs during the pandemic or accelerated savings initiatives already in place. Others, such as LULU and YETI, only announced temporary reductions.

Select summary of permanent cost savings announcements across our coverage universe since the COVID-19 outbreak

2020 Permanent Cost Savings Announcements	
Company	Details
CPRI	The company lowered annual operating expenses by \$500mn for the fiscal year (announced July 2020), and estimated that half of the savings would carry forward into future years driven by a streamlined organization and reduced corporate workforce.
CSPR	The company implemented a workforce restructuring reduced the size of its personnel by ~21% and ceased operations in Europe. When announced, the company estimated this to result in more than \$10 million in annualized savings.
GOOS	The company refocused cash expenses and investments with target savings initiatives of C\$90mn; the company indicated that while some contributing factors are temporary, there are significant permanent savings on a go-forward basis.
GPS	The company announced a 15% headcount reduction across the company in Spring 2020 (which overindexed to Gap Brand at 25%), a new lease renegotiation program to drive rent and occupancy leverage, and an expanded store closure program for underperforming stores. The company also announced plans to strategically review its business in Europe. The company has also exited its Intermix, Hill City, and Janie and Jack brands.
KTB	The company implemented select expense savings initiatives and select capital expenditure reductions during the pandemic and continued to implement quality of sales and other restructuring initiatives across its portfolio. KTB also announced strategic exits from India and its VF Outlet portfolio.
LULU	The company tightly managed discretionary expenses (\$40mn of gross margin savings and \$130mn of SG&A savings vs. original budget) and pulled forward investments in DTC while making its first acquisition (Mirror). That said, the permanence of these savings was not discussed. In contrast to other firms, LULU implemented minim pay guarantee policies on a go-forward basis.
LEVI	The company's restructuring initiative resulted in a 15% reduction in headcount of non-retail non-manufacturing employees, vendor savings, organizational efficiencies, and structural rent reductions. In total, these savings amount to gross savings of ~\$200mn, of which half of which would be reinvested.
PVH	The Company recently announced plans to streamline its North America operations including (i) the exit from its Heritage Brands Retail business by mid-2021 and (ii) reductions in its office workforce by approximately 12%. In 4Q20, the company indicated they planned to execute on additional cost reduction efforts in certain markets while right-sizing its real estate footprint. The company also sold its Speedo North America business and recently announced an agreement to sell select Heritage Brands. Total gross savings is expected at \$250mn, and the company plans to reinvest \$100mn for growth. PVH expects 60% of those savings to be realized in 2021.
RL	RL's strategic realignment plan is expected to generate gross savings of \$200-\$240mn, a portion of which will be reinvested back into the business to drive growth. This plan includes global workforce reductions, the transition of Chaps to a licensed business model, closing the company's Regent Street London Polo store, optimizing team structures and corporate real estate footprint, potential closure of 10 stores pending negotiations, consolidation of NA distribution centers, and the announced pending sale of Club Monaco.
TPR	TPR expects \$300mn in run rate savings from their previously announced cost savings program as a result of store fleet rationalization and rent negotiations, corporate pay and headcount reductions (20% run rate reduction), and SKU count simplification. TPR anticipates reinvesting some of these savings in the business, particularly higher marketing spend.
VFC	VFC launched their Project Enable, an internal reorganization which they expect to result in cost savings of about \$125mn over a 3-year period, which the company plans to utilize to fuel growth investments.
YETI	Announced it was looking to closely manage operating costs, but no permanent reduction announcements were made.

Source: Company data, Goldman Sachs Global Investment Research

More focused business models and reoptimization of distribution. Several businesses in our coverage universe streamlined their organization and optimized their business model focus, including divestiture or reduced focus on non-core brands (GPS / RL / PVH), closure or reevaluation of select geographies of business (TPR / CSPR / KTB), and store fleet optimization acceleration (GPS / TPR). We also note that companies with larger wholesale distribution networks now have an opportunity to selectively rebuild into these with a fresh perspective following a year of reset (RL / PVH / CPRI / KTB).

Exhibit 54: We believe several businesses in our coverage universe have emerged from COVID-19 with a more focused and optimized operating structure following strategic divestitures, optimization of select geographies, store fleet rationalization / optimization, and an emerging opportunity to selectively rebuild their wholesale distribution

Select post-COVID structural shifts across our coverage universe

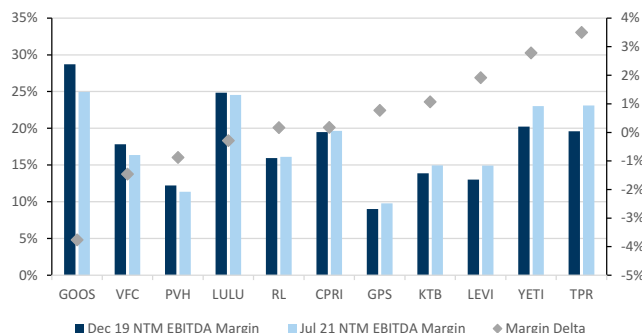
Other Long-term Structural Shifts Emerging From COVID-19				
	Divestiture	Geographic Optimization	Store Fleet Optimization	Oppty to Right-Size Wholesale
CPRI			✓	✓
CSPR		✓	✓	✓
GOOS				✓
GPS	✓	✓	✓	
KTB		✓	✓	
LULU			✓	
LEVI				✓
PVH	✓		✓	
RL	✓		✓	✓
TPR		✓	✓	✓
VFC	✓		✓	✓
YETI				✓

Divestiture includes both pending and announced actions.

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 55: Consensus is modeling higher EBITDA margins on an NTM basis than pre-pandemic (NTM as of Dec 31, 2019) for several companies in our coverage universe

FactSet consensus NTM EBITDA margins, December 31, 2019 vs July 11, 2021 (LHS) and point margin delta (RHS)



Source: FactSet, Goldman Sachs Global Investment Research

Fresh management and new perspectives. While we acknowledge that this only applies to a minority of companies in our sector, a few companies in our coverage universe have new leadership at the helm of the organization who have taken a fresh approach to driving the organization. We believe new leadership can drive cultural shifts within the organization which can have meaningful impacts on strategy and long-term results. Further, new management has the opportunity to reevaluate structural areas of the organization and take a new approach to fixed costs. Across our coverage group, 25% of our covered companies have a new CEO and 42% of our companies have a new CFO since the end of 2019 (and when you include the upcoming transition of PVH's CFO, that figure reaches nearly 50%). The table below highlights where the changes are most concentrated.

Exhibit 56: We believe new management, and their fresh perspective on the organization, can be a catalyst for change

Summary table of company leaders across our coverage group and an indication of change since December 31, 2019

Key Leadership Transitions Since December 31, 2019						
Company	Chief Executive Officer	Effective Date	Chief Financial Officer	Effective Date	CEO Chg.	CFO Chg.
CPRI	Mr. John Idol	Dec-03	Mr. Thomas Edwards, Jr.	Apr-17	●	●
CSPR	Mr. Philip Krim	Oct-13	Mr. Michael Monahan	Aug-20	●	●
GOOS	Mr. Dani Reiss	2001	Mr. Jonathan Sinclair	Jun-18	●	●
GPS	Ms. Sonia Syngal	Mar-20	Ms. Katrina O'Connell	Mar-20	●	●
KTB	Mr. Scott Baxter	Aug-18	Mr. Rustin Welton	Aug-18	●	●
LEVI	Mr. Chip Bergh	Sep-11	Mr. Harmit Singh	Jan-13	●	●
LULU	Mr. Calvin McDonald	Aug-18	Ms. Meghan Frank	Nov-20	●	●
PVH	Mr. Stefan Larsson	Feb-21	Mr. Mike Shaffer	Mar-06	●	●
RL	Mr. Patrice Louvet	Jul-17	Ms. Jane Nielsen	Sep-16	●	●
TPR	Ms. Joanne Crevoiserat	Oct-20	Mr. Scott Roe	Jun-21	●	●
VFC	Mr. Steve Rendle	Jan-17	Mr. Matt Puckett	Jun-21	●	●
YETI	Mr. Matthew Reintjes	Sep-15	Mr. Paul Carbone	Jun-18	●	●

CFO transition expected September 2021

Source: Company data, Goldman Sachs Global Investment Research

Margin and performance durability

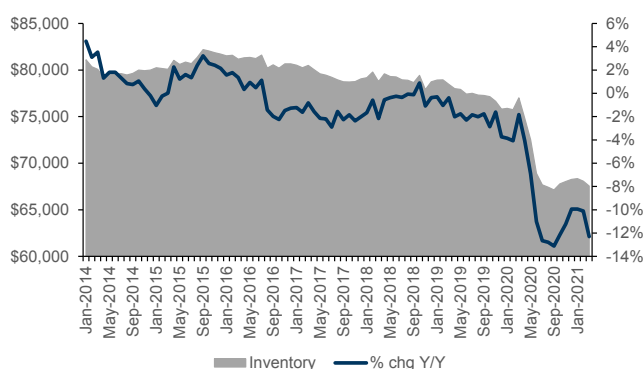
A robust supply/demand backdrop and structural business model changes have led to stronger than expected margin delivery in early 2021. Several management teams have

also outlined plans to achieve structurally higher through-cycle margins following the business model shifts of the pandemic (on higher digital / organizational efficiency). We believe the durability of margin gains, and the outlook to achieve incremental improvements in margins from here will thus become a critical focal point for investors - particularly so as tailwinds from reopening and historically low inventory levels begin to wane.

Look for margin gains that are durable regardless of inventory level. Inventories across the supply chain are meaningfully lower than average and demand has surged ahead of supply, and a lot of companies have seen some tailwinds to margin realization from lower promotionality in recent quarters. We anticipate this inventory level will normalize as channel inventory rebuilds. We look for the magnitude of margin gains that are within a company's control, such as organizational shifts (business model closures / headcount reductions / etc) as we view these as more durable.

Exhibit 57: Combined downstream ecosystem inventories (retailers + department stores) are below typical normalized levels

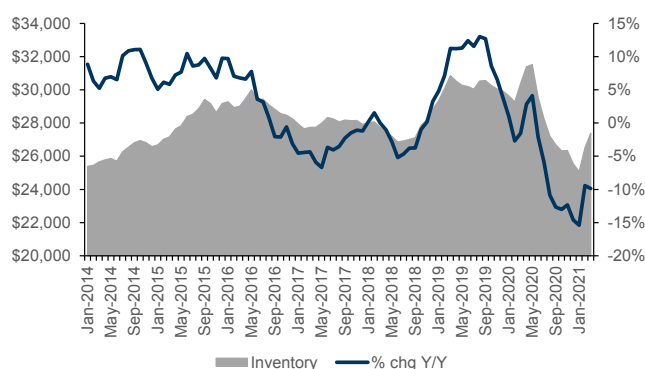
Combined clothing and accessory retail store and department store inventory levels, \$mn (LHS) and % chg Y/Y (RHS)



Source: Haver Analytics, Census Bureau, Goldman Sachs Global Investment Research

Exhibit 58: Apparel inventories at wholesalers are well controlled vs. prior years

Monthly merchant wholesaler apparel inventories, \$mn (LHS) and Y/Y % chg (RHS)

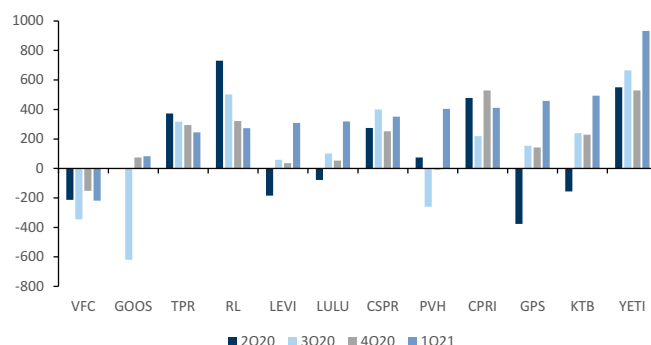


Source: Haver Analytics, Census Bureau, Goldman Sachs Global Investment Research

Tailwinds from merchandise margin, and likelihood of stickiness. Merchandise margins in the industry have been strong as promotional activity has been low YTD. While we believe there is some scope for companies to realize stronger markdown rates on digital initiatives (personalization / regional-level inventory optimization), we do see risk that these margins normalize as inventories rebalance. We prefer brands that have consistently optimized gross margin over time through channel shift rather than promotionality. We do note that differing cost treatment of expense items like occupancy can make screening more difficult for direct comparisons. In lieu, below we show aggregations of gross margin the past four quarters vs. pre-COVID levels.

Exhibit 59: Gross margins have largely been strong vs. pre-pandemic levels across our coverage universe

bps chg in adjusted gross margin vs. 2019 pre-pandemic comparable quarter

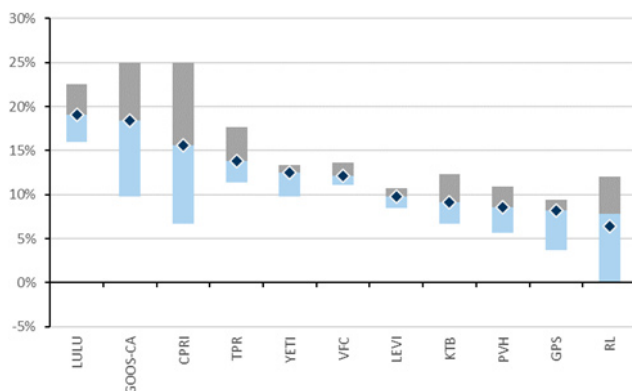


Source: Company data, Goldman Sachs Global Investment Research

Favor brands with pricing power as costs inflate. Supply chain inflation is on the horizon, as seen through higher shipping / freight rates, raw material commodity costs, and labor. While most of the apparel industry is somewhat insulated from these headwinds given longer-lead times of purchase commitments, we believe brand pricing power is critical for margin defense. We screen for absolute level of margin (which can help insulate from cost pressures), as well as volatility of absolute margins. Below, we show variability on EBIT margin given varying business model structures and accounting for key cost items like occupancy costs and shipping for e-commerce.

Exhibit 60: We screen for volatility of margins by looking at peak, trough, and average pre-pandemic TTM EBIT margins since 1Q calendar 2016

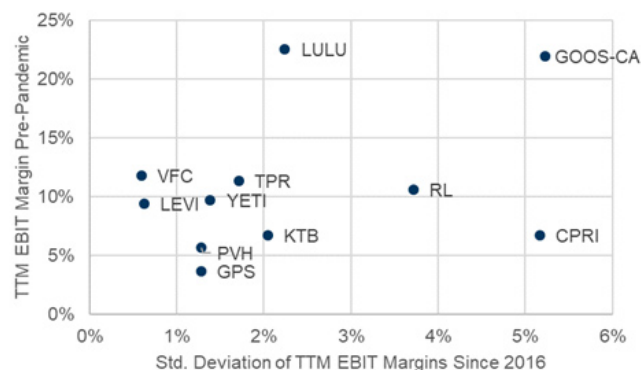
Peak, average, and trough quarterly TTM EBIT margins since 2016 by company



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 61: We believe strong brands often show less volatile and strong EBIT margins over time

Plot of absolute pre-pandemic TTM EBIT margins (calendar 4Q19) vs. standard deviation of TTM EBIT margins from 2016 through pre-pandemic levels



Source: FactSet, Goldman Sachs Global Investment Research

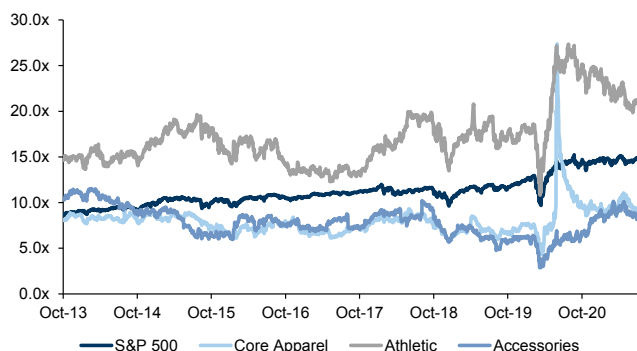
Sector and stock valuation

The sector has seen multiples normalize YTD as financial trends begin to recover from COVID-19 shutdowns. Given the wide variance in absolute multiples across the sector, we look at multiples relative to the overall growth profile, and chart NTM

EV/sales vs. 2019-23 sales CAGRs and NTM EV/EBITDA vs. 2019-23 EBITDA CAGRs for context, as this shows the overall valuation premium paid for growth in the apparel and brands sector. Here we note that NTM relative valuation multiples are mixed vs. pre-pandemic levels, and this is generally consistent with consensus growth and margin expectations.

Exhibit 62: Sector-wide average EV/EBITDA multiples have normalized YTD towards the S&P 500 level, with a gradual decline in multiples of NTM athletic stocks and an improvement in multiples for core apparel and accessories stocks

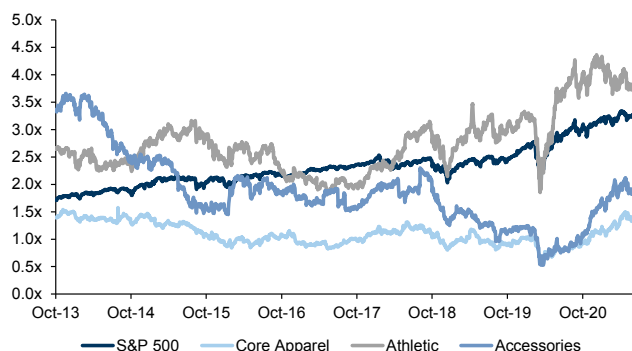
NTM EV/EBITDA multiples by sub-sector; athletic includes NKE (not covered), UAA (not covered), COLM (not covered), LULU, VFC, YETI; core apparel includes RL, LEVI, KTB, PVH, GPS; Accessories includes TPR and CPRI.



Source: FactSet, Data compiled by Goldman Sachs Global Investment Research

Exhibit 63: Sector-wide average EV/EBITDA multiples have normalized YTD towards the S&P 500 level, with a gradual decline in multiples of NTM athletic stocks and an improvement in multiples for core apparel and accessories stocks

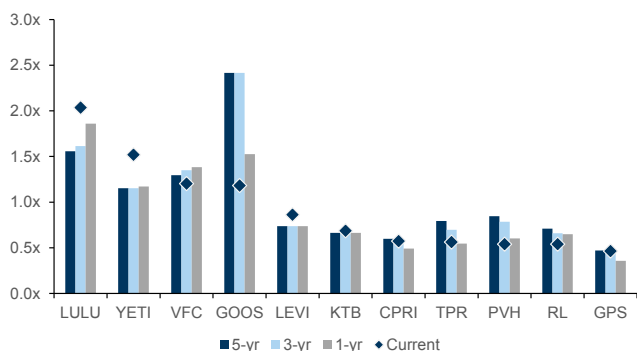
NTM EV/EBITDA multiples by sub-sector; athletic includes NKE (not covered), UAA (not covered), COLM (not covered), LULU, VFC, YETI; core apparel includes RL, LEVI, KTB, PVH, GPS; Accessories includes TPR and CPRI.



Source: FactSet, Data compiled by Goldman Sachs Global Investment Research

Exhibit 64: Relative multiples vs. pre-pandemic averages are mixed across the apparel and brands space

NTM EV/EBITDA relative to the S&P500 vs. pre-pandemic 5-yr, 3-yr, 1-yr median

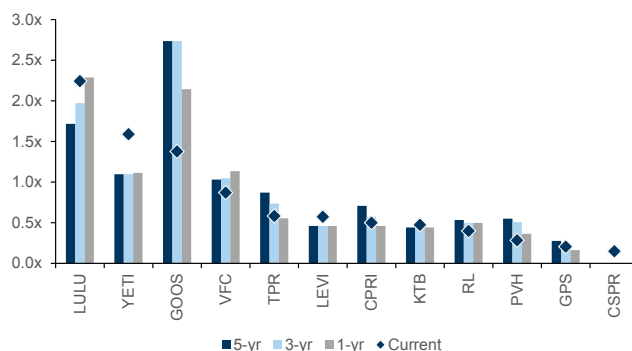


Averages include all dates of trading data available and averages are calculated through January 23, 2020

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 65: Relative EV/sales multiples are similarly mixed vs. pre-pandemic levels

NTM EV/Sales multiples relative to the S&P500 vs pre-pandemic 5-yr, 3-yr, and 1-yr median

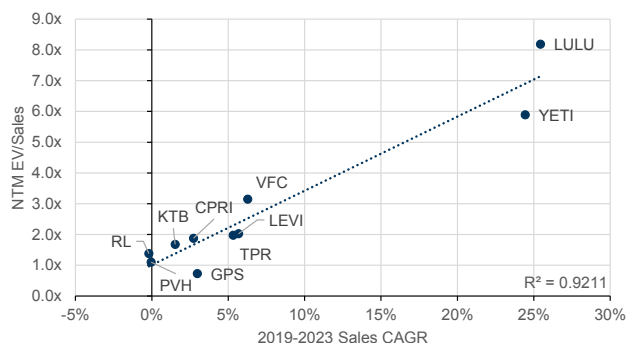


Averages include all dates of trading data available and averages are calculated through January 23, 2020

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 66: Stocks with higher top-line sales growth CAGRs trade at higher EV/sales multiples

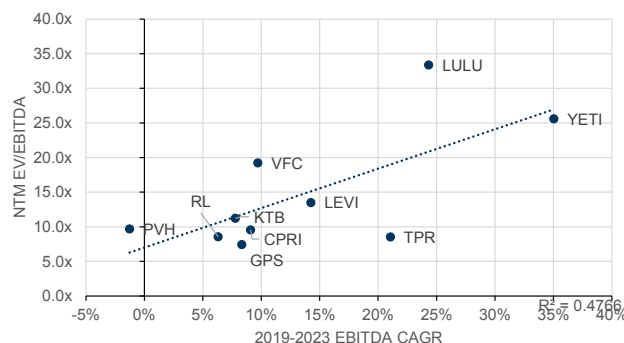
Consensus NTM EV/sales charted against 2019-2023 calendarized consensus sales CAGR



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 67: Stocks with higher EBITDA growth CAGRs trade at higher EV/EBITDA multiples

Consensus NTM EV/EBITDA charted against 2019-2023 calendarized consensus EBITDA CAGR



Source: FactSet, Goldman Sachs Global Investment Research

lululemon athletica (LULU; Buy, on CL)

We initiate on LULU with a Buy rating (on the Conviction List) and a 12-month \$447 target price.

We view the brand as a leader in driving online to offline consumer connection with meaningful opportunity to continue to consolidate mindshare in the marketplace driven by membership and the tuck-in of Mirror. LULU extended its leadership position during COVID-19 in the digital channel, and we believe the company is better positioned following the pandemic to be a market leader in a secularly growing active/casual marketplace. Growth opportunities are numerous, spanning continued share of wallet capture, men's brand adoption, geographic expansion, and category extension into footwear. We see an attractive risk/reward.

We add shares of LULU to our Americas Conviction List, and note we believe LULU is best-positioned to navigate potential near-term uncertainty as it is structurally well positioned in a growing category, has a well-invested and profitable DTC.com business, and has pricing power to offset cost-driven margin pressure.

Investment Considerations:

- **Best in class positioning in category with secular growth.** We believe LULU's leading position in premium activewear will continue to be a competitive advantage for the company as reopening tailwinds normalize. We continue to expect consumers to prefer casual, athletic, and premium product. LULU's brand momentum is solid and we believe this will drive top line outperformance.
- **Strengthening momentum in emerging categories.** We believe LULU's solid positioning is bolstered by improving results in emerging categories such as men's and international. The rollout of inclusive sizing also allows the brand to expand to a broader customer base. We also see opportunity in the upcoming launch of footwear.
- **LULU's membership opportunity appears underappreciated.** LULU has taken a

slow test-and-learn approach to membership so far, and we believe that a move to a post-COVID world will allow LULU to accelerate this critical enabler of customer loyalty. Importantly, we see the company's recent Mirror acquisition as a critical longer-term unlock to enhanced customer engagement.

- **Strong cash positioning following strong 2020 sales growth.** LULU's strong momentum during the COVID year provided meaningful improvements to the company's balance sheet vs. peers. We view this as an opportunity for shareholder value.

Where Could We Be Wrong: The Bull/Bear Debate

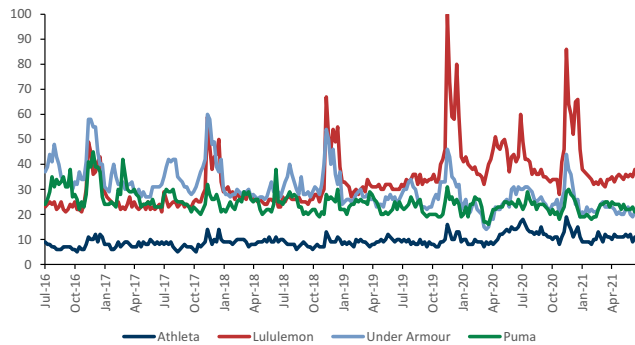
- **The bear argument:** LULU's gains in 2020 were accelerated by COVID-19, and the company's expanded product offering across new sportswear categories (tennis / polos / etc) and opportunities for accessibly entering the brand (including select warehouse sales) meant that customer acquisition was particularly strong during the pandemic. Bears argue these comps will prove hard to cycle in 2021 and beyond as customers rebalance their wardrobe spend. Further, bears argue that LULU's premium price point and limited on the move / everyday assortment limits the accessibility of the brand across all activities. The company's Mirror acquisition and entry into the physical hardware space is a risk, argue bears, who believe the product isn't innovative enough nor differentiated enough to drive sustainable growth despite its impact to SG&A.
- **Why we choose to Buy despite these risks:** We agree that there may be some near-term choppiness as LULU cycles last year's particularly strong comps. However, we believe that into 2022 and beyond, LULU's strong and expanded product offer, including better men's and inclusive sizing, will resonate more strongly with the customer as casualization tailwinds continue. We believe that while Mirror's hardware sales may prove to be choppy, and we do see meaningful near-term investment imperatives for the tech, we believe the longer-term opportunity of a comprehensive membership program is more exciting and can fuel long-term growth.

Solid brand momentum with robust growth outlook

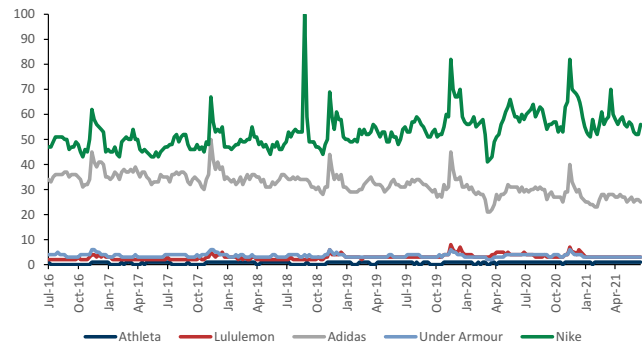
Growth outlook solid. We believe lululemon's premium positioning in a secularly growing category means the company remains poised for continued apparel share gains. While we recognize the pace of adoption of athletic / lounge apparel may slow somewhat as stay-at-home directives associated with COVID-19 fade, we believe LULU's premium and fashion-forward offer and robust cross-category product (including the "On The Move" collection) will enable LULU to post solid growth in 2021 and beyond. Brand momentum indicators are solid, and a strong slate of product innovations set for 2021 across both men's and women's product will help build momentum.

Exhibit 68: Search trends for lululemon continue to build, and are outpacing key competitors in the US market

Google Trends T5Y index for lululemon and key competitors in the US



Source: Google Trends

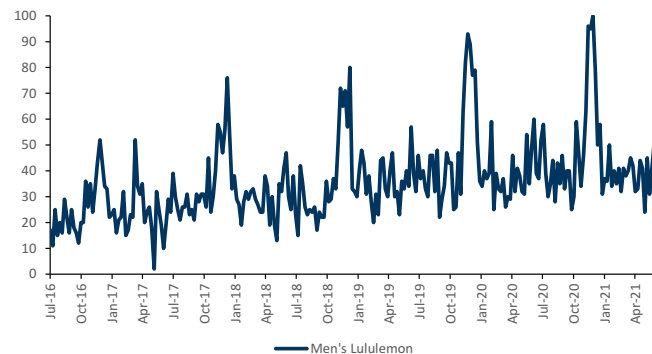
Exhibit 69: Despite solid momentum in the US and worldwide, we believe LULU has significant market share opportunity compared to global brands Nike and Adidas, offering a long runway for growth
 Global search trends for Lululemon and key sportswear brands, T5Y


Source: Google Trends

Continued adoption in men's a growth kicker. We see scope for men's momentum to outpace the core in 2021+, as awareness of the product is building and brand momentum indicators among US men is strong.

Exhibit 70: Search interest in men's lululemon product is rising in the US marketplace, indicating the brand is becoming a more seriously considered product vs. other sportswear alternatives

US men's lululemon Google search trends, T5Y

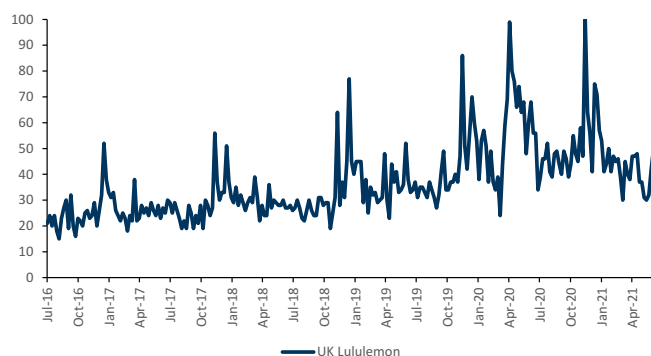


Source: Google Trends

International marketplace momentum accelerating. China in particular offers solid growth penetration opportunities, and we believe inflecting awareness and growth will drive stronger profitability in the region and stronger associated ecommerce growth. While momentum in EMEA lags the broader portfolio, we believe LULU's solid online growth during the pandemic in this region has helped drive further acceptance of product and brand, and that momentum in the marketplace will likely show positive momentum vs. 2019 trends in the near-term.

Exhibit 71: Search trends for lululemon in the UK grew strongly during the pandemic, which we believe will help drive an inflection in brand awareness in the marketplace

Google Trends search interest for lululemon in the UK, T5Y



Source: Google Trends

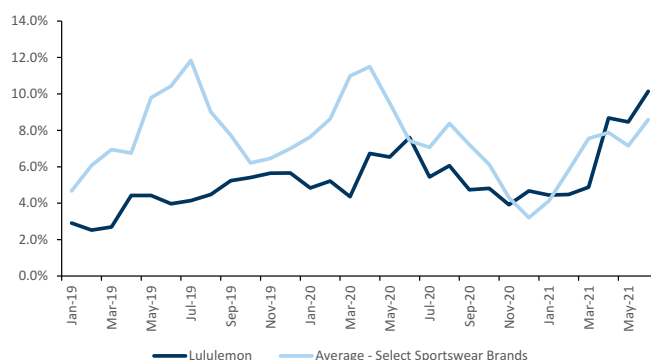
Inclusive sizing roll-out offers additional revenue opportunities. Lululemon's history with inclusivity is somewhat challenged given historical media comments by prior LULU leaders and a lack of inclusive size offerings even as competitors made inclusivity a priority. That said, the company has been making meaningful changes here, starting with last fall's rollout of select core items up to size 20, and indications they plan to meaningfully extend the inclusive sizing assortment in 2021.

We believe it could take time for this initiative to scale. Product availability in inclusive sizes is still a small part of LULU's assortment, and we see potential for a lag in customer adoption as word-of-mouth awareness builds. However, survey indicators from WGSN regarding customer association with select statements indicates that the gap between lululemon and select other sportswear brands is narrowing meaningfully.

As such, we believe this sizing initiative has credibility and could be a tailwind for the North America women's comp for several years, particularly if LULU extends sizing beyond 20 (note that LULU competitors offer sizes up to 24-26).

Exhibit 72: Lululemon is increasingly narrowing the gap of consumer inclusivity perception vs. other sportswear peers

US womenswear surveyed perception of associating the brand with the word / statement "inclusive", T3M average



Source: WGSN, Goldman Sachs Global Investment Research

Category expansion offers additional upside**LULU's solid brand provides permission to expand into additional categories.**

LULU has solid franchise-anchoring product lines that customers know and trust the brand to consistently provide, such as women's Align Pants and Men's ABC pants. The brand has predominantly focused its offerings among a few key product areas, including yoga, run, train, and on the move. We continue to see ample expansion opportunities within this primary focus, as identified above including inclusive sizing, expanded offerings and momentum with men, and applying this same formula to international markets. Importantly, we believe LULU has permission to extend its product architecture of these areas to new product categories and eagerly await the launch of LULU's technical footwear product offering set to be launched in early 2022.

The technical footwear product opportunity. We are optimistic about LULU's footwear expansion plans and believe the expansion could help the brand capture additional customer wallet share and entrench the company as a top global sportswear brand.

We believe LULU has already taken steps to mitigate many of the common operational and supply chain pitfalls that come with footwear category expansion by: (1) Focusing on a unique offer to the market where LULU's footwear can find a niche; (2) Testing partner footwear product (APL) in LULU stores, which helped the brand solve for the operational complexity of the product; and (3) A slow and deliberate process to product launch, with initial announcement of the footwear expansion plans announced in early 2019 but product not available broadly until early 2022. The product launch process has also been accompanied by a build-out of talent in the Pacific Northwest, including team members formerly from key global athletic brands but also niche running / training footwear companies.

We sensitize potential long-term sales upside from footwear sales below, utilizing a base case of footwear penetration rates of other apparel-led brands (such as The North Face and Under Armour), and providing a blue sky case based on footwear-led sports brands in the competitive set. We acknowledge that the build-out of this category will likely take time.

Exhibit 73: We see room for footwear to become a several hundred million to multi billion dollar business over time, though note this could take time to scale; below we show the 5-YR CAGR opportunity of the total business if the core LULU business grows at various rates while footwear penetration approaches a penetration rate of current FY20 annual revenues

5-yr total LULU revenue CAGRs assuming various core growth rates and footwear penetration of FY20 revenues at the 5-yr terminus

Scenario Analysis of Footwear Growth Opportunity							
		Core growth rate					
		5%	10%	15%	20%	25%	30%
Footwear Penetration of 2020 Revenues	2.5%	5.4%	10.3%	15.3%	20.2%	25.2%	30.2%
	5.0%	5.8%	10.7%	15.6%	20.5%	25.4%	30.3%
	7.5%	6.2%	11.0%	15.8%	20.7%	25.6%	30.5%
	10.0%	6.6%	11.3%	16.1%	20.9%	25.8%	30.7%
	20.0%	8.1%	12.6%	17.2%	21.9%	26.6%	31.4%
	30.0%	9.5%	13.8%	18.2%	22.8%	27.4%	32.0%
	40.0%	10.9%	15.0%	19.2%	23.6%	28.1%	32.7%
	50.0%	12.2%	16.1%	20.2%	24.5%	28.9%	33.3%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 74: This rate is stronger if the footwear penetration grows in line with the core; below, we sensitize potential 5-yr CAGRs if footwear penetration varies based on terminal core business size

5-yr total LULU revenue CAGRs assuming various core growth rates and footwear penetration at 2025 year end

Scenario Analysis of Footwear Growth Opportunity							
		Core growth rate					
		5%	10%	15%	20%	25%	30%
Footwear Penetration of Core at Terminus	2.5%	5.5%	10.5%	15.6%	20.6%	25.6%	30.6%
	5.0%	6.0%	11.1%	16.1%	21.2%	26.2%	31.3%
	7.5%	6.5%	11.6%	16.7%	21.7%	26.8%	31.9%
	10.0%	7.0%	12.1%	17.2%	22.3%	27.4%	32.5%
	20.0%	8.9%	14.1%	19.3%	24.5%	29.6%	34.8%
	30.0%	10.7%	15.9%	21.2%	26.5%	31.7%	37.0%
	40.0%	12.3%	17.7%	23.0%	28.4%	33.7%	39.0%
	50.0%	13.9%	19.3%	24.7%	30.1%	35.6%	41.0%

Source: Company data, Goldman Sachs Global Investment Research

Innovative approach to membership / engagement a long-term differentiator

Unique membership program focused on engagement: LULU's membership program is differentiated and rooted in engagement, but is currently in test mode in several locations and has not yet expanded to all customers. Customers pay to subscribe to a comprehensive program that offers (1) access to exclusive product including a free welcome product, (2) entry to 1x/month local/digital fitness classes tailored to the LULU customer, (3) member-only events, (4) early access to select product online, (5) a birthday discount of 20% off a single transaction, and (6) access to select digital content. We believe this focus on consumer connection is best-in-class, and see the potential broad rollout of this membership program beyond test markets as a catalyst for further growth and loyalty.

- **Stronger online to offline community connections:** LULU's in-person 1/month class options for members have featured access to local exercise studios across a variety of disciplines. We believe this aspect of the program drives enhanced

customer connection with the brand, but also forges stronger relationships with local studios and ambassadors.

- **Incremental source of revenue:** LULU's membership program is unique in that the customer pays to access the program (\$148 in select US markets/\$168 CAD). While this program will likely take time to scale, and we recognize price elasticity may limit customer adoption, we believe this represents a source of incremental revenue for LULU all the while increasing customer engagement. Additionally, program incentives will likely also drive higher spending around key events (like customer birthdays).
- **What will we look for next? Digital content libraries and integration with the lululemon shopping app.** We believe the LULU membership program, with premium product and experiences within the offering, will have solid uptake with the core lululemon customer and improve engagement overall. This is a meaningful opportunity to drive customer engagement as the program is rolled out to the US, Canadian, and global consumer. Over time, we also see opportunity for membership to be amplified further. This could be enabled through integration of a more comprehensive digital content library (classes / events / etc) within the lululemon shopping app, which we believe could drive improvements in customer retention and spend per customer, while simultaneously optimizing digital marketing expense. Longer-term, we believe the content library currently offered to Mirror customers could offer synergies here.

Exhibit 75: We see upside to LULU's revenues from membership program expansion

Illustrative revenue upside from membership program at various customer penetration rates

Membership Revenue Opportunity (\$mn)						
		Customer base penetration				
		1%	5%	10%	15%	25%
Incremental	125	9	44	88	131	219
Revenue	150	11	53	105	158	263
Per Member	175	12	61	123	184	306
	200	14	70	140	210	350
	225	16	79	158	236	394

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 76: While pace of membership rollout is uncertain, we believe the program could drive incremental uplift to comps if penetration reaches MSD of the company's global customer base

Potential sales upside vs. 2020 revenues at various membership penetration rates and incremental revenue/member

Membership Revenue Opportunity % of 2020 Sales						
		Customer base penetration				
		1%	5%	10%	15%	25%
Incremental	125	0.2%	1.0%	2.0%	3.0%	5.0%
Revenue	150	0.2%	1.2%	2.4%	3.6%	6.0%
Per Member	175	0.3%	1.4%	2.8%	4.2%	7.0%
	200	0.3%	1.6%	3.2%	4.8%	8.0%
	225	0.4%	1.8%	3.6%	5.4%	8.9%

Source: Company data, Goldman Sachs Global Investment Research

Mirror acquisition a potential lever in driving customer engagement

Mirror acquisition puts lululemon engagement front and center in customer's homes.

We believe the best-loved brands, particularly within the athletic space, are ones where customer engagement with the brand is seamless and *frequent*. We believe the Mirror acquisition allows lululemon to marry their best-in-class product brand with the everyday lifestyle of their core customer.

Well positioned to compete in the fast-growing at-home fitness equipment market.

The connected fitness market is growing, and global consumers are increasingly focused on health and wellness. While there are several other large companies in the industry, we believe Mirror has several competitive advantages to gain scale and be a meaningful player in the marketplace, including (1) design and use of product beyond its fitness purpose, (2) more accessible price point vs. several other

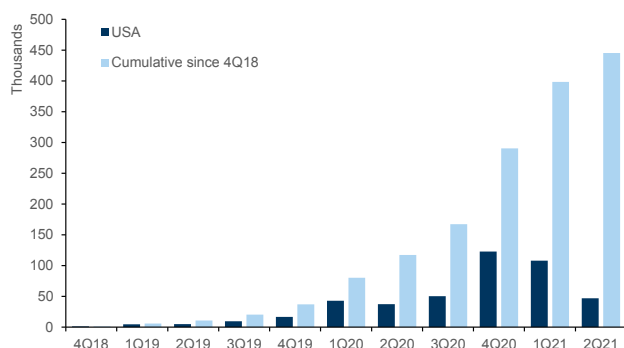
fitness hardware options (\$1499 for the Mirror), (3) best-in-class instructors from the lululemon ambassador community, and (4) multi-activity content that allows the product to appeal to customers of a variety of disciplines.

The Mirror growth opportunity. Mirror's integration with lululemon fuels its growth as a key competitor in the connected fitness industry, allows for the company to quickly scale customer acquisition costs, and solidify positioning as a premium class experience while scaling its subscription revenue base. While we acknowledge near-term dilution from necessary investment (more on this below), we believe these initial investments as the company scales will provide a strong competitive moat in the form of a catalog of digital classes which can be scaled into further revenue opportunity.

