tapestry

COACH | kate spade | STUART WEITZMAN

SPEAKERS' NOTES FOR CONFERENCE CALL

Moderator: Christina Colone
May 8, 2025
8:00 a.m. ET

Operator:

Good day, and welcome to this Tapestry Conference call. Today's call is being recorded.

At this time, for opening remarks and introductions, I would like to turn the call over to the Global Head of Investor Relations, Christina Colone.

Christina Colone:

Good morning. Thank you for joining us.

With me today to discuss our third quarter results, as well as our strategies and outlook, are Joanne Crevoiserat, Tapestry's Chief Executive Officer and Scott Roe, Tapestry's Chief Financial Officer and Chief Operating Officer.

Before we begin, we must point out that this conference call will involve certain forward-looking statements within the meaning of the private securities litigation reform act. This includes projections for our business in the current or future quarters or fiscal years. Forward-looking statements are not guarantees, and our actual results may differ materially from those expressed or implied in the forward-looking statements. Please refer to our annual report on Form 10-K, the press release we issued this morning, and our other filings with the Securities and Exchange Commission for a complete list of risks and other important factors that could impact our future results and performance.

Non-GAAP financial measures are included in our comments today and in our presentation slides. For a full reconciliation to corresponding GAAP financial information please visit our website, www.tapestry.com/investors and then view the earnings release and the presentation posted today.

Now, let me outline the speakers and topics for this conference call. Joanne will begin with highlights for Tapestry and our brands. Scott will continue with our financial results, capital allocation priorities and our outlook going forward. Following that, we will hold a question-and-answer session, where we will be joined by Todd Kahn, CEO & Brand President of Coach. After Q&A, Joanne will conclude with brief closing remarks.

I'd now like to turn it over to Joanne Crevoiserat, Tapestry's CEO.

Joanne Crevoiserat:

Good morning! Thank you, Christina, and welcome everyone.

As noted in our press release, our **record third quarter results outperformed expectations**, reinforcing our **position of strength**. Our talented global teams drove **accelerated top and bottom-line growth** against an increasingly complex backdrop – clearly demonstrating the power of consistent brand-building and our connections with consumers around the world.

[PAUSE]

Touching on the highlights of the quarter:

- **First, we <u>powered global growth</u>, with total revenue gains of 8% <u>at constant currency</u> outpacing guidance, fueled by 15% growth at Coach. By geography:**
    - **International** revenue rose 8%, led by an increase of 35% in **Europe**, where our business has strong momentum and the opportunity for

continued growth is significant.

  - In addition, we delivered a sales increase of 4% in the total APAC region**.**
    - In **Greater China** specifically**,** revenue growth accelerated, rising 5% as **we continue to confidently invest behind our long-term growth agenda in the region and with this important consumer cohort.**
  - And, in **North America**, revenue increased 9% compared to last year – and **gross and operating margin continued to expand**, reinforcing our commitment to driving a healthy business.

- **Second, we built new and lasting relationships with consumers around the world.**
  - In North America specifically, we acquired **over 1.2 million <u>new</u> customers** in the quarter, representing strong growth versus last year. And of these new customers, **<u>two thirds</u>** were **GenZ and Millennials**.
  - **We are capturing consumers who are entering the category for the first time – which is instrumental to fueling enduring relationships, customer lifetime value, and sustainable growth.**
    - **New GenZ and Millennial consumers continue to transact at a higher AUR than the balance of our customer base.**
    - **And, we achieved a meaningful increase in year-one retention rates among GenZ consumers at Coach – a key indicator that these relationships are 'sticky.'**

- **Third, we delivered compelling omni-channel experiences, delighting consumers across all touch points with our brands.**
  - **To this end, we maintained strength in Digital, which grew at a mid-teens rate versus prior year and represented approximately 30% of revenue at accretive margins**.
  - **Our global brick and mortar sales rose at a mid-single digit rate in the quarter,** at strong and increasing profitability.

- **Overall, our direct-to-consumer operating model, is a clear differentiator and competitive advantage – driving real-time consumer understanding and agility.**

- **Fourth, we fueled fashion innovation and product excellence, as we continue to deliver creativity, quality, and compelling value to consumers around the world**.
  - This is on display at Coach, where we delivered strong, and broad-based growth – highlighting the vibrancy of the brand and product offering.
  - Our commitment to disciplined brand building is also reflected in our strong gross margin - which continued to expand in the quarter.
  - **Importantly, our globally-scaled and diverse supply chain is a key competitive advantage – enabling us to deliver craftsmanship to consumers, while navigating the shifting backdrop – which Scott will discuss in more detail shortly.**

[PAUSE]

- Overall, we generated **record third quarter earnings per share**, **which exceeded our expectations and increased 27% compared to the prior year. This outperformance positioned us to increase our outlook for the year.**
  - **We're on track to deliver FY25 earnings in the area of $5 per share – consistent with the outlook we provided nearly three years ago at our Investor Day, despite the rapidly changing global landscape. This is a testament to the power of our strategies, the agility of our operating model, and the resilience and focus of our teams. These advantages are driving our success today and I am confident they will continue to underpin our growth long-term.**

[PAUSE]

Now moving to our results and strategies by brand.

