OFF WALL STREET

Tapestry (TPR)

DATE: 04/26/2026 | **SECTOR:** Consumer Discretionary | **SETUP:** Misunderstood Business
MARKET CAP: $30.9B | **SHORT INTEREST:** 5.95% | **ADV:** $259M

Bull case

- Under the direction of Creative Director, Stuart Vevers, Coach has reestablished itself as a relevant, affordable, eco-friendly iconic brand, especially with Millennial/Gen Z consumers.
- The growth and profit runway for Coach is both durable and substantial driven by the following factors:
  - Continued on trend product innovation in handbags (56% of sales) and accessories (27% of sales) supports brand heat and allows for higher price points and full price selling.
  - Large global TAM (1.9B “qualified” females) implies current global market share is only ~0.6%, allowing for a long runway for growth.
    - Coach is targeting younger consumers at the point of entry (~275M “qualified” females aged 18-27) that have been priced out of the luxury market.
    - As an “affordable luxury” alternative, Coach is in the “sweetspot” to capitalize on this opportunity.
    - Continued product innovation and brand heat creates a “flywheel” for growth supported by aggressive reinvestment in marketing (~10%+ of sales vs. 3% pre pandemic) to attract new consumers to the brand.
    - Long-term sales target of $10B for Coach vs. $5.6B in FY25.
  - Significant international expansion opportunity where Coach has less than 1% Gen Z penetration as compared to ~6% in North America (~64% of sales in North America).
    - 75% of growth through FY28 is expected to come from international markets.
  - Continued gross margin expansion (~180 bps by FY28) supported by:
    - Enhanced data and analytics capabilities allows for higher AURs, reduced promotions and improved inventory turns.
    - 50% reduction in SKUs, increasing DTC mix and limited wholesale exposure (~13%) allows for greater full price selling and reduces markdown risk.

        - 5-10x price gap between Coach vs. traditional Euro luxury (vs. a 2-3x gap ~15 yrs ago) supports higher AURs. Current AUR ~$350 vs $250 pre pandemic.
        - Lower AUC driven by economies of scale in core leather goods.
    - TPR expects continued SG&A leverage (~20bps by FY28) on mid single digit sales growth or lower.
- Investor friendly capital allocation plan supports MSD% EPS accretion and an estimated 3-year TSR in the low-to-mid teens.
    - TPR's 3-year financial outlook assumes $3B share repurchase and $1B dividend payout.
- The potential successful revival of the Kate Spade brand is a call option for TPR investors.

Short thesis

- Current record valuation reflects elevated investor expectations and enthusiasm, setting a high bar for the company to sustain recent growth and profitability trends.
    - Since Nov. 2024 when TPR announced the termination of its deal to acquire Capri Holdings (CPRI), shares of TPR have increased more than 200%.
    - TPR shares trade at record multiples based on PE, EV/S and EV/EBITDA.
    - At 23x FY26 EPS (up from ~10X in FY24), additional multiple expansion appears limited.
- TAM may be more saturated than bulls believe, potentially leading to less durable sales growth.
    - TPR recently reframed and broadened its TAM with a focus on potential global "qualified" consumers (~1.9B) vs. global relevant products sold (~$100B).
    - Under this new framework, TPR's global market share all but evaporated from ~7% to ~0.6%, implying the company's potential runway for growth is much longer than previously assumed.
    - We are skeptical of this new TAM framework. The Coach brand was established in 1941 and is relatively mature in the U.S.
- Recent Coach brand heat may have been aided by the Y2K nostalgia fashion trend in 2025.
    - Lyst Index ranking appears to have peaked in 1Q25 at #4. The Lyst Index measures sales, search, intent to buy and relevance to assess brand heat and often leads sales growth by ~12 months.
- Historically, the handbag and small leather goods (SLG) category is intensely competitive and subject to volatile fashion trends.
    - Share gains from Michael Kors and higher priced luxury brands may not be sustainable as these brands stabilize and innovate.
    - The resale market (Poshmark, RealReal, etc.) has emerged as a viable channel for price sensitive consumers, potentially pressuring AURs.
- At current elevated prices, aggressive share repurchases are less supportive of EPS accretion and may even be value destructive.

- Outside of the recent revival of its core Coach brand, TPR has a long track record of destroying value through M&A:
    - Kate Spade was acquired for $2.4B in 2017. In FY25 TPR recorded a $855M impairment charge related to goodwill and indefinite-lived brand intangible assets (representing ~36% of the purchase price) for the Kate Spade segment. Sales have declined from ~$1.3B in FY18 to ~$1.2B in FY25.
    - Stuart Weitzman was acquired for $574M in 2015 with $300M in sales. TPR sold the unit in F1Q26 for $105M with $230M in sales.
    - FTC lawsuit blocked the planned acquisition of Capri Holdings (Michael Kors) in 2024.

Risks

- TPR successfully revitalizes Kate Spade brand.
- International expansion supports higher sales growth and continued gross margin expansion.
- While TPR does not have a history of successful M&A, accelerated growth through M&A is a risk.