The Mirror revenue growth opportunity: \$170mn in 2020, but could be >\$1bn by 2025. Since its launch in September 2018, Mirror has seen accelerated unit growth adoption as evidenced by Mirror app downloads. Looking ahead, we believe increased brand awareness fueled by the launch of Mirror shop-in-shops within lululemon stores as well as visibility on the lululemon.com website can drive increased unit adoption. We provide an illustrative and hypothetical revenue build of potential Mirror revenue growth below, with our estimates based on implied unit delivery from recent app downloads, potential growth from lululemon's shop-in-shops, and early stage (pre-2020) PTON bike unit delivery estimates. We note that lululemon / Mirror have not provided subscriber or sales details beyond the \$170mn of annual sales achieved by the brand in FY20 and guidance for 2021 of \$250-275mn, and thus the figures below are GS estimates. We note that we do embed growth in Mirror revenues in our estimates, but embed some conservatism in our forecasts to account for varying pace of shop-in-shop rollout and an uncertain competitive environment beyond 2021.

Exhibit 77: Mirror's installed user base (proxied by app downloads) has grown at an accelerated pace in recent quarters

Mirror Workout Companion USA app downloads, and cumulative downloads since 4Q18, as a proxy for installed user base adoption

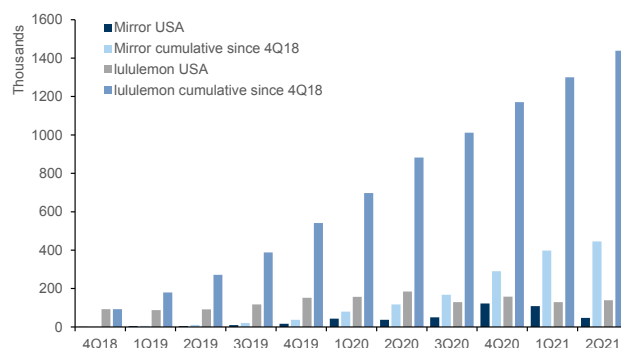


The average Mirror product is used by >1 user, and thus installed app downloads likely overstates potential units sold

Source: SensorTower, Goldman Sachs Global Investment Research

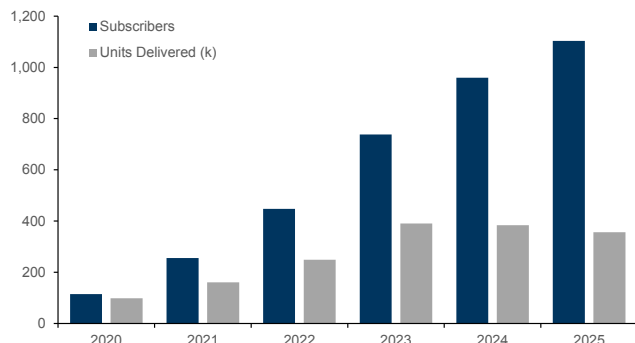
Exhibit 78: However, this installed base is small compared to the recently installed US user base of lululemon app-based customers; we see meaningful runway for Mirror adoption among lululemon customers as a result

lululemon USA app downloads (and cumulative since 4Q18) compared to Mirror USA app downloads (and cumulative since 4Q18)



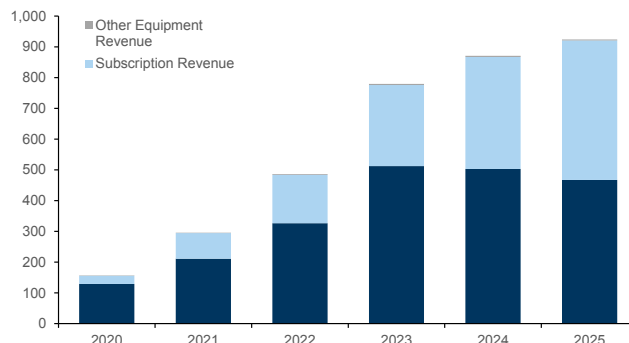
Source: SensorTower, Goldman Sachs Global Investment Research

Exhibit 79: We estimate that Mirror delivered <100k units in 2020; however, as the business scales across the lululemon store base and across new geographies (including Canada), we believe it is feasible for annual unit sales to approach 400k units per year
Illustrative unit sales and total subscriber base of the Mirror business over time, assuming geographic and shop-in-shop expansion and some subscriber churn



Source: SensorTower, Company data, Goldman Sachs Global Investment Research

Exhibit 80: Over time, we see a scenario where revenue could be sourced from both hardware and monthly subscriptions
Illustrative estimates of Mirror revenue growth potential, FY20-FY25E



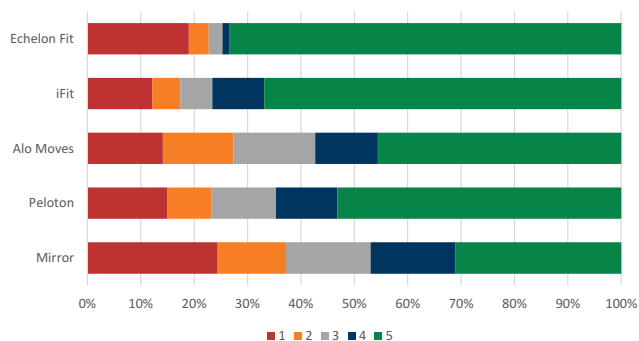
Source: SensorTower, Company data, Goldman Sachs Global Investment Research

LULU has expertise to enhance the growth profile of mirror. Mirror operates in a competitive category with several products that can serve similar purposes for the customer (standalone apps, Peloton, Tonal, Tempo Fit, as well as incumbent equipment competitors such as iFit). Our review of positioning indicates that while Mirror has advantages in both design and studio class experience given the quality of instructors on the platform, the company does have areas where improved investment could aid customer retention over time. Below, we outline several opportunities for investment and our views on potential path to profitability.

- **App / user interface:** The Mirror app is the primary interface with which to use Mirror hardware, and as such we believe it is critical that customers enjoy using the app in order to reduce churn on the platform. Our analysis of customer reviews indicate the user experience (and specifically, the app interface, hardware integration, and connectivity) require investment. Other common user complaints left in reviews included long wait times for customer support, and we believe additional people investment behind the set-up and troubleshooting experience could improve guest retention.

Exhibit 81: Mirror's overall app reviews compare somewhat unfavorably vs. key peers in the connected fitness space, which indicate risk of higher levels of churn to the subscription-based model given the app is required to interface with the hardware; however, we believe investment in technology / customer service / UI could improve these metrics

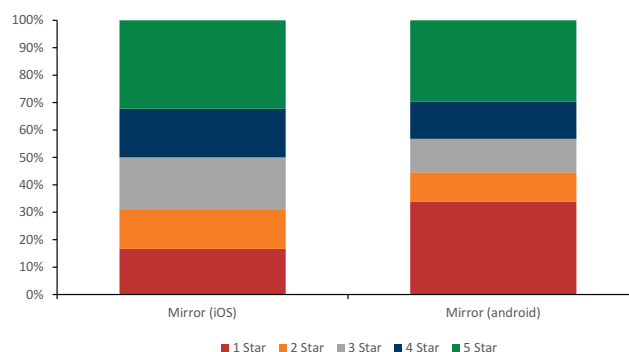
App ratings for select connected fitness offerings since Jan 1, 2021 across both iOS and android devices



Source: SensorTower

Exhibit 82: App reviews on the Android platform are on average more negative than their iOS counterparts, suggesting technology support and app optimization could improve the overall user experience

Mirror app reviews since January 1, 2021 by rating and interface



Source: SensorTower

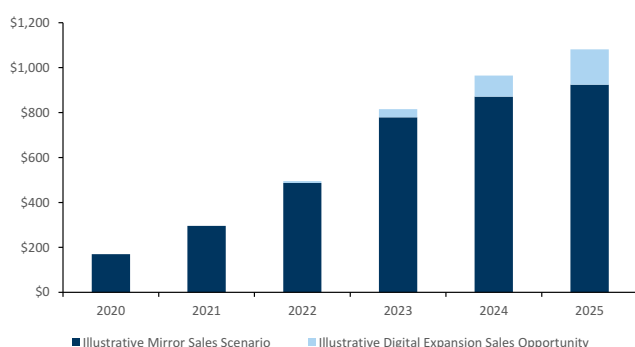
- Digital content investment can create a competitive moat.** LULU's ability to apply its global ambassador base of best-in-class fitness professionals to Mirror content is a critical differentiator in connected fitness, in our view. While expanding the Mirror studio offerings is a near-term cost headwind (and one of the contributing factors to the 2021 dilution to LULU EPS outlined by management), we believe the company's investment in additional studios, classes, instructors, and fitness offerings will increasingly establish a competitive moat for Mirror vs. other competitors. We also note that PTON (Peloton Interactive Inc - Coverage Suspended), a key competitor, has recently added more content production capacity, and we believe Mirror has some room to improve in terms of live class offerings to remain competitive with leading connected fitness brands.
- Marketing investment to drive brand awareness.** Mirror is in the early stages of market expansion, with a relatively small user base and low product familiarity (LULU pointed to 10% familiarity in its acquisition deck in June 2020). Given the early-stage nature of the company, and the scalability of the content and user interface, we believe customer acquisition cost and marketing expense is likely a significant expense line in the Mirror standalone P&L. However, we believe that shop-in-shops at lululemon stores can help to meaningfully leverage this cost item as more units are sold in-store, driving a clear path to potential profitability.

lululemon's scale offers a path to profitability for Mirror. We believe that lululemon's scale, digital marketing expertise, solid customer base, and profitable and high traffic store base offer the key levers to drive a path for Mirror to reach solid profitability levels. While details are limited on expenses for each segment of the business, we offer a hypothetical profitability build based on channel shift to lululemon stores (leveraging customer acquisition cost), improved gross margins (higher gross margins on subscription revenue vs. hardware), and scaled SG&A (through leveraging of fixed expenses).

Digital-only subscription offer an incremental lever for growth. Importantly, we believe that when the content library is sufficiently large, Mirror can expand its offering to digital-only subscribers as an additional revenue stream. This low-cost offering could utilize the Mirror (or even lululemon) app infrastructure, meaningfully expand the user base of connected consumers, and help to improve the profitability of the business. We illustrate a hypothetical build of digital-only subscription model, as well as potential profitability impacts below. We note we do not embed this opportunity in our estimates, as the below offers incremental upside should LULU choose to pursue this path.

Exhibit 83: The expansion of a digital-only offering to 1mn subscribers at \$15/month could offer an incremental >\$150mn low-cost revenue stream for Mirror/LULU

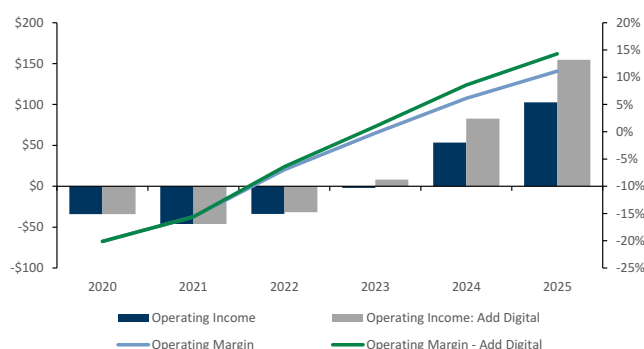
Illustrative potential additional revenue from a 2022-2025 launch and ramp of a digital-only subscription offering for Mirror digital content



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 84: Adding digital subscription revenue to the overall Mirror platform can be an incremental lever in driving SG&A scale, improving Mirror's path to profitability

Illustrative Mirror path to profitability, assuming customer acquisition costs scale with shop-in-shops, higher gross margins on subscription revenue, and leverage opportunity in SG&A



Source: Company data, Goldman Sachs Global Investment Research

Long-term, we believe expansion of the digital content library of Mirror classes to core lululemon customers offers the largest opportunity to drive engagement and membership. Integration of a subscription content library within the lululemon shopping app could drive consistent engagement, allow lululemon to highlight / feature new products, and lower customer acquisition cost. Net, while Mirror adds opportunity for revenue and content upside, we believe the long-term opportunity here is full integration of Mirror with the lululemon core rather than a standalone business.

Valuation

We are Buy rated on LULU and see 21% upside to our \$447 12-month price target which is based on 29x Q5-Q8 EV/EBITDA. The Q5-Q8 EV/EBITDA valuation methodology is consistent with our methodology across the apparel and brands sector. We believe LULU's strong branded positioning and upside from membership and international growth and scaling of the Mirror investment should drive a premium vs. the company's historical average, and we thus assign a target multiple that is a slight premium to that implied by the 1-yr pre-COVID relative EV/EBITDA multiple vs. the S&P500. For context, our 29x Q5-Q8 EV/EBITDA target multiple is 2.0x vs. the S&P500 on a relative basis, and compares to LULU's 1-yr pre-COVID EV/EBITDA relative average of 1.9x.

Key Risks

- **Slowing growth in athletic apparel.** Casualization and a shift towards functional

and comfortable apparel, particularly through the lens of athleisure, has been a secular trend for consumers for over a decade. As the world is emerging from COVID-19, we've seen a resurgence in dresses and denim, with items slightly more structured than the comfortable activewear that was a preferred category during shutdowns. We anticipate the athletic and premiumization trends to continue, with LULU at the lead of this transformation. That said, a normalization in growth trends of this category to the long-term run rate of core apparel could drive an inflection in the second derivative of LULU's sales growth, pressuring valuation and EPS growth.

- **Slower international growth.** LULU's growth algorithm is increasingly reliant on expanding its presence in key international markets. The product has strong acceptance in Asia marketplaces (particularly Greater China), and we anticipate this growth to continue. However, the company does have a choppy execution history in Europe, which we believe is now inflecting positively. If international marketplace growth slows meaningfully, this could drive a normalization in the market multiple investors are willing to place on a high-growth brand like LULU.
- **Customer engagement and MIRROR:** As detailed above, we believe membership and a digital offer are key next steps to LULU's customer engagement program. However, we acknowledge that the category is particularly competitive and initial reviews of the hardware / software integration are murky at best. LULU may have to continue to accelerate investments here to drive a path to profitability, and LULU's membership program may not drive the customer engagement benefits we anticipate.

Kontoor Brands (KTB, Buy)

We initiate on KTB with a Buy rating and a 12-month \$69 target price. We believe fundamentals at KTB are gaining momentum as strategic actions taken over the last several years take root and investments in brand and distribution begin to scale. We believe brand top line growth, bolstered with gross margin gains and solid FCF, will drive upside to shares. Our sales estimates for 2021 and 2022 are 1% above FactSet consensus, and we anticipate stronger margins to drive EPS 3%/4% above consensus.

Investment Considerations:

- **Strengthening top line growth and profitability.** KTB has enacted meaningful structural business model changes over the past few years as they reset the business for growth. These investments have weighed on top line momentum, but are increasingly in the rearview mirror and the business is now staged for profitable growth.
- **Incremental investments in the brand, including marketing and design, are starting to take hold.** The company has made meaningful investments in its brand positioning in both the US and international marketplaces, and has focused on product segmentation and improved marketing. We believe these are now accelerating.

- **We are constructive on an improving denim market.** We anticipate solid top line tailwinds from wardrobe casualization and increasing adoption of alternative colors and silhouettes in denim to fuel near- and medium-term demand.
- **Brand extensions provide windows of additional upside.** KTB will see additional upside from the continued build-out of the company's Wrangler ATG and tops business, which fuels opportunity for continued top line and margin gains.
- **Risk/reward favorable:** While we recognize company does have some revenue concentration risk and is still in the early days of rejuvenating its brands, and we do see some risk from customer concentration among a few key US wholesale customers (and thus temper our estimates for conservatism), we believe that this risk is more than offset by opportunities to improve execution, solid free cash flow, a robust dividend outlook (which we anticipate could improve as the company exits the COVID-19 crisis).

Where Could We Be Wrong: The Bull/Bear Debate

- **The bear argument:** KTB outperformed peers in 2020 due to its strong concentration at mass retailers (particularly Walmart, but also Amazon and Target). KTB's brands have historically seen underinvestment, and the Lee brand in particular has been an underperformer vs. other legacy brands such as LEVI. Bears argue that KTB's strong performance is due to mass retail outperformance rather than true brand improvement, and that the path to true recovery and growth will be longer dated. Bears also believe that top line performance is largely driven by new distribution wins, particularly at mass retail, and that this should be viewed less favorably than brands who have grown much more meaningful consumer connections through their own DTC platforms.
- **Why we choose to Buy despite the risks:** We believe KTB's story is one of inflection. The company is starting from a base of strong free cash flow, and is utilizing this free cash to not only provide a consistent dividend (which is attractive to a subset of owners) but also to invest in people, processes, and brand marketing to improve the health of the brands overall. While we acknowledge that the brands will likely take several years to truly improve in overall perception vs. some best-in-class peers, we do believe that the second derivative is towards growth rather than normalization, and we thus see opportunities for improving top line and margin momentum.

Expect strengthening profitability as structural business model changes take root

Several years of brand-accretive actions increasingly in the rearview mirror. KTB management spent several years improving its competitive positioning and distribution following its spin from VFC in 2019. Most notable within this included exits of select markets that had unfavorable profitability/growth metrics, including exiting CASA (Argentina), operations in Turkey, shifting to distributor and licensing business models in Russia, Israel, and most recently India (following several years of rationalizing unprofitable points of distribution in that marketplace). The company also recently rationalized its VF Outlet business. These actions have weighed heavily on revenue growth throughout 2019-2020 (pre-COVID quality of sales initiatives were set to be a 3pt

headwind to full year 2020 results), and are set to have a 5pt impact to 2021 growth per management guidance.

Exhibit 85: KTB has implemented several structural improvements to its business and distribution in recent years which have weighed on sales and market share growth; we believe these actions are now largely in the rearview mirror

Summary of select structural business model changes and select sales headwinds impacting KTB in recent years

Major structural business model changes	
Year	Action
2018	Major customer bankruptcy
2019	Exit Argentina business
2019	Optimize VF Outlet
2019	Reduce distressed sales and rightsize owned manufacturing capacity
2019	Begin India point of distribution rationalization
2020	JCP bankruptcy
2020	ERP rollout begins
2020	Office consolidation program accelerated
2020	Lee master brand repositioning at major US retailer
2021	Rationalize US outlet fleet
2021	India business transition to licensing model

Source: Company data, Goldman Sachs Global Investment Research

Lee brand repositioning clarifies brand segmentation and boosts potential for DTC focus.

In the past two years, KTB has refocused the Lee brand through a more holistic distribution reset strategy across the wholesale and DTC channel. The company has clarified its Lee branded positioning at Walmart, the company's largest partner, and has replaced the Lee Riders sub-brand with full line Lee product at a higher average price point. Further, the company has removed Lee Riders from several mass / discount department store channels (Walmart, Kmart, Target, and Sears), has removed the Lee Riders entry point product from its own DTC website, and has clarified the sub-brand as an exclusive but separate offer on Amazon.com. For the company's other brands, product availability at other challenged retailers such as Kmart, Sears and JCP is more limited, implying limited additional downside risk from ongoing structural retail challenges. Alongside this strategic trimming of distribution on the high end is enhanced distribution of heritage / premium product at select fashion-forward distributors such as Nordstrom and Urban Outfitters, which we believe can enhance the positioning of each brand. On balance, we are encouraged by this shift, and believe it enhances KTB's ability to drive growth through its own channels on DTC.com.

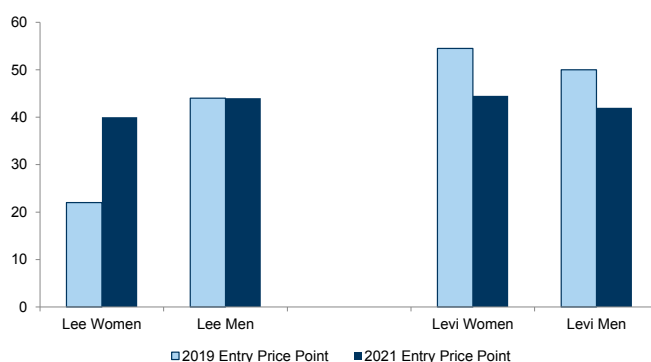
Exhibit 86: KTB has improved its brand positioning in the mass/economy channel of the marketplace by optimizing distribution of its entry level price point product, but has also recently shown some expansion in distribution among premium retailers (such as Nordstrom / Urban Outfitters), which allows the company to capture some upside in the premium market

Where is it sold?					Distribution vs. 2019?				
Retailer	Wrangler	Rustler	Lee	Lee Riders	Retailer	Wrangler	Rustler	Lee	Lee Riders
Owned Website	✓	✗	✓	✗	Owned Website	●	●	●	↓
Walmart	✓	✓	✓	✗	Walmart	●	●	●	↓
Kmart	✗	✗	✗	✗	Kmart	↓	↓	●	↓
Target	✓	✗	✗	✗	Target	●	●	●	↓
Sears	✗	✗	✓	✗	Sears	↓	●	●	●
J.C.Penney	✓	✗	✓	✗	J.C.Penney	●	●	●	●
Macy's	✓	✗	✗	✗	Macy's	●	●	↓	●
Kohl's	✓	✗	✓	✗	Kohl's	●	●	●	●
Nordstrom	✓	✗	✓	✗	Nordstrom	●	●	↑	●
Urban Outfitters	✓	✗	✓	✗	Urban Outfitters	●	●	↑	●

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 87: We believe KTB has largely phased out the Lee Riders sub-brand, which has driven a repositioning of the entry level price point of the Lee brand on its own Lee.com website, which is now in line with key peer LEVI

Entry price point for full length jeans for both men and women on Lee.com and Levi.com, May 2021 vs May 2019



Source: Company data, Goldman Sachs Global Investment Research

ERP roll-out proceeding well and unlocking cost savings. KTB began implementing a new ERP system in 2Q20, and went live on the program in 2Q21 in its most critical marketplace (North America). This rollout has been a key source of capital investment since 2019, and will be substantially complete by the end of the year as final regional implementation is scheduled for 2H. We anticipate the completion of the ERP rollout will allow the company to better drive digital growth (given the upgraded tools / execution ability on an enhanced platform), allow the company to reduce SKU counts and improve inventory management, and provide upside to margins as the company unlocks better efficiency and process improvements.

Incremental investments in the brand starting to take hold

Enhanced focus on marketing and consumer connection to drive elevated share gain. We believe KTB's Wrangler brand has an authentic marketing voice that resonates well with both its western audiences but also provides additional credibility among

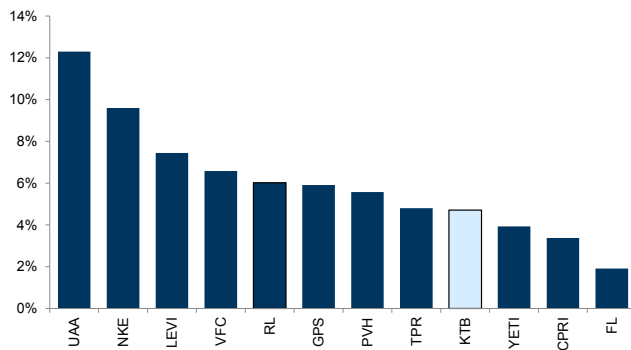
consumers as styles shift. Lee's long history and heritage provides archives and credibility from which the company can draw on to fuel its marketing voice.

The company has invested more in marketing since its 2019 spin from VFC. This has included collaborations with select musicians (Lil Nas X and Wrangler), unique features of the brand on television shows (Rick and Morty x Wrangler collaboration product line with features inside select episodes and the Wrangler x Stranger Things collection), and other fashion-focused collaborations. With KTB now focused on elevating marketing spend (a historical area of underinvestment), and with the brand increasingly engaging consumers on social media, we believe incremental investments here will yield increased brand enthusiasm and awareness, helping the company to participate in stronger category growth.

We note that KTB has shown solid gains in its social media following and brand relevance following early efforts by KTB to improve messaging and marketing focus. Given the strong early results of campaigns since KTB became an independent company, we anticipate increased dollar investment in marketing to have high returns on investment and drive increased brand relevance and improved sales trends for the brand overall.

Exhibit 88: KTB's marketing spending underindexes key branded peers at <5% of sales, and we see opportunity for incremental gains in brand heat and awareness as the company invests more in this initiative into 2021+

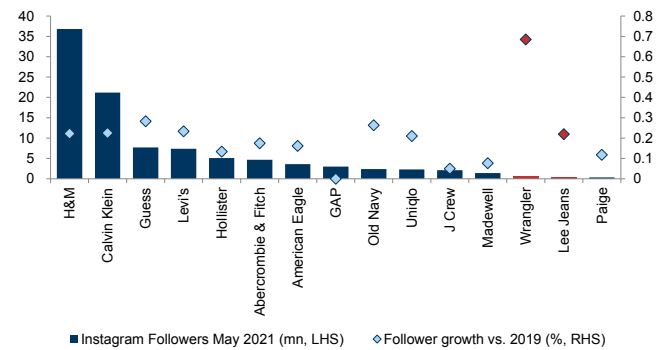
Advertising and marketing costs as a % of peers; fiscal year end closest to calendar 2020



Source: Company data

Exhibit 89: KTB is in the early stages of building its social media following, but its brands have shown robust follower count growth since 2019, and Wrangler brand's growth in followers is best in class

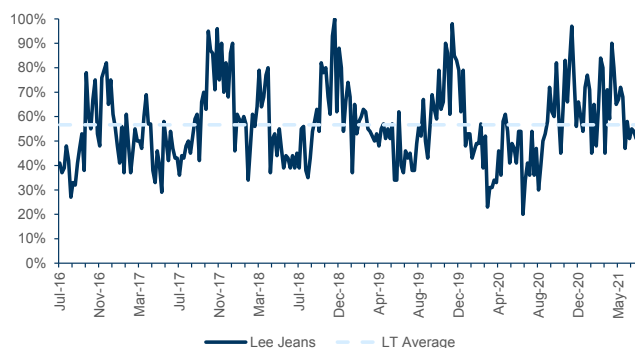
Instagram follower count by brand as of early May 2021 (LHS) and growth rate vs. 2019 (RHS)



Source: Instagram, compiled by Goldman Sachs Global Investment Research

Exhibit 90: Lee brand search trends have stabilized, and recently returned to growth, following several years of declines

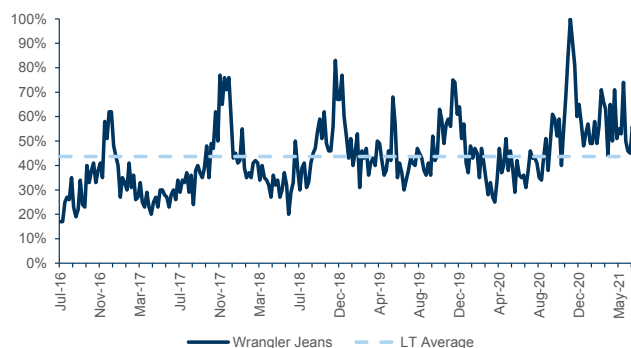
Google Trend index for Lee Jeans in the US, T5Y



Source: Google Trends

Exhibit 91: And Wrangler momentum has been building on both a Y/Y and vs. 2019 basis as the brand increases in relevance

Google Trend index for Wrangler Jeans in the US, T5Y



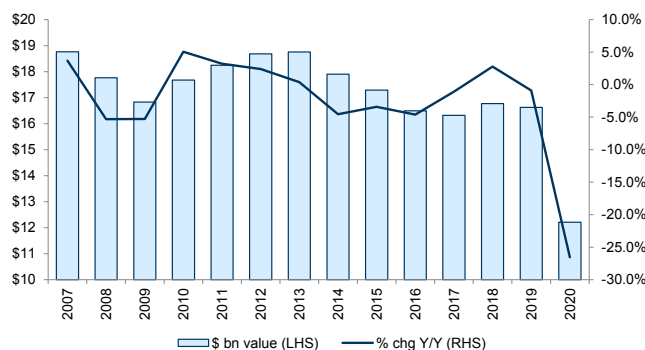
Source: Google Trends

Well positioned in an improving denim market

Constructive denim market outlook. We expect healthy growth for the overall US and global jeans market in 2021 and beyond. This is driven not only by reopening momentum as consumers refresh their wardrobes for 2021 and into early 2022, but also by secular (and we believe long-lasting) shifts to wardrobe casualization. We also believe the market is benefiting from a new denim cycle, driven by a renaissance of denim fits, washes, and cuts (lighter / higher waisted / wider cut bottoms) following years of stagnation marked by shifts to athleisure and limited silhouette change (largely skinny fit). Additionally, increased social media focus and news coverage of Gen Z fashion trends and the fading relevance of the “side part and skinny jeans look” which emerged as a trending discussion in early 2021 will likely accelerate this shift. Longer term, we anticipate the US denim market will grow at a low single digit rate and that global growth in the category will likely trend in line with GDP / apparel consumption.

Exhibit 92: The US denim market saw several years of stagnation in recent years as limited changes in preferred silhouette/style and market share shifts to athleisure weighed on denim growth; further, sales declined dramatically in 2020 as a result of COVID-19; we anticipate a renaissance in US demand in 2021+ as a result of wardrobe casualization and heightened interest in alternative silhouettes/colors

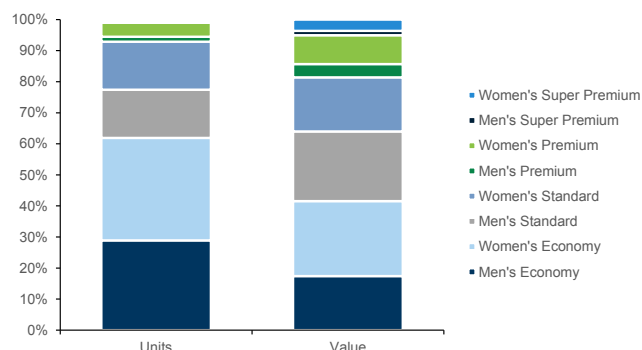
US jeans annual estimated sales (LHS) and % chg Y/Y (RHS)



Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 93: The vast majority of the US jeans market is transacted within the economy and standard market segments, which have price points of ~\$20 and \$40/pair, respectively; KTB is well-positioned in both of these sub-sectors of the market

Estimated US denim market share by unit and sales value, 2019



Source: Euromonitor, Goldman Sachs Global Investment Research

Reopening to boost 2021 demand. We anticipate a strong recovery in demand for denim in 2021 as consumers emerge from COVID-19 lockdowns and reengage in social activities, fueled by an overall casualization trend in the marketplace. Denim unit volumes and overall sales in the US saw significant pressure in 2020 as consumers stayed at home and focused on loungewear / activewear, with volumes down -20% Y/Y and retail sales value declining -27% Y/Y. We anticipate recapture of this lost demand will boost sales in the category in 2021, particularly as we head into a back-to-school fall and winter season. While this reopening boost is not critical to our investment thesis, we do believe that emerging denim trends from this reopening period will drive stronger demand in the years to come as alternate silhouettes gain momentum.

Exhibit 94: Consumer search interest in jeans is rising following a challenged 2020 period

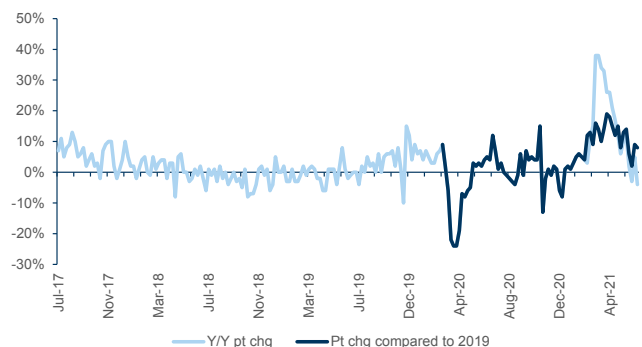
Google Trends search indicator of "jeans" in the US, T5Y



Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 95: Search interest for jeans is accelerating strongly, even vs. pre-pandemic (2019) levels

Google Trends for "jeans" in the US: Y/Y pt change and pt change vs. 2019

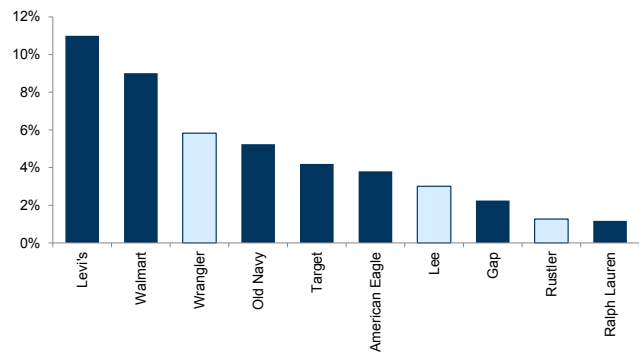


Source: Google Trends, Goldman Sachs Global Investment Research

KTB well positioned to grow with cyclical tailwinds. We expect denim category growth, as well as an emergence of fashion cycle shifts, to fuel tailwinds for KTB given

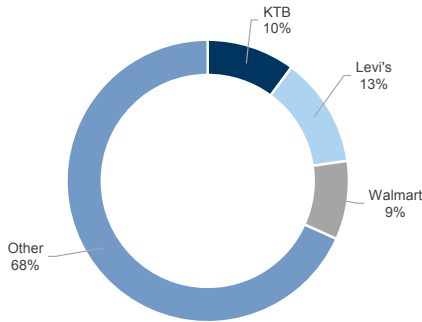
its strong market share in the US jeans category. In particular, we believe KTB has strong heritage in several of the denim trends that are seeing momentum, including wider leg fits and a variety of silhouettes, and anticipate heritage collections from the well-established company style archives to help KTB elevate its brand positioning and gain distribution in premium wholesale accounts (such as Nordstrom / Free People / etc).

Exhibit 96: KTB commands a significant portion of the US denim market through its Wrangler, Lee, and Rustler brands
Estimated market share of the US denim market by brand, 2020



Source: Euromonitor

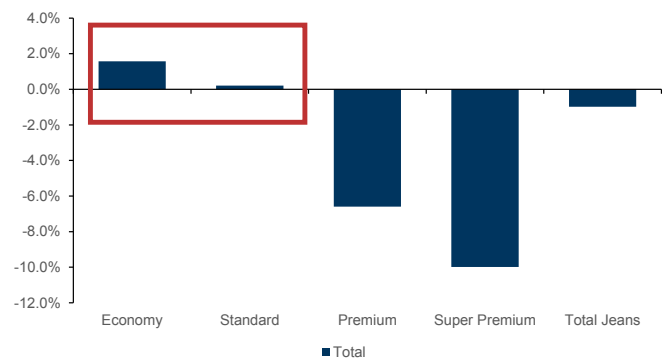
Exhibit 97: After accounting for all sub-brands, KTB's combined owned brand market share is >10%
Estimated market share by brand owner in the US jeans market among key players



Source: Euromonitor

Solid positioning in the largest areas of the marketplace. KTB is well positioned as a leading brand in the areas of the marketplace that drive the largest unit and dollar volume within the US jeans marketplace (economy and standard denim which retails at <\$50/pair). This component of the market, which is lower-priced economy and standard denim (retailing <\$50/pair). While we acknowledge that KTB will have to closely guard against private label threats, we believe a meaningful portion of these investments from major mass retailer brands is now in the rearview mirror, and expect KTB to maintain its shelf space within these retailers.

Exhibit 98: We estimate KTB overindexes to the economy and standard sub-segments of the US jeans marketplace, which are the areas that have shown the most resilience to marketplace disruptions in the 2015-2019 period
2015-2019 US jeans market CAGR by sub-segment of the category



Source: Euromonitor

Distribution expansion and build-out of select product categories an ongoing tailwind**Wrangler China initial expansion to bolster near-term brand heat and growth.** KTB

sources a HSD percentage of total sales from China, but nearly all of this originates from the Lee jeans brand which has a strong heritage and brand perception in the region. The company is now focused on growing the Wrangler brand in this important region and successfully executed a soft launch of the brand on Tmall in late 2020. Wrangler's broader market launch is in process in 1H21, supported by enhanced marketing, streaming events, and select influencer collaborations. While we acknowledge the challenges of growing a brand internationally at scale, we believe the Wrangler brand has meaningful upside from distribution expansion as the brand can lean on an authentic and fashion-forward premium assortment while implementing the successful Lee playbook for growth. Additionally, we note that KTB's brands have more balanced head to toe assortments in international regions, and thus we see scope for Wrangler to grow in China both in the denim but also the tops / jackets business. Below, we sensitize the potential sales upside at various brand penetration rates, which suggest meaningful long-term upside to brand sales if the Wrangler brand expansion proves to be successful.

Exhibit 99: China accounts for up to ~20% of brand sales for select North America-focused brands, and the Lee brand has a particularly successful program in China relative to its global revenues

Percent of sales sourced from China by brand pre-pandemic, per company disclosures

Percent of sales sourced from China by brand pre-pandemic		
	China % Brand Sales	China % NA (US) Sales
Levi's	3%	7%
Ralph Lauren	<4%	7%
Kate Spade	4%	5%
Nike	18%	42%
Coach	18%	32%
Lee	20%	37%
Stuart Weitzman	21%	37%

For illustrative purposes as some brands disclose Mainland China revenues while others disclose Greater China

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 100: If the Wrangler brand is able to penetrate the China marketplace at similar proportions to US/NA revenues as other global brands, we see meaningful upside for total sales

Illustrative scenario analysis of Wrangler sales upside from China entry over time vs. 2019 revenue

Wrangler China Upside Opportunity								
China % NA Sales	1%	3%	5%	7%	10%	20%	30%	40%
Wrangler China \$ sales	12.8	38.5	64.1	89.8	128.2	256.5	384.7	513.0
Growth vs. 2019 (Wrangler)	1%	3%	4%	6%	9%	17%	26%	34%
Growth vs. 2019 (KTB)	1%	2%	3%	4%	5%	10%	15%	20%

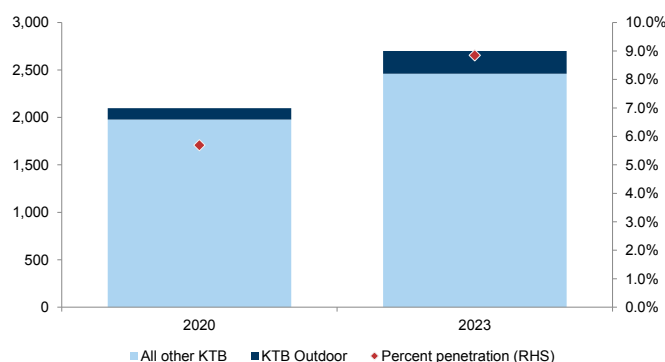
Source: Company data, Goldman Sachs Global Investment Research

Wrangler ATG an on-trend and authentic sub-brand with potential. Wrangler's

heritage is rooted in outdoor work-inspired (and Western) applications, and as such we believe the brand resonates well with outdoor-focused customers looking for durable gear. Our channel checks indicate that the brand overindexes to the men's jeanswear category, but increasingly the brand has seen new distribution wins associated with its outdoor ATG product line, with product available at Kohl's and in Europe through the retailer Dressman (with a 400 door launch). KTB recently announced a launch of this product line at outdoor retailer Scheels, which we see as a credible expansion of the product line into larger mainstream outdoor retailers and could lead to stronger brand awareness and business development wins going forward. We also see emerging incremental upside potential over time from the brand's recent announced extension into the fishing space with the brand's Wrangler Angler line.

Exhibit 101: The company has a small but emerging Outdoor business, which we expect will gain momentum as the company sees new distribution wins and builds out its new Wrangler Angler collection

Estimated KTB outdoor revenue compared to other KTB revenues and percent penetration (RHS)



Source: Company data, Goldman Sachs Global Investment Research

Tops long-term opportunity still in the early stages of growth and more opportunity at Wrangler.

KTB's business overindexes to the denim bottoms category, particularly in select wholesale channels and in the US Wrangler business. We have observed stronger build-out of design and resources into the Wrangler brand's tops and t-shirts collection, with select expansion of Wrangler women's t-shirts into premium wholesale accounts such as Nordstrom and Urban Outfitters. While we embed limited overall contribution from tops upside in our estimates (as this business is small and just beginning to grow), we see this as another opportunity for growth both through new distribution wins at wholesale, but also attachment rates as the company grows its DTC business.

Exhibit 102: We believe KTB's tops business is underdeveloped vs. peers, particularly within the US Wrangler brand. We sensitize the potential growth opportunity below.