Coach delivered another standout performance with accelerated growth in the third quarter, driving 15% top line gains as the brand's Expressive Luxury position continues to resonate with consumers.

- We believe that the momentum we have unlocked is enduring, and that Coach's success is compounding.
- We continue to build on our strong brand and cultural relevance, driven by product innovation and the creativity of our talented global teams – **who are operating with excellence, focus, and intention.**
- **The Coach vision is clear – to be the world's most inclusive, genuine and loved fashion brand, and it is this vision that guides our strategies and fosters a brand purpose that cuts through with consumers.**

And our success is evident in our results:

- **We are driving meaningful new Gen Z customer acquisition,** through our outstanding product offerings, authentic brand values and deep understanding of our target consumer;
- **We are winning in our core leathergoods category, where we're outpacing the industry;**
- **And we are doing this on a global scale, with strong topline momentum and exceptional margins, which increased nearly 100 basis points versus prior year.**

Now, touching on the highlights of the third quarter in more detail:

First, we drove double-digit gains in leathergoods, where we have multiple platforms for growth.

- The iconic **Tabby family** once again led, over-indexing with new and younger consumers – building strength on strength. The Tabby Shoulder Bag 26 continued to anchor the offering, while the new Chain Tabby was a global success.

- Additionally, our **New York family** significantly outpaced expectations, cementing itself as a new growth driver for the brand - with styles ranging from the viral Brooklyn Shoulder Bag 28 at $295, to the Soft Empire Carryall 40 at $695.
- Further, we grew our archival-inspired **Coach Originals** collection with the introduction the Large **Kisslock Bag** at $695 - which sold out within minutes of launching online and within a day at stores.
- And finally, our **bag charms and straps** added to our success, providing consumers with further opportunities for self-expression, with the Cherry Bag Charm remaining a Gen-Z favorite.

Overall, Coach's growth in handbags and accessories continued to outpace the industry, a testament to the brand's heat, innovation pipeline and the compelling value and craftsmanship we offer in the luxury market. With these advantages, we drove mid-teens handbag AUR growth, led by North America. Looking ahead, we are confident in the potential for further sustainable AUR increases.

[PAUSE]

Next, we remained focused on <u>fueling footwear, which drives lifetime value with our target Gen Z consumer</u>. In the quarter, footwear grew mid-single digits - bringing new and younger consumers to the brand. Growth in the category was led by the successful launch of the **Soho sneaker** and the continued momentum of the **High Line sneaker.**

- Building on our 'One Coach' learning agenda, both sneakers are offered at consistent price points between retail and outlet channels, enabling us to amplify our innovation and big ideas with consumers.

[PAUSE]

<u>Turning to marketing… we continued to drive cultural relevance through emotional</u>

<u>storytelling that highlights our brand purpose and product offering.</u>

- During the quarter, Coach launched **"On Your Own Time,"** a campaign introducing Coach's Spring 2025 collection and starring global ambassadors Elle Fanning, Nazha, Köki, and Youngji Lee.
- **This campaign was inspired by our ongoing discussions with Gen Z consumers across the world** — and shares a powerful message about having the courage to set the pace of your own life. This campaign is continuing to deliver strong uplifts in consideration and purchase intent across markets.
- **And as we deepen our learnings with each campaign, we are strengthening both our bold storytelling and our media execution. This strategy is driving the acceleration of sustainable customer acquisition and brand growth—and it's working globally, at scale.**

In addition, we also cultivated enthusiasm for the brand through <u>unique and immersive retail experiences</u>.

- Our Coach Play concept stores continue to outperform, with higher GenZ traffic, longer dwell times, and higher return frequency. We are taking these learnings to bring the highest impact elements of this concept to our store fleet more broadly.

Overall, our holistic brand-building activities helped to drive increases in new customer acquisition as we welcomed nearly 900,000 new customers to Coach in North America - of which **<u>nearly 70% were Gen Z and Millennials</u>**. **And at the same time, our retention rate with the GenZ cohort also meaningfully increased – reinforcing that we're <u>building lasting relationships with our consumers in support of durable growth</u>.**

[PAUSE]

In closing, Coach is strong and delivering differentiated results, by fostering emotional connections and delivering exceptional value to consumers. Powered by Tapestry's growth engine, we will continue to invest in brand-building and

innovation to drive long-term, sustainable growth – bringing this iconic brand to new generations of consumers.

[PAUSE]

Now, moving to Kate Spade…

In the third quarter, revenue was pressured, declining 12% at constant currency, while profit met our expectations driven by continued gross margin expansion.

As we've shared, our work to reset the brand is underway, and we are making decisions today to drive sustainable growth long-term. **We know this work will take time, particularly in the context of a more uncertain backdrop, however, the actions we need to take are clear and we are executing with focus and urgency.**

Our strategies are informed by Tapestry's growth model, with a focus on building brand heat, relevant product innovation, and compelling experiences.