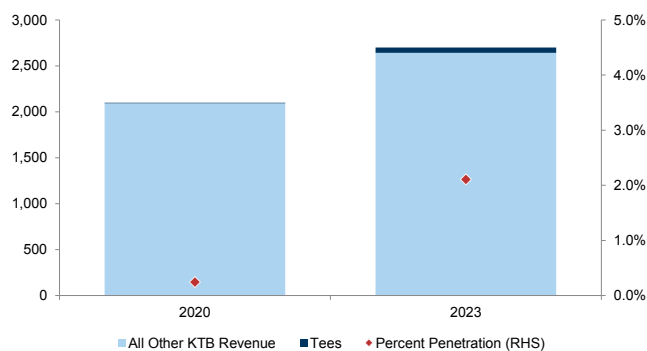
Estimated KTB tops and t-shirts US growth opportunity; \$mn unless otherwise indicated

KTB Tops and T-Shirts US Growth Opportunity		
	FY15	FY19
LEVI Net Sales (\$mn)	\$4,494	\$5,763
LEVI Tops Penetration	11%	21%
LEVI Tops Sales	\$494	\$1,210
Long-Term Opportunity for KTB		
KTB US Net Sales (FY19)		\$1,896
Potential Penetration Rate	11%	21%
US tops sales opportunity scenario for KTB	\$209	\$398

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 103: KTB has outlined opportunities to grow its tee shirt penetration through expansion of logo, lifestyle graphic, and licensed / collabs sub categories; over the forecast horizon, we believe KTB's tops expansion strategy is credible

Estimated KTB tee business contribution to overall revenues 2020 vs 2023E (\$mn; LHS) and % penetration of total sales (RHS)



Source: Company data, Goldman Sachs Global Investment Research

New distribution wins with Walmart still in first year, with building momentum in categories other than full length jeans. KTB implemented a realignment of the Lee

brand at its top customer and distribution expansion at 2000 doors of its top customer, Walmart, in 2020. This included a repositioning of the Lee Riders sub-brand and expanded Lee distribution in both men’s and women’s, which has expanded into spring 2021 with a broader program. These new wins are still in the first year of operations, and we believe there is space for this momentum to build as KTB continues to build out tops / ATG programs, and also scope for the brand to expand in additional US doors. Our initial store checks show stock consistently moving through the store, and we believe the high sell-through rates and low inventory model of WMT should mean consistent sales Y/Y despite sell-in trends. Indeed, on its most recent investor day, KTB indicated that they recently signed a new distribution opportunity for Wrangler Workwear to launch at a major mass retailer with 2,000 doors by year-end.

Exhibit 104: The Lee Riders sub-brand was cleared out in summer 2020 at Walmart stores; this product initially had a price point of ~\$20

Lee Riders women’s full length denim selection at a select Walmart store in summer 2020



Source: Goldman Sachs Global Investment Research

Exhibit 105: This sub-brand was replaced with Lee branded product with a ~\$22 price point (an increase in AUR), along with sell-in of additional SKUs on the floor in fall 2020 and the product and pricing remains consistent today

Fall 2020 replacement of Lee Riders sub-brand with Lee product at a select Walmart location



Source: Goldman Sachs Global Investment Research

Exhibit 106: In addition to the core full length year-round pants programs, Lee brand also has several summer shorts programs across both men's and womens at an elevated price point (shown here is men's at a ~\$23 price point)

Summer 2021 Lee brand men's shorts program at a select Walmart location



Source: Goldman Sachs Global Investment Research

Exhibit 107: And while inventory in-stocks are better than they were last summer, select programs remain tight on inventory in the core bottoms program; we saw similar levels of light inventory in Wrangler men's short styles as well

Select Wrangler core men's bottoms offering at a select Walmart location

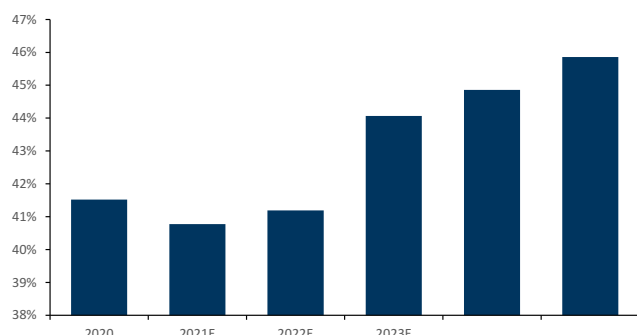


Source: Goldman Sachs Global Investment Research

Solid margin and free cash flow opportunity

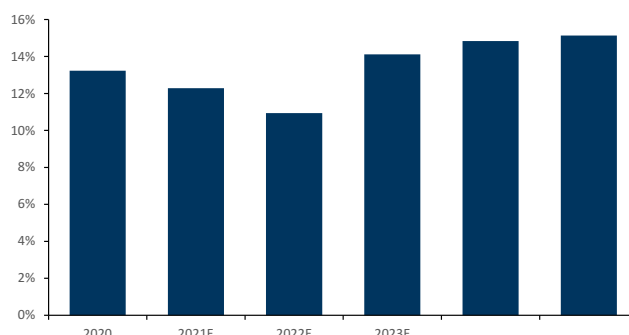
Gross margin durability with optionality for upside. We believe KTB's 2020 gross margin gains will be sticky, as they were driven by restructuring benefits, quality of sales actions, new distribution programs with mix shifts to premium product, product costs, and channel mix. Into 2021 and beyond, we forecast ongoing restructuring and quality of sales initiatives, combined with faster growth in margin-accretive channels like international and digital, to drive continued gross profit margin expansion. These margin gains from quality of sales initiatives and structural business model changes, combined with better leverage on fixed owned manufacturing costs, give us confidence that KTB should realize stronger gross margins over time.

Exhibit 108: KTB saw headwinds to gross margin the past few years as they've implemented quality of sales actions; these are now in the rearview mirror and the company is seeing accelerating rollout of higher-margin programs and shifts to digital / international
KTB gross margin



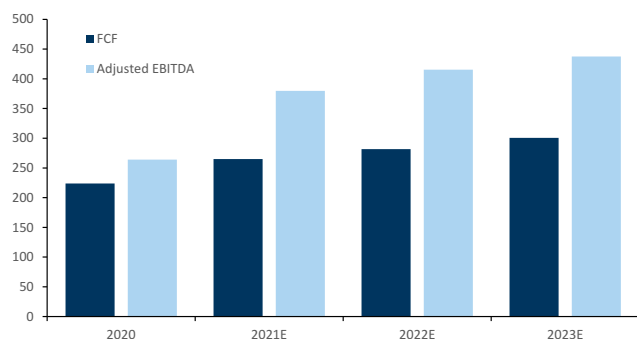
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 109: Gross margin expansion is the primary driver of operating profit gains in our forecast following several years of higher investment
KTB operating profit margin



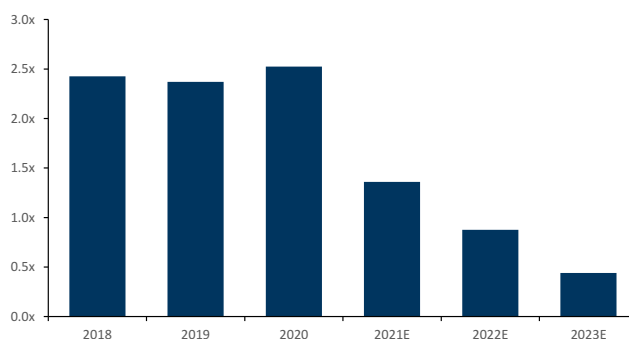
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 110: KTB's capital light business model enables solid FCF generation
Free cash flow and adjusted EBITDA, \$mn



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 111: This drives our expectation of meaningful debt reduction even while the company pays a healthy dividend
KTB net debt / TTM EBITDA



Source: Company data, Goldman Sachs Global Investment Research

Valuation and key risks

We are Buy rated on KTB and see 21 % upside to our \$69, 12-month price target based on 11x Q5-Q8 EV/EBITDA. The Q5-Q8 EV/EBITDA valuation methodology is consistent with our methodology across the apparel and brands sector. The 11x target multiple is a modest premium to that implied by the 1-yr and 3-yr pre-pandemic relative NTM EV/EBITDA multiple vs. the S&P 500 (target is based on 0.8x vs. historical pre-pandemic relative multiple of 0.7x)., We believe this premium is warranted vs. that implied by historical trading ranges to account for KTB's stronger brand momentum, better gross margin outlook (following structural business model changes), and stronger EBITDA margin opportunity.

Key Risks

- **Key customer concentration risk.** Relative to other companies in the brands and apparel space, KTB has increased customer concentration risk given it sourced 38% of 2020 net revenues from one customer (Walmart) and 60% of 2020 net revenues

from the company's top ten customers. If key wholesale partners choose to not partner with KTB, or if they choose to rationalize inventory, close meaningful portions of their store base, or see deterioration in sales trends, this could pose a risk to KTB's top line sales trends.

- **Brand momentum and marketing.** KTB's fundamental momentum ahead of COVID-19 was challenged, in part due to proactive distribution resets, but also due to underperformance vs. other leading denim brands. We believe KTB is investing in marketing and this can drive momentum in the company's brands. However, if momentum fades this could pose risk to top line and margin.
- **Fixed cost deleverage.** KTB is unique relative to several retailers in our coverage universe in that it owns a portion of its manufacturing network (ten facilities produce 36% of units). We believe this is a competitive advantage for KTB given it is locally sourcing these units from North America (largely Mexico / Nicaragua). However, if sales decelerate or if COVID-19 outbreaks cause these facilities to go offline, KTB could see additional deleverage on fixed costs.

Levi Strauss & Co. (LEVI, Buy)

We initiate on LEVI with a Buy rating and a 12-month \$36 target price. We believe LEVI's best-in-class heritage positioning, combined with an emerging denim cycle and supported by improving organizational agility, positions the company for improving fundamentals. We are encouraged by structural shifts and digital investments which can drive stronger through-cycle results.

Investment Considerations:

- **LEVI's pandemic-era business shifts and investments propel opportunities for structurally stronger results.** We anticipate a sustainable inflection in business profitability following structural market shifts during the pandemic. LEVI is emerging from the pandemic with a better-positioned US wholesale marketplace, a more agile organization with increased digital tools and a faster go-to-market, and is increasingly focused on accelerating its connection with consumers.
- **LEVI's digital and retail strategies are gaining momentum.** LEVI's DTC.com and next generation store format are driving expansion of the brand across the head-to-toe product architecture and improving margins along the way. Critical within this is the profitability implications of LEVI's shift to DTC channels, which drives higher margins and is a meaningful driver of EBIT dollar growth.
- **We are constructive on an improving denim market and LEVI's positioning within this category.** While reopening momentum is likely to fade and the promotional environment will normalize, we expect solid top line tailwinds from wardrobe casualization and increasing adoption of alternative colors and silhouettes in denim. Importantly, however is the strength of the brand in driving offsets to potential supply chain cost increases, which fuels gross margin opportunity in a variety of scenarios.

- **Emerging China growth opportunity.** LEVI has spent the last several years improving the health of its China marketplace by selectively closing points of franchised distribution that were not brand-accretive. We believe the market is now largely reset and untapped for this best-in-class heritage brand.

Structural pandemic-era changes drive a more agile organization

LEVI drove several meaningful organizational changes during the pandemic that fuel a more agile, and more profitable, organization. Management identified \$200mn of structural cost savings across headcount, T&E, and vendor savings. While a portion of this savings has been reinvested for growth-accelerating investments, we believe the company is exiting the pandemic with a more flexible cost structure with SG&A dollars more focused on ROI-accretive investments and transforming the organization into a retailer of choice vs. its historic wholesale roots.

Still see opportunities to improve, which will drive stronger margins and better markdowns with time. We'd highlight that while the company has improved its organizational structure, and we believe this improvement has accelerated since the pandemic, we continue to see meaningful opportunity for improvement. Key within this is the company's ERP rollout, which is continuing, and also the potential for management to shift from a 2x/year planning and buying cycle to a faster cycle unlocked by digitizing its supply chain planning function.

Digital and retail unlock gaining momentum

LEVI's DTC.com growth (and scale) + stronger retail store format a critical unlock.

We believe the most important aspect of LEVI's strategy is the transformation it is driving from being a wholesale-led company to being an omnichannel retailer. As discussed above, the pandemic provided an opportunity for a reset of the organization across headcount and cost basis, and has driven implementation of several omnichannel initiatives at a faster pace than what we believe would've likely occurred pre-pandemic. As we look forward, we believe the company's inflecting profitability at DTC.com and rollout of brand-accretive mainline doors in North America (next-gen) will help drive a stronger brand at a healthier margin structure. We unpack this below.

Channel shift a key driver of gross margin expansion and dollar profitability. LEVI's shift to own channels from wholesale has and will continue to be a critical driver of gross margin expansion and dollar gains in EBIT profitability. Below, we illustrate that under a normalized expansion algorithm of LSD global wholesale growth, a MSD-HSD CAGR on stores (both comp + new unit count), and a 20% CAGR in ecommerce drives a MSD growth algorithm that unlocks nearly 150bps of expansion between FY19 and FY23 even as total unit count grows a full point slower than prior, suggesting upside potential if brand demand grows in the full MSD range. Economies of scale in ecommerce (which we model at a -7% punitive EBIT margin rate for both periods) drives incremental upside to EBIT margins, driving % margin expansion increase and a strong MSD-HSD EBIT dollar expansion potential.

Exhibit 112: Channel shift is a meaningful driver of dollar EBIT and gross profit margin expansion under normalized growth rates between FY19-FY23, and scaling the company's DTC.com business is a critical unlock to higher levels of profitability overall. Below, we provide an illustrative scenario analysis of the shifting pieces within the P&L as channel growth rates differ

Illustrative channel shift analysis of various CAGR growth rates by channel and margins, where we illustrate the impact on dollar sales and profitability

Key Assumptions	Wholesale	Stores	Ecomm
Gross Margin	46.3%	66.8%	66.8%
EBIT Margin	11.2%	12.2%	-7.0%
CAGR FY19-FY23	2%	8%	20%
Retail Markup	1.8		
Sale Price at Retail	80		

Channel Shift Impact Assuming No Margin Shift vs. FY19			
	FY19	FY23	CAGR
Sales Units	109	128	4.1%
Dollar Sales \$	5,763	7,033	5.1%
Gross Profit \$	3,099	3,886	5.8%
EBIT \$	610	701	3.5%
Gross Profit Margin	53.8%	55.3%	147bps
EBIT Margin	10.6%	10.0%	-61bps

Key Assumptions	Wholesale	Stores	Ecomm
Terminal EBIT Margin at Scale For Ecomm Only	11.2%	12.2%	10.0%
Bps vs. Prior Estimate	0bps	0bps	1700bps
Terminal EBIT Margin at Scale For All Channels	12.2%	14.2%	10.0%
Bps vs. Prior Estimate	100bps	200bps	1700bps

Channel Shift Impact Assuming Terminal EBIT Margins			
	FY19	FY23	CAGR
EBIT \$ Only Ecomm Scales	610	805	7.2%
EBIT Margin Only Ecomm Scales	10.6%	11.4%	86bps
EBIT \$ All Channels Scale	610	894	10.0%
EBIT Margin All Channels Scale	10.6%	12.7%	212bps

Source: Company data, Goldman Sachs Global Investment Research

DTC.com channel inflecting to profitability. Before the pandemic, the LEVI.com channel had not yet reached sufficient scale to reach profitability (though we do note that LEVI's definition of profitability by channel does fully allocate a number of expenses to this channel that could prove to be punitive vs. other retailers). Growth in this channel has driven an inflection to positive profitability in this channel since the emergence of the pandemic, and LEVI has pointed to potential for this to reach parity with the total company (~12% operating margins) when the channel doubles on a dollar basis. We believe the incremental improvement of profitability of each dollar of sale through this channel accelerates the benefit LEVI sees as they recapture the traditional wholesale profit pool. We see further opportunities to unlock this margin expansion as the company scales fixed investment on IT operations, improves fulfillment, and media buying rates.

Exhibit 113: Below we illustrate a hypothetical scenario analysis of the potential EBIT margin impact from scaling the company's ecomm business from a negative profit rate (which we sensitize between -7% and -1% below) to a higher positive profit rate on the same dollar base

LEVI potential EBIT margin increase as FY19 ecomm sales scales to a profit producing margin rate vs. an unprofitable business, in bps on constant dollars

Impact of mix shifting FY19 ecomm dollars to a higher profit rate							
		New Ecomm Profitability Rate					
		0.0%	2.5%	5.0%	7.5%	10.0%	12.0%
Prior	-7.0%	36bps	49bps	61bps	74bps	87bps	97bps
Ecomm	-5.0%	26bps	38bps	51bps	64bps	77bps	87bps
Profit	-3.0%	15bps	28bps	41bps	54bps	66bps	77bps
Rate	-1.0%	5bps	18bps	31bps	43bps	56bps	66bps

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 114: Given the depressed profitability of the overall company in FY20 (due to the pandemic) and a larger sales dollar basis of ecomm sales, this impact could be even more pronounced when compared to FY20 results

Hypothetical scenario analysis of the potential EBIT margin impact from scaling the company's ecomm business from a negative profit rate to positive on FY20 base using same dollar sales

Impact of mix shifting FY20 ecomm dollars to a higher profit rate							
		New Ecomm Profitability Rate					
		0.0%	2.5%	5.0%	7.5%	10.0%	12.0%
Prior	-7.0%	57bps	77bps	98bps	118bps	139bps	155bps
Ecomm	-5.0%	41bps	61bps	82bps	102bps	122bps	139bps
Profit	-3.0%	24bps	45bps	65bps	86bps	106bps	122bps
Rate	-1.0%	8bps	29bps	49bps	69bps	90bps	106bps

Source: Company data, Goldman Sachs Global Investment Research

LEVI's strategic category expansion program is gaining momentum, and we see multiple growth drivers on the horizon.

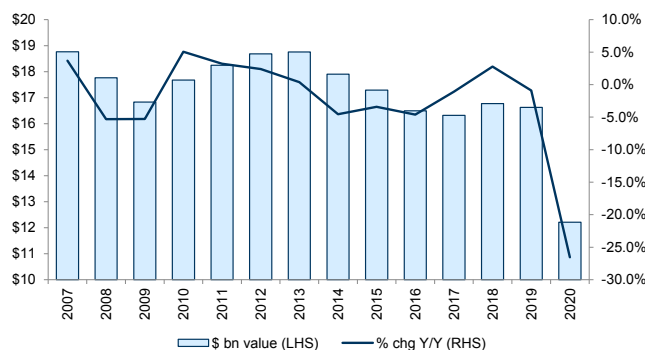
LEVI's alternate category drivers have diversified from a business led by logo tees to one that has several growth drivers across the head-to-toe product architecture. The company's mainline NA store rollout supports this category and product extension, and we are optimistic about the potential for LEVI to drive growth in both women's and top's as they roll out 100 main line next-generation store doors in the US. This also has the benefit of premiumizing the North America marketplace, where we note the current LEVI US fleet overindexes to outlet.

We are constructive on an improving denim market

LEVI well positioned to take advantage of an improving denim market. We believe the denim cycle is seeing momentum, and as such we expect healthy growth for the overall US and global jeans market in 2021 and beyond. This is driven not only by reopening momentum as consumers refresh their wardrobes for 2021 and into early 2022, but also by secular (and we believe long-lasting) shifts to wardrobe casualization. We also believe the market is in the early stages of a new denim cycle, driven by a renaissance of denim fits, washes, and cuts (lighter / higher waisted / wider cut bottoms) following years of stagnation marked by shifts to athleisure and limited silhouette change (largely skinny fit). Additionally, increased social media focus and news coverage of Gen Z fashion trends and the fading relevance of the "side part and skinny jeans look" which emerged as a trending discussion in early 2021 will likely accelerate this shift. Longer term, we anticipate the US denim market will grow at a low single digit rate and that global growth in the category will likely trend in line with GDP / apparel consumption.

Exhibit 115: The US denim market saw several years of stagnation in recent years as limited changes in preferred silhouette/style and market share shifts to athleisure weighed on denim growth; further, sales declined dramatically in 2020 as a result of COVID-19; we anticipate a renaissance in US demand in 2021+ as a result of wardrobe casualization and heightened interest in alternative silhouettes/colors

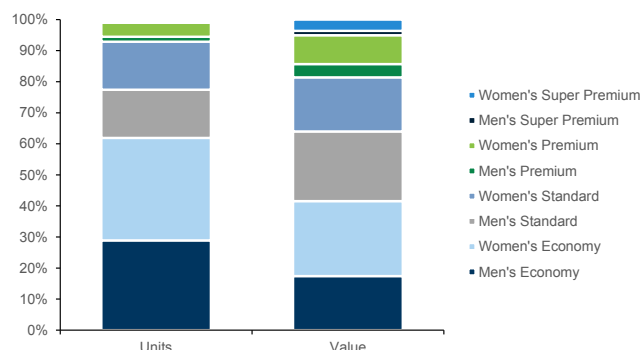
US jeans annual estimated sales (LHS) and % chg Y/Y (RHS)



Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 116: The vast majority of the US jeans market is transacted within the economy and standard market segments, which have price points of ~\$20 and \$40/pair, respectively; we view LEVI as a branded leader and well-positioned in both of these sub-sectors of the market

Estimated US denim market share by unit and sales value, 2019



Source: Euromonitor, Goldman Sachs Global Investment Research

Reopening to boost 2021 demand. We anticipate a strong recovery in demand for denim in 2021 as consumers emerge from COVID-19 lockdowns and reengage in social activities, fueled by an overall casualization trend in the marketplace. Denim unit volumes and overall sales in the US saw significant pressure in 2020 as consumers stayed at home and focused on loungewear / activewear, with volumes down -20% Y/Y and retail sales value declining -27% Y/Y. We anticipate recapture of this lost demand will boost sales in the category in 2021, particularly as we head into a back-to-school fall and winter season. While this reopening boost is not critical to our investment thesis, we do believe that emerging denim trends from this reopening period will drive stronger demand in the years to come as alternate silhouettes gain momentum.

Exhibit 117: Consumer search interest in jeans is rising following a challenged 2020 period

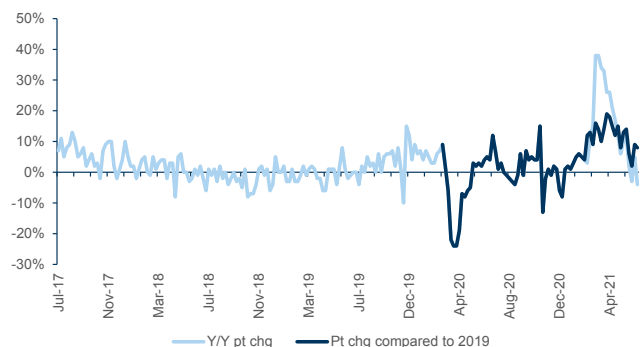
Google Trends search indicator of "jeans" in the US, T5Y



Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 118: Search interest for jeans is accelerating strongly, even vs. pre-pandemic (2019) levels

Google Trends for "jeans" in the US: Y/Y pt change and pt change vs. 2019



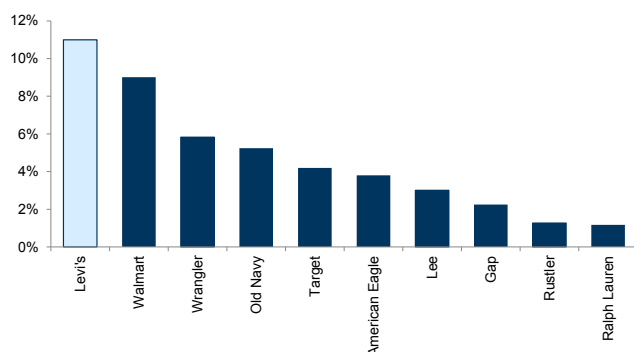
Source: Google Trends, Goldman Sachs Global Investment Research

LEVI a winner at each price point and able to capitalize on both heritage and newness. LEVI's strong branded history as a leader in the US denim market, as well as

a strong archive of historic and well-loved fits positions it well to capitalize in fashion shifts within the US denim market. However, LEVI also has a strong and profitable core of well-loved styles across the style and price architecture, and we believe LEVI's positioning with winning retailers (Target / Walmart at the entry level price point but also momentum in select premium specialty channels such as Nordstrom) and its own DTC position them well for consumers to access the brand as they search for new fits.

Exhibit 119: Levi's is the top brand in the US jeans market and has meaningfully higher market share than its peers

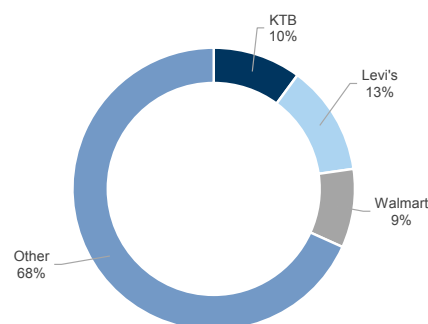
Estimated US denim market share, 2020



Source: Euromonitor

Exhibit 120: This market position is even stronger after including Levi's entry level price point brands, Denizen and Signature

Consolidated market share by top player in US jeans, 2020



Source: Euromonitor, Goldman Sachs Global Investment Research

On the horizon: an emerging China growth opportunity

Emerging China growth opportunity. LEVI has spent the last several years improving the health of its China marketplace by selectively closing points of franchised distribution that were not brand-accretive. We believe the market is now largely reset and untapped for this best-in-class heritage brand. While in the near-term this growth potential doesn't materially move the needle on a consolidated basis, we believe that in a few years after finalizing a reset and beginning to scale the brand, this could be a more material driver of growth.

Improving the health of the marketplace by strategically rebalancing franchise doors.

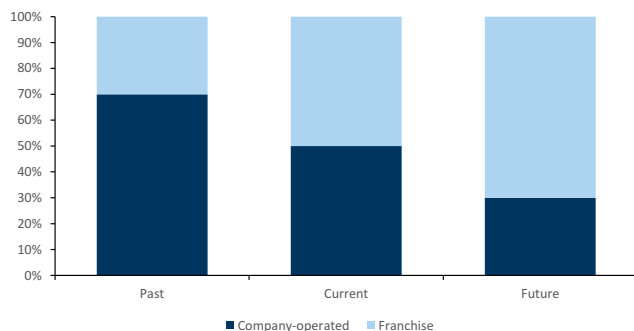
LEVI's China business has transitioned from a largely franchised door business to roughly a 50/50 split between franchise doors and LEVI operated doors. This initiative to right-size the footprint, engage with best-in-class partners who are focused on ensuring the growth of the LEVI brand, and selectively opening stores that set the stage for future growth (such as the company's store in Wuhan) have created a more effective and healthy marketplace for LEVI. Over time, the company anticipates that the business will become 70% company-operated.

Opportunity for China to get to double digit penetration of the business.

LEVI's China business is small at ~3% of the business today. We anticipate this business to grow at healthy double digit rates to eventually reach 10%. Thus, while the business is not yet the critical growth driver, we anticipate this will become a more important aspect of the investment consideration in the next few years.

Exhibit 121: LEVI has been strategically focusing on optimizing its China business, and believes over time company stores could account for a much larger proportion of the fleet vs. its largely franchised past

Estimated rough proportion of company-operated vs. franchise stores in China over time



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 122: We see China as an emerging incremental growth kicker for LEVI; below, we sensitize the potential consolidated CAGR for the company at various China growth CAGR vs. remaining business from the FY19-FY23 time frame, noting a range of outcomes exists outside what we present

Illustrative total company growth CAGR from FY19-FY23 at various China and remaining business top line CAGRs

		Consolidated Growth Rate vs. FY19					
		China growth CAGR					
Remaining business CAGR	0%	0%	5%	10%	15%	20%	25%
	0%	0.7%	0.9%	1.1%	1.3%	1.5%	1.8%
	2%	2.7%	2.8%	3.0%	3.2%	3.4%	3.7%
	4%	4.7%	4.8%	5.0%	5.1%	5.4%	5.6%
	6%	6.6%	6.8%	6.9%	7.1%	7.3%	7.5%
	8%	8.6%	8.7%	8.9%	9.0%	9.2%	9.4%
	10%	10.6%	10.7%	10.8%	11.0%	11.2%	11.4%

Source: Company data, Goldman Sachs Global Investment Research

Valuation

We are Buy rated on LEVI and see 25% upside to our \$36, 12-month price target which is based on 13.5x Q5-Q8 EV/EBITDA. Our Q5-Q8 EV/EBITDA framework is consistent with the rest of our apparel and brands sector, and we apply a premium multiple to that implied by the pre-pandemic, 1-yr and 3-yr average relative multiples to the S&P500 (GS target multiple of 13.5x is 0.9x relative EV/EBITDA, a premium vs. 0.7x historical average) for the stock given a stronger shift to DTC and stronger through-cycle margins.

Key Risks

- **Declining brand momentum:** A material slowdown in brand momentum could pose risk for top line expansion, promotionality and gross margin realization, and fixed cost deleverage.
- **Wholesale pressure:** We believe LEVI's US wholesale business is cleaner than its pre-pandemic levels, though we note a majority of the business remains distributed through this channel. However, any material deceleration in sales to this channel could pose meaningful pressure to top line growth and overall margins.
- **Pace of scale in growth initiatives:** We are enthusiastic about LEVI's growth initiatives and tech-enabled margin scaling opportunities, which we believe will drive stronger top line growth and margin expansion. However, if investments here need to be materially expanded this could inhibit scale-driven opportunities to drive margins.

PVH Corp. (PVH, Buy)

We initiate on PVH with a Buy rating and a 12-month \$127 target price. We are

constructive on the company's strategic initiatives which were accelerated against a backdrop of COVID-19. Further, we believe PVH's increased focus on connecting with its consumer (particularly through a focus on accelerating ecommerce) and catalyzing product strength is the right one. In particular, we are constructive on an accelerated shift to DTC.com and digital, and see opportunity for margin gains as the company executes on channel shift. We also see opportunities for an improving top line trend if global tourism trends normalize. On balance, we see an attractive risk/reward.

Key Investment Considerations:

- **New management team and upcoming Investor Day a potential catalyst.** Mr. Stefan Larsson officially became CEO in February of 2021 and the company's current COO and CFO, Mr. Mike Shaffer, will be leaving the company in September to pursue other opportunities. We see opportunity for new leadership to share incremental details surrounding its strategy at an Investor Day which is likely to be held later this year.
- **Acceleration of digital and DTC drives margin improvement.** DTC digital margins have meaningfully inflected and reached parity with the total organization. We see opportunity for further strength in digital to drive stronger top line sales and associated profitability.
- **Meaningful margin opportunity on the horizon:** PVH made meaningful changes to its organization throughout the pandemic that provide opportunities for upside to margins as the top line recovers, including a corporate headcount reduction and a wind-down of a less profitable Heritage Retail business. We view these changes positively, and believe that this, combined with mix shifts to digital and International and improvements to improve speed of supply chain, will drive a stronger EBIT margin delivery over time. Separate to our investment thesis, we note the company also announced an agreement to sell several of its less profitable Heritage Brands, which further clarifies the organization and strategy around the company's global brands.
- **Brand momentum indicators suggest brands are resonating:** We believe PVH has two strong assets in the global brands of Tommy Hilfiger and Calvin Klein, both of which contain strong halos of key hero products (underwear / denim) but also opportunities for expansion. While current momentum dashboard indicators are somewhat mixed, we believe management's strategic focus on improving product and distribution will drive tailwinds to momentum.

Where Could We Be Wrong: The Bull/Bear Debate

- **The bear argument:** We believe PVH's new CEO was a key architect in another strategic turnaround in the sector, and this strategy included a meaningful step-back in distribution to clarify the branded messaging. We believe bears are on guard for a step-down in top line sales as the company optimizes its distribution, particularly in North America wholesale, off price, and outlet. Bears also point to potential for sales and store productivity in PVH's North America network to return slowly given an uncertain timeline for return of international travel activity. Other potential headwinds include a normalization of promotional activity in the sector, rising input

costs into Spring 2022, and potential for rising costs as the company looks to scale its owned DTC.com network.

- **Why we choose to Buy despite these risks:** We do see some risk that the new strategy includes a rationalization in sales to select distribution channels. However, unlike a similar strategy executed a few years ago by a key peer, PVH has an opportunity to do so with a fresh start emerging from a pandemic with a cleaner cost base (following restructuring) and a step ahead in DTC.com penetration. We thus believe that PVH's social following and consumer connection should help the brand recapture more of those sales and execute a quicker turnaround should this occur. Beyond this, we believe PVH's margins are showing strong recovery even without the return of tourists, and see this as an incremental driver of upside. While cost headwinds are certainly worth watching, we believe PVH's licensed business model and well-invested hero category products should help to insulate the company from long-term margin degradation.

New management and Investor Day a potential catalyst

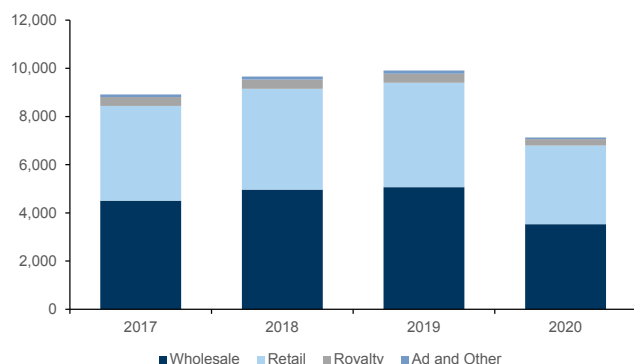
We see opportunity for an accelerated transformation at PVH. PVH has evolved meaningfully as a company in the past decade, marked by several key acquisitions (Tommy Hilfiger in 2010, Warnaco in 2013, and select buy-backs of geographies and licenses in recent years). We believe the COVID-19 pandemic provided a critical opportunity for the company to accelerate its transformation, with a greater focus on digital and consumer connection and a wind down of its lower margin Heritage Retail business.

New leadership another catalyst in the transformational journey. We see opportunity for an acceleration in the pace of transformation under the leadership of new CEO, Mr. Stefan Larsson, who joined the company in 2019 as President but whose leadership as CEO became effective in February of 2021. We also note that the company's current COO and CFO, Mr. Mike Shaffer, will be leaving the company in September to pursue other opportunities.

PVH's global brands have several growth opportunities. We anticipate the company's upcoming Investor Day will help to crystallize the growth opportunities for each of the brands, both through increased consumer connection, growth in critical channels (such as digital), and through expansion of product wins in critical hero categories.

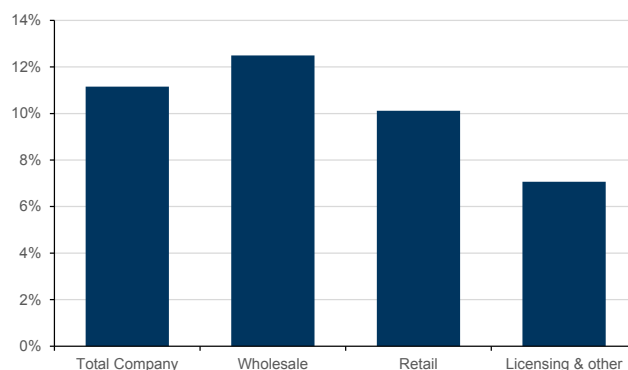
Exhibit 123: COVID-19 meaningfully rebalanced revenues across all of the company's channels, proving an opportunity for management to reassess strategy for each of the brand's points of distribution and key growth priorities

PVH sales by channel FY17-FY20



Source: Company data

Exhibit 124: Pre-pandemic, PVH's wholesale business had been outgrowing other channels and the total company
PVH revenues by channel, FY2019 vs. FY2017 % chg.



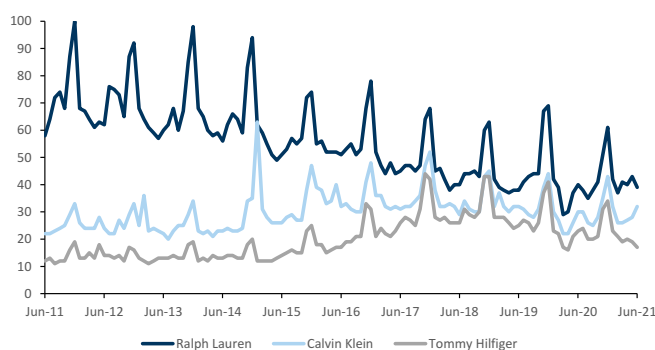
Source: Company data, Goldman Sachs Global Investment Research

Brand momentum indicators positive

We believe the Calvin Klein and Tommy Hilfiger brands are strong global assets.

Both have strong heritage in key hero product categories, and we believe that the brands have staying power among consumers both young and old. We believe PVH has opportunity to build upon its hero categories and strong social media presence to drive incremental growth now that most of the pandemic-related disruptions are beginning to be placed in the rearview mirror.

Exhibit 125: PVH's core brands, Tommy Hilfiger and Calvin Klein, saw strong momentum improvement in the latter half of the last decade, though did see some normalization during the pandemic
Google Trends for Calvin Klein, Ralph Lauren, and Tommy Hilfiger in the US

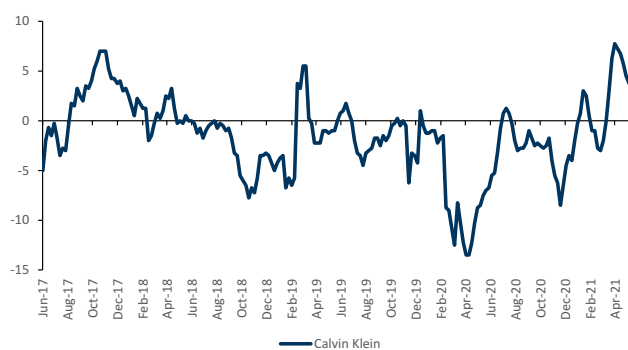


Google Trends (<https://www.google.com/trends>)

Source: Google Trends

Exhibit 126: Trends for the Calvin Klein brand have been somewhat choppy pre-pandemic, but have shown no meaningful long-term trend

Y/Y pt change (T4W average) in Google Trends in the US for the Calvin Klein brand, T5Y



Google Trends (<https://www.google.com/trends>)

Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 127: Momentum in the Tommy Hilfiger brand was normalizing pre-pandemic following several years of strong increases

Y/Y pt change (T4W average) in Google Trends in the US for the Tommy Hilfiger brand, T5Y

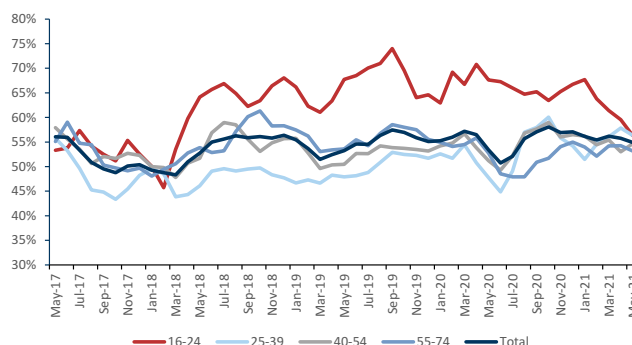


Google Trends (<https://www.google.com/trends>)

Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 128: Overall brand affinity for the brand has been strong, and Tommy Hilfiger affinity among young women is strong relative to other age groups

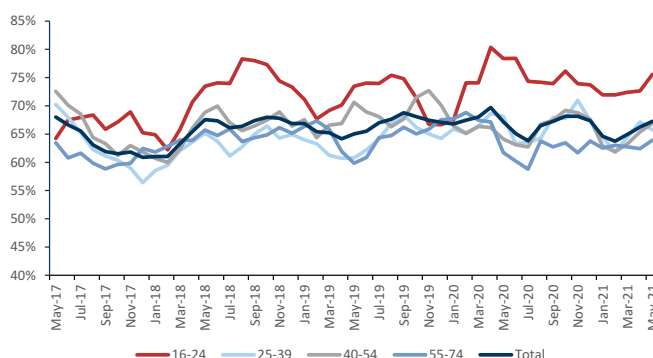
T3M average Tommy Hilfiger brand affinity among US women by age group



Source: WGSN

Exhibit 129: Brand affinity for Calvin Klein among young US women (age 16-24) continues to show strength

T3M average Calvin Klein brand affinity among US women by age group



Source: WGSN

Acceleration of digital and DTC drives growth and margin improvement

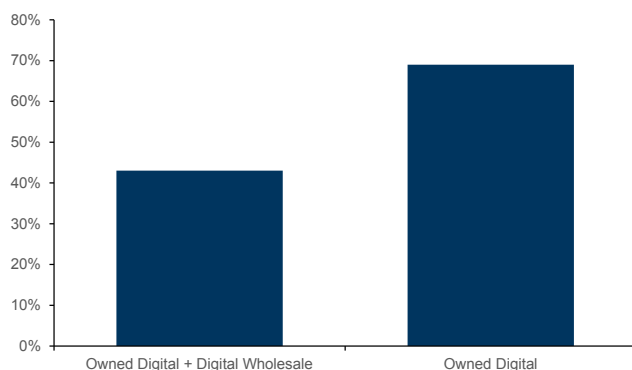
We believe PVH is early on its journey of DTC.com. The company saw strong growth in digital channel revenue growth in FY20, up 69% Y/Y for the company's owned business and up 43% for total digital (DTC.com and digital wholesale). Indeed, digital channels in total account for ~25% of PVH's total business (both DTC.com and digital wholesale), up from ~12% of sales in 2019. We see opportunity for meaningful growth in PVH's DTC.com business as consumers increasingly look to connect directly with brands, and given PVH's core brands strong heritage and brand awareness. While this channel is still small today (~10% of total revenues in 2020), we believe growth in this channel can help to offset potential distribution trimming in other channels.

DTC.com is a profitable opportunity for growth. PVH's well-known brands of Tommy Hilfiger and Calvin Klein have meaningful opportunity to grow digitally, and we believe PVH's savvy social media marketing strategy combined with a holistic and unique

approach to marketplace activation will help catalyze natural traffic to owned.com websites. This, combined with investments to improve site functionality and connect with the consumer through new consumer events, should help to drive growth in this channel. With DTC.com profitability meaningfully inflecting to parity with the total organization last year, we believe this growth allows PVH to capture the entire profit pool of the customer transaction at strong margin rates. Separately, we note that the pending sale of select Heritage Brands (Izod, Arrow, Van Heusen, and Geoffrey Beene) will also include the exit of lower-margin DTC.com business.

Exhibit 130: PVH saw strong expansion of both DTC.com and total digital ecosystem growth in FY20

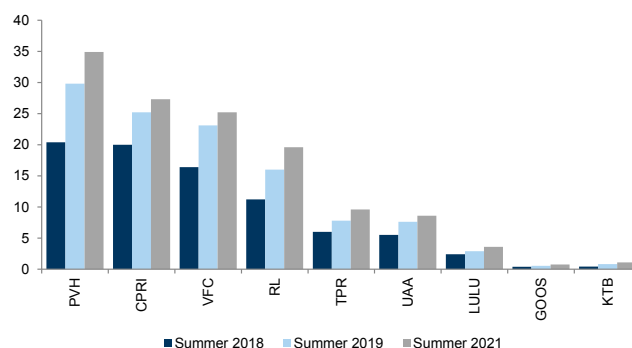
PVH digital business growth rates in FY20



Source: Company data

Exhibit 131: Of select companies in the apparel and brands sector, PVH has a strong social media following that continues to grow strongly

Instagram followers aggregated by brand owner



CPRI excludes Versace to show like for like growth excluding acquisitions; VFC shows The North Face, Timberland, and Vans

Source: Instagram, Shareablee, Bloomberg, Goldman Sachs Global Investment Research

Margin opportunity meaningful

Structural business model changes provide opportunity for stronger margins ahead.

PVH made meaningful changes to its organization throughout the pandemic that provide opportunities for upside to margins as the top line recovers, including a corporate headcount reduction, the planned wind-down of a less profitable Heritage Retail business, and sharp controls of expenses. In total, the company realized \$250mn of gross run rate annualized savings from these actions, and utilized these savings to reinvest \$100mn while flowing ~\$150mn of these savings to the bottom line. We view these savings positively, and believe that this, combined with mix shifts to digital and International, will drive a stronger EBIT margin delivery as the top line recovers. This opportunity is supplemented for scope for further gains as PVH realizes the benefits of other business activity changes, including new leadership in PVH Americas, a focus on improving product lead times, and simplifying product assortments.

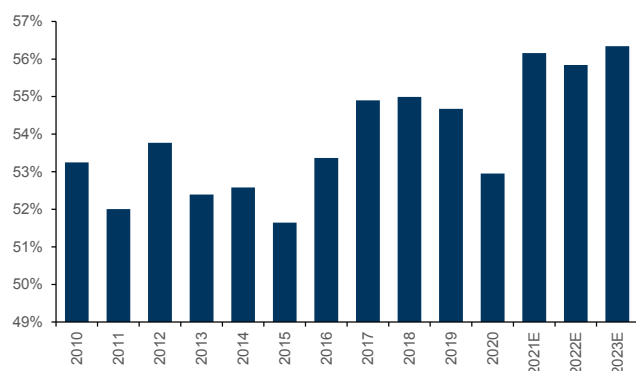
Opportunity for strengthening top line as depressed businesses emerge from COVID-19 headwinds.

PVH saw meaningful headwinds to top line growth as a result of COVID-19, and the company's North America retail business is highly exposed to tourists (30-40% of the revenues). Additionally, PVH is overexposed to areas in Europe that saw more pressured sales trends (particularly the UK), and the company also does have some exposure to more formal styles such as dress shirts, neckwear, and suiting (though this is <5% of sales). As the North America economy has begun to recover,

these pressure points have remained given the slower rate of international vaccinations and a lagged pace of international tourism recovery. PVH management does not anticipate a meaningful recovery of tourist-exposed sales in 2021. We believe potential recovery here represents upside to 2022 sales, and could help drive higher leverage on fixed costs driving further margin expansion.

We forecast healthy expansion in margins from 2020-2023E. PVH is one of the few companies in our coverage universe that has not yet recovered to pre-COVID19 EBIT margins, in part due to headwinds from tourism. While we don't embed a full recovery in North America sales to pre-COVID levels (as we anticipate some headwinds from tourism and some rationalization in sales to improve brand health), we believe these actions will drive healthy margin improvement in 2021 and beyond. We show our expectations for gross margin and EBIT margin below.

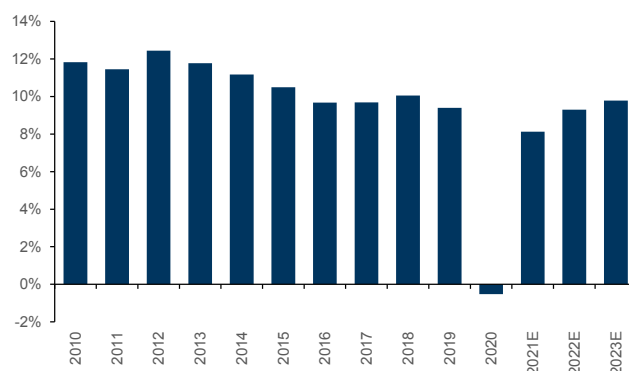
Exhibit 132: We anticipate PVH to realize a new record high gross margin in 2021 on a combination of business mix shifts to international and stronger control of SKU count and promotionality
PVH gross margin, historical and GS expectations



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 133: While margins remain depressed in 2021 vs. historic levels as the company's top line remains under pressure (due to tourist / COVID-19 headwinds), we anticipate strong sequential margin improvement going forward even as the company improves quality of sales

PVH EBIT margin, historic and GS estimates



Source: Company data, Goldman Sachs Global Investment Research

Valuation and key risks

Important note about GS Estimates: Per our Global Investment Research policy, we do not remove pending transactions from our estimates. As such, our estimates include the revenues and earnings associated with the pending transaction of select Heritage Brands (IZOD, Van Heusen, ARROW, and Geoffrey Beene). Per management, this transaction is expected to close in 3QFY21.

We initiate with a Buy rating on PVH and see 21% upside to our \$127, 12-month price target which is based on 8.5x Q5-Q8 EV/EBITDA. The Q5-Q8 EV/EBITDA methodology is consistent with our broader coverage universe. Our 8.5x EV/EBITDA multiple is in line with PVH's 1-yr pre-pandemic relative EV/EBITDA ratio to the S&P500, and incorporates our view of EBITDA growth potential.

Key downside risks include:

- **A sharper and faster reset in North America wholesale:** We see a path to higher adjusted operating EBIT margins as PVH executes on its strategy. That said, a larger

than expected reset in top line sales, particularly to North America wholesale, could weigh on EBIT dollar profitability and thus firm valuation. Further, shrinking sales in the domestic US marketplace could weigh on investor enthusiasm for the stock despite the company's strong international presence.

- **Declines in brand momentum:** If PVH's key brands Tommy Hilfiger and Calvin Klein experience deceleration in brand momentum, this could drive sales pressure and margin deleverage.
- **Elevated promotionality:** If PVH sees a sharper than expected rise in promotionality, this could drive near-term gross margin pressure and longer-term brand image disruption.

Ralph Lauren Corp. (RL, Buy)

We initiate on RL with a Buy rating and a 12-month, \$147 target price. We are upbeat about RL's path to improved execution as it increasingly sees the benefits of a multiyear strategic reset in its core North America business, and believe the company now has a stronger foundation from which it has the potential to grow profitably. We are encouraged by the brand's signs of pricing power in recent years as the company has executed on its AUR strategy, which we believe will help it navigate a period of rising input costs and normalizing promotions.

Key Investment Considerations:

- **A smaller but healthier business post pandemic.** RL has accelerated its reset efforts in North America wholesale, and has emerged from the pandemic with a smaller but brand-right wholesale business with more premium doors and reduced off price exposure. The company also has reset its international DTC.com business by eliminating discounting and weaning off arbitrage-driven sales. We believe this reset period is now in the rearview mirror and the business is poised for healthier trends going forward. On the cost side, RL has driven meaningful structural changes in the business in recent years that provide opportunity for margin expansion potential vs. pre-pandemic levels, including brand elevation initiatives (which have driven AUR), accelerated cost cuts in 2020 (\$180-200mn of gross savings from headcount reductions), and an office rationalization strategy that is driving lower rent expense.
- **Brand health is stabilizing.** The Ralph Lauren brand in the US has been weak for several years as the company went through its distribution turnaround phase. The brand is now showing signs of stabilization and we applaud management's efforts to premiumize the brand and drive AUR. We also see near-term upside given consumer trends towards RL's core product categories such as dresses and blazers.
- **DTC.com reset creates opportunity for margin expansion through owned channels.** RL's reset activity allowed the company to expand DTC.com margins to be accretive to the company within each respective region, meaning the brand can now look to accelerate growth through owned channels vs. looking to wholesale for

most of its profitability. We believe this stronger digital offering will provide a halo effect as the company drives its key city strategy forward.

Where Could We Be Wrong: The Bull/Bear Debate

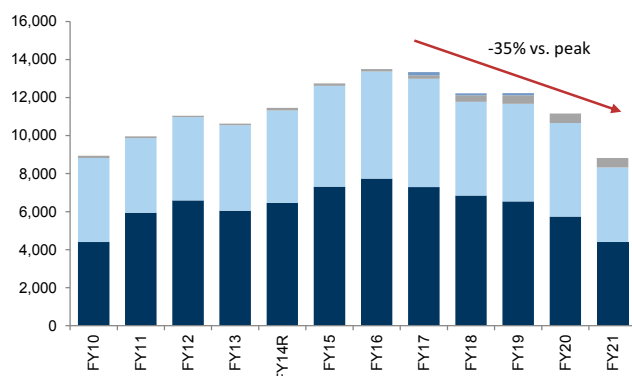
- **The bear argument:** Bears believe that RL will not be immune to a normalization in industry-wide inventory levels into 2022, thus inhibiting the brand's ability to drive continued gains in AUR and margins even as inflationary pressures in AUC accelerate. Brand momentum remains a key concern for those cautious on the stock, where the company's weaker ecommerce growth (particularly in North America) during the pandemic vs. peers is often cited as an indicator that the brand's competitive positioning isn't strong enough to warrant a premium valuation. Given an assumption of weaker brand momentum and pointing to a smaller app installed base vs. peers, bears worry that growth online will be expensive as customer acquisition and marketing cost could be high to drive growth in the brand.
- **Why we choose to buy despite these risks:** RL's strong management team has taken meaningful steps to reset the business and profitability, and following several years of reset the brand is poised for growth. We believe the company's solid AUR expansion program and recent data-focused initiatives of acquiring a younger, full-price customer and recent sequential improvement in NA ecommerce is evidence that there is scope for the brand to improve. With strong brand equity and a better control of product cycles (with a short supply chain), we believe the company can take strategic price increases to offset potential cost inflation.

A smaller but healthier business post pandemic

A reset wholesale network that offers opportunity from which to grow. RL has undergone turnaround efforts in its overstored wholesale network since FY16, and has since reduced its wholesale door count by 35% vs. the prior peak and simultaneously improved sales per wholesale door. This work accelerated during the pandemic across underperforming department store doors (with an exit of several hundred doors) and a meaningful reduction in sales to the off price channel (full year penetration declined by 450bps per management. *We now believe the business is appropriately rebased.*

Exhibit 134: RL's wholesale door count has fallen by 35% since prior peak (and 21% Y/Y during FY21); we believe this is now appropriately rebased

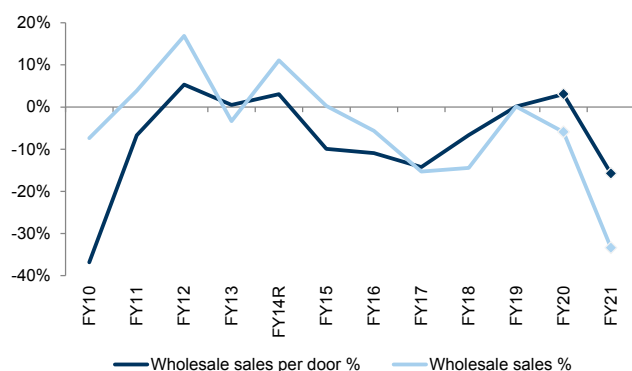
RL global wholesale door count by region, FY



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 136: This trend is also visible in North America wholesale trends, where sales per door improved in both FY19 and FY20 ahead of the pandemic impact

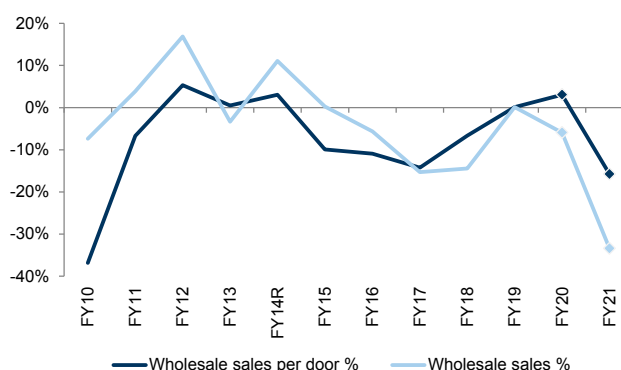
North America wholesale sales per door % chg Y/Y and wholesale sales % chg Y/Y



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 135: On a global basis, wholesale sales per door at RL outpaced wholesale sales changes since FY18 and improved in FY20, indicating the mix of quality doors was shifting higher

Wholesale sales per door % chg Y/Y and wholesale sales % chg Y/Y for global RL



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 137: We see room for wholesale revenues to rebound as productivity per door returns to its pre-pandemic rate

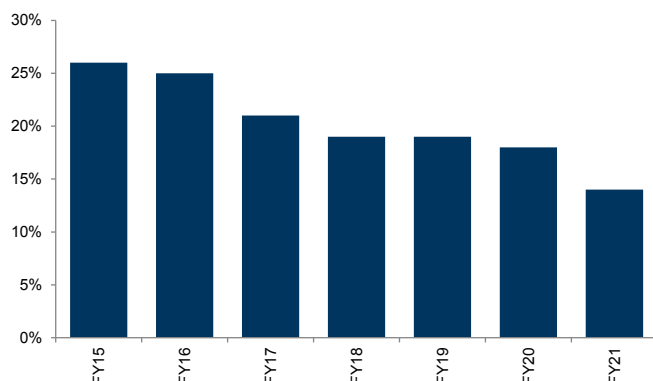
Scenario analysis of North America wholesale sales assuming various continued door closures (to account for Chaps business transition) at various productivity/door rates

North America Wholesale Scenario Analysis				
NA wholesale doors at FY21 Year End	4,404			
NA Wholesale Revenue in FY20	1,413.2			
Door change vs. FY21 Year End	-15%	-10%	-5%	0%
FY18: \$229.5	859.1	909.6	960.2	1,010.7
FY19: \$231.8	867.7	918.8	969.8	1,020.8
FY20: \$246.4	922.4	976.6	1,030.9	1,085.1
FY21 (COVID-19 impacted): \$176.7	661.5	700.4	739.3	778.2
Potential Growth vs. FY20: \$250.0	935.9	990.9	1,046.0	1,101.0
Potential Growth vs. FY20: \$260.0	973.3	1,030.5	1,087.8	1,145.0

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 138: Key customer concentration has decreased within US wholesale

Proportion of total global RL revenues sourced from top three wholesale customers

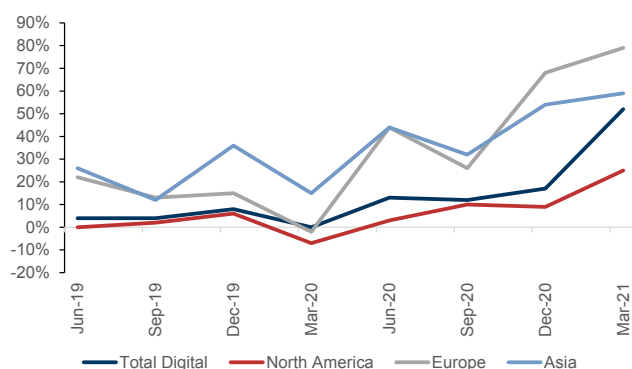


Source: Company data

A stronger online business in North America. For several years RL has looked to improve its DTC.com website globally through website repositioning, a reduction in promotionality on the site, and enabling the use of enhanced data and analytics to focus on assortment and personalization. This work began in the company's international businesses. Enhancing the North America website became a focus last year, where the company concentrated on eliminating daigou customers (who were looking for international arbitrage opportunities), elevating the site, reducing promotionality, and driving stronger quality of sales. While we believe this action was brand-accretive and helpful for long-term global brand growth, it did mean that RL's DTC.com website in North America meaningfully underindexed peers at a time when investors were particularly focused on DTC.com sales growth as a measure of brand health and momentum. *We believe improving and accelerating growth in this channel in calendar 2021 (fiscal 22) for RL could be an upside catalyst for shares.*

Exhibit 139: RL's North America digital business underindexed other regions pre and post-pandemic, though the business recently accelerated last quarter

RL's digital comp by region and quarter



Source: Company data

Exhibit 140: While competitors have grown market share meaningfully on DTC.com, RL has instead focused on growing only with local customers, elevating AUR, reducing promo, and improving site profitability

Key RL NA digital KPIs throughout the pandemic

North America Digital Business Metrics				
	Jun-20	Sep-20	Dec-20	Mar-21
NA Local Customers	High teens	High teens	High teens	>50%
Sitewide Promo Day Reductions	ND	52	52	50
Digital AUR	ND	>20%	22%	>40%
Expansion in Digital Profitability	500bps	>1000bps	>800bps	>700bps

Source: Company data

Structural business model shifts enable cost savings. On the cost side, RL has

driven meaningful structural changes in the business in recent years that provide opportunity for margin expansion potential vs. pre-pandemic levels, including brand elevation initiatives (which have driven AUR), accelerated cost cuts in 2020 (\$180-200mn of gross savings from headcount reductions), and an office rationalization strategy that is driving lower rent expense. The company has also announced the pending sale of its Club Monaco business, which should streamline management focus on core brands.

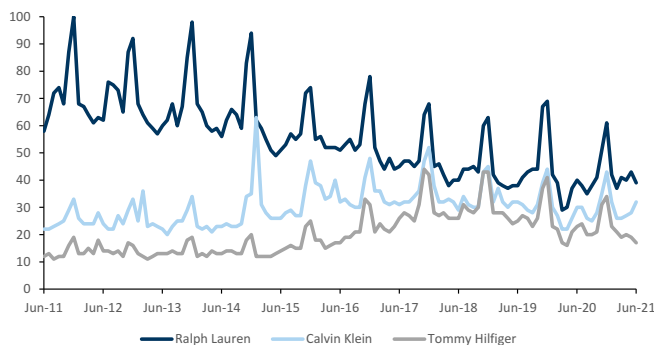
Brand health stabilizing

We are encouraged by the cleanup actions the company has taken to improve brand health. We believe the journey RL has embarked upon in recent years to improve brand perception in the marketplace is the right one, where reduced discounting and off-price sales will premiumize the brand. Indeed, pre-pandemic we saw some stabilization in search trends vs. peers.

We believe RL is now in a stronger position to win with their existing customer.

We believe stronger focus on content in the company's digital channels combined with personalization and better customer segmentation will help drive this effort, and enable RL to capture a greater wallet share of closet across the entire family of both existing and reactivation of lapsed customers.

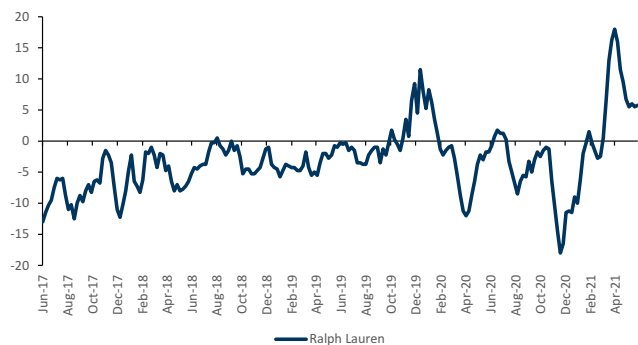
Exhibit 141: The Ralph Lauren brand showed pressure for most of the last decade, but this trend had begun to stabilize pre-pandemic
Google Trends for Ralph Lauren and key branded competitors



Source: Google Trends

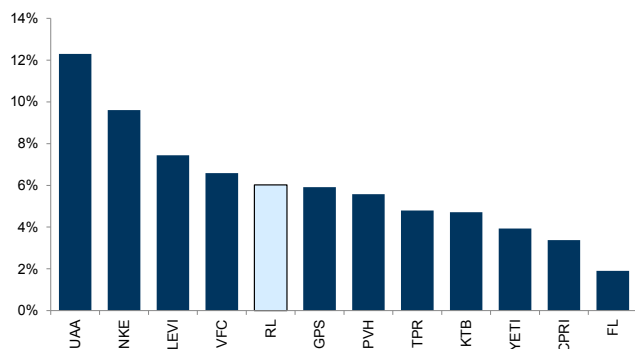
Exhibit 142: While preference changes during the pandemic were a headwind, pre-pandemic RL had started to see Y/Y improvement in search trends and the brand is showing some Y/Y momentum as the economy reopens

Y/Y pt change in Google Trends for Ralph Lauren, T4W average



Source: Google Trends, Goldman Sachs Global Investment Research

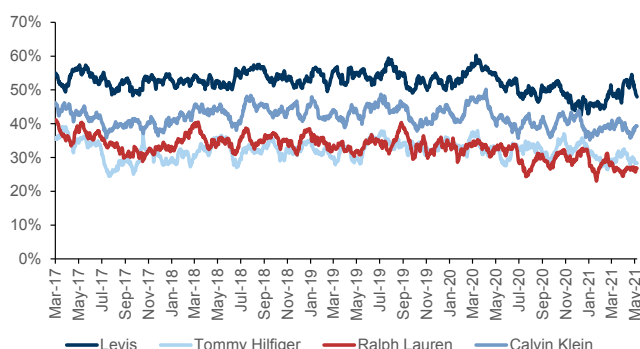
Exhibit 143: RL has leaned into marketing investments in recent years, now spending ~6% of sales vs. ~4% just a few years ago
Marketing and advertising spend for the fiscal year closest to December 2020



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 145: While we are encouraged by stabilization in brand momentum, we note that consideration among women for RL in the US underindexes key peers; we see this as an opportunity for RL in 2021 and beyond

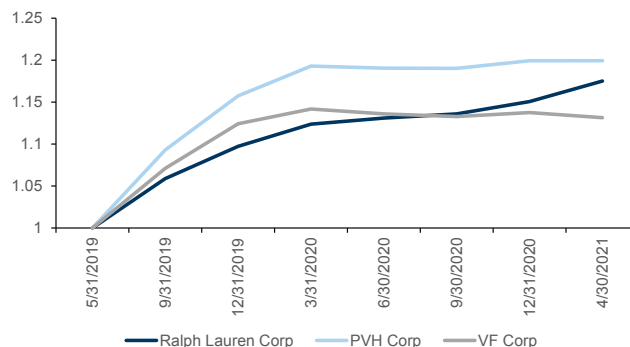
US womenswear consideration, RL vs. key peers



Source: WGSN

Exhibit 144: RL's social media follower growth underindexed peers pre-pandemic, but has recently begun to show some signs of improvement

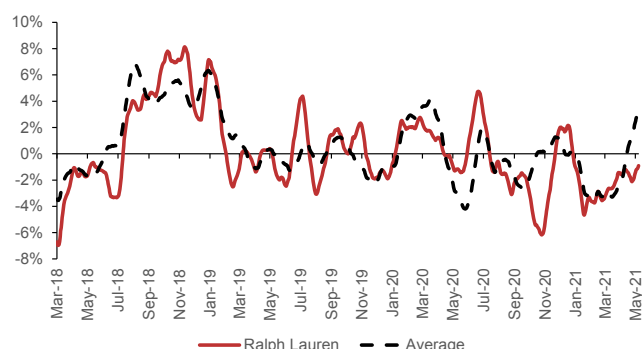
Social media followers for the core brand indexed at 1 in mid-2019



Source: Shareablee, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 146: However, average affinity brand scores for RL are largely in line with key peers

Y/Y T30 day average affinity score among US women, Ralph Lauren compared to an average of Levi's, Tommy Hilfiger, Calvin Klein, and Ralph Lauren



Source: WGSN, Goldman Sachs Global Investment Research

Digital margin strength means brand growth now channel-agnostic

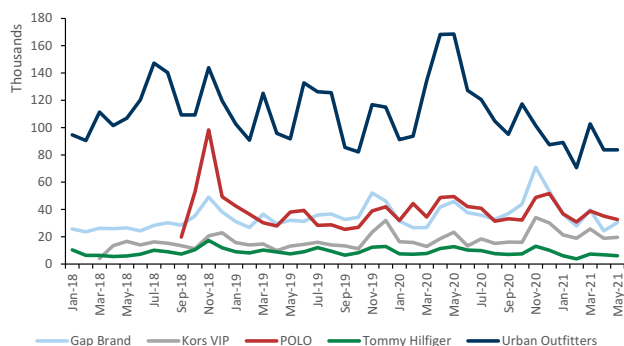
DTC.com reset enables profitable growth in owned channels. RL's reset activity allowed the company to expand DTC.com margins to be accretive to the company within each respective region. While we do see scope for the profitability of this channel to fluctuate depending on industry trends (shipping expense / promotionality / etc), we are constructive on the outlook for DTC.com growth to contribute to both top line and EBIT margin expansion. Pre-pandemic, DTC.com was dilutive to consolidated margins, meaning that a rationalization in higher-margin wholesale sales in favor of DTC.com growth weighed on operating dollar profitability.

Brand marketing efforts to drive DTC.com sales now provide profitable growth. We believe RL's focus on data, personalization, and customer lookalike profiles are helping RL retain its current customers to a greater degree, and capture a greater share of closet of recently acquired younger, less price-sensitive customers. As RL drives these

sales through its DTC.com channel, these operating profit dollars are both dollar and margin accretive. We believe these efforts are bolstered by RL's digital flagship stores which provide virtual premium shopping experiences for digital customers, as well as incremental investments RL is making in its app and content ecosystem. Strength in this channel can also help the brand grow as the company expands its key city strategy and focuses on localized digital marketing in a more meaningful way.

Exhibit 147: The Polo App has seen consistent downloads and ranks fairly well vs. other specialty retail peers

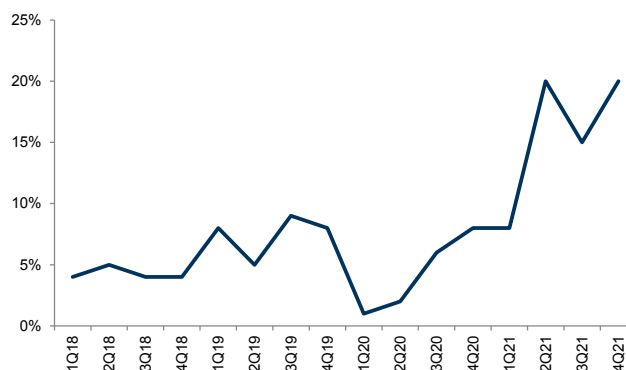
Polo app monthly downloads, in thousands



Source: Sensor Tower

Exhibit 148: RL has driven underlying AUR growth up meaningfully, and we believe the brand's elevation at DTC.com will continue to drive this higher

Underlying AUR growth at RL



Source: Company data, Goldman Sachs Global Investment Research

Digital wholesale another growth lever for RL. RL has increasingly focused on growing digital wholesale pure play opportunity, which can provide brand-right distribution expansion to the increasingly connected consumer. As of fiscal year-end, RL's wholesale business had approximately 100 3P digital partners, the majority of which were located in Europe. We believe several of these partnerships, such as ASOS and Farfetch, are brand-accretive as they provide a view of the brand that is tailored to the respective platform's customer (such as unique creative / styling / models).

Valuation

Important note about GS Estimates: Per our Global Investment Research policy, we do not remove pending disposals from our estimates. As such, our estimates include the revenues and earnings associated with Club Monaco and we do not account for any cash gain in our estimates from a potential sale.

We are Buy rated on RL and see 28% upside to our \$147, 12-month price target which is based on 9x Q5-Q8 EV/EBITDA. The Q5-Q8 EV/EBITDA valuation methodology is consistent with our broader coverage universe. We apply a slight discount target valuation multiple to that implied by RL's historical relative EV/EBITDA multiple vs. the S&P 500 to reflect higher levels of uncertainty of the North America revenue base as the business emerges from the pandemic. That said, despite this valuation discount, we continue to see meaningful upside to shares. For context, our 9x Q5-Q8 target valuation multiple is a 0.61x relative valuation multiple vs. the S&P500, which is a modest discount to the 0.65x pre-pandemic 1-yr average.

Key Risks

- **Slowing or accelerating top line growth:** A meaningful acceleration in revenues due to stronger brand momentum and digital momentum could drive greater brand confidence and pose an upside risk to the stock. Similarly, underperformance of top line growth vs. peers could drive further investor concern about brand health and momentum, driving downside to shares.
- **Shift to elevated promotional environment:** RL has shown several years of AUR gains, and any meaningful increase in industry promotionality could provide headwinds to continued realization of this expansion. Failure to realize ongoing gains could pressure gross and operating margins.
- **SG&A deleverage / leverage:** One of the critical questions of investors is the cost base necessary to drive brand health and growth for the overall business. Meaningful SG&A leverage (or deleverage) vs. current consensus expectations, either driven by heavier/lighter future cost savings, or higher/lighter pressures from the DTC and international business, are also factors to consider.

YETI Holdings, Inc (YETI, Buy)

We initiate on YETI with a Buy rating and a 12-month \$113 target price. We view YETI as a growth compounder with best in class authentic brand positioning. The company has numerous opportunities for sustainable growth, including US market share, category expansion, and international momentum. While we acknowledge strong recent outperformance, we expect meaningful continued growth momentum driven by an elevated consumer demand backlog, new innovation, restocking at wholesale, and international growth. We see 2%/3% upside to 2021/2022 sales estimates and 3%/9% upside to 2021/2022 EPS estimates.

We acknowledge shares have outperformed the sector YTD (YETI +35% vs. coverage median +30%) and since December 31, 2019 (YETI +165% vs. coverage median +39%) and trade at 26x/39x FactSet consensus NTM EBITDA and P/E multiples. While we acknowledge the stock looks expensive, we believe the company's solid brand positioning, margin expansion potential, and emerging international growth profile will allow the company to grow into its valuation over time. We cross-check YETI's valuation multiple on an EV/EBITDA/growth profile to screen for our price target methodology.

Investment Considerations:

- **Premium brand with a market leading position:** YETI's market-leading brand positioning in the outdoor space is strong. Authentic and experiential marketing and strong innovation are differentiators and provide pricing power.
- **Sales upside from growing and scaling new geographies and categories.** YETI's market leading brand positioning provides credibility as it expands into new categories (such as bags and gear) and geographies. We anticipate these expansion opportunities will drive scale and sales diversification over time. We expect accelerating performance here following key strategic investments such as localized

marketing, international office establishment, and momentum in brand awareness. We sensitize growth optionality within.

- **Current product categories have momentum.** We see near-term upside as YETI restocks channel inventories and fulfills elevated marketplace demand. Heritage products can continue to fuel growth, as the installed base is not yet penetrated. Further, new innovation in existing product categories can continue to drive upside.
- **DTC driving margins and ROIC expansion.** YETI has shown strong ability to shift sales from wholesale to DTC, enabling recapture of the wholesale profit pool and higher margins / returns. Importantly, YETI did not see a gross margin bump from lower promotionality in the marketplace (a key tenet of gains at other brands), and we thus see less downside should the supply/demand environment normalize across the branded consumer products space. We anticipate strong cash flow will allow deleveraging and provide upside from capital allocation, whether share repurchases, dividends, or M&A.
- **Emerging ESG focus an incremental driver of potential future ownership:** YETI's durable product architecture and leading position as a purveyor of reusable drinkware is a competitive advantage, in our view, and YETI has authentically partnered with and supported several organizations that champion sustainability. We believe the issuance of YETI's first ever sustainability report, including long-term targets and incremental disclosure, can be an incremental driver of investor interest and ownership. We discuss the key items we'd like to see contained in YETI's ESG report within.

Where Could We Be Wrong: The Bull/Bear Debate

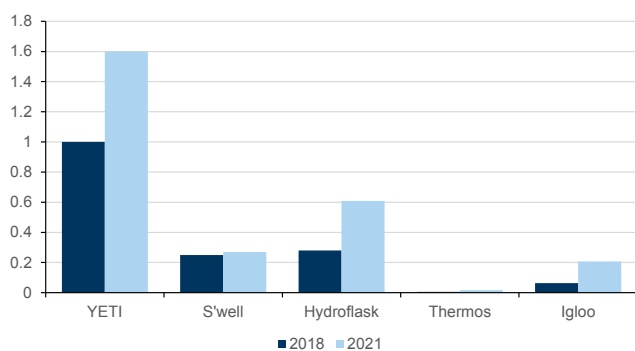
- **The bear argument:** YETI's brand was one of the strongest performers following the emergence of COVID-19, with consumer interest fueled by increased outside activities and local vacations. Bears argue that sales momentum will fade as consumers refocus their spend, and the stock could be used as a source of funds as investors harvest gains and redeploy capital elsewhere in the ecosystem. Other bear concerns include lack of scale in new product lines (such as bags) vs. long-term category winners (hard coolers / drinkware), fading gains from shelf space expansion at key US retailers, and potential for improving momentum at key competitors that have traditionally been stronger with young consumers. On margins, bears argue that a shift to an inflationary environment and a slower shift to DTC will slow gross margin expansion, and that the years of several hundred bps of EBITDA margin gains per year are in the rearview mirror.
- **Why we choose to Buy despite these risks:** We believe YETI is a truly differentiated lifestyle brand with functional authenticity and license to expand to new categories and products. The company's refreshed marketing and product introduction strategy, strong recent product introductions, improving brand awareness and consideration, and emerging international strength improve our confidence that this brand will continue to drive compounding growth. Also important is the strong cash generation and optionality generated from this strong brand with scale.

Market leader with authentic brand positioning

YETI is a premium brand with a market leading position. YETI's brand power is rooted in its functional authenticity and heritage across a variety of outdoor pursuits, including hunting, fishing, outdoor, ranch/rodeo, and food/drink. We believe its long history of providing durable and well-designed premium products firmly entrenches YETI as a well-loved lifestyle brand that has credibility to engage with the customer across their pursuits, whether that is in the office (with a coffee mug) or at the campfire. This is supported by comprehensive multi-channel marketing campaigns and ambassador networks (which have grown in recent years). Our analysis suggests the brand remains a best-seller within each of its product categories.

Exhibit 149: Relative to brands with similar product offerings, YETI has a leading Instagram following that has grown meaningfully since 2018

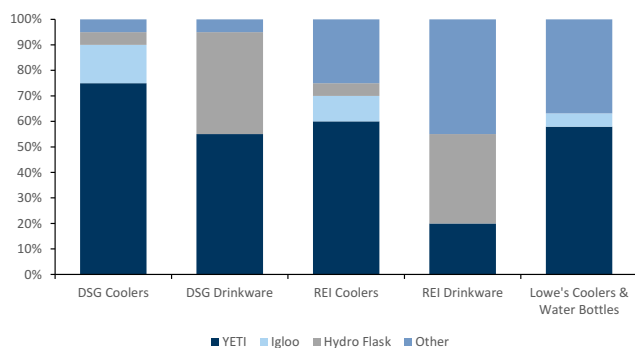
Instagram follower count, Spring 2021 vs. Fall 2018



Source: Instagram

Exhibit 151: YETI is the top seller at most of the national partners where the brand is sold; the company has particular dominance in coolers, but a strong position in drinkware too

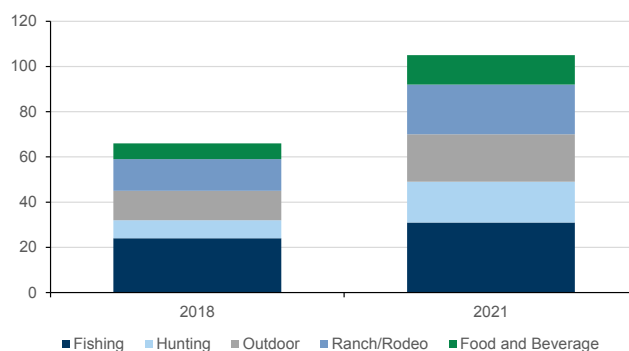
Proportion of top 20 bestsellers in a particular category for each retailer and category group, as of May 2021



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 150: YETI's ambassador count has expanded meaningfully since the company's IPO, with stronger representations across all key target segments

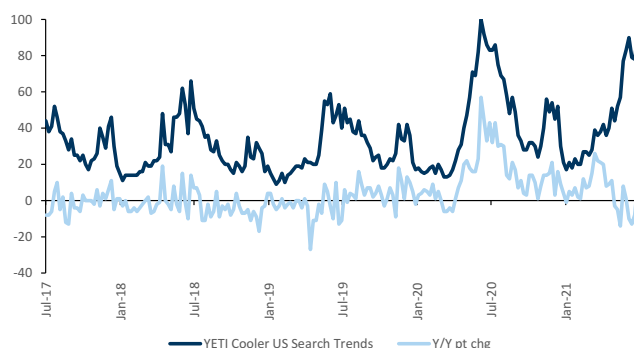
YETI's listed brand ambassadors by key pursuit; late 2018 vs. spring 2021



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 152: Brand momentum indicators such as Google Trends point to continued healthy search trend levels vs. pre-pandemic levels

Google Trends for YETI cooler in the US, T5Y and Y/Y pt chg



Source: Google Trends, Goldman Sachs Global Investment Research

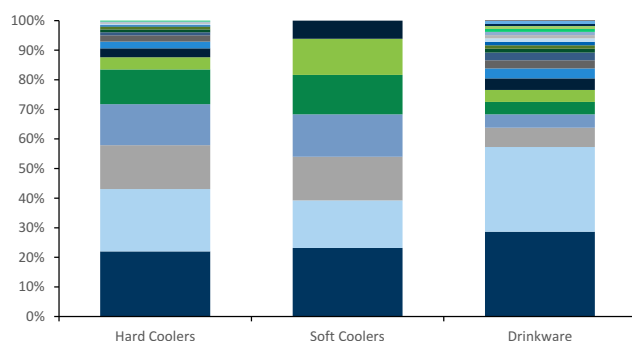
Sales upside from growing and scaling new geographies and categories

Thoughtful product category expansion and credible opportunity for more. YETI's market-leading brand positioning in the outdoor space provides credibility as it expands into new categories. While the company originally had strong success from a few select

product items (the YETI original hard cooler and the stainless steel drinkware tumbler), we believe the company has successfully diversified its product base so that it isn't reliant on a single product to drive sales. Importantly, this diversification also enables opportunity for incremental unit sales to the same consumer/household, including various sizes and functionality of hard and soft coolers (wheels, personal vs. group gatherings) and drinkware types (bottles / mugs / tumblers). While the company doesn't break down penetration by category, we discuss below an illustrative product breakout utilizing online reviews and bestseller data as a proxy.

Exhibit 153: We believe YETI has successfully diversified the product offering within each of its categories, and is not overly reliant on any single item as a key driver of revenue

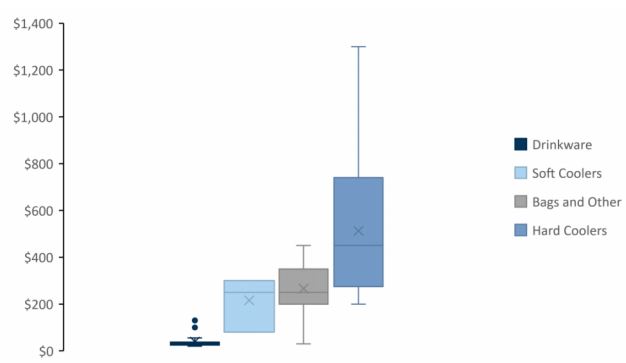
Proxy of potential product contributions to unit sales by category based on review volumes



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 154: YETI's pricing architecture allows consumers to accessibly enter the brand in the <\$100/unit range, while premium hard coolers such as the YETI V-Series and large sized products anchor the high end of the range

YETI's 2021 pricing architecture by category



Source: Company data, Goldman Sachs Global Investment Research

Bags category expansion broadens the YETI ownership base and can drive revenue scale over time.

This year, YETI launched new innovations across the bags, backpacks, and luggage category. We believe the product will appeal to the core YETI customer, given its feature of durable fabrics and thoughtful design features. Importantly, since the launch this Spring, we've seen YETI pivot its digital marketing and storytelling strategy to focus on campaigns that build over time rather than a splash-feature launch. We are encouraged by this extension to another market with a large addressable market (both for outdoor and non-outdoor enthusiasts), and believe successful expansion and growth in this strategy will give YETI further credibility to expand into even larger markets long-term. We embed healthy growth in our forecasts and believe YETI will likely roll this product to wholesale after a successful DTC-only pilot over time. We sensitize the potential bags / luggage market opportunity below.

Exhibit 155: We believe that the bag category for YETI could reach several hundred million dollars of annual revenue over time

Estimated potential long-term revenue for YETI's bags/backpack/luggage business, assuming the premium market has similar unit penetration as that seen in premium handbags and a MSD long-term penetration rate of the premium market

YETI US Bag and Luggage Market Size Scenario	
US duffel and backpack annual units sold (mn)	366
US luggage annual units sold (mn)	21.8
Estimated premium penetration (% units)	5.1%
Estimated premium duffel/backpack/luggage units	19.8
Potential YETI share of premium market	5%
Estimated annual units	1.0
Average Unit Price	275
Estimated annual YETI \$mn bag/luggage sales	272.8
2019 YETI Annual Sales at Retail	1,075.7
As a % of 2019 Sales at Retail	25.4%

Source: Company data, Euromonitor, Goldman Sachs Global Investment Research

Exhibit 157: We acknowledge that several strategic decisions by the company underpin the potential ramp rate of revenue in this category (such as distribution scope). We sensitize the potential CAGR's needed to reach the various dollar revenue sizes over 2-15 years of ramp below.