As we build a healthier brand, we will be closely tracking leading indicators of progress along the way – informed by our learnings and success at Coach. These include first, increasing unaided brand awareness and search interest, followed by an improvement in traffic and customer acquisition, which will ultimately compound to drive topline growth.

Now, turning to the strategic details…

First, <u>we are committed to fueling brand heat and relevancy</u> through cohesive storytelling and incremental investments in brand media.

- In April we launched our Spring campaign, which features Ice Spice and Charli D'Amelio – two very influential and relevant Gen Z celebrities. **This is a further step towards a more effective 'spike and sustain' marketing strategy that will**

enable us to re-establish Kate Spade as a top-of-mind brand for our target audience.

<u>Next, we continue to prioritize strengthening and elevating our handbag offering</u> – bringing more innovation, focus, and relevancy to our assortment.

- We are advancing our work **to build blockbuster handbag families:**
  - During the quarter, we continued to amplify the **Deco** collection in retail, and the **Kayla and Kip** in outlet, which **over-indexed with new, younger consumers at strong AUR and margins**, and we see further opportunity for these families going forward.
  - And as we bring more innovation to the assortment, we are also working to streamline our offering by reducing handbag styles by over 15% by fall and continue to clear de-selection barriers through improved styling – ensuring our big ideas cut through with consumers.

<u>Overall, we are focused on creating distinctive product that is consumer-informed - grounded in Kate Spade's unique brand DNA, and modern and relevant today.</u>

[PAUSE]

<u>Next, we are working to maximize omni-channel cohesiveness with a compelling, consistent brand message across all consumer touchpoints</u>.

- **As part of our efforts to improve the customer experience and fuel brand health, we are committed to reducing promotional activity and delivering continued gross margin expansion.** As previously shared, reducing the level of promotional activity is a key building block to scale in a healthy way, globally, over the long-term **– as we build for the future and connect with consumers on our brand values, beyond simply price.**

[PAUSE]

In closing, we are advancing our efforts to reinvigorate Kate Spade. The brand has a legacy of creativity, joy, wit, and warmth – and we will build on this unique heritage, while modernizing its expression, guided by a sharpened focus on our consumer. The steps to do this will take time, but we are confident in the potential and the path forward. <u>Importantly, the strength of our platform provides us with the experience, discipline, and brand-building capabilities to execute these strategies, while delivering enhanced results overall.</u> Our focus is clear and we are committed to unlocking the untapped growth and value creation opportunities for this iconic brand.

[PAUSE]

Now, turning briefly to Stuart Weitzman…

As previously announced, we entered into a definitive agreement to sell the brand to Caleres – and we continue to expect the transaction to close this summer subject to customary closing conditions. As diligent stewards of our portfolio and disciplined allocators of capital, this ensures that all our brands are positioned for long-term success and that we maintain a sharp focus on our largest value creation opportunities. At the same time, we are pleased that we found Stuart Weitzman a home in Caleres – an ideal owner to guide its next chapter of growth.

[PAUSE]

In closing, Tapestry delivered another standout quarter, with accelerated sales and earnings growth, that positioned us to increase our outlook for the fiscal year. I want to thank our extraordinary teams for driving these strong and differentiated results.

Moving forward, the external backdrop has become increasingly complex. That said, In the face of uncertainty, our purpose is unwavering: to *stretch what's possible* for our brands and business.

To do this, we will harness our <u>proven competitive and structural advantages</u> that have allowed us to adapt and win in any environment: namely our global scale in an attractive industry, the compelling value we offer to consumers, and the strong fundamentals of our business.

I am confident in our future and the meaningful opportunity to deliver durable growth and shareholder value.

[PAUSE]

I'll now turn it over to Scott.

Scott Roe:

Thanks, Joanne, and good morning, everyone.

Our third quarter results exceeded our outlook, building on our track record of consistent execution as we unlocked accelerated growth. We delivered **record** third quarter revenue and earnings per share, while generating over $1 billion in adjusted free cash flow year-to-date.

[PAUSE]

Now, moving to the details of the quarter, beginning with revenue trends <u>on a constant currency basis.</u>

Sales increased 8% compared to the prior year and outperformed our expectations.

- These results reflect gains in North America and internationally. By region:

- **North America** sales increased 9% compared to the prior year, led by strong double-digit growth at Coach. Both gross and operating margin rose versus last year as we supported long-term brand health.
- **In Europe,** revenue grew 35% above last year, with growth across all channels driven by increased local consumer spend and strong new customer acquisition, notably with Gen Z.
- In **Greater China**, growth continued, with revenue rising 5%. Our sequential acceleration was driven by both Digital and stores – with each channel delivering growth. Our differentiated results in China clearly demonstrate that our strategic initiatives and investments in the region are yielding returns, **with our brands and business positioned for long-term sustainable growth.**
- **And in Other Asia,** revenue rose 