Estimated CAGR needed to reach select category revenues (vs. an assumed \$5mn in current revenue from existing bags) over 2-15 years

Scenario CAGR analysis of US YETI bags/luggage sales at various ramp rates		Years to reach market penetration					
		2	3	5	7	10	15
YETI bags and luggage category revenue	\$20	100%	59%	32%	22%	15%	10%
	\$50	216%	115%	58%	39%	26%	17%
	\$100	347%	171%	82%	53%	35%	22%
	\$150	448%	211%	97%	63%	41%	25%
	\$200	532%	242%	109%	69%	45%	28%
	\$400	794%	331%	140%	87%	55%	34%
	\$700	1083%	419%	169%	103%	64%	39%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 156: At various average price points and unit market share of the category, we anticipate over time the company could reach \$20-700mn in revenue at retail

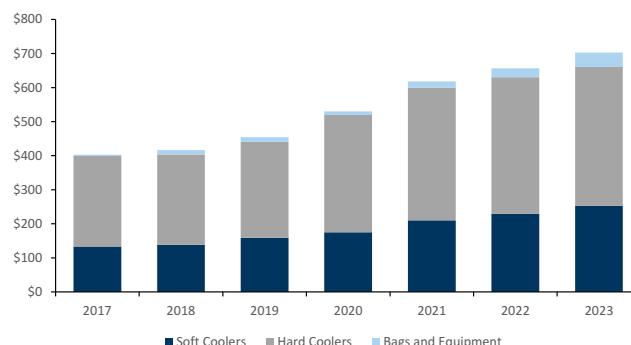
Scenario analysis of YETI's US long-term bags/luggage market opportunity at retail (US\$m) at various average price points and market unit share of the premium bags/luggage/duffel category (\$mn)

Scenario analysis of long-term US YETI bags / luggage sales at retail		YETI share of estimated premium bags / luggage market					
		0.5%	1.0%	2.5%	5.0%	7.5%	10.0%
Average unit price of YETI bag & luggage product	\$200	19.8	39.7	99.2	198.4	297.6	396.8
	\$225	22.3	44.6	111.6	223.2	334.8	446.4
	\$250	24.8	49.6	124.0	248.0	372.0	496.0
	\$275	27.3	54.6	136.4	272.8	409.2	545.6
	\$300	29.8	59.5	148.8	297.6	446.4	595.2
	\$325	32.2	64.5	161.2	322.4	483.6	644.8
	\$350	34.7	69.4	173.6	347.2	520.8	694.4

Source: Company data, Euromonitor, Goldman Sachs Global Investment Research

Exhibit 158: We believe further scale in the soft cooler market represents YETI's largest growth opportunity within the US, but do expect traction in the bags category to become more material later this decade

GS estimates of YETI Coolers & Equipment sales at retail over time by sub-category

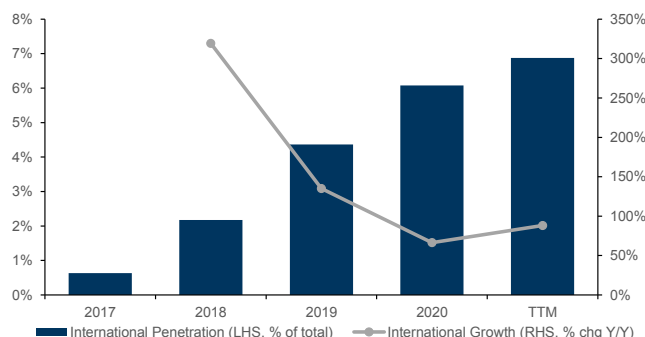


Source: Company data, Goldman Sachs Global Investment Research

International marketplace growth now a needle-mover. While international has been a component of YETI's strategy since 2017, momentum in key geographies (such as Canada / Australia) is building and growth is now material to the overall growth story for the brand. Importantly, brand awareness and growth in key international marketplaces such as Canada and Australia are strengthening (which were launched pre-IPO), and incremental improvement in these regions is now accretive to overall brand strength and company profit. We believe YETI's recent focus on localized marketing and dedication of local offices in emerging markets will fuel expansion internationally, both through DTC as the company opens local YETI.com websites, but also through an authentic expansion of the YETI distribution network. Below, we show that strong international growth CAGR's can be a key driver of overall top line momentum.

Exhibit 159: YETI has grown its international business to \$80mn in TTM sales since launch in 2017; momentum is building and penetration is now 7%

YETI international sales as a % of total (LHS) and international sales growth (% chg Y/Y)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 160: Strong continued growth in YETI's international business could drive meaningful outperformance in consolidated growth vs. YETI's long-term 10-15% target range

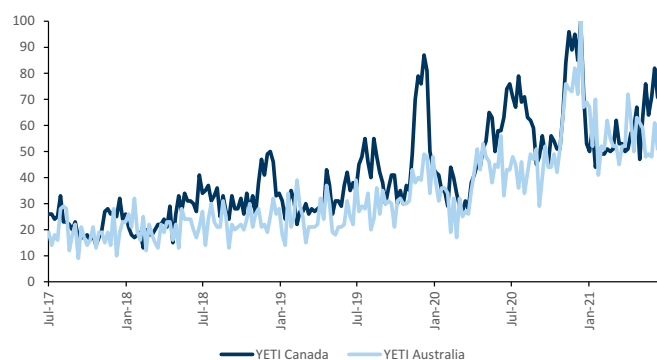
Sensitivity analysis of YETI international growth and domestic growth; 3-YR assumed CAGRs vs. TTM revenue

Sensitizing International Growth Impacts for YETI						
		US 3-YR CAGR				
		0.0%	2.5%	5.0%	7.5%	10.0%
Intl. 3-YR CAGR	25%	2.1%	4.4%	6.6%	8.9%	11.2%
	50%	5.2%	7.3%	9.4%	11.6%	13.7%
	75%	9.1%	11.1%	13.1%	15.1%	17.2%
	100%	14.0%	15.8%	17.6%	19.5%	21.4%
	125%	19.7%	21.3%	23.0%	24.7%	26.5%
	150%	26.1%	27.6%	29.1%	30.7%	32.3%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 161: Search trends for YETI in both Australia and Canada are similarly growing

Google Trends for YETI in Canada and Australia



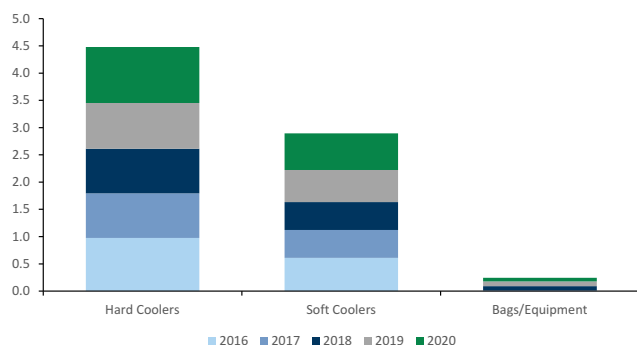
Source: Google Trends

Current categories have momentum

Product adoption story has legs. One of the long-standing bear arguments for YETI, and other products with slow replacement cycles, is that sales momentum will slow as the installed base rises and closes in on the TAM. We provide an illustrative model of the installed US hard cooler and drinkware user base in the US below in comparison to US households with various demographics, and conclude that there is meaningful opportunity for continued sales growth in the US, with further room to grow internationally. Our analysis includes several simplifying assumptions to arrive at our unit and installed base estimates, including a mark-up of realized wholesale revenue to get to sales at retail, average unit price (based on our estimates of unit sales across the product architecture within each category), and proportion of sales by sub-category over time (which is not disclosed by the company).

Exhibit 162: We estimate that YETI has sold nearly 4.5mn hard coolers in the US since 2016, and nearly 3mn soft coolers; bags and equipment remains the lowest penetrated category among YETI Coolers & Equipment products

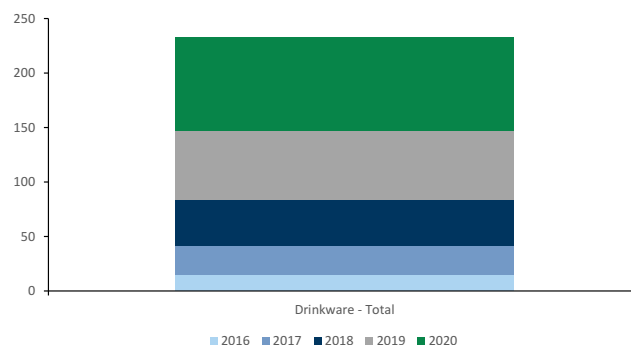
Estimated unit installed base of YETI coolers & equipment by sub-category and purchase cohort



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 163: We estimate a meaningfully larger installed unit base for YETI drinkware in the US

Estimated installed unit base of YETI drinkware in the US by purchase cohort



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 164: The installed unit base as a percent of US population and US households is still low for most categories; while the drinkware base has progressed further, we believe a quicker replenishment cycle and the desire for multiple units per person means this base is similar

Estimated Unit Installed Base by sub-category as a percent of key population metrics

YETI 2016-2020 Unit Installed Base Estimates				
	Hard Coolers	Soft Coolers	Bags / Equip.	Drinkware
Percent of total US population	1.3%	0.9%	0.1%	25.4%
Percent of total US households	3.5%	2.3%	0.2%	67.9%
Percent of households with median income >\$35k	4.8%	3.1%	0.3%	92.4%
Percent of households with median income >\$50k	5.8%	3.7%	0.3%	110.3%

Source: Company data, Census Bureau, Goldman Sachs Global Investment Research

Exhibit 165: The drinkware installed unit base among US households with income >\$50k per annum has meaningful room to grow when you assume several items per household and a reasonable replacement cycle

Estimated drinkware unit installed base as a percent of households with median income >\$50k at various items/household and replacement cycles in years

Drinkware Installed Base Penetration					
Households with median income >\$50k					
		Replacement Cycle (Years)			
		2	3	4	5
Items per household	1	54.5%	75.9%	90.1%	110.3%
	2	27.3%	38.0%	45.1%	55.1%
	5	10.9%	15.2%	18.0%	22.1%
	10	5.5%	7.6%	9.0%	11.0%
	15	3.6%	5.1%	6.0%	7.4%

Source: Company data, Census Bureau, Goldman Sachs Global Investment Research

Exhibit 166: The drinkware installed unit base among the US population is low when compared to potential replacement cycles and items per person

Drinkware Installed Base - Population					
Total Population					
		Replacement Cycle (Years)			
		2	3	4	5
Items per person	1	12.6%	17.5%	20.8%	25.4%
	2	6.3%	8.7%	10.4%	12.7%
	3	4.2%	5.8%	6.9%	8.5%
	5	2.5%	3.5%	4.2%	5.1%
	10	1.3%	1.7%	2.1%	2.5%

Source: Company data, Census Bureau, Goldman Sachs Global Investment Research

Our view on premiumization and product adoption. While we acknowledge strong and powerful product adoption cycles in consumer / retail, we believe that YETI's strong history of premiumizing and branding formerly commodity-driven products with a design and durable engineered focus means the company will not see a near-term ceiling from a growing installed unit base. While the products are indeed durable and can last for

years, we believe YETI's thoughtful approach to product upgrades (the YETI Roadie for example), new colorways, product iterations within sub-categories, and new category expansion will keep consumers coming back to the brand and increase overall customer lifetime value.

Near-term sales and margin upside as YETI fulfills marketplace demand

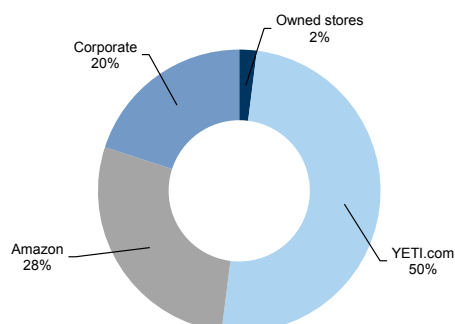
Supply chain challenges limited upside in 2020 / early 2021, and demand

fulfillment will fuel near-term growth. YETI saw particularly strong demand throughout the course of the pandemic. However, due to order cuts and supply chain constraints the company was not able to fully meet marketplace demand. This led to meaningful out-of-stocks in YETI's owned channels as well as wholesale partners. YETI has focused on improving its supply chain and is in the process of rebalancing inventory across the marketplace, though we continue to see out of stocks and limited availability in select channels and at select partners. We believe that fulfilling this demand will drive strong sales at both wholesale and DTC. From a strategic perspective, YETI's focus on slowly rebalancing marketplace inventories demonstrates the improved demand planning and inventory management function within the company vs. history, in our view.

Resumption of non-outdoor sales growth offsets any normalization in outdoor

demand. YETI has a balanced product portfolio across "stay at home" beneficiaries and "return to normal" activities, and the company's product portfolio and personalization-fueled marketing has helped the company become increasingly activity agnostic. As the macro backdrop shifts into the tougher comparison comp quarters of the pandemic (where YETI's sales grew strongly vs. branded consumer product peers), we anticipate a resumption of corporate sales growth to offset any normalization in top line sales of outdoor-focused product sales from the prior year. On balance, this likely results in a pickup of sales growth in the drinkware product category as office workers return to commuting and purchase tumblers for their morning beverages, and as corporate events typically overindex to drinkware. While we do see room for sell-through rates of large format hard coolers to slow sequentially following outsized adoption, we believe strong consumer excitement for the everyday Roadie cooler and family-activity friendly soft cooler portfolio to help offset any potential normalization.

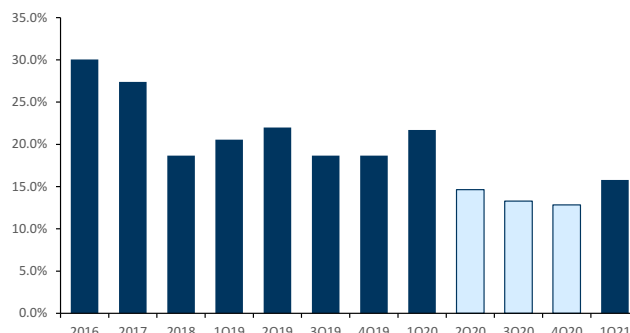
Exhibit 167: A meaningful portion of YETI's DTC business is comprised of corporate sales, which lagged overall growth in 2020
Estimated 2020 YETI DTC channel mix



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 168: Inventory as a percent of TTM sales fell to multi-year lows during the pandemic and sell-through at wholesale partners exceeded sell-in; we see an opportunity for YETI sales to be strong for the remainder of 2021 and into 2022 as they selectively restock the channel

YETI Inventory % TTM sales



Source: Company data, Goldman Sachs Global Investment Research

Limited international travel likely boosts consumer interest in close-to-home vacations.

While not a long-term investment consideration, we do believe that the post-pandemic reopening will occur in phases and consumer interest will not fully reposition to pre-pandemic activities immediately. With international travel still largely limited and a cohort of consumers still likely focused on the risk of COVID-19, we believe that increased adoption of domestic travel and/or outdoor pursuits could be a near-term boost to sales of YETI coolers and equipment product, further helping the company cycle the tough compares of 2020. We also believe that adoption of outdoor pursuits could be somewhat sticky, a consumer shift that would likely benefit YETI.

DTC driving margins and ROIC expansion

Shift to DTC a driver of margin expansion, with upside from strategic initiatives.

We see YETI as a key beneficiary of consumer shifts to DTC and digital, where YETI sees upside to dollar revenues, gross margins, and dollar EBIT profitability as it recaptures demand in its own channel. We believe YETI's incremental investments in data and analytics, including machine learning to drive consumer engagement and conversion, will fuel continued acceleration in this channel. These investments are in the early stages and we believe this could be a continued driver of brand engagement, consumer connection, and profit upside for the next decade.

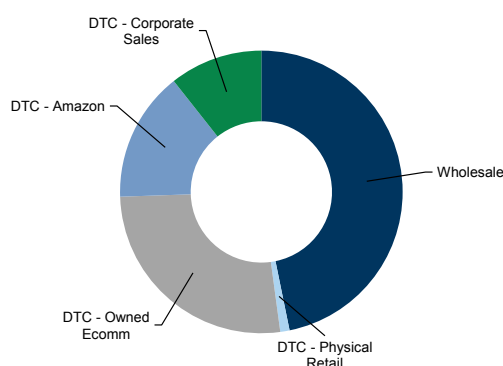
Expect strong margins from a best-in-class brand. We acknowledge puts and takes in the potential for 2021 gross margins, where strong 1Q results, continued channel shift, and benefits from product cost negotiations are offset by higher GSP duties, incremental freight expense, and some product quality reinvestment. Importantly, however, is our belief that YETI will continue to drive net gross margin expansion over time as the company grows its DTC business both domestically and internationally, realizes some fixed cost leverage, and also scales its distribution and manufacturing and realizes should-cost sourcing savings. We also note that YETI has taken a more conservative stance on guiding for GSP impact vs. other peers in our coverage universe,

and renewal of this program could provide upside to consensus estimates. Importantly, YETI did not see a gross margin bump from lower promotionality in the marketplace (a key tenet of gains at other brands), and we thus see less downside should the supply/demand environment normalize across the branded consumer products space.

Operating margin expansion. We forecast YETI will expand operating margins to 21.6% by FY23, up from 20.5% in FY20, driven predominantly by stronger gross margins and fixed cost leverage on select G&A items. We note that we do expect adjusted SG&A to delever as the company mix shifts to DTC, but believe that overall dollars and margin will expand at the operating level.

Exhibit 169: YETI's business overindexes to the DTC channel, with nearly 30% of the company's revenues sourced through its own ecomm channel

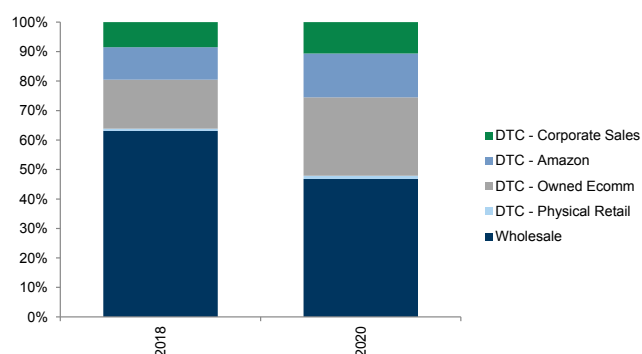
YETI FY20 channel composition estimates



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 170: The company has executed a notable channel shift in recent years as it has focused on growing the brand through DTC channels

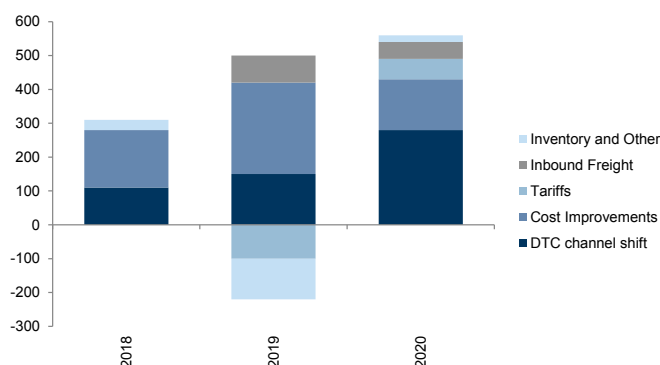
YETI FY18 and FY20 estimated sales composition by channel



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 171: Channel shift has been a meaningful contributor to gross profit margin expansion in recent years, which we anticipate could become a smaller contributor over time as the magnitude of the channel shift becomes less pronounced

Gross profit margin change Y/Y drivers (bps)

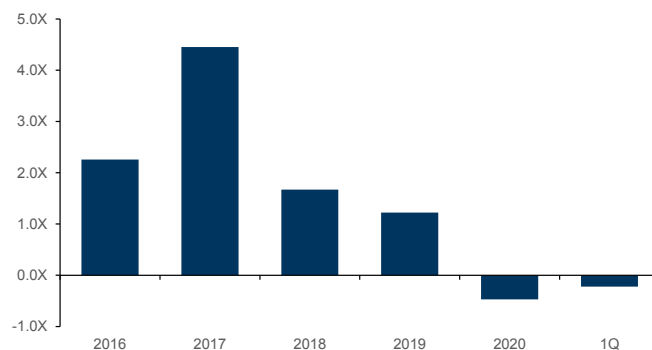


Source: Company data

YETI's strong performance during COVID-19 and healthy margin structure reinforced an already-strong balance sheet. YETI had been deleveraging its balance sheet through selective debt paydown and growth in TTM EBITDA for several years pre-pandemic, but an acceleration in growth and margins helped the company transition

to a net cash position. This strong leverage position, combined with solid operating cash flow and a capital-light business model means YETI has meaningful opportunity for shareholder-friendly capital allocation. We model payoff of outstanding debt by the end of 2021, and see opportunity for accretive actions such as share buybacks or strategic M&A. We sensitize this potential below.

Exhibit 172: YETI has sequentially improved its balance sheet and ended 2020 and 1Q21 in a net cash position
YETI Net Debt to TTM Adjusted EBITDA



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 173: We illustrate the potential EBITDA/EPS upside and associated increase in leverage should YETI pursue a strategic acquisition
Illustrative scenario analysis of EBITDA and EPS accretion for a hypothetical acquisition, assuming GSe FY21E year end balance sheet and shares and excluding potential share repurchase or additional debt paydown activity (\$mn, unless stated otherwise)

Acquisition Assumptions		Acquisition Scenario Analysis									
Deal Assumptions		50	125	200	275	350	425	500	575	650	725
EV/EBITDA Multiple	15.0x	3.5	8.8	14.0	19.3	24.5	29.8	35.0	40.3	45.5	50.8
Target EBIT margin	7%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
D&A as % of Sales	3%	5.0	12.5	20.0	27.5	35.0	42.5	50.0	57.5	65.0	72.5
Synergy % of Sales	2%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
D&A % step-up on intangibles	50%										
Target existing debt	\$0										
Rate on acquired net debt	5%										
Financing Assumptions											
Acquired equity value % of EV	100%										
Rate on new debt	4%										
% financed with new debt	100%										
Interest rate on cash	1%										
Base YETI Estimates											
Original FY22E YETI Net Income	249.9										
FY20E YETI shares outstanding	88.5										
Tax rate on acquired income	25%										
Original FY21E YETI EBITDA	317.7										
Estimated FY21E Net Debt (4Q21E)	-187.2										
Deal Financing:											
New Debt Issued		75	188	300	413	525	638	750	863	975	1088
Cash Used		0	0	0	0	0	0	0	0	0	0
Enterprise Value Consideration		75	188	300	413	525	638	750	863	975	1088
Equity Value Consideration		75	188	300	413	525	638	750	863	975	1088
Acquired Net Debt		-	-	-	-	-	-	-	-	-	-
Starting Net Income		250	250	250	250	250	250	250	250	250	250
+ New EBIT		4	9	14	19	25	30	35	40	46	51
+ Synergy		1	3	4	6	7	9	10	12	13	15
-D&A Step-up		-1	-2	-3	-4	-5	-6	-8	-9	-10	-11
-Incremental Net Interest		-3	-8	-12	-17	-21	-26	-30	-35	-39	-44
-Incremental tax		0	0	-1	-1	-1	-2	-2	-2	-2	-3
New Net Income		250	251	252	253	254	255	256	256	257	258
Share count		88.5	88.5	88.5	88.5	88.5	88.5	88.5	88.5	88.5	88.5
Accretion/Dilution:											
Original EPS		\$2.82	\$2.82	\$2.82	\$2.82	\$2.82	\$2.82	\$2.82	\$2.82	\$2.82	\$2.82
New EPS		\$2.83	\$2.84	\$2.85	\$2.86	\$2.87	\$2.88	\$2.89	\$2.90	\$2.91	\$2.92
\$ accretion/(dilution)		\$0.01	\$0.02	\$0.03	\$0.04	\$0.04	\$0.05	\$0.06	\$0.07	\$0.08	\$0.09
% accretion/(dilution)		0.2%	0.6%	0.9%	1.2%	1.6%	1.9%	2.3%	2.6%	2.9%	3.3%
Original EBITDA		318	318	318	318	318	318	318	318	318	318
New EBITDA		324	335	345	355	365	375	385	395	405	416
New Net Debt/EBITDA		-0.3x	0.0x	0.3x	0.6x	0.9x	1.2x	1.5x	1.7x	1.9x	2.2x
EBITDA accretion/(dilution)		2.1%	5.3%	8.5%	11.7%	14.9%	18.1%	21.2%	24.4%	27.6%	30.8%

We assume YETI acquires a company with revenues ranging in the \$50-725mn range, as we assume YETI would not finance a 100% debt acquisition that would increase net debt/EBITDA beyond 2.5x given industry averages. We assume an EBITDA margin below athletic averages but in line with higher-quality apparel and brand peers. We assume D&A is 3% of sales based on industry historical average, and assume the target is debt free on a net basis.

Source: Company data, Goldman Sachs Global Investment Research

Emerging ESG focus an incremental driver of potential future ownership

Sustainability built into the company's durable product offer. YETI's durable product

architecture and leading position as a purveyor of reusable drinkware is a competitive advantage, in our view, and YETI has authentically partnered with and supported several organizations that champion sustainability. We believe YETI's focus on reusable drinkware (which accounted for 58% of FY20 sales) aligns well with consumer interest in reducing environmental waste.

ESG ownership limited vs. other ESG-leaders in our coverage universe. YETI's ESG investor base ownership is limited compared to companies in the branded apparel space that score well on ESG-associated metrics (including NKE, TJX VFC, LULU, ROST, and BURL). We believe the issuance of YETI's first ever sustainability report, which could include long-term targets and additional disclosure, can be an incremental driver of investor interest and ownership. Further, YETI's recent transformation of its governance structure (including a shift to independent and diverse directors) will likely be viewed favorably. We discuss key areas of disclosure that we believe ESG investors are likely to look for in more detail below.

What would we like to see from YETI's inaugural ESG report?

- **Water, Pollution, and Emissions.** We look for color on the impact of YETI's carbon emissions, industrial water pollution, and plastics and metals procurement. Our view is that brands that actively monitor and look to limit the environmental impact of supply chains are better positioned in an environment with rising headline/regulatory risk and appealing to the ESG-focused consumer and investor. We look for metrics including raw material sourcing in relation to environmental standards, value chain emissions and targets.
- **Waste and the Circular Economy.** While YETI's products are inherently more durable than the typical product produced in the branded consumer sector (particularly compared to apparel), we are cognizant of the material plastics volumes that are utilized to produce the company's hard coolers and the inherent replacement cycles of drinkware as consumers look to upgrade to new colorways / designs. Given the industry's recent focus on end-of-life waste and management, we'd look for an update on how YETI views their product's recyclability or take-back initiatives.
- **Labour and the Supply Chain.** We look for a better understanding of the labor and human impact associated with YETI's supply chain across the globe. Metrics we'd like to see include supplier audits in relation to labor standards and worker wages relative to minimum wage rates.
- **Clear standards and targets.** This could include adoption of ESG-focused reporting standards such as the Sustainability Accounting Standards Board and/or Task Force on Climate-Related Financial Disclosures.

Valuation

We are Buy rated on YETI and see 22% upside to our \$113, 12-month price target which is based on 26x Q5-Q8 EV/EBITDA. We believe YETI's strong growth profile and accelerating brand momentum should drive a premium multiple vs. its historical average, but believe the company should trade at a modest discount to other athletic

peers such as LULU given the company's more limited execution history, TAM still focused on the durable product (vs. the wider ranging athletic apparel TAM), and lower EBITDA margin. For context, YETI's 1-yr pre-pandemic relative NTM EV/EBITDA vs. the S&P 500 was ~1.2x, well below LULU at 1.9x during the same period. Our 12-month price target implies a 1.8x premium to S&P500 EV/EBITDA, below LULU's 1.9x historical relative rate but above YETI's historical trading range.

Key Risks

- **Slow or negative growth in the core US market.** We believe YETI's recent growth acceleration is sustainable and driven by ongoing consumer interest in the brand. That said, we do recognize that COVID-19 did cause an acceleration in outdoor consumer product demand across the sector, which may slow as customers return to pre-COVID activities. Additionally, we acknowledge that government actions such as stimulus and enhanced unemployment benefits could have changed the price elasticity and price sensitivity of consumers, who may have chosen to purchase a more expensive product than they traditionally would have done, and/or purchase more from the premium brand than they might have otherwise. If growth materially slows for the YETI brand, the company may see deleverage on fixed expenses and realize inventory buildup.
- **A more competitive drinkware environment.** In the years ahead of COVID-19, YETI's drinkware business grew at a slower rate than that of key competitor Hydroflask. Our primary research indicated that the Hydroflask brand resonated well with younger Gen Z customers, while the core YETI product often performed better among adults. If key competitors re-accelerate their growth in 2021 and beyond, this may drive some competitive pressures for the YETI drinkware portfolio.
- **Supply chain and inflation.** YETI is a premium brand and we believe the company has pricing power. That said, the company is seeing inflationary pressures in its supply chain, both from an inbound freight basis but also due to currency impacts and the non-renewal of the GSP. YETI also saw demand outstrip available supply in 2020. We will closely watch for signs of supply chain pressure and/or cost inflation, which could negatively impact YETI's margins and growth.

Casper Sleep (CSPR, Sell)

We initiate on CSPR with a Sell rating and a 12-month \$7 target price. We see 1% and 6% downside to consensus expectations for 2021/2022 sales estimates, and we see potential for share underperformance vs. competitor brands in the marketplace. While we are encouraged by the company's renewed focus on technical marketing and potential EBITDA margin leverage from a shift to higher-margin wholesale channel, we believe this is offset by our observation of fading brand momentum indicators in the marketplace and limited evidence of pricing power in an inflationary cost environment.

Investment Considerations:

- **Brand momentum indicators muted vs. peers:** CSPR has refreshed its marketing

strategy to focus on upper funnel technical and product marketing. We are constructive on this shift, but are cautious on the continued fade in brand momentum that the Casper brand has been showing vs. peers. We thus see potential for share underperformance vs. peers.

- **Wholesale expansion comes with some risks:** CSPR is increasingly leaning into trial doors at traditional US mattress retailers. We expect this to increase brand awareness and consideration, ultimately driving top line sales and margin expansion through leverage of both marketing and G&A. However, we believe this strategy also comes with risks, including gross margin headwinds, potential muddling of brand messaging, increased sales volatility, and an increasingly complex inventory and forecasting infrastructure. Net, we believe the pace of Casper's wholesale partner expansion is worth noting, and we believe investor interest will likely shift to sell-through trends vs. sell-in as Casper cycles meaningful partner door rollouts into 2022 and beyond.
- **Margins supported by channel shift, but brand momentum weighs on pricing power:** We see potential for Casper sales and profits to improve as stores reopen and as sales increasingly grow through the higher-margin wholesale channel. However, we believe this benefit is already embedded in consensus estimates. We also highlight that Casper has not taken pricing even as peers have done so, which could constrain Casper's ability to drive margin gains commensurate with the industry in an environment increasingly marked by input cost inflation.

Where Could We Be Wrong: The Bull/Bear Debate

- **The bull argument:** CSPR underperformed peers in 2020 and management strategy evolved following the company's early 2020 IPO, culminating in the culling of its EU business, strategic rounds of corporate cost cuts, a shift away from retail door expansion, and a renewed focus on improving internal organizational structure and supply chain. Bulls argue that into 2022, CSPR's strategy is now increasingly focused and clear, with a focus on executing against a wholesale expansion playbook which in this instance is compelling given the dynamics of mattress sales (infrequent purchase and elevated CAC), and simultaneously delivering clearer product architecture and merchandising. On balance, bulls believe trial door expansion momentum and leverage on fixed costs can drive healthy EBITDA dollar improvement.
- **Why we choose to Sell despite these risks:** CSPR underperformed peers in 2020 despite strong shifts to at-home spending, and brand momentum indicators suggest softer results vs. peers. With brand momentum light, CSPR's strategy of growing trial doors is an opportunity for improving awareness and consideration among consumers. However, this strategy comes with risk to brand positioning/segmentation, and also to inventory control practices. On margins, the company's shift to wholesale weighs on gross margin (though accretive to EBITDA), which presents an optical challenge relative to industry peers that are delivering expansion. Finally, in contrast to its profitable peer set, CSPR's lack of EBITDA profitability leaves the brand with limited capacity to meaningfully invest.

- **What could make us more positive?** We look for a sustained and meaningful inflection in DTC.com growth and/or other brand momentum indicators that would suggest Casper is gaining mindshare among consumers and market share in the industry. We acknowledge CSPR has been taking action to improve its brand, including a shift towards more technical product marketing. However, we look for signs that this campaign is driving an upward inflection in Casper's brand momentum indicators vs. peers. Further, we also look for evidence that CSPR has pricing power vs. peers in the industry.

Brand momentum indicators muted vs. peers

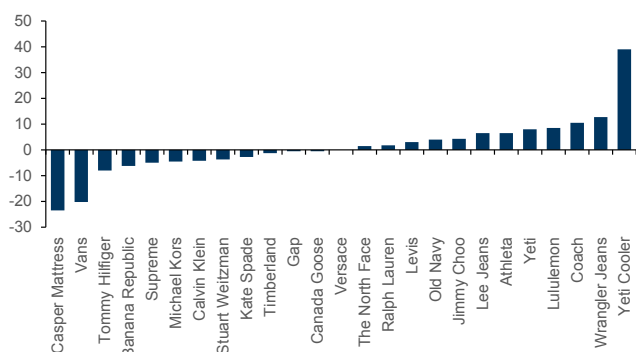
CSPR has refreshed its marketing strategy to focus on upper funnel technical and product marketing. In recent years, investor concerns on Casper have been focused on its technical product differentiation relative to established peers. Bear arguments for the company often focused on PRPL's differentiated grid technology, Tempur's positioning in premium foam and cooling, or Sleepnumber's technical product marketing in the marketplace. In contrast, CSPR's marketing strategy in 2019 and 2020 often highlighted either baby animals or the unboxing experience, neither of which outlined the distinct technical product functionality of a Casper mattress. In contrast, Casper's new marketing campaigns focus on the technical innovation (and in particular, temperature regulation) offered in its premium product lines but still features playful and lighthearted aspects that are in line with the historical brand code.

Brand momentum indicators are muted vs. peers. CSPR's top line momentum underperformed key peers throughout 2020. Search trends indicate other brands are continuing to gain mindshare among consumers vs. Casper. We view this as critically important as we believe brand momentum enables sales growth and pricing power. Despite refreshed marketing campaigns, we continue to see weaker performance for Casper vs. peers.

Casper pricing power appears to be muted. The mattress industry is facing supply chain challenges and rising input costs, and the broader consumer/retail industry has been less promotional this year as strong consumer demand has enabled pricing. We have observed select competitors scaling back on promotions and/or raising the net realized price to the consumer. Indeed, we have observed two pricing increases for PRPL vs. early 2020 levels for core mattresses. However, CSPR has only taken price on one of its higher end mattresses.

Exhibit 174: Casper brand search trends vs. 2019 appear to be the least favorable in our coverage universe

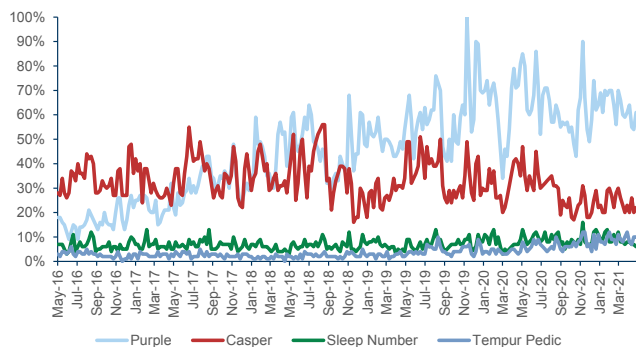
T4W average vs. 2019 Google Trends by brand in the US



Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 176: CSPR's search interest has also underperformed trends of peers that have larger trial door networks

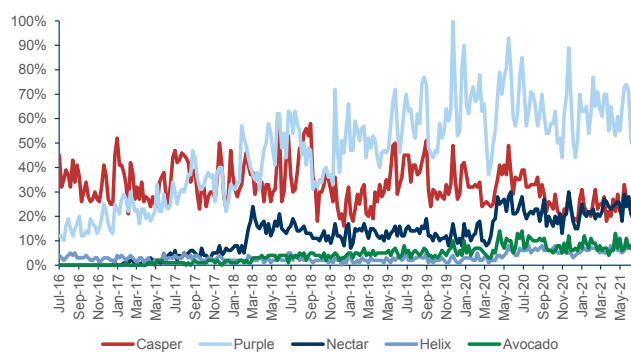
Google Trends index for Casper mattress and peers, T5Y



Source: Google Trends

Exhibit 175: CSPR's search interest has lagged online bed in a box peers

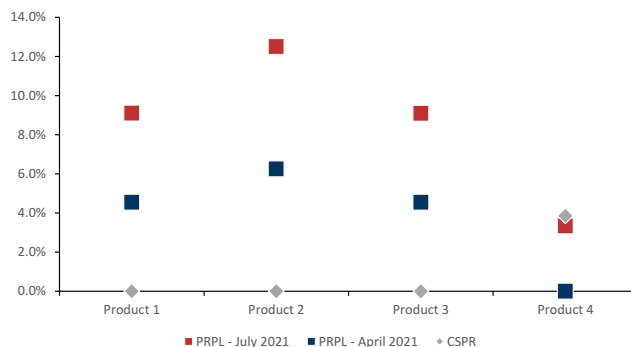
Google Trends index for Casper mattress and online peers, T5Y



Source: Google Trends

Exhibit 177: PRPL has raised list prices on its mattress products twice since early 2020 while Casper has only increased the price of its high-end wave hybrid mattress

% chg in list prices with no discounts vs. Spring 2020 (pre-pandemic) as of April 2021 and July 2021



Source: Company data, Goldman Sachs Global Investment Research

Wholesale expansion drives sales but comes with risks

CSPR is focused on expanding wholesale and trial door opportunities. In late 2020, the company indicated that wholesale could reach 50% of sales (vs. a 1/3 target pre-COVID and at time of the company's IPO). Indeed, CSPR has announced several new trial door strategic partnerships in the last year which meaningfully expand its distribution base. We believe this focus can drive brand awareness and consideration, expand sales in a capital-light manner, and help drive scale on fixed brand marketing and components of its fixed G&A cost base. We thus acknowledge this strategy will drive higher sales and margins in the near-term. Further, the company's field sales team that was launched in late 2020 should help to drive improved channel performance as the brand better educates salespeople at partner doors. An upside risk to our near-term sales forecasts could be additional rollout to partner doors with large store presences (such as retailer Mattress Firm, for example).

Exhibit 178: Casper has recently announced in-store trial experiences with several large mattress retailers; we believe this can help drive brand awareness

Select wholesale trial door partners and launch announcement date

Partners with Large Store Fleets and Trial Experiences	
Date	Location
2019	Rooms 2 Go
2019	Raymour and Flanigan
2020	Nordstrom
2020	Macy's
2020	Denver Mattress
2020	Mathis Brothers
2021	Mattress Warehouse

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 179: We estimate the unit economics at wholesale are accretive to the company's EBIT margin

GS estimates of hypothetical illustrative single unit economics for Casper product at wholesale, with various G&A ranges to illustrate potential impact to EBIT margins (in \$mn)

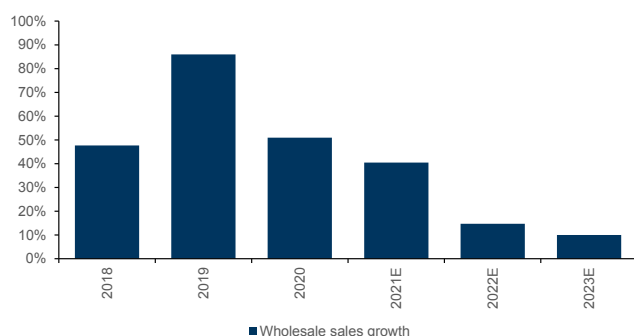
Illustrative Wholesale Economics - Single Unit			
Revenue Build			
AOV at retail	820	820	820
Wholesale markup	30.0%	30.0%	30.0%
Revenue to Casper	631	631	631
Cost and Margin Build			
Gross Margin % at retail	51%	51%	51%
Gross Margin % at W/S	36%	36%	36%
G&A % of sales	25%	20%	15%
Marketing % of sales	6%	6%	6%
Total SG&A	31%	26%	21%
EBIT	5%	10%	15%
EBIT \$	\$33	\$65	\$97

Source: Company data, Goldman Sachs Global Investment Research

We anticipate an increased focus on sell-through vs. sell-in. We acknowledge the potential for sales and margin upside to CSPR from wholesale trial door rollout. However, we believe sales growth in this channel will begin to fade as sell-in shifts to sell-through within these partners. Net, we are constructive on near-term economics of this rollout, but believe that an increased reliance on this channel can muddle brand message, increase the volatility of sales, and increase the complexity of inventory and supply chain management.

Exhibit 180: We anticipate sales growth in the wholesale channel to fade following strong sell-in benefits to new partners

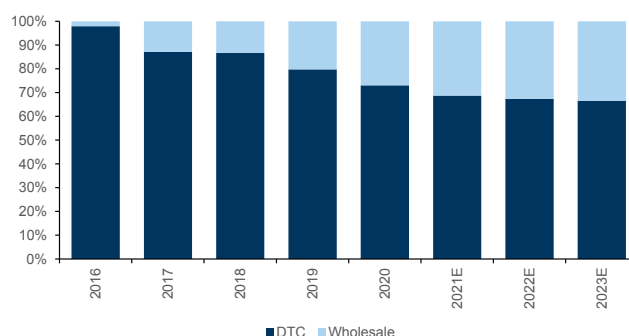
CSPR wholesale revenue growth, % chg Y/Y



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 181: We see risk that wholesale partner expansion, particularly at a rapid pace, can muddle brand message for CSPR; we thus anticipate increased investor focus on sell-through vs. sell-in trends at wholesale

CSPR channel mix over time



Source: Company data, Goldman Sachs Global Investment Research

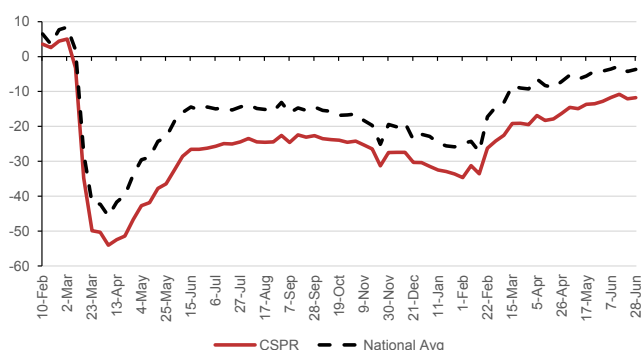
Margins supported by channel shift but pricing power uncertain, costs inflating, and other tailwinds in rearview mirror

Channel shift and reopening supports stronger near-term profitability. CSPR's channel shift strategy is driving improving EBIT trends, and we expect the company to inflect to EBITDA profitability in 2H21. Improvement in owned store fleet productivity supports improved sales and margin improvement. However, we believe this benefit is already embedded in consensus estimates. We believe fading brand momentum could

mean that store productivity doesn't grow at a pre-pandemic rate, and could drive some deleverage of fixed costs. We illustrate our estimates of pre-pandemic and potential post-pandemic mix benefit for profitability below.

Exhibit 182: Traffic indices across CSPR's store fleet were weak vs. the national average given CSPR's concentration in California and New York; improvement in traffic levels could provide sales support throughout reopening

Traffic overlay with CSPR's owned store retail fleet vs. the national average in partnership with our GS Data Works team



Source: Google COVID-19 Community Mobility Reports, Goldman Sachs Global Investment Research

Exhibit 184: We estimate that in a pre-pandemic environment, unit economics of stores were strong and offered double digit EBITDA margins

Illustrative estimates of store-based economics for a Casper store based on GS estimates assuming various store sizes

Illustrative Comp-Store Economics			
Revenue Build			
Gross Square Foot	2000	2250	2500
Net Square Foot	1500	1750	2000
Sales per Sq Ft	1600	1600	1600
Sales per store	2.40	2.80	3.20
Cost and Margin Build			
Gross Margin %	53%	53%	53%
Gross Profit \$	1.27	1.48	1.70
Total SG&A excl D&A	31.2%	30.1%	29.3%
SG&A \$	0.75	0.84	0.94
EBITDA	21.8%	22.9%	23.7%
EBITDA \$	0.52	0.64	0.76

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 183: We estimate that CSPR has strong unit economics in its wholesale channel, where lower marketing spend, fulfillment, and G&A costs more than offset the impact of a lower gross margin

Estimated CSPR wholesale unit economics

Illustrative Wholesale Economics - Single Unit			
Revenue Build			
AOV at retail	820	820	820
Wholesale markup	30.0%	30.0%	30.0%
Revenue to Casper	631	631	631
Cost and Margin Build			
Gross Margin % at retail	51%	51%	51%
Gross Margin % at W/S	36%	36%	36%
G&A % of sales	25%	20%	15%
Marketing % of sales	6%	6%	6%
Total SG&A	31%	26%	21%
EBIT	5%	10%	15%
EBIT \$	\$33	\$65	\$97

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 185: We recognize considerable uncertainty regarding the path of owned store traffic and comp improvement, but believe channel shift to retail is likely still EBITDA margin accretive to some extent

Illustrative store-based economics for a Casper store in a post-pandemic environment with sales/sqft ranging from 50%-90% of pre-pandemic levels and a fixed cost base

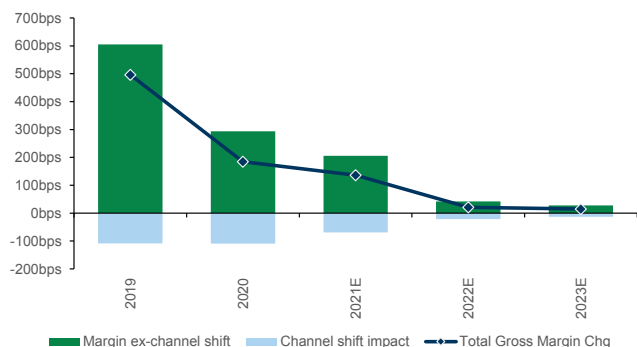
Illustrative Comp-Store Economics			
Revenue Build			
Gross Square Foot	2250	2250	2250
Net Square Foot	1750	1750	1750
Sales per Sq Ft	800	1120	1440
Sales per store	1.40	1.96	2.52
Cost and Margin Build			
Gross Margin %	53%	53%	53%
Gross Profit \$	0.74	1.04	1.34
Total SG&A excl D&A	58.4%	42.3%	33.3%
SG&A \$	0.82	0.83	0.84
EBITDA	-5.4%	10.7%	19.7%
EBITDA \$	-0.08	0.21	0.50

Source: Company data, Goldman Sachs Global Investment Research

Additional margin considerations. CSPR has driven meaningful margin improvement at the gross margin line in recent years despite channel shift to wholesale, with improvement driven by a combination of product costing benefits, improved freight contracts, and mix shifting to higher margin products (such as the Wave and Nova product lines). We anticipate fewer benefits from these non-channel margin drivers going forward as the costing environment becomes less favorable on a combination of slower top line sales growth (fewer options for negotiations), rising input costs, and a more inflationary freight environment (where we note 2020 upside was in part due to

long-term favorable freight contracts). CSPR is likely to see margin gains from the introduction of its cooling mattress line in 2021, but we believe a more promotional stance vs. peer PRPL indicates the brand may not be able to drive growth in net margin through-cycle.

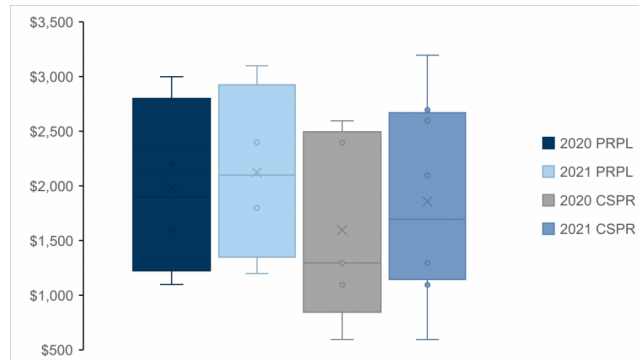
Exhibit 186: CSPR has delivered stronger gross margin than implied by channel shift in recent years, sourced from product costing, mix shift, and freight negotiations; we believe tailwinds from this are less pronounced going forward given a rising costing environment
GS estimates of gross profit margin between structural drivers from channel shift, and margin explained from non-channel mix



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 187: CSPR's recent product introductions have elevated its overall AUR and premiumized its mix; while the cooling collection enables AUR / margin gains in 2021, we are somewhat more guarded on ongoing gains now that the brand has diversified its pricing architecture

CSPR vs. PRPL queen mattress pricing architecture box plot; May 2020 vs. May 2021



Source: Company data, Goldman Sachs Global Investment Research

Valuation

We are Sell rated on CSPR and see 9% downside to our \$7 12-month price target which is based on 0.45x Q5-8 EV/sales. This compares to 13% average upside to our price targets for our coverage group. The Q5-Q8 methodology is consistent with our broader coverage universe; however we use sales instead of EBITDA given negative near-term EBITDA margins for Casper. We cross-check our valuation estimates with 2023 EV/EBITDA using a variety of mattress and other comparable peers, where we believe CSPR's relative valuation should be at a discount vs. key peer PRPL given more limited top line momentum.

Key Risks

- **Stronger top line and brand momentum.** If Casper is able to meaningful accelerate top line sales growth and drive brand momentum share gains, the company could see upside from pricing power, leveraging fixed costs, and drive stronger profitability.
- **Lower customer acquisition cost.** Casper is pursuing a strategy where it expands wholesale trial doors, which could help drive stronger brand awareness and lower customer acquisition cost across its network.
- **Stronger margin expansion trajectory.** This could be driven by better gross margin delivery or better control of marketing and G&A expenses.

VF Corp (VFC, Sell)

We initiate on VFC with a Sell rating and a 12-month \$79 target price. VFC's portfolio of active and activity-based outdoor brands is well positioned long-term, and we are constructive on the company's focus on DTC/digital, consumer connection, and innovation. However, we see a less attractive risk/reward relative to other companies in the brands and apparel sector in the near-term. This is driven by several near-term normalizing forces we expect post the reopening period, including normalizing momentum at the Vans brand, tougher compares at The North Face in North America following a successful First Responder Program, and more limited near-term capital allocation optionality following the company's acquisition of Supreme. While we do acknowledge tailwinds from reopening, including potential for stronger sales in coastal markets like California and back-to-school, we believe these opportunities are well-appreciated by investors. Our sales estimates are 1%/2% below consensus and our EPS is in line in 2021 but 2% below consensus in 2022; this compares to our above-consensus sales and EPS estimates on average for our group, driving our expectation for the stock to underperform our coverage average.

We acknowledge VFC shares have underperformed the sector YTD and since December 31, 2019 and that our thesis on normalizing Vans momentum is not a new one (it has been a key bear argument for several years). We also acknowledge VFC has potential to participate in a solid Back to School shopping season and TNF could realize growth from an emerging winter coat cycle if weather trends are cool this fall/early winter. However, we continue to believe that concerns regarding underperformance of the company's large and highly profitable Vans brand into 2022 will more than offset emerging green shoots elsewhere in the portfolio (such as Timberland), and that this will likely drive multiple compression and relative underperformance vs. other companies in our coverage universe.

Key investment considerations

- **Vans momentum normalizing.** We are constructive on the long-term outlook for the Vans brand, as we believe its heritage and authentic consumer connection will mean the brand has through-cycle staying power. However, we believe that momentum is normalizing for the brand. Among the casual footwear market, competitor momentum is growing even as Vans interest remains choppy, and we thus see risk to sell-through and store productivity comparisons for the brand vs. 2019 levels as the marketplace reopens. Normalization in growth for this brand is a headwind for ongoing DTC-led margin expansion.
- **The North Face is strong, but tough comparison in North America from the First Responder Program.** We see strong growth opportunity for The North Face brand as consumers continue to favor outdoor / active products. Further, key innovation such as Futurelight and an emerging footwear platform are building momentum. However, we believe that comparisons for this brand are tough, particularly in North America following a successful First Responder Program.
- **Timberland benefiting from an emerging boot cycle.** We are constructive on the

Timberland brand, and believe that an emerging boot cycle and benefits from the chunky boot aesthetic will drive healthy growth for both the classic boot business and Timberland's other lifestyle footwear product categories. However, given the lower margin profile of this brand vs. Vans, we anticipate this contribution to be more limited in the near-term.

- **Supreme exclusivity limits near-term growth upside.** We believe the Supreme brand is strong and a leader in the streetwear industry. That said, we believe that maintaining the exclusivity and scarcity of the brand is essential, and thus growth must be measured to keep the brand strong. As a result, we do not believe that upside from the Supreme brand can offset the normalizing headwinds of Vans.
- **Limited near-term capital allocation optionality.** VFC recently acquired Supreme, which utilized available capital on the balance sheet and increased total company leverage. While we continue to see some scope for portfolio reshaping, we believe near-term transformational M&A optionality is more limited in the near-term, and thus believe fundamentals at Vans (the company's largest brand) will be the key driver of shares and sentiment in the near-term.

Where Could We Be Wrong: The Bull/Bear Debate:

- **The bull argument:** Bulls argue VFC has platform abilities to drive brand growth across a portfolio of active and lifestyle brands, and incremental growth through DTC and international is margin accretive. Bulls believe that the Vans brand has momentum and will drive strong recovery post-pandemic as consumers return to everyday wear (particularly given tailwinds from California reopening), and that emerging momentum at both The North Face and Timberland will drive upside to shares. Bulls also believe that the Supreme brand is underappreciated and can grow at a faster pace while still maintaining exclusivity.
- **Why we choose to Sell despite these risks:** We are encouraged by the long-term outlook for VFC's portfolio of brands, and believe that solid margins and cash flow from the portfolio will allow VFC to continue to drive growth through inorganic means as well. That said, we believe that the Vans brand is facing normalizing growth pressure that is more pronounced vs. pre-pandemic, and believe that emerging benefits from TNF and Timberland are sufficiently appreciated. We believe this balanced growth algorithm means margin expansion will not be as strong, and see near-term M&A optionality as exercised following the recent acquisition of Supreme.
- **What would make us more positive:** Our cautious outlook is driven by an expectation of fading benefits to both the top line and margin outlook on normalizing growth at the Vans brand. We would become more positive on the stock if the company was able to drive a sustained reacceleration in Vans growth in 2022 vs. pre-pandemic levels, which we believe would be supportive to gross and operating margins. We would also look to become more constructive if VFC was able to successfully improve the margin profile of its other large brands (The North Face / Timberland / Dickies) such that incremental growth in these brands drove the same level of gross and operating profit margin growth.

A less constructive outlook on Vans as momentum normalizes

The Vans brand has been a key growth driver of recent top line and margin expansion.

VFC has driven strong growth in the Vans brand for several years, where a portfolio of heritage icons and a streetwear aesthetic drove the brand to achieve solid and balanced growth (calendar 2010-2016 the brand grew at a CAGR of 15% to \$2.3bn, and the brand experienced an accelerated growth rate of a 24% CAGR between CY16 and the company's FY19 to reach \$3.7bn). VFC has indicated that the Vans brand is strongly profitable.

Strong opportunity for 2H21 momentum as Vans a greater beneficiary of reopening.

Looking ahead, VFC has provided an outlook that the brand is likely to grow 7-9% vs. its prior peak, indicating continued momentum for the brand, and we believe this growth is now fully embedded in Street estimates. We believe this near-term growth outlook is credible as the brand benefits from a strong back-to-school selling season, pent-up consumer demand, and an improvement in California sales trends (where the Vans brand is more concentrated). Further, we believe the casual sneaker has been a laggard during the pandemic where consumers focused on either performance or comfort rather than a casual sneaker aesthetic. As consumers return to everyday wear, we expect Vans will see a strong recovery, bolstered by a strong back to school season (with a childcare tax credit).

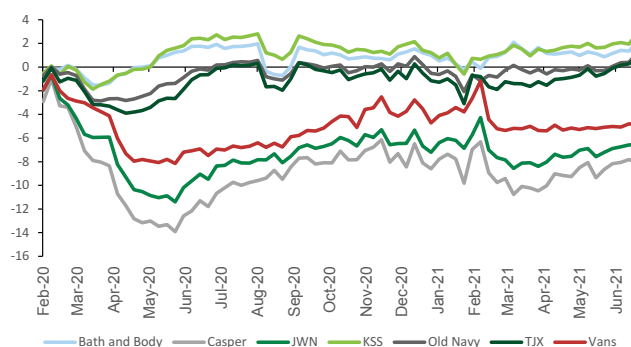
Exhibit 188: Vans has a store portfolio that is concentrated in California and other areas with tougher mobility restrictions, meaning there is higher opportunity for Y/Y growth in a full reopening scenario

Mobility index of Vans vs. the national average



Exhibit 189: In our focus group of apparel and accessories, only Casper and Nordstrom have store portfolios in areas with less mobility; Vans has a several point headwind to store mobility vs. strong performing brands and retailers such as Bath & Body Works and Kohl's

Retailer versus the national average mobility index, weekly

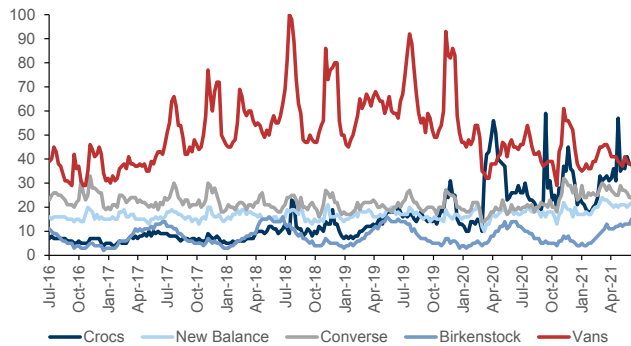


Source: Google COVID-19 Community Mobility Reports, Thinknum, Goldman Sachs Global Investment Research

Source: Google COVID-19 Community Mobility Reports, Thinknum, Goldman Sachs Global Investment Research

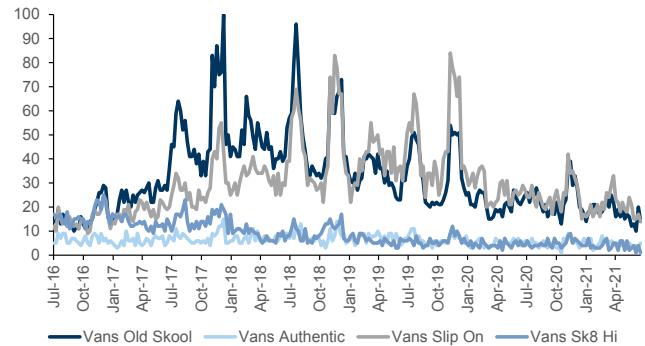
Momentum for the brand is normalizing vs. other emerging styles. Vans positioning as a casual sneaker (vs. portfolios with a balance of both fashion and performance) means the brand is often competing with alternate footwear styles. We believe that emerging momentum of other casual sneakers and footwear brands, such as Converse, Crocs, Birkenstock, and New Balance. We also note that casual sneaker styles from performance footwear brands (such as the Nike Blazer) are gaining momentum in the marketplace, which create a more competitive backdrop for incremental sales growth at the Vans brand.

Exhibit 190: Vans brand momentum is normalizing as other alternative casual footwear styles have simultaneously improved, suggesting the shift isn't entirely due to the pandemic
Google Trends for Vans brand and select competitors in the US



Source: Google Trends

Exhibit 191: And within the Vans portfolio, both the Old Skool and the Slip on are showing normalizing trends while the Sk8 Hi and Authentic haven't seen any meaningful improvement, suggesting the multistyle portfolio amplification strategy isn't enough to offset
Google Trends for Vans product lines over time in the US



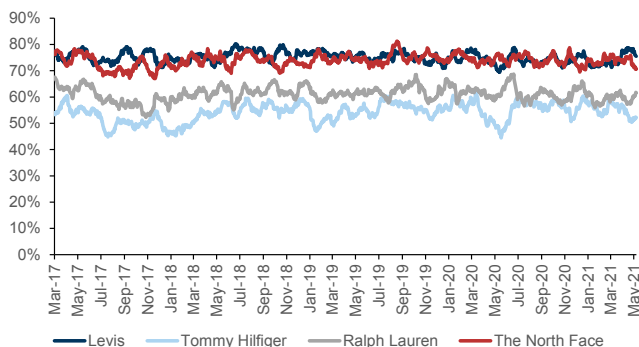
Source: Google Trends

The North Face has momentum, but needs to cycle a strong First Responder Program from 2020

We believe The North Face has solid momentum. We see strong growth opportunity for The North Face brand as consumers continue to favor outdoor / active products, and as TNF begins to see better momentum as Futurelight and an emerging footwear platform build strength. Last year was a weak year for outerwear sales generally, and we believe that the brand has potential to deliver a strong result this holiday on the back of lean retailer inventories and the potential for closet restocking.

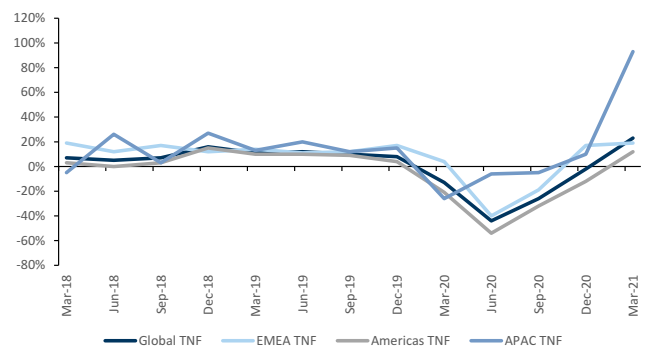
Exhibit 192: Brand affinity trends for The North Face remain particularly healthy for The North Face among US women vs. other apparel brands

The North Face brand affinity trends among US women



Source: WGSN

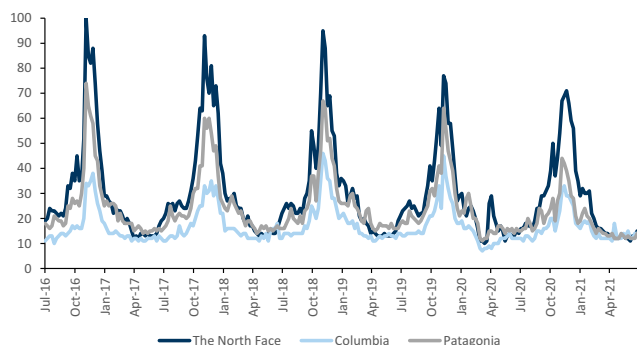
Exhibit 193: Trends were improving for TNF pre-pandemic, and momentum has returned to growth on a 2-yr stack
TNF ex-FX growth by region



Source: Company data

Exhibit 194: Search trends for The North Face remain strong vs. peers, though cycles depend on winter weather as we believe the brand remains seasonally exposed to some extent

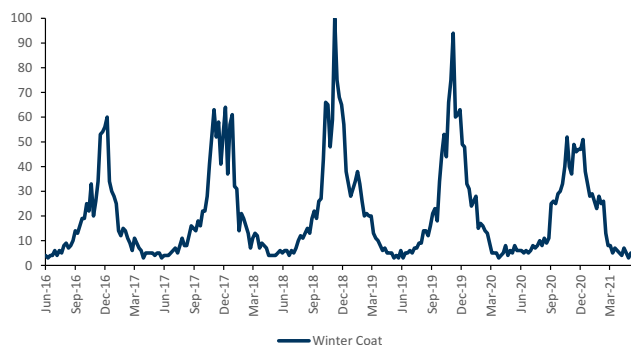
Search trends for The North Face and key competitors in the US



Source: Google Trends

Exhibit 195: We see opportunity for a stronger winter coat season to boost momentum this fall/holiday for all outerwear brands

Winter Coat search trends in the US

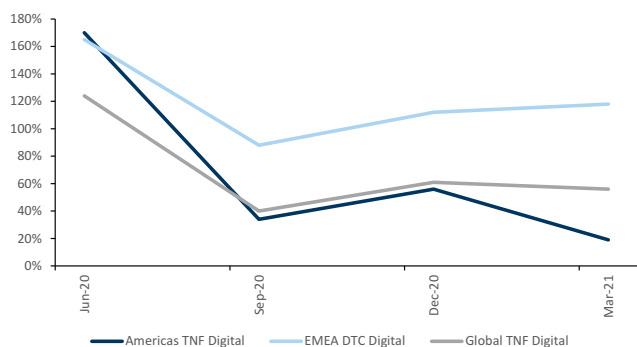


Source: Google Trends

First Responder Program comparisons are tough. While we model strong growth for the brand, we do note that last year's First Responder Program was a key growth kicker for new customers, and cycling this will provide optical headwinds to growth. For most of 2020, TNF offered 50% off for First Responders who registered through a site to verify their status, including all healthcare workers and other first responders. We believe this was a material driver of digital momentum for the brand in 2020, and that cycling this impact will mean slower rate of new customer acquisition. While this program is difficult to size, we do anticipate it to weigh on momentum through December of 2021.

Exhibit 196: TNF posted solid digital momentum in calendar 2020, part of which we believe is due to the brand's first responder program for Americas growth; we believe cycling this will provide gross margin upside for the brand

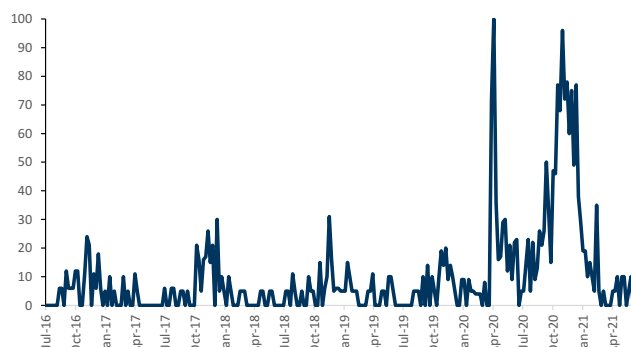
TNF digital growth by region in recent quarters



Source: Company data

Exhibit 197: Search trends for "The North Face discount" rose sharply in 2020 in conjunction with the First Responder discount. We believe this was a meaningful customer acquisition tool, and the cycling of these compares will be offset by stronger margins

Google Trends in the US for "The North Face discount"



Source: Google Trend

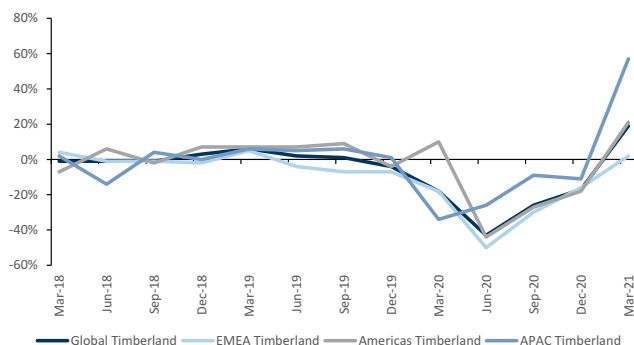
Timberland green shoots beginning to emerge

Timberland benefiting from an emerging boot cycle. We are constructive on the Timberland brand, and believe that an emerging boot cycle and benefits from the chunky boot aesthetic will drive healthy growth for both the classic boot business as well as other alternative footwear styles in the Timberland portfolio. We are also constructive on

the brand's more holistic hiking boot and sneaker boot portfolio, which we believe can help diversify the boot portfolio over time as the brand gains credibility in the hiking market. However, given the lower margin profile of this brand vs. Vans, we anticipate this contribution to be more limited in the near-term.

Exhibit 198: On a 2-year basis, Timberland brand is starting to see greenshoots in APAC and Americas, and the company expects full fiscal year sales to be in line with pre-pandemic levels

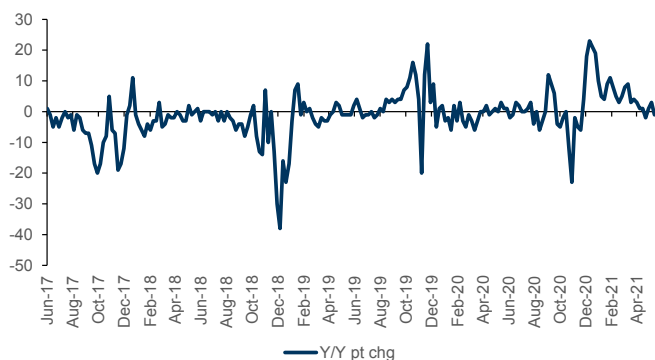
Timberland ex-FX growth by region



Source: Company data

Exhibit 200: And Y/Y pt change in search trends for Timberland Boots in the US has been positive

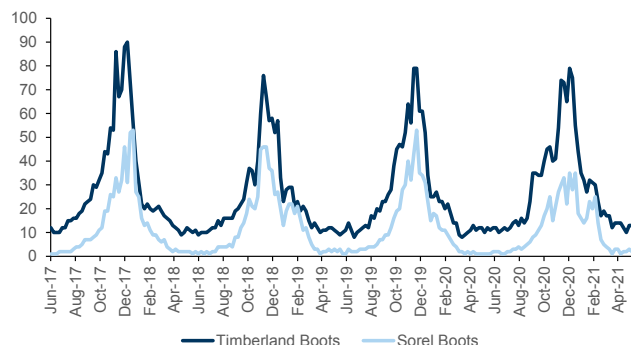
Y/Y pt change in US Google Trends for Timberland Boots



Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 199: Despite a tough year for apparel and footwear generally, search trends for Timberland were strong relative to peer Sorel

Google Search trends for Timberland Boots and Sorel Boots in the US



Source: Google Trends

Supreme strong but needs to maintain scarcity

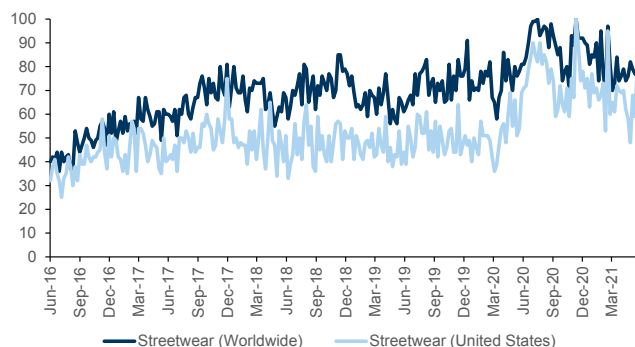
Supreme growth strong but maintaining scarcity means upside more limited. We believe the Supreme brand is strong and a leader in the streetwear industry. That said, we believe that maintaining the exclusivity and scarcity of the brand is essential, and thus growth must be measured to keep the brand strong.

Learnings from Supreme can be applied elsewhere in the portfolio. We are encouraged by several VFC initiatives this year that indicate the company is learning from Supreme's success, including weekly and consistent new product drops at Vans, leaning in to marketing spend, and communicating with customers in a more regular way. Longer term, we believe this cross-brand learning could help drive momentum at

the company.

Exhibit 201: Streetwear is showing strong momentum globally, but especially within the US

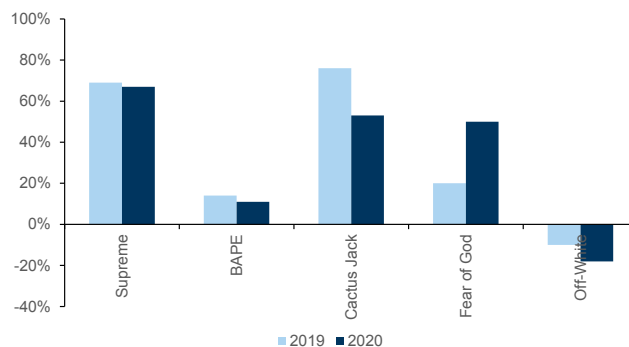
Google Trends for Streetwear as a topic, US and Worldwide T5Y



Source: Google Trends

Exhibit 202: We believe a critical part of Supreme's branded offer is that scarcity value drives high resell values on secondary marketplaces; while Supreme's resale value is strong, new emerging brands like Cactus Jack and Fear of God are gaining momentum

Average annual resale price premium on StockX per the StockX annual report



Source: StockX

Limited near-term capital allocation optionality

Supreme acquisition increased leverage. VFC recently acquired Supreme, which utilized capital available on the balance sheet and increased total company leverage. On balance, we estimate near-term cash (including proceeds from the recently closed Occupational Workwear sale) will be utilized to drive some amount of debt paydown and continuing service of the dividend. However, even with improved profitability into calendar 2021/2022, we continue to forecast the company to carry some degree of balance sheet leverage (we forecast ~2x by end of FY22 vs. ~4x net debt / TTM EBITDA currently). While we continue to see some scope for portfolio reshaping, we believe transformational M&A optionality is more limited in the near-term, and thus believe fundamentals at Vans (the company's largest brand) will be the key driver of shares and sentiment in the near-term.

Valuation

We are Sell rated on VFC and see 3% downside to our \$79, 12-month price target which is based on 17x Q5-Q8 EV/EBITDA. This compares to 13% average upside to our price targets for our coverage group. Our Q5-Q8 EV/EBITDA is consistent with our broader coverage universe. We believe VFC's normalizing growth profile at Vans means the implied SOTP multiple embedded within our valuation framework for the brand should be at a discount to other high-growth athletic peers. We utilize a SOTP methodology to cross-check our multiple given the portfolio nature of the business, but do not utilize this methodology for our price target as we believe SOTP valuations are less informative for go-forward portfolio businesses where investors often utilize consolidated company multiple discounts (to account for varying performance of brands within the portfolio).

Exhibit 203: Our illustrative SOTP for VFC indicates limited near-term upside after accounting for potential dissynergies of separation, though we note a wide range of outcomes exists when valuing each of the brands dependent on the relative emphasis placed on growth vs. margins

Illustrative hypothetical SOTP valuation of consolidated VFC on calendar 2022 estimates

Illustrative SOTP - Consolidated VFC													
	CY22	CY22	Corporate	CY22	CY22	Potential	EBITDA	EBITDA	Implied	EV	EV	Per Share	Per Share
	Sales	EBITDA	Allocated	EBITDA	EBITDA	Dissynergies	Post-Dissynergies	Multiple	EV/Sales	Pre-Dissynergies	Post-Dissynergies	Pre-Dissynergies	Post-Dissynergies
Outdoor	5,336	705	-123	581	10.9%	2%	474	15.0x	1.6x	8,718	7,117	22	18
Active	5,941	1,502	-137	1,364	23.0%	2%	1,246	22.0x	5.1x	30,016	27,402	76	69
Work	1,126	121	-26	95	8.5%	2%	73	9.0x	0.8x	858	655	2	2
Other	12	69	-75	-6	NM	2%	-6	9.0x	-4.5x	-53	-55	0	0
Corporate		-362	0	0									
Total Enterprise Value								19.5x		39,592	35,174	100	89
Net Debt										3,824	3,824	10	10
Equity Value										35,767	31,350	90	79

Source: Company data, Goldman Sachs Global Investment Research

Key Risks:

- **Stronger momentum at the Vans brand:** A key part of our negative view on VFC is that we believe the Vans brand momentum is beginning to normalize, and while the brand will see a strong recovery in calendar 2021 (normalizing for COVID), will see slower than long-term planned growth in 2022 and beyond. As the Vans brand is higher margin vs. emerging growth peers like Timberland and TNF, this weighs on consolidated expansion. However, stronger sales in this brand, particularly through the DTC channel could drive upside to sales and margins.
- **Inflecting margins in key brands:** Timberland, Dickies, and The North Face have lower margins than Vans and Supreme within the VFC portfolio, and we anticipate emerging growth at these lower margin brands. However, if VFC is able to drive meaningful margin expansion within these brands, there could be upside risk to margin delivery.
- **Additional portfolio reshaping actions:** VFC has a long history of portfolio actions that change the makeup of the overall consolidated entity. Meaningful additional portfolio reshaping could change investor perception of the business.

Canada Goose Holdings Inc. (GOOS, Neutral)

We initiate on shares of GOOS.TO/GOOS with a Neutral rating and a 12-month C\$57/\$46 target price. We believe GOOS is a leader in the functional premium outerwear business. We see several emerging catalysts, including an easy winter coat cycle comparison amidst an environment of strong local customer demand, optionality for GOOS's retail store network to see healthy improvement in performance, key product cycle momentum (and specifically an upcoming footwear launch), and a more normalized inventory management program following implementation of a broader owned manufacturing network. Further, we believe GOOS could see meaningful improvement in margin realization should international tourism return faster than anticipated. That said, we believe this is offset by some normalization in brand momentum indicators and a full valuation.

Key Investment Considerations:

- **Brand momentum indicators mixed, though we are constructive on potential for growth.** Brand momentum indicators that we track point to some normalization in the Canada Goose brand vs. other outerwear competitors. However, we are constructive on potential for growth here as the company invests incrementally in demand creation spend, where we believe GOOS's functional and technical product and differentiated price point will keep the product near the top of the consideration set for consumers.
- **Better local market demand and potential for upside from a winter coat cycle.** The local luxury consumer is spending, and we are constructive on local market demand across the company's ecommerce business. We see opportunity for strong sales this winter as consumers return to in-person events and believe a more normalized winter coat cycle could result in strong sales this winter.
- **Well managed wholesale business drives margin potential as brand shifts to DTC.** We believe GOOS has a strong distribution network that is focused on its DTC business, and supported by brand-accretive wholesale partners in premium doors globally. We believe this business structure, combined with GOOS's limited promotional intensity through-cycle, means the company has runway for margin durability and expansion (with upside if tourists return) as the brand shifts to DTC. On the top line, we believe guidance for the year for flat wholesale sales is conservative.
- **Business model changes now in the rearview mirror.** GOOS is differentiated in that it has a vertically integrated manufacturing network which allows the company to capture a higher share of the supply chain economics and ensure product consistency and availability. Expansion of this supply chain weighed on investor sentiment as inventory increases well outpaced sales growth. We believe this is now largely in the rearview mirror, and that removal of this sentiment overhang could alleviate some pressure on shares. Given current global supply chain challenges, we believe this is a differentiator into 2HCY21 and CY22.
- **New product momentum an upside catalyst.** We believe GOOS's functional heritage and strong footwear know-how acquired through the Baffin boot acquisition several years ago provides GOOS a unique technical solve for the premium winter footwear market. While we believe this offer will take time to scale, we believe this is a meaningful lever for long-term brand growth and could become a key driver of the business long-term.

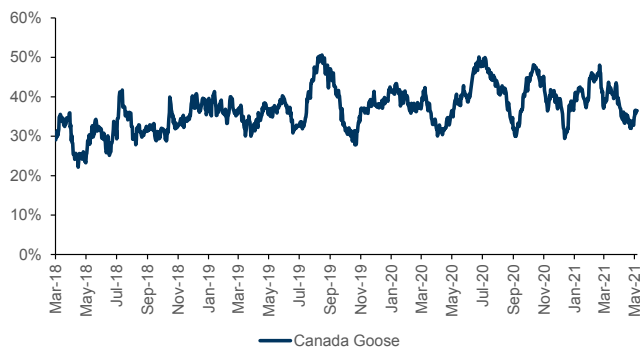
Brand momentum indicators mixed, but GOOS a leader in the category

Brand momentum indicators mixed, though we are constructive on potential for growth. Brand momentum indicators that we track point to some normalization in the Canada Goose brand vs. other outerwear competitors. While affinity remains strong and social media followers continue to rise, we do believe that the momentum of the GOOS brand is not strengthening at the same rate as other emerging brands which are gaining mindshare (such as Moose Knuckles and Mackage). While we are cognizant of the competitive intensity of the category rising, and do believe that this is worth bearing in mind, we believe GOOS will continue to be a highly considered brand among premium

outerwear given its authentic positioning as a functional and technical winner at a differentiated price point (for example, lower than luxury peers).

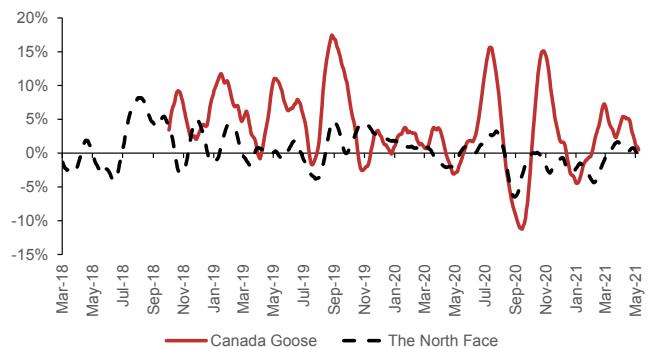
We believe that GOOS marketing investments are ramping. The company pulled back on marketing spend meaningfully during the pandemic, and began to rebuild this spend in the back half of their fiscal year (late calendar 2020). Given the momentum the brand has emerging from FY21 and the competitive intensity of the product category, we believe that purposeful growth in marketing investment is a prudent way for the brand to remain the leader in the category. We are constructive on this effort.

Exhibit 204: While there is some seasonal volatility in momentum indicators, reported affinity among US women for the Canada Goose brand has remained consistently strong
Brand affinity among US women



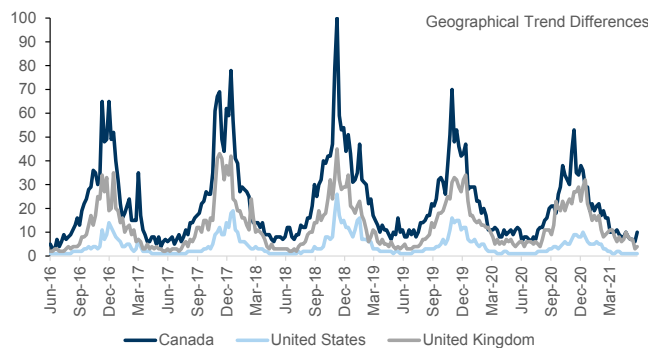
Source: WGSN

Exhibit 205: Affinity metrics for Canada Goose are more volatile than other brands, but Y/Y increases in affinity are often reported
Canada Goose brand momentum vs. outerwear alternative The North Face, Y/Y T30D average



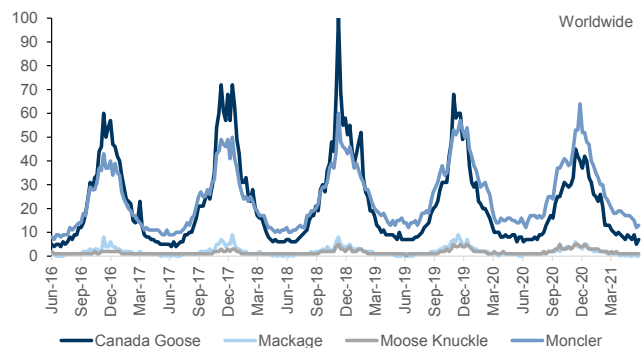
Source: WGSN, Goldman Sachs Global Investment Research

Exhibit 206: Canada Goose search trend indicators have declined across several geographies, but particularly so in the company's home market of Canada
Search trends for Canada Goose in select geographies



Source: Google Trends

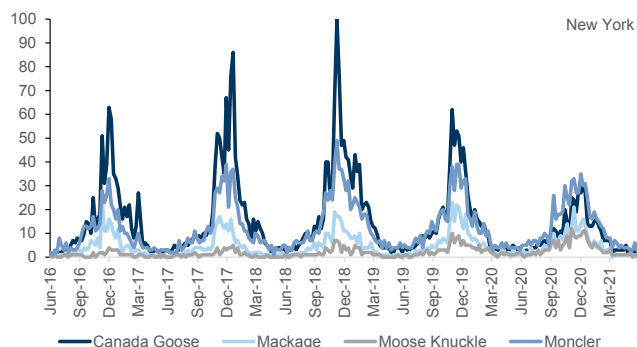
Exhibit 207: Search trends for Canada Goose have normalized globally, while trends for key outerwear peer Moncler have continued to build
Global search trends for Canada Goose and key competitors



Source: Google Trends

Exhibit 208: This trend normalization vs. Moncler has been most visible in the New York market

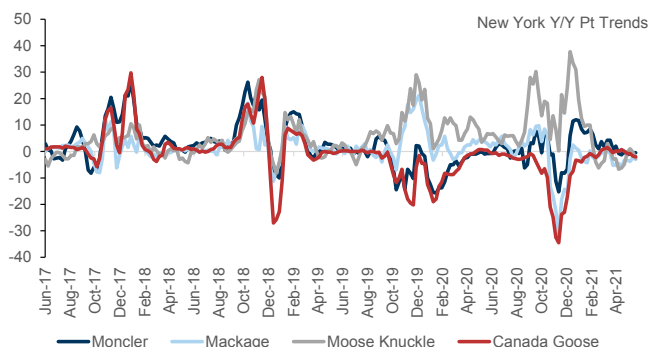
Search trends for Canada Goose and key competitors in the New York market



Source: Google Trends

Exhibit 209: Moose Knuckle and Mackage have shown the most meaningful momentum in the New York market while Canada Goose has shown the most normalization

Y/Y pt change difference (T4W average) in absolute search trend momentum for key outerwear brands in the New York market



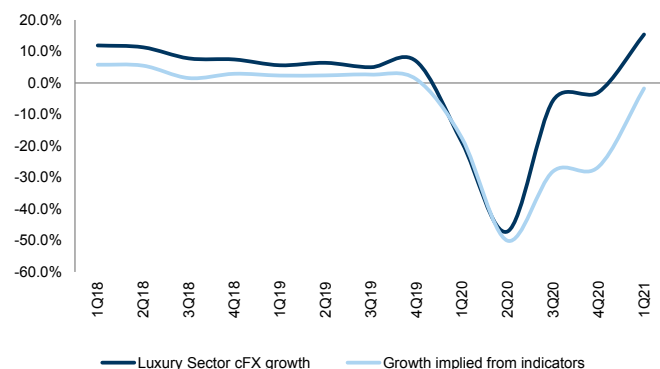
Source: Google Trends

Better local market demand and potential upside from a winter coat cycle

The local luxury consumer is spending. We note that Canada Goose is seeing strong momentum in its owned ecommerce business (and the company is investing here for future growth), which gives us incremental confidence that a more normalized winter coat cycle could result in strong sales this winter. Consumer affinity towards premium products remains strong, and we believe this momentum will continue to benefit Canada Goose.

Exhibit 210: In-country domestic demand has driven an improvement in luxury demand. Our GS luxury research team forecasts a moderation in demand within luxury goods without a bumpy landing

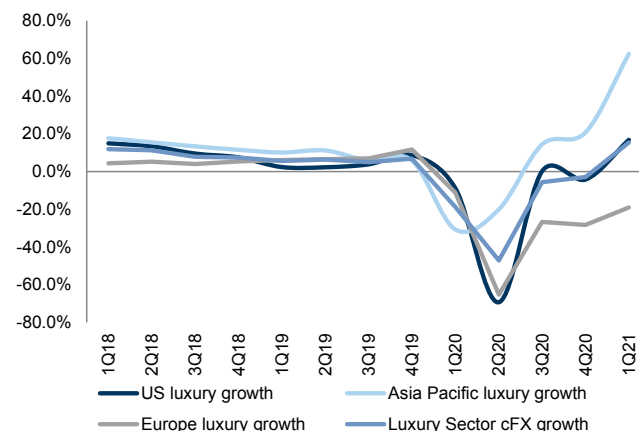
Global Luxury sector cFX growth vs. growth implied by macro indicators



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 211: Within this luxury demand recovery, we've seen the strongest signs of improvement in Asia Pacific (ex-Japan) and the US, while EMEA has lagged

Luxury sector cFX growth by region



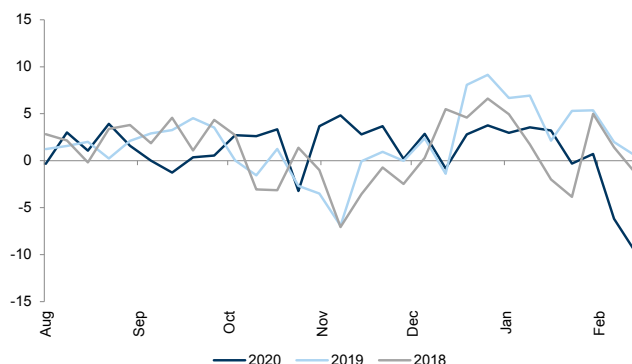
Source: Company data, Goldman Sachs Global Investment Research

We anticipate strong winter coat cycle ahead. Following several years of weaker winter coat / outerwear trends in North America, we anticipate potential upside for a stronger outerwear season as consumers resume in-person activities. While we cannot predict the weather, we do note that recent fall/winter temps have been warmer than

average, and any return to normal trends could provide additional sales upside.

Exhibit 212: Weather trends for most of the 2020 winter were warmer vs. historical averages in the US

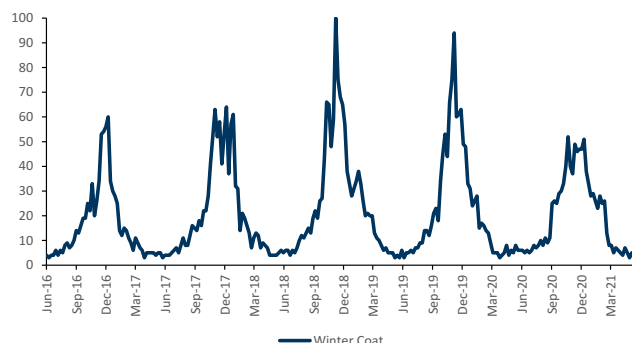
US national average temperatures in degrees Fahrenheit vs. historical normal temperatures by year



Source: NOAA, Goldman Sachs Global Investment Research

Exhibit 213: We see opportunity for a stronger winter coat season to boost momentum this fall/holiday for all outerwear brands

Winter Coat search trends in the US



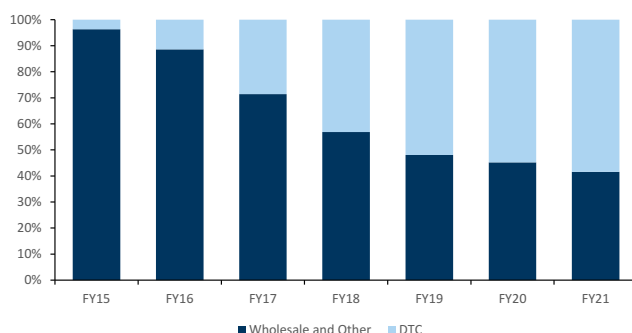
Source: Google Trends

Well managed wholesale business drives margin potential as the brand shifts to DTC

Strong control of brand with well-managed wholesale business. We believe GOOS has a strong distribution network that is focused on its DTC business, and supported by brand-accretive wholesale partners in premium doors globally. We believe this, combined with a strong opportunity for store growth (particularly in China), offers a long runway for brand growth (as the company recaptures the wholesale profit pool) and this can be accretive to margins. Importantly, we believe guidance for the year for wholesale to be flat is conservative.

Exhibit 214: GOOS has effectively transitioned from a largely wholesale-led business to one where the majority of revenues are sourced through DTC channels, meaning the company has strong control of its consumer connection

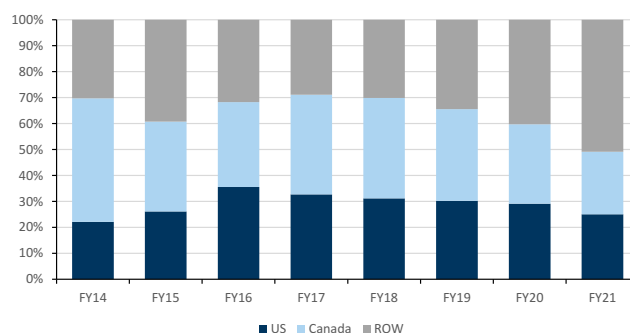
Canada Goose annual fiscal year revenues by channel



Source: Company data

Exhibit 215: This channel transition has occurred alongside a rebalancing of geographical revenue exposure, with revenues now less sensitive to swings in US and Canada consumer demand

Canada Goose annual fiscal revenues by geography



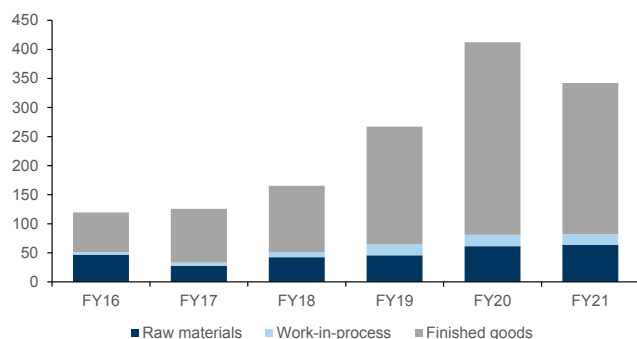
Source: Company data

Business model changes now in the rearview mirror. GOOS is differentiated in that it has a vertically integrated manufacturing network, which allows the company to capture a higher share of the supply chain economics and ensure product consistency and availability. Expansion of this supply chain weighed on investor sentiment as inventory

increases well outpaced sales growth. We believe this is now largely in the rearview mirror, and that removal of this sentiment overhang could alleviate some pressure on shares.

Exhibit 216: As GOOS transitioned to an in-house manufacturing model and given the seasonal nature of the company's business, inventory levels of finished goods rose materially

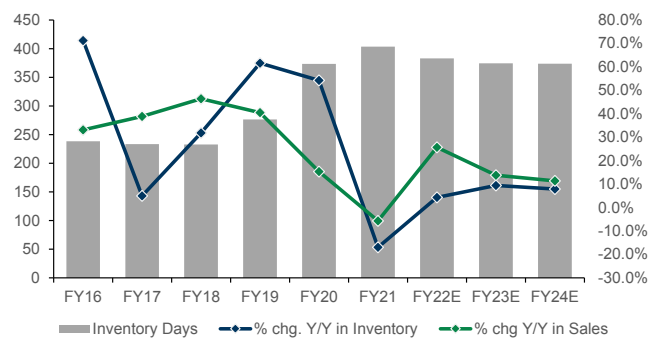
Inventory levels (C\$mn) by year and type



Source: Company data

Exhibit 217: We believe investors were focused on inventory growth meaningfully outgrowing sales momentum; we now anticipate this to recouple going forward

Inventory days, % chg Y/Y in inventory, and % chg Y/Y in sales; company historical figures and GSe forecasts



Source: Company data, Goldman Sachs Global Investment Research

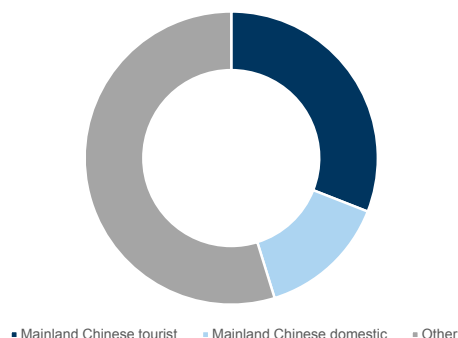
Product momentum an upside catalyst, as is tourism

New product momentum an upside catalyst. We believe GOOS's functional heritage and strong footwear know-how acquired through the Baffin boot acquisition several years ago provides GOOS a unique technical solve for the premium winter footwear market. While we believe this offer will take time to scale, we believe this could be a meaningful lever for long-term brand growth and could become a key driver of the business long-term.

Return of tourist traffic a farther-out upside driver. We do not embed meaningful tourist traffic improvement in calendar 2021 in our forecasts. However, we do note that we believe GOOS meaningfully overindexes to international tourism vs. the rest of our coverage universe. As such, a return to meaningful international tourism could be a key upside catalyst for GOOS's sales and profits, as tourists often overindex to GOOS's owned store formats in key cities (Toronto / New York City) and could help drive incremental sales productivity and margin in the physical retail footprint.

Exhibit 218: We estimate over a third of GOOS's annualized revenues are associated to Chinese tourists

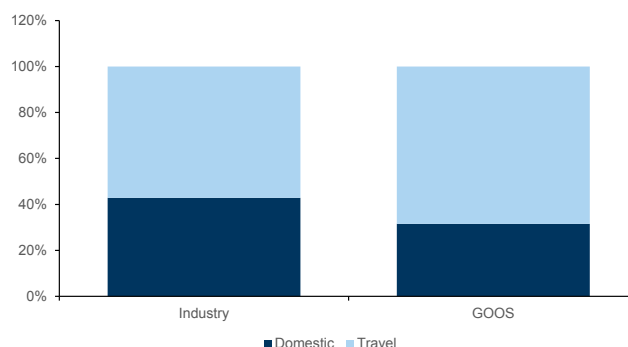
Estimated CY19 revenue breakdown by customer type



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 219: We believe GOOS's Chinese consumer revenues over-index to travel spend relative to the luxury industry, meaning GOOS did not participate as strongly in domestic luxury spend recapture on a TTM basis

Estimated breakdown of Chinese demand by domestic vs travel demand for the luxury industry and CY19 GOOS revenues



Source: Company data, Goldman Sachs Global Investment Research

Valuation

We are Neutral rated on GOOS.TO/GOOS and establish a C\$57/US\$46 12-month price target based on 16.5x Q5-Q8 EV/EBITDA, representing 9%/10% upside. The EV/EBITDA framework is consistent with our broader apparel & brands coverage universe. Our 16.5x multiple is a discount to that implied by the 1-, 3-, and 5-year NTM EV/EBITDA premium valuation ratio to the S&P500 (~120~240%) applied to current S&P500 trading levels, as we believe longer-dated upside catalysts (tourism recovery / footwear scaling) are balanced by more normalized brand momentum indicators vs. peers and near-term margin compression vs. history.

Key Risks

- Upside risks include: (1) Faster return of tourist revenue. Wealthy international shoppers have historically driven strong sales productivity in GOOS's stores in the US and Canada. While domestic demand remains healthy for premium and luxury products, a faster than expected return to growth could drive meaningful margin upside. (2) Stronger brand momentum in core markets. An acceleration in brand momentum could drive stronger top line sales across the company's network and drive upside to sales and margins given a high fixed cost base. (3) Accelerated shift to DTC. GOOS's DTC business is higher margin than its wholesale business, and faster adoption here could drive stronger upside to margins.
- Downside risks include: (1) Slowdown in brand momentum, either with the core North American consumer or the international (and China) consumer more broadly. (2) Higher than expected cost deleverage, which could be driven by slower sales. (3) Inventory overhang, which could dampen working capital productivity.

Capri Holdings (CPRI, Neutral)

We initiate on CPRI with a Neutral rating and a 12-month \$56 target price. We are constructive on the growing momentum and profitability at the Versace brand, and believe that the overall CPRI business is healthier emerging from the pandemic supported by green shoots in select categories. We also believe CPRI's exposure to tourists and travel retail means that there are expansionary tailwinds to the top line if tourism recovers, and we view the brand as a longer-dated potential reopening trade with momentum from fundamental margin expansion. The company's shift to DTC is also a structural tailwind. However, we believe this is balanced by some softness in Michael Kors brand momentum indicators and risk from a normalization in Michael Kors gross margins as the promotional environment rebalances. We see a balanced risk/reward.

Investment Considerations:

- **Healthy handbag backdrop supported by newness in luxury.** We believe the category is currently healthy, supported by energizing innovations from top luxury brands which have provided a halo of new silhouettes and a reemergence of signature styles. The category showed strong growth throughout the pandemic and has proven resilient even as luxury brands have taken price increases, driving up AUR and gross margin expansion. We believe this strong backdrop is well-appreciated by investors, and while top line momentum is likely to remain healthy, we do see some risk that the promotional environment for the accessible luxury handbag category normalizes (driving some weakness in gross margin). We see this as a particular risk for CPRI momentum given recent strong tailwinds for growth, where any normalization could drive incremental negative sentiment for shares.
- **Versace brand has momentum and driving meaningful margin expansion.** We are constructive on the brand momentum at Versace and emerging new wins the brand has in accessories, which we expect will fuel margin gains as the brand drives leverage from a solid top line. That said, we do recognize that the entire luxury category has demonstrated strong momentum in recent quarters as consumers spent more on things vs. experiences.
- **Michael Kors brand rebalanced post-pandemic, but we see less near-term upside outside of reopening catalysts as brand momentum indicators are fading.** We are encouraged by the reset activities that the Michael Kors brand has taken through the pandemic. NA wholesale, which weighed on results ahead of the pandemic, is now appropriately rebased, Signature product is performing well, and the watch business is now in a healthier place (and the global high-end fashion watch industry is indeed showing some signs of momentum). While reopening will likely continue to benefit the brand, we see less absolute upside to the brand given indicators of brand momentum normalization and believe gross margin realizations could normalize as the promotional environment rebalances.
- **Jimmy Choo outperforming the category with margin opportunity.** We are

optimistic on growth opportunity for Jimmy Choo to achieve higher margins as it shifts towards casualwear and core product offerings. We also believe there is reopening potential at the brand. That said, we believe trends at Versace and Michael Kors will likely be more important to the investment thesis in the near term.

Healthy handbag backdrop supported by newness in luxury

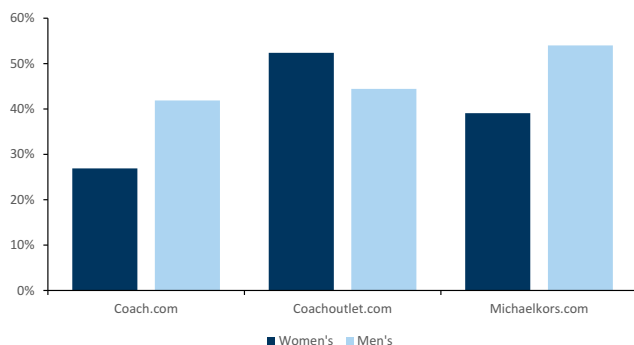
Luxury handbag momentum has been strong, and supported by innovation and newness. Domestic-driven luxury spending has been strong throughout the pandemic, supported in part by innovation and newness in new silhouettes (including a reemergence of signature styles) but also by shifts in wallet share away from experiential spending towards physical goods. The category has seen strong increases in pricing which have been supportive to AURs and margins. We continue to like the category long term due to fashion cycles that drive newness and repurchase rates and luxury's shift online but believe that the category's relative strength is appreciated by investors. We also are cognizant that 2H20 strength will mean tougher comps vs. others in the consideration set, particularly for consumers who shift their wallet back to experiential goods following reopening demand.

Signature a key driver of momentum for accessible luxury brands. While not new to this year, signature momentum has been rising meaningfully over the past few years at key brands in the accessible luxury category. We'd note that several key global luxury brands such as Louis Vuitton, Gucci, Dior, and Fendi have reintroduced and repopularized bags (and broader clothing lines) with signature print icons in recent years (and also added new signature icons to supplement historic versions that were popularized in decades past). This, in addition to alternative shapes and silhouettes (including baguette bags / shoulder bags / etc) have driven fresh energy in to the category overall as consumers adopt new silhouettes and fashions.

Signature a critical opportunity for CPRI. Brands in the accessible luxury space have been expanding their signature handbag collections. Penetration of signature has increased to ~35% of total sales at the Michael Kors brand, and the company believes this can rise to ~50%. CPRI's other brands also have meaningful signature product penetration opportunity, and we are enthusiastic about the opportunity for the new La Greca signature pattern at Versace. These products are margin accretive to CPRI.

Exhibit 220: Signature products are highly penetrated within the assortment across accessible luxury brands

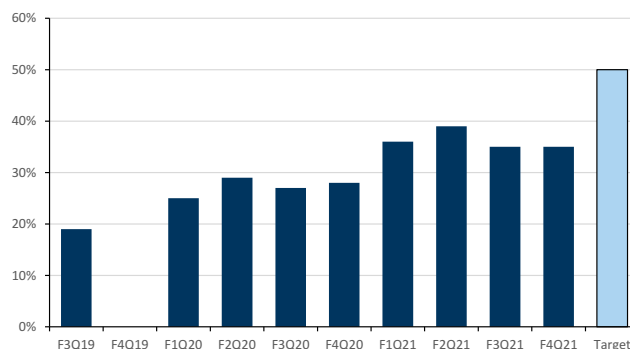
Estimated signature penetration at each brand by gender and format as of late May 2021 based on online assortment count of handbags



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 221: CPRI has disclosed that Michael Kors signature penetration has increased to ~35% of total sales; the company expects this penetration can rise to ~50%

Disclosed quarterly signature penetration of Michael Kors



Source: Company data

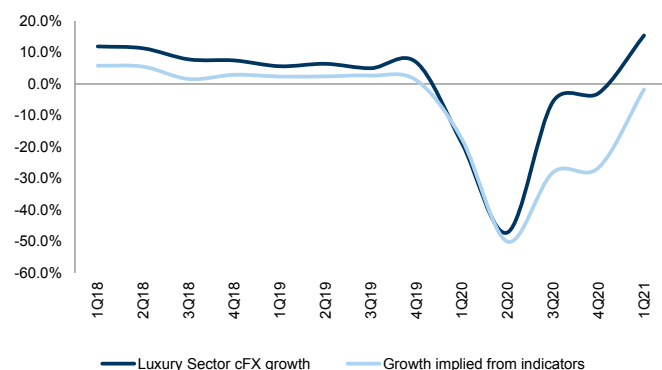
Versace brand has momentum and margin upside

We are constructive on the Versace growth opportunity. We are constructive on the Versace brand's participation in luxury market strength, and believe the brand has emerging new wins in accessories. We anticipate this strength will fuel margin gains as the brand drives leverage from a solid top line. That said, we do recognize that the brand's growth has not (in our view) meaningfully outpaced overall luxury recovery in select markets, indicating that there could be some risk that as consumers shift back to experiences vs. things there could be some top line momentum risk. That said, we believe this could be offset by emerging strength in the brand's pivot to accessories and also a potential recovery in the EMEA marketplace as tourism returns and as consumers return to more apparel-led dressing.

Increased confidence in pivot to accessories: Versace has historically overindexed to apparel, with a strong ready-to-wear heritage rooting them in a lower growth, lower, and fragmented category. CPRI management has focused on an expansion into accessories and footwear in recent years, while simultaneously resetting the brand's foundation by cleaning up distribution. We believe that, after several years of groundwork, this strategy is playing out with a healthier brand and emerging greenshoots in accessories. Importantly, we believe the introduction of a signature print with the "La Greca" platform will drive incremental category momentum into 2022.

Exhibit 222: In-country domestic demand has driven an improvement in luxury demand

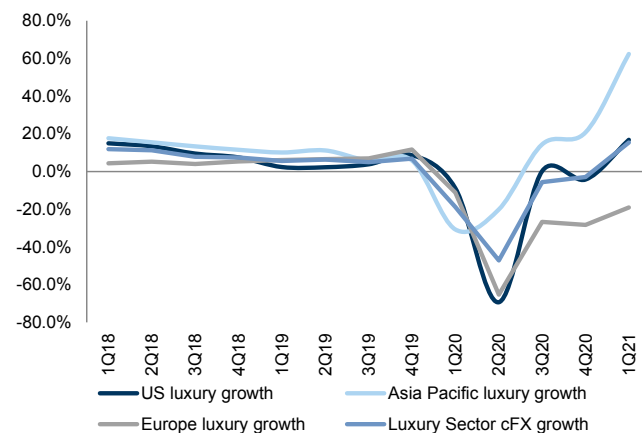
Global Luxury sector cFX growth vs. growth implied by macro indicators



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 223: Within this luxury demand recovery, we've seen the strongest signs of improvement in Asia Pacific (ex-Japan) and the US, while EMEA has lagged

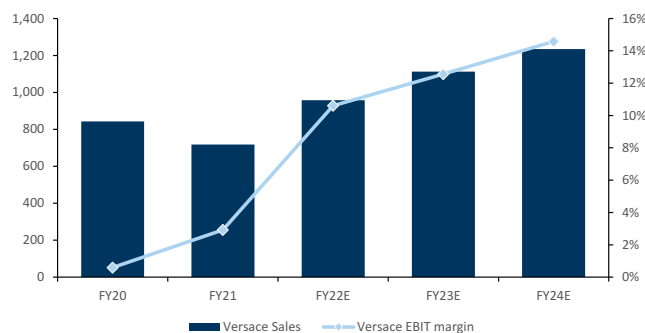
Luxury sector cFX growth by region



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 224: We anticipate Versace's global annual sales and EBIT margin to show strong growth following a global reset and investment in product and assortment

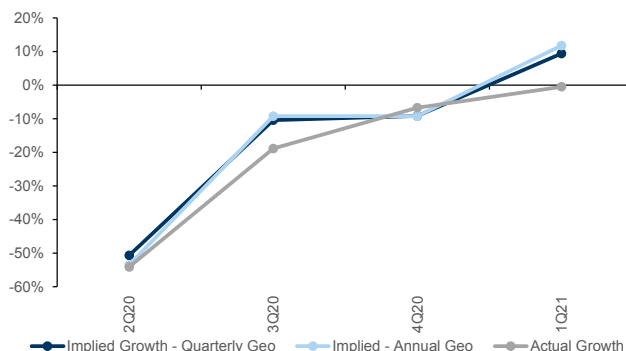
Versace annual sales (\$mn, RHS) and % EBIT margin (RHS), Fiscal Year ending March



Source: Company data, Goldman Sachs Global Investment Research

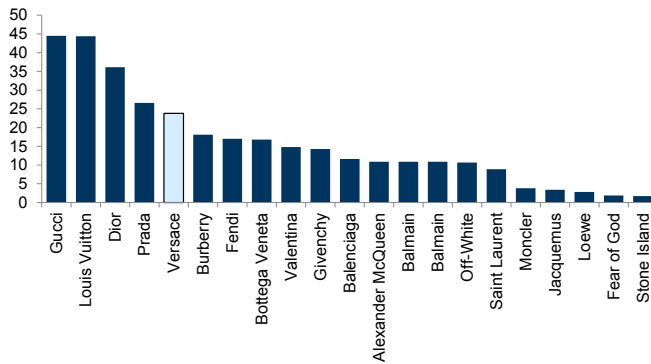
Exhibit 225: However, we have yet to see clear signs that Versace's recovery is outpacing total luxury, meaning that normalization in demand for luxury generally could weigh on future performance

Implied growth for Luxury based on a weighted average geographical mix of total luxury cFX growth



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 226: Versace has a strong Instagram following compared to other global luxury houses
Instagram followers by brand

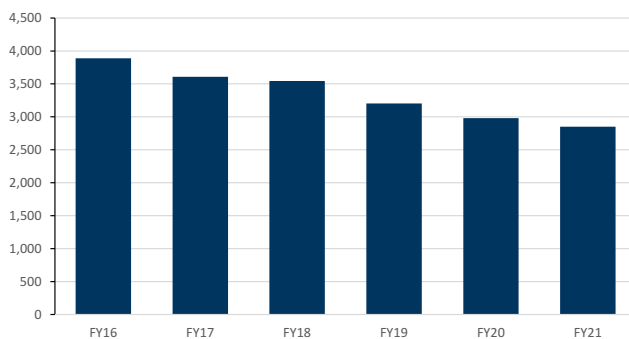


Source: Instagram, Shareablee, Bloomberg, Goldman Sachs Global Investment Research

Michael Kors rebalanced and participating in handbag cycle, but see some normalization potential

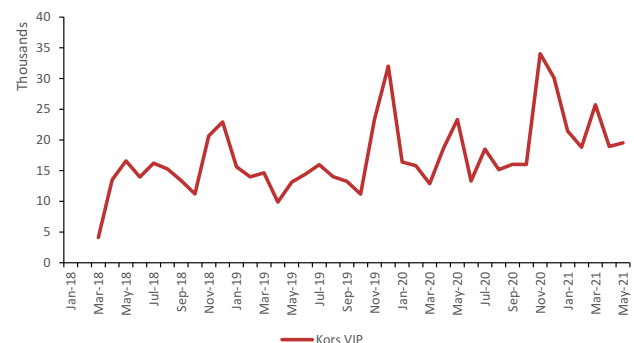
Michael Kors brand rebalanced post-pandemic and participating in handbag cycle demand. We are encouraged by the reset activities that the Michael Kors brand has taken through the pandemic. NA wholesale, which weighed on results ahead of the pandemic, is now appropriately rebased (in our view), Signature product is performing well, and the watch business is now in a healthier place (and the global high-end fashion watch industry is indeed showing some signs of momentum). While reopening will likely continue to benefit the brand (and a reemergence of tourism would be a meaningful driver of recovery, we also observe that brand momentum indicators suggest the brand is seeing some normalization. As a result, we do see risk that Michael Kors gross margin realization fades as promotionality in the North America marketplace rebalances. Michael Kors gross margin rate has been a key driver of consolidated CPRI gross margin expansion, and a normalization of this momentum could mean more limited near-term gross margin upside for the company.

Exhibit 227: Michael Kors North America wholesale had weighed on brand growth prior to the pandemic; COVID-19 provided a key reset opportunity for additional door rationalization
Michael Kors wholesale door count over time



Source: Company data

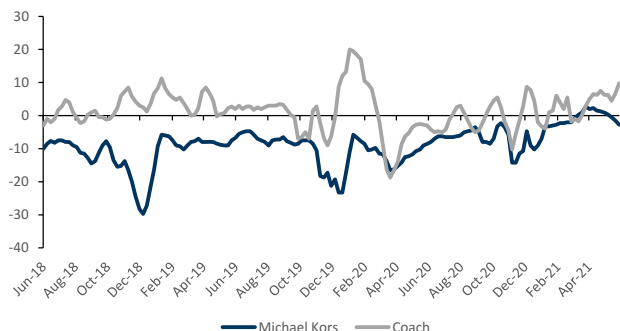
Exhibit 228: KORS VIP app downloads in the US are consistently improving, suggesting the company's loyalty program is gaining momentum
US downloads of the Kors VIP app



Source: SensorTower

Exhibit 229: Coach brand has been outperforming in US search trends on a 2-yr basis and Michael Kors 2-yr pt change has largely been mixed to soft

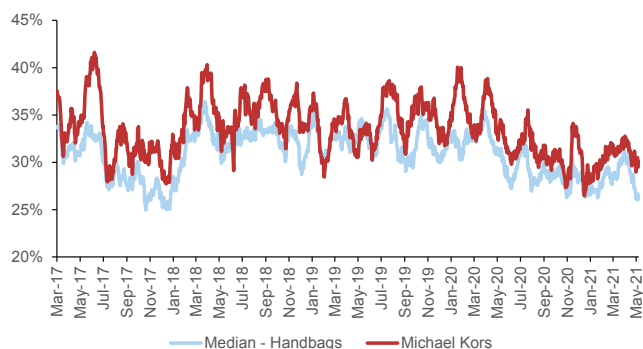
2-yr pt change (T4W average) in Google Trends in the US



Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 230: Michael Kors brand consideration has trended largely with the category median, though we note consideration for the brand has historically (and continues) to outpace select peers such as Kate Spade or Tory Burch

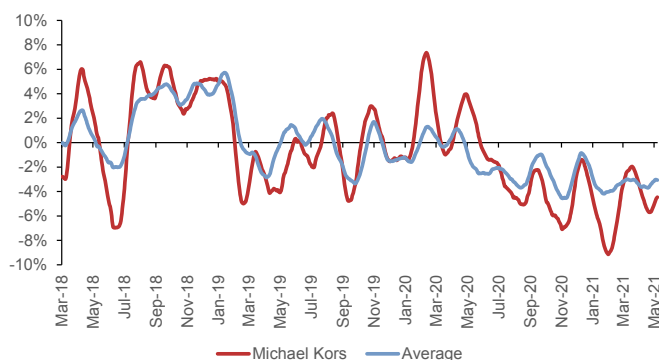
Michael Kors brand consideration among US women vs. median of select handbag branded competitors



Source: WGSN, Goldman Sachs Global Investment Research

Exhibit 231: And Y/Y point changes in consideration remain largely in line with the branded category average

Y/Y point change in brand consideration for Michael Kors



Source: WGSN, Goldman Sachs Global Investment Research

Jimmy Choo outperforming the category with margin opportunity

Jimmy Choo outperforming the category. We believe Jimmy Choo's diversification into casualwear offerings, combined with strong collaborations and fresh marketing, have kept the brand strong (and outperforming the category) throughout a challenging period. We believe Jimmy Choo's top line growth story will recover, supported by a shift to casualwear and a new core collection, though we note this may be a later-dated recovery than other categories such as accessories.

Some reopening opportunity, but we are cognizant the core category is facing secular challenges. Jimmy Choo's signature products are rooted in dressy styles (with a strong heritage in the high heel for women), and this category has continued to face secular challenges as consumers shift to casual and comfortable footwear. While we acknowledge opportunity from reopening (as select consumers return to more dressy / formal events), which could provide a sales lift near term, we believe longer-term

pressures may continue to weigh.

We anticipate sales and margin recovery, but contribution fairly small to total portfolio. We forecast a healthy improvement in sales and margin into FY24. However, we anticipate shifts in profit at the Michael Kors and Versace brands to be more meaningful to the investment thesis near term.

Exhibit 232: Google Trends for Jimmy Choo have been fairly robust the past few years, though did see some disruption during the COVID-19 pandemic

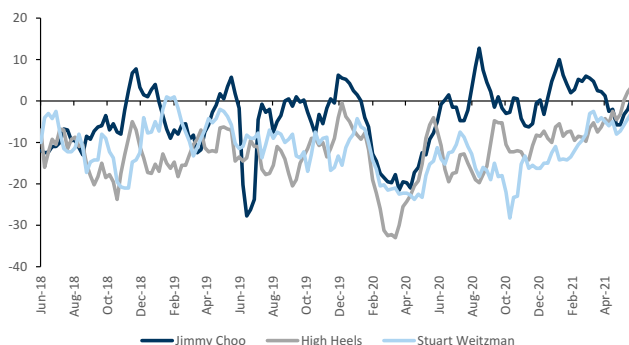
Google Trends in the US for Jimmy Choo



Source: Google Trends

Exhibit 233: We acknowledge pressure from secular headwinds to the category but believe Jimmy Choo is outperforming the category and also competitor Stuart Weitzman

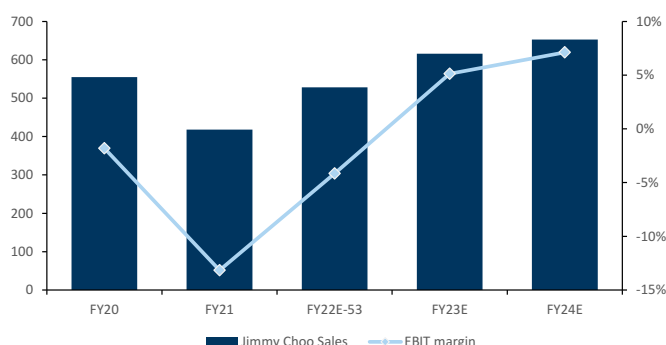
2-yr point chg differences in Google Trends for Jimmy Choo, high heels (a category indicator), and Stuart Weitzman (T4W avg)



Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 234: We expect Jimmy Choo sales to rebound from the COVID-19 disruption at a slower rate, meaning margin deleverage will weigh for longer and the company may see a longer timeline to reach their long-term targets

Jimmy Choo brand sales and EBIT margin



Source: Company data, Goldman Sachs Global Investment Research

Valuation

We are Neutral rated on CPRI and see 5% upside to our \$56, 12-month price target which is based on 8.5x EV/EBITDA. Our Q5-Q8 EV/EBITDA methodology is consistent with our broader coverage universe. This target multiple is informed by a slight premium to the company's historic relative valuation on an EV/EBITDA basis vs. the S&P500 given stronger run-rate margins of the business exiting the pandemic and emerging momentum in Versace dollar and percent margin contribution. For context, our target

multiple implies a 0.6x relative valuation multiple vs. the S&P500 vs. the 0.5x 1-yr pre-pandemic average relative multiple.

Key Risks:

- **Key upside risks include:** (1) Stronger top line momentum across brands. A stronger demand backdrop for CPRI's brands or for the handbag market generally could drive improvement in sales and margins as the company leverages its fixed cost base. (2) Better-than-expected promotional environment and gross margin realization. We anticipate gradual improvement in overall consolidated margins as the company sees normalization in sales and scales its fixed cost base. If the company realizes stronger gross margins or EBIT margins, the company could see stronger earnings. (3) Faster-than-anticipated recovery in tourist trends. CPRI is one of the brands in our coverage universe with meaningful exposure to tourism trends, both in its own channels but also at wholesale. A faster recovery in this trend could drive upside to sales and margins.
- **Key downside risks include:** (1) Fading brand momentum. If CPRI's brands see less limited demand from consumers, sales could fall and margins could see deleverage. (2) Material shift away from luxury goods purchases. CPRI has the highest leverage to luxury goods purchases within our coverage universe, and this sector has been stronger than core apparel as high net worth / high income consumers shifted to purchasing things vs. experiences. A material normalization in luxury demand could limit sales and margin upside. (3) Greater SG&A investment that limits margins. CPRI is shifting sales to its own DTC channels and away from wholesale. As this evolves, if CPRI needs to increase SG&A spend to support this growth, margin expansion could be more limited than expected.

Gap Inc. (GPS, Neutral)

We initiate on GPS with a Neutral rating and a 12-month, \$35 target price. Of the companies in our coverage universe, Gap has executed one of the most meaningful and long-lasting structural transformations during the pandemic. New leadership has driven significant reductions in fixed costs, accelerated store closure programs at underperforming brands, sharpened the portfolio to focus on core growth drivers, and also reinvested in sharpening and focusing its consumer message. Further, we believe the company's core brands Old Navy and Athleta have strong competitive positioning in the marketplace. However, we see better opportunities for stock outperformance in our portfolio as we believe these transformational changes are now well understood, and believe upside from here will require particularly strong execution even as headwinds from promotionality and supply chain intensify.

Investment Considerations:

- **Structural shifts positions GPS as a stronger company.** GPS's new management team utilized the crisis to become more agile (accelerated door closures / rent negotiations / reducing fixed costs / selling non-core brands). We believe the

company's focus on improving marketing and leveraging the power of its portfolio (loyalty / hero products / etc) is an asset. As a result, the company has a higher penetration of growth brands with strong margins.

- **Athleta strong and increasingly important.** We believe Athleta has a credible opportunity to gain market share in global activewear, fueled by investments in size inclusivity, hero products, and strategic expansion into everyday wear. While we believe the brand will remain core to GPS given synergies across the active portfolio, we sensitize the brand's value to GPS within.
- **Catalysts largely in rearview mirror with some choppiness ahead.** We believe GPS's improving margin delivery, combined with several quarters of sequential delivery on the 2023 Power Plan means investors increasingly appreciate the company's path to expanded EBIT margins. Further, we believe Old Navy has more potential volatility to see margin pressure in a normalizing promotional environment marked by unit input cost pressure and a higher shift to online (given smaller basket sizes / higher fulfillment costs as a proportion of sales). However, this is balanced by upside from stronger margins following the Europe strategic review and the upcoming launch of Yeezy Gap, which could drive incremental stabilization in the Gap brand.

Transformational shift positions GPS to be a stronger company

GPS utilized the COVID-19 crisis to materially rebalance its organization and focus on improving the health of its business. We believe that of the companies in our coverage universe, GPS has been the most aggressive in executing transformational change since early 2020. These actions are margin accretive on balance, and help bridge the gap to stronger profitability over time. Below, we highlight what we believe are the biggest game changers.

Meaningful shifts at GPS that are worth noting:

- **New leadership driving a cultural shift inside the organization.** GPS appointed a new CEO and CFO in March 2020. Ms. Syngal and Ms. O'Connell had formerly led GPS's most successful growth brand, Old Navy. We believe the new management team has reaccelerated enthusiasm and excitement within the organization and are positive drivers of a listening and learning culture.
- **Meaningful fixed cost reductions.** The company has executed a shift away from legacy fixed costs and shifting those SG&A dollars to higher return projects such as consumer-facing marketing. In the early stages of the pandemic, GPS reduced its corporate headcount by 15% (with the shift overindexing to Gap brand at 25%).
- **An accelerated store closure and rent abatement program.** Of the brands in our universe, we believe GPS was most aggressive in attempting to rebalance its leased portfolio. While the company had been executing against a store closure program pre-pandemic, the pace of closures has accelerated (NA Banana Republic and Gap brand store closures of 350 by end of 2023), and estimated rent deals from closures and negotiations are coming through the P&L stronger. Management identified \$100mn of EBITDA benefit from the store closure program and \$45mn in rent

savings from this program, which represents nearly 1pt of EBIT margin on FY19 pre-pandemic sales levels.

- **Focusing portfolio on core high-growth and high-margin brands.** Management has refocused its priorities on energizing its core brands, and has closed Hill City, exited Janie and Jack, and sold the Intermix brand - all executed within the last year. We estimate this closure could add an additional 10bps of margin expansion as they refocus the portfolio on higher margin brands.
- **Improving and investing in brands.** GPS has refocused on driving high-return SG&A spend in marketing, targeting 6% of sales in FY21 vs. ~4% of sales pre-pandemic (FY19). The company has also demonstrated it is willing to take a more agile approach to its historic marketing and brand presentation methodology, with the upcoming partnership of Yeezy Gap and the license of Gap brand (with Gap Home product now launched on Walmart.com) indicating the company is looking at its brands with a fresh perspective. At growth brands, the focus of extending the brands to be much more meaningfully inclusive (particularly Athleta) provides an opportunity for the brand to differentiate itself vs. the competition.

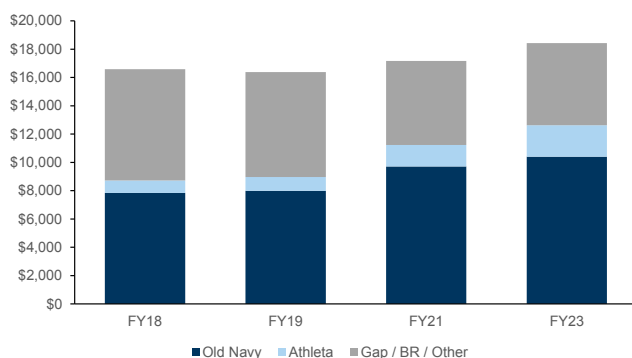
Growth brands driving margin expansion

Higher penetration of Old Navy and Athleta driving natural margin expansion as underperforming brands undergo cost resets. Pre-COVID, the company had an underperforming Banana Republic and Gap brand store fleet, and pressure from this was compounded by choppy execution at its larger growth banners, Old Navy and Athleta. GPS has accelerated underperforming door closures, invested in marketing and brand positioning efforts to stabilize the decline in legacy businesses, and refocused its strategy around the core. As a result, post-pandemic the company has a more flexible cost base, a smaller corporate organization, and a larger contribution from higher-margin businesses.

Sensitizing the margin mix shift from Athleta and Old Navy. The company does not report EBITDA margins by brand or by channel. However, they have made a few historical disclosures that give color suggesting teens operating margins for Athleta and Old Navy. We utilize these disclosures, as well as commentary provided by the company in FY19 to sensitize estimated margins from pure mix shift by FY23 vs. FY18 and FY19 below.

Exhibit 235: High margin businesses Old Navy and Athleta only accounted for ~53% of sales in FY18; we expect this will account for 69% of sales by FY23

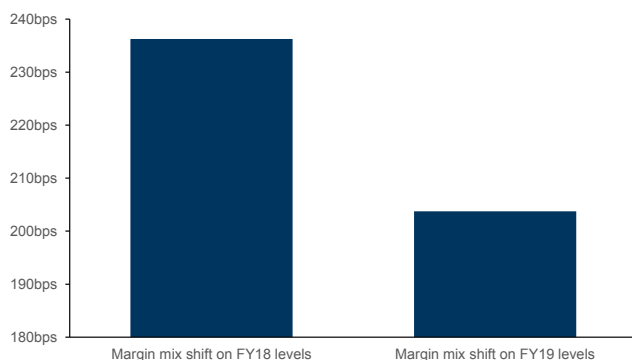
Sales contribution by major margin categorization over time (with highlights for both Athleta and Old Navy vs. the rest of the portfolio)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 237: Excluding impacts of channel shift and assuming no change in underlying margins vs. base periods, we estimate mix shift to Old Navy and Athleta adds >200bps of EBIT margin between FY18/FY19 base and FY23

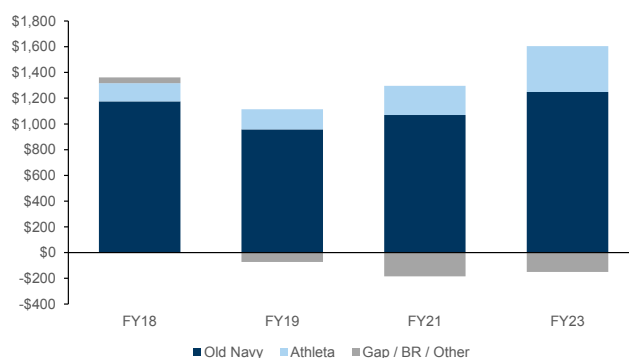
Estimated margin mix shift vs. FY18 and FY19 levels, assuming margins realized in each of those years by brand is constant



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 236: Despite only accounting for about half of sales in FY18, we estimate high-margin businesses Old Navy and Athleta accounted for the vast majority of EBIT dollars given their higher margin structure

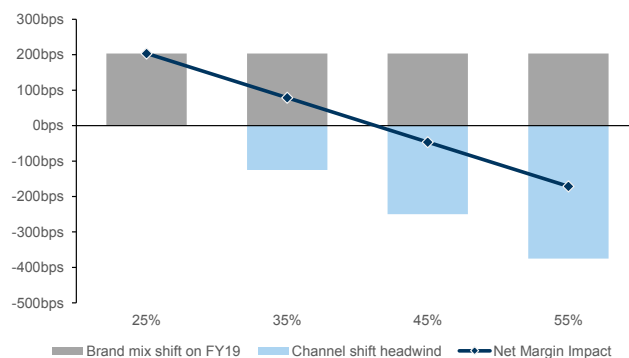
Estimated EBIT contribution by brand over time



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 238: This mix shift to higher margin businesses can help to offset the costs of online mix shift as the business shifts online; note that other company initiatives such as omnichannel, DC automation / efficiency, and split shipment optimization can help to mitigate these headwinds as well

Estimated EBIT margin contribution from business shift to high-margin Athleta / Old Navy businesses (grey) vs. online mix shift at varying online mix penetrations (X axis) and the net impact to total EBIT margins



Source: Company data, Goldman Sachs Global Investment Research

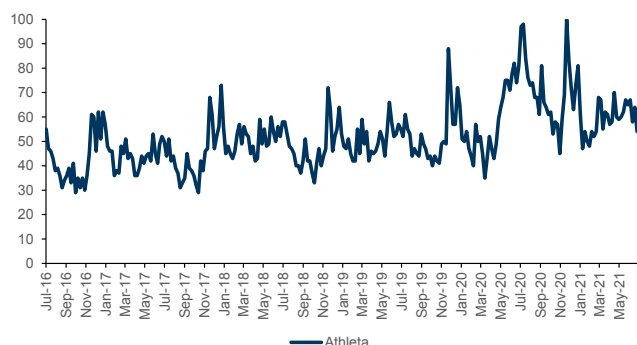
Athleta an underappreciated growth asset

We believe Athleta is strong and growing. We acknowledge that the investment discussion with investors in late 2020 was largely on the SOTP implications of owning the Athleta brand, and believe that most investors have embedded this in their estimates and expectations for the stock price. That said, we do believe this business is one that has momentum, as it has made meaningful investments in inclusivity (which we believe will differentiate itself vs. peers), hero product development, and strategic expansions into new categories (everyday wear) and geographies (Canada). While we believe the brand will remain core to GPS given synergies across the active portfolio and believe any SOTP would thus require discounting for tax implications and dissynergies,

we sensitize the brand's value to GPS below.

Exhibit 239: The Athleta brand has seen strength in brand momentum as seen in search trends

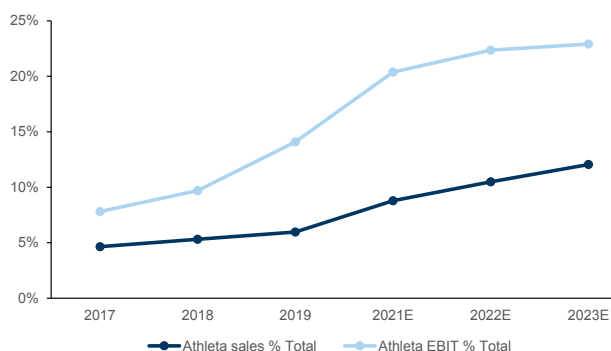
Athleta search trends on Google Trends in the US, T5Y



Source: Google Trends

Exhibit 241: We anticipate Athleta will account for a double digit percent of sales and >20% of EBITDA by FY23; this step-change vs. the MSD prior means that incremental growth drives much more meaningful changes to the consolidated outlook

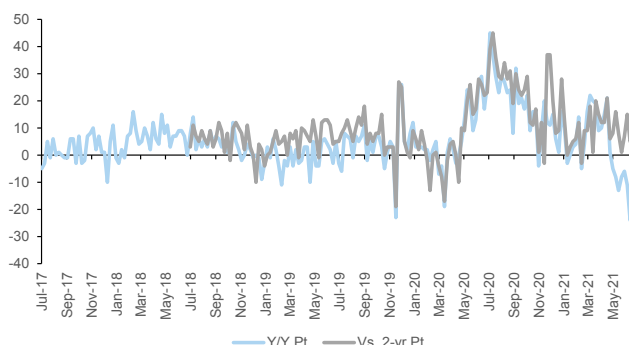
Estimated Athleta sales and EBIT contribution as a % of total



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 240: And the brand has largely shown momentum vs. 2019 for most of the spring before fading this summer (we believe partly due to masks from last year)

Google Trends Y/Y point change and vs two years ago point change



Source: Google Trends, Goldman Sachs Global Investment Research

Exhibit 242: We recognize Athleta has shown strong growth despite an unprecedented year of uncertainty (and store restrictions); as such, we sensitize top line growth across store comps and online vs. FY19

US estimated Athleta sales scenario analysis utilizing FY19 as a base and varying store and online comp CAGRs using an average store count of ~256 for FY23

Athleta US Sales Sensitivity Scenario vs. FY19					
		Store Comp CAGR			
		2%	5%	10%	15%
Online Growth CAGR	15%	1,604.8	1,709.5	1,905.2	2,129.5
	20.0%	1,744.4	1,849.2	2,044.9	2,269.2
	25%	1,902.7	2,007.5	2,203.2	2,427.5
	30%	2,081.2	2,185.9	2,381.6	2,605.9
	35%	2,281.4	2,386.2	2,581.9	2,806.2
	40%	2,505.3	2,610.0	2,805.7	3,030.0

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 243: If Athleta's store base were to expand beyond this level or if Canada were to penetrate meaningfully, we see upside to total sales

Sensitivity analysis of sales upside vs. the company's FY23 \$2bn sales target by layering in Canada and a higher door count (closer to peer lululemon)

Upside Scenarios vs. \$2bn sales in US					
		Canada Penetration			
		1%	3%	5%	10%
Average FY23 Doors	260	1.9%	3.9%	5.9%	10.9%
	270	3.8%	5.8%	7.8%	12.8%
	280	5.8%	7.8%	9.8%	14.8%
	290	7.7%	9.7%	11.7%	16.7%
	300	9.7%	11.7%	13.7%	18.7%
	310	11.6%	13.6%	15.6%	20.6%

Source: Company data, Goldman Sachs Global Investment Research

Athleta valuation contribution scenarios. Given Athleta's positioning in the high-growth and high-margin athletic apparel market, we see some merit in assigning a higher valuation multiple to this high-growth brand vs. the rest of the portfolio, and thus understanding the potential valuation contribution of the Athleta brand to the consolidated entity. While we do not value GPS on a SOTP methodology, we utilize this scenario exercise to inform our consolidated EV/EBITDA valuation methodology. That said, we do believe a few things must be taken into consideration when utilizing SOTP methodologies, including tax implications (we believe the Athleta asset has a low tax basis) and dissynergies of separation (particularly given the high degree of integration across the GPS platform).

Below we sensitize an illustrative example of implied SOTP of the organization. We show these scenarios at a 20x FY22E EV/EBITDA multiple and a 4.0x FY22E EV/sales multiple, slightly lower than the median given Athleta's lower EBITDA margin. We recognize a range of applicable multiples could be used in this analysis, where bears could argue that the Athleta business more closely resembles a specialty apparel business than a true athletic brand given choppy execution history in recent years, a more limited TAM given its female-focused business, and a broad range of lifestyle products that aren't focused on athletic, should drive a lower multiple. In contrast, bulls could argue that the high-growth top line of the brand and emerging international opportunity position the company to achieve stronger margins and growth over time and the business should trade at a premium.

Exhibit 244: A comp set of predominantly Athletic peers indicates that Athleta's top line growth momentum screens favorably; we note comparability is not perfect given different business models (wholesale profit pool recapture benefits YETI/NKE/UAA)

Select athletic peer comparables vs. Athleta; note peer set is calendarized to account for varying fiscal years (\$mn); GS estimates for Athleta while all other estimates are FactSet

	Revenue		Revenue CAGR		EBITDA Margin		EBITDA CAGR		EV/EBITDA				EV/Sales				NTM Growth-Adjusted	
	2022	19-23	21-23	2021	2022	19-23	21-23	2021	2022	2023	NTM	2021	2022	2023	NTM	EBITDA	Sales	
LULU	6,836	18.5%	15.8%	24.5%	24.9%	17.7%	18.4%	30.5x	25.3x	21.9x	29.4x	7.5x	6.3x	5.6x	7.3x	1.6x	0.5x	
YETI	1,540	17.8%	14.6%	23.2%	23.8%	25.3%	16.5%	26.5x	22.5x	19.4x	22.9x	6.1x	5.3x	4.7x	5.4x	1.4x	0.4x	
NKE	53,096	11.1%	10.1%	16.7%	18.5%	24.7%	14.4%	27.4x	23.6x	21.2x	26.5x	4.6x	4.2x	3.8x	4.8x	1.8x	0.5x	
UAA	5,621	2.5%	4.3%	7.8%	9.4%	10.2%	22.6%	21.7x	17.1x	14.4x	19.0x	1.7x	1.6x	1.6x	1.6x	0.8x	0.4x	
Average		12.5%	11.2%	18.1%	19.1%	19.5%	18.0%	26.5x	22.1x	19.2x	24.4x	5.0x	4.4x	3.9x	4.8x	1.4x	0.4x	
Median		14.5%	12.4%	20.0%	21.1%	21.2%	17.5%	26.9x	23.0x	20.3x	24.7x	5.4x	4.7x	4.2x	5.1x	1.5x	0.4x	
Athleta	1,853	22.8%	21.3%	18%	18%	23%	21%											

Source: Company data, FactSet, Goldman Sachs Global Investment Research

Exhibit 245: On current market trading values, applying an illustrative and hypothetical 22x EV/EBITDA multiple to FNTM (Q5-Q8) would result in Athleta accounting for half of the company's enterprise value

Implied SOTP utilizing current share price, GS estimated F1Q22 (forward 4 quarter) net debt and share count, and applying a 22x FNTM (Q5-Q8) EV/EBITDA multiple to the Athleta business; we also show a scenario where of Athleta post-dyssnergies of 2% and tax of 20% given the factors discussed above (\$mn)

	Implied EV/EBITDA					
	Q5-Q8 Sales	Q5-Q8 EBIT	Q5-Q8 D&A	Multiple (no dissynergies)	EV	EV post dissynergies and tax
Athleta	1,943	291	58	22.0	7,693	6,031
Remainder of GPS	15,886	998	424	3.3	4,675	6,337
Total Enterprise	17,829	1,289	482	7.0	12,368	12,368
Net Debt (4Q21)					311	311
Equity Value					12,057	12,057

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 246: This illustrative outcome is fairly consistent when applying an EV/sales multiple on FNTM (Q5-Q8)

Implied SOTP utilizing current share price, GS estimated F1Q22 (forward four quarter) net debt and share count, and applying a 4x EV/sales multiple to the Athleta business; we also show a scenario where of Athleta post-dyssnergies of 2% and tax of 20% given the factors discussed above (\$mn)

	Implied EV/Sales					
	Q5-Q8 Sales	Q5-Q8 EBIT	Q5-Q8 D&A	Multiple	EV	EV post dissynergies and tax
Athleta	1,943	291	58	4.0	7,771	6,092
Remainder of GPS	15,886	998	424	0.3	4,598	6,276
Total Enterprise Value	17,829	1,289	482	0.7	12,368	12,368
Net Debt					311	311
Equity Value					12,057	12,057

Source: Company data, Goldman Sachs Global Investment Research

Catalysts largely in the rearview mirror or now anticipated by investors

We acknowledge several of the catalysts are in the rearview mirror. GPS's stock has outperformed peers as the company executed on several strategic catalysts which we've discussed so far. This, combined with the announcement of the 2023 Power Plan and a few sequential quarters of strong ROD leverage and improving margin delivery, indicates to us that investors increasingly appreciate the company's path to expanded EBIT margin. We believe these upside catalysts are balanced by emerging risks at value banners as costs increase and the promotional environment normalizes.

Catalysts left on the table, that are likely already appreciated by investors:

- **Strategic review of Europe:** GPS has indicated it is executing a strategic review of its European business (including France, Italy, the UK, and Ireland), and has noted it is exploring either franchise or online models vs. its existing infrastructure. In a recent update, the company indicated it had identified a potential partner for France, is in discussions with a potential partner for Gap stores in Italy, and plans to close all stores in UK and Ireland this fall. Further, the company plans to maintain its online Gap business and is looking for a partner for that business. While management has not detailed the potential financial impact of this, we highlight Europe accounted for 3.3% of FY19 sales and 2.4% of sales in FY20, and the company has indicated strategic action would be margin accretive. We sensitize potential outcomes below assuming various operating margins of the pre-pandemic (FY19) Europe business and potential new revenue streams from the venture by assuming revenues are similar to a licensed structure and showing potential varied license rates of lost revenue. Note we utilize a wide range of licensing outcomes (such as 0-1%) to provide for scenarios that extend beyond a license business such as closure.

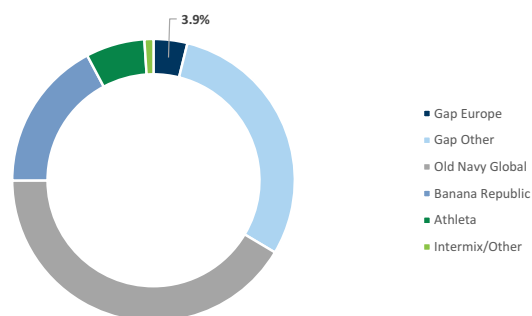
Exhibit 247: While the range of outcomes is wide, we see opportunity for incremental EBIT margin accretion for the Gap business of ~5-70bps following the conclusion of the company's strategic review of its European business

Scenario analysis of margin upside (bps vs. FY19) from Europe strategic review assuming various operating margins of the Europe business and at various license recapture rates

		Scenario Analysis of Europe Strategic Review					
		Europe Prior Operating Margin					
		-7.5%	-5.0%	-2.5%	0.0%	2.5%	5.0%
License Rate	0%	47	39	30	22	13	5
	1%	50	41	33	24	16	7
	3%	56	47	39	30	22	13
	5%	61	53	44	36	27	19
	7%	67	58	50	41	33	24

Exhibit 248: GPS's Europe store footprint is largely from the Gap brand (4% of total stores); we see opportunity for GPS to focus its efforts and strategic resources on it's higher-growing formats and regions following the conclusion of the strategic review

GPS's store portfolio by banner, where we highlight Gap Europe vs. Gap All Other (includes NA and Asia)



Source: Company data, Goldman Sachs Global Investment Research

Source: Company data, Goldman Sachs Global Investment Research

- **Yeezy + Gap Collaboration.** Gap brand has teamed up with Mr. Kanye West's Yeezy company to produce a line of Yeezy Gap elevated basics, which are set to appear on Gap.com and in stores later this year. Under the partnership, Yeezy will receive royalties and potential equity dependent on sales levels achieved. Equity awards are structured as warrants for up to 8.5mn shares of the company's stock (a LSD percent dilution figure vs. the company's ~378mn period-end shares as of last quarter) which vest in 1/3 increments at \$250mn, \$450mn, and \$700mn in net sales during the exercise period. While margin and sales volume of this collaboration is unclear, we believe this could drive sales upside at higher full-price margins for the Gap brand. Bulls on GPS are optimistic that this collaboration could drive a stabilization and reemergence of brand heat for the broader Gap portfolio. However, we believe investors are looking ahead to upside from this and believe the stock's multiple has expanded as a result of potential upside from this collaboration.

- **Further portfolio rationalization:** New management has indicated a fresh willingness to make meaningful changes to how business was done before (examples include closure of Hill City, sale of Janie & Jack, Intermix, licensing of Gap brand, and Gap brand's upcoming collaboration with Yeezy). Closed brands accounted for a small proportion of 2019 sales (<2%), and remaining brands in the portfolio are much larger contributors (all >~\$1.5bn). That said, as the company continues to optimize we see continued scope for further portfolio rationalization or select portfolio management as the company seeks to drive higher growth and higher margins.

Valuation

Important note about GS Estimates: Our estimates reflect the sale of both Janie and Jack, which closed on April 8, 2021, and Intermix, which closed on May 21, 2021.

We are Neutral rated on GPS and see 11% upside to our \$35, 12-month price target which is based on 7.5x Q5-Q8 EV/EBITDA. The Q5-Q8 EV/EBITDA methodology is consistent with our broader coverage universe. We believe that a stronger margin profile outlook and fresh recent changes in the business, including portfolio changes, new collaborations, exit of unprofitable business lines, and a higher proportion of sales and EBIT from high-margin banners mean that GPS should trade at a premium to that implied by the relative historical EV/EBITDA multiple vs. the S&P500. For context, our target valuation multiple of 7.5x is 0.5x relative to the S&P500 EV/EBITDA multiple, which compares to 0.4x for the 1-yr pre-pandemic average.

Key Risks:

- **Upside Risks:** (1) Stronger than expected turnaround at Gap brand. Low margins at the Gap brand, in part due to leverage on fixed costs in stores, is one contributor to a consolidated operating margin of <10% for the business. If the Yeezy Gap collaboration is significantly stronger and drives a sustained turnaround in consumer interest in the brand, higher sales with less promotionality could drive stronger fixed cost leverage and consolidated operating margins. (2) Reacceleration in comparables at value banners such as Old Navy. (3) Stronger than expected margins and profitability on better inventory planning.
- **Downside Risks:** (1) Further deterioration in core brands Gap and Banana Republic: We believe that new management, structural actions taken during the pandemic, and fresh collaborations such as the Yeezy / Gap initiative can drive stabilization in GPS portfolio brands that have historically weighed on results. However, further accelerated deterioration in top line trends and associated deleverage could drive margin declines. (2) Profitability challenges as the business shifts online. We believe GPS's basket size online is sufficiently large enough that the company can deliver profitability as consumers shift towards online channels. However, if store-associated deleverage is stronger or the costs associated with online fulfillment rise meaningfully, this could pressure GPS's margins.

Tapestry (TPR, Neutral)

We initiate on TPR with a Neutral rating and a 12-month \$42 target price. We are constructive on TPR's Acceleration Program and believe the company has meaningfully adapted its business for a post-COVID world, and are encouraged by the meaningful improvements to the company's culture, agility, and focus. Further, we believe the Coach brand has momentum with young consumers. That said, we see tougher comps ahead for this brand, and thus we believe the incremental path to growth is becoming more challenging. Put simply, this is a solid company without a strong near-term catalyst and toughening compares. With less upside to TPR relative to other stocks in our coverage universe, we see a more balanced risk/reward and initiate at Neutral.

Investment Considerations:

- **Healthy handbag backdrop supported by newness in luxury.** We believe the category is currently healthy, supported by energizing innovations from top luxury brands which have provided a halo of new silhouettes and a reemergence of signature styles. The category showed strong growth throughout the pandemic and has proven resilient even as luxury brands have taken price increases, driving up AUR and gross margin expansion. We believe this strong backdrop is well-appreciated by investors, and while top line momentum is likely to remain healthy, we do see some risk that the promotional environment for the accessible luxury handbag category normalizes (driving some weakness in gross margin).
- **Coach strong, but catalysts in the rearview mirror and comp set toughening.** We believe the Coach brand health is strong and the company's strategy to focus assortments and limit SKU counts is the right one. However, as the company cycles the rollout of Coachoutlet.com in North America and the benefits of the brand's partnership with Ms. Jennifer Lopez, we anticipate compares to become tougher, both on a top line and a gross margin basis. While growth in the near term is bolstered by a strong reopening cycle and select key product wins, we anticipate more limited upside here.
- **Kate Spade remains choppy and not yet driving market share.** This brand has been undergoing meaningful turnaround as it refocuses its brand message with its core customer. While we are encouraged by recent green shoots as it has returned to its core and playful message, we believe it is too early to underwrite market share gains or meaningful margin share expansion at this brand.
- **Stuart Weitzman improving but mix shift impact small.** We expect improvements from the brand in 2021 from reopening tailwinds and strong China growth, but as of yet the business remains small and has not yet regained full momentum.

Healthy handbag backdrop supported by newness in luxury

Luxury handbag momentum has been strong and supported by innovation and newness. Domestic-driven luxury spending has been strong throughout the pandemic, supported in part by innovation and newness in new silhouettes (including a

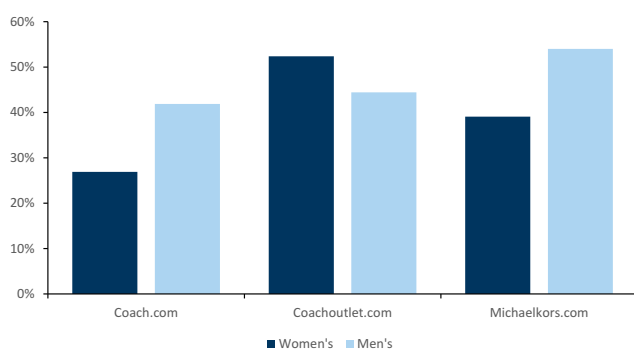
reemergence of signature styles) but also by shifts in wallet share away from experiential spending towards physical goods. This has enabled luxury companies to raise average the price point of their products and expand family lines, providing a strong halo for accessible luxury peers. We continue to like the category long term due to fashion cycles that drive newness and repurchase rates, but we believe that the category's relative strength will mean tougher comps and relative opportunities elsewhere in the consideration set, particularly for consumers who shift their wallet back to experiential goods following reopening demand.

Signature a key driver of momentum for accessible luxury brands. While not new to this year, signature momentum has been rising meaningfully over the past few years at key brands in the accessible luxury category. We'd note that several key global luxury brands such as Louis Vuitton, Gucci, Dior, and Fendi have reintroduced and repopularized bags (and broader clothing lines) with signature print icons in recent years (and also added new signature icons to supplement historic versions that were popularized in decades past). This, in addition to alternative shapes and silhouettes (including baguette bags / shoulder bags / etc), has driven fresh energy in to the category overall as consumers adopt new silhouettes and fashions.

Signature percolating through accessible luxury. Brands in the accessible luxury space have been expanding their signature handbag collections, and our analysis suggests that signature accounts for >25% of the women's full line assortment, >40% of men's full line assortment, and that this is even more penetrated at Coachoutlet.com (>50% for women and >40% for men). This fashion shift has provided the opportunity for additional newness across the portfolio.

Exhibit 249: Signature products are highly penetrated within the assortment across accessible luxury brands; at TPR, this penetration is even higher at Coachoutlet.com

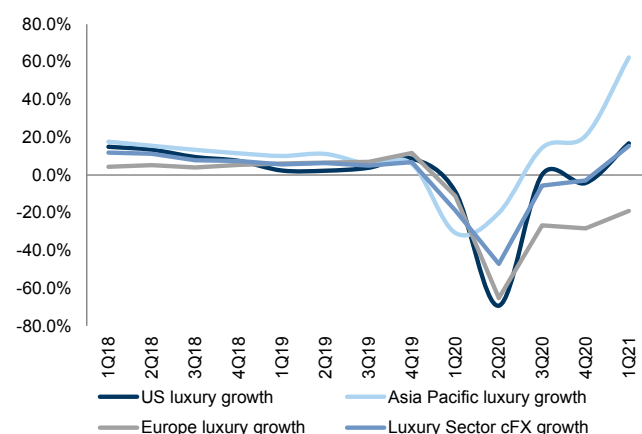
Estimated signature penetration at each brand by gender and format as of late May 2021



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 250: Luxury demand has recovered at a healthy clip, with the strongest signs of improvement in areas where TPR has more concentration such as the US and Asia Pacific (ex-Japan)

Luxury sector cFX growth by region



Source: Company data, Goldman Sachs Global Investment Research

Coach brand strong but catalysts in the rearview mirror

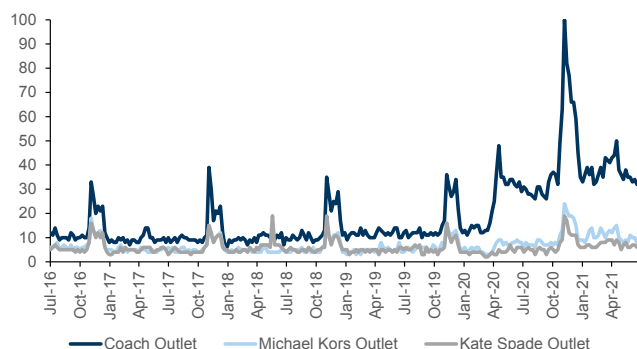
We believe TPR's acceleration program is working, as evidenced by a strengthening and elevated Coach brand. As part of the Acceleration Program, Coach

has made significant reductions in SKU counts, clarified assortments, and improved inventory management efforts, which has resulted in strong gross margin expansion. The brand has been nimble in communicating with its customers globally, both with creative marketing, key partnerships with critical celebrities (such as Mr. Michael B. Jordan and Ms. Jennifer Lopez), and strong engagement on emerging social networks like TikTok.

We see fewer near-term upside catalysts, and we believe tougher comps are ahead. We believe the Coach brand health is strong and the company's strategy to focus assortments and limit SKU counts is the right one, and the company has realized durable gross margin gains from this strategy. However, as the company cycles the rollout of Coachoutlet.com in North America (which launched last April), strong viral product successes in early 2020 (such as the Pillow Tabby bag), and the initial benefits of the brand's partnership with Ms. Jennifer Lopez, we anticipate compares to become tougher, both on a top line and a gross margin basis. While growth in the near term is bolstered by a strong reopening cycle and select key product wins, we anticipate more limited upside here. Further, we believe industry scrutiny on overall promotionality could weigh on enthusiasm for continued improvement from here, as any normalization in industry inventory levels could drive Coach to become incrementally more promotional.

Exhibit 251: We believe the rollout of Coach Outlet online was a key driver of top line inflection and gross margin; as the company begins to cycle this, we expect less positive incremental datapoints going forward

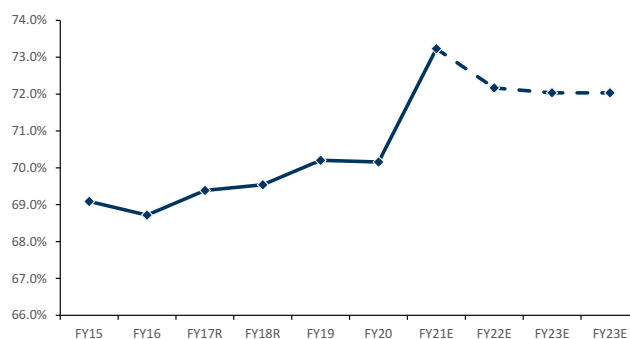
Google Trends for Coach Outlet vs. other Outlet formats for accessible luxury brands



Source: Google Trends

Exhibit 252: Coach Gross Margins have seen meaningful expansion in FY21 on the back of the Acceleration Program initiatives; as the brand is the biggest contributor to overall sales, we anticipate a normalization in gains here will mean limited consolidated margin expansion from here

Coach brand gross margins by FY (FY ending June)



Source: Company data, Goldman Sachs Global Investment Research

Kate Spade turnaround still in early stages of progressing

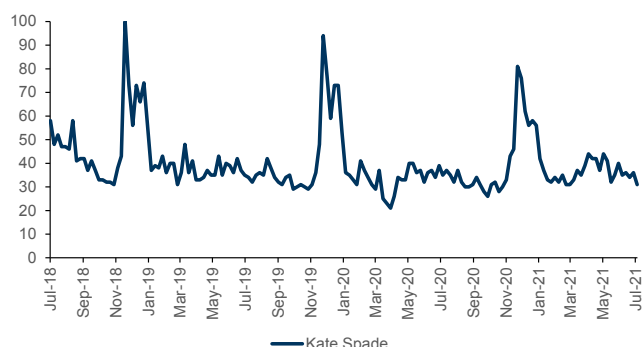
We believe the Kate Spade brand is still in the early days of turnaround. We believe the brand's authentic and playful message provides it meaningful opportunity for both top and bottom line growth, and believe the company has done meaningful work in trimming promotionally-driven sales and cutting SKU count to get back to the core DNA of the brand. However, we believe this may be a choppy path and have limited confidence that recent green shoots in the brand will sustain as the healthy industrywide supply/demand environment normalizes.

What are we looking for to underwrite meaningful upside from this brand?

- **Consistent creative direction.** Kate Spade has seen several changes in its creative leads in recent years, and creative director Nicola Glass (who launched a collection that was widely anticipated just a few years ago) departed the company in April. While we are optimistic that fresh creative direction could help drive a turnaround in the brand, and believe that the introduction of jacquard signature prints could drive incremental sales, we look for a cohesive branded creative direction that is resonating across the product line in outlet and full price. We believe this could take time to drive consistent momentum.
- **Sustained growth in customer momentum.** We've seen recent greenshoots from the brand as the company acquired 300k new customers in F3Q and reactivated >100k customers throughout North America. While we are encouraged by this, we believe this new customer acquisition trend is not unique to Kate Spade as several other brands have pointed to strong new customer add trends. We thus look for signs that Kate Spade is truly gaining market share rather than participating in a reopening recovery.

Exhibit 253: We believe Kate Spade saw some momentum early this Spring on the back of stimulus and favorable weather shifts, but are cautious to underwrite that the brand has fully inflected to sustainable growth

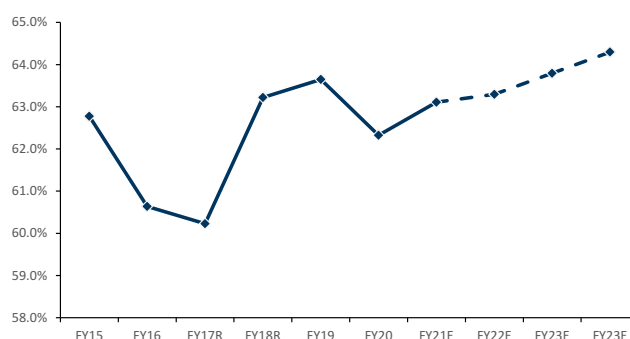
Google Trends for Kate Spade in the US



Source: Google Trends

Exhibit 254: While we are somewhat hesitant to embed a turnaround in top line, we do anticipate the acceleration program to drive improved gross margins for the brand as SKU count reductions and narrower promos boosts margins

Estimated Kate Spade gross margin



Source: Company data, Goldman Sachs Global Investment Research

Stuart Weitzman brand improving but small

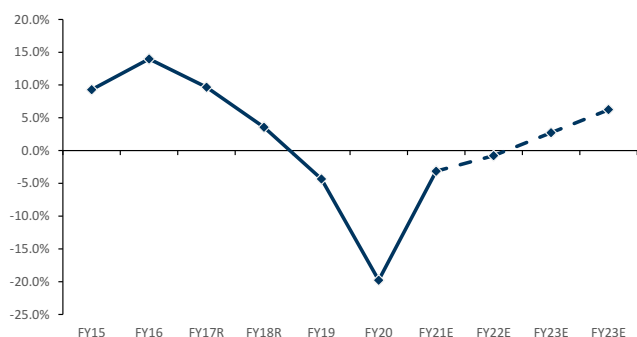
TPR's acceleration program impact is also driving an improvement in margins at Stuart Weitzman. The company has seen improving sequential trends as we emerge from the business, and we anticipate growth in the China market and a reopening boost to accelerate the brand's profitability strategy. Post-pandemic, we believe the brand has refocused its efforts around its core brand positioning for the consumer, with a key focus on fashion and fit, and we believe the brand's strong message with its icons will drive improved clarity with its existing customer. Importantly, structural changes enacted during the pandemic (exiting unprofitable markets) and a slimmer business in other geographies enable the brand's path to profitability. We embed strong margin improvements as the company cycles the turnaround efforts from pre-pandemic.

Improvements at this brand not enough to offset normalization elsewhere in the portfolio. We believe a meaningful improvement in margin at SW will be seen favorably,

but that until the brand returns to strong growth globally investors will likely focus on TPR's other brands in driving their investment thesis.

Exhibit 255: We embed a meaningful upward inflection in EBIT margins for the Stuart Weitzman brand as the acceleration program initiatives take hold

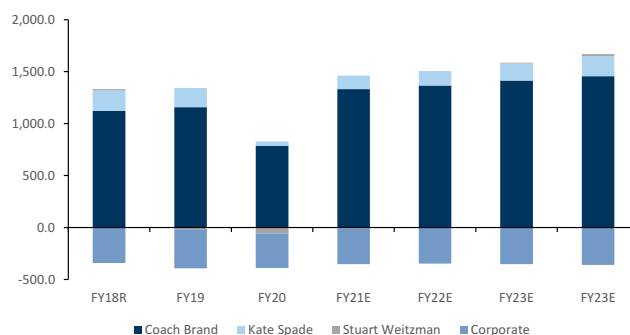
Stuart Weitzman EBIT margins; note pre FY18 are not entirely LFL as they are sourced from disclosures prior to company restatements



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 256: The Stuart Weitzman brand is inflecting to profitability following several years of losses; however, relative to other large brands in the portfolio this inflection isn't as critical as continued momentum in the other brands

FY EBIT contribution by brand for total TPR



Source: Company data, Goldman Sachs Global Investment Research

Acceleration program well understood; all eyes on execution

We are constructive on the structural changes TPR has taken throughout the pandemic. Similar to other companies in our coverage universe, TPR's new leadership catalyzed meaningful change and the company announced \$300mn in gross run rate savings from cost savings program, fueled by store fleet rationalization, rent negotiations, corporate headcount reductions, and SKU count simplification. These initiatives are focused on getting closer to the consumer, leveraging data across the organization, and improving the agility of the organization and streamlining the operating models. Ultimately, we believe these are the right focus areas and will lead to a more profitable company going forward.

Transition from cost-driven execution to demand-led growth. With structural changes now in the rearview mirror, we believe the company is transitioning to a period where incremental growth will not be cost-enabled and margin-fuelled, but rather driven by consistent top-line growth. As such, we believe incremental stock outperformance from here will be driven by top-line execution, and with several catalysts in the rearview mirror we see stronger opportunities for stock outperformance elsewhere in our coverage universe.

Valuation

We are Neutral rated on TPR and see 1% upside to our \$42, 12-month price target which is based on 8x Q5-Q8 EV/EBITDA. The Q5-Q8 EV/EBITDA methodology is consistent with our broader coverage universe. This target multiple is informed by the company's historic relative valuation on an EV/EBITDA basis vs. the S&P500, where our target multiple is in line with the 1-yr pre-pandemic relative rate of 0.55x.

Key Risks:

- **Upside risks:** (1) Stronger top line momentum across brands. A stronger demand backdrop for TPR's brands or for the handbag market generally could drive improvement in sales and margins as the company leverages its fixed cost base. (2) Better-than-expected promotional environment and gross margin realization. If the promotional environment is more favorable than we expect and TPR realizes stronger gross margins, the company could see stronger earnings. (3) Faster than expected turnaround at Kate Spade and Stuart Weitzman. If Kate Spade and Stuart Weitzman inflect positively at a faster pace than expected, we could see some upside to margins and earnings.
- **Downside risks:** (1) Weaker top line momentum across brands. A weaker demand backdrop or the handbag market generally could drive weakness in sales and margins, and delever the company's fixed cost base. (2) Sharper normalization in gross margin on promotional return. The industry has seen stronger margins on lower-than-average promotions. A quick return to promotions could pose risk to margins and profits. (3) COVID-19. Our estimates and profit assumptions embed some continued reopening / recovery following the impacts of COVID-19. That said, while economies across the globe are seeing some reopening, there remains risk that COVID-19 could become a more material headwind to sales should the virus impact become more meaningful.

Disclosure Appendix

Reg AC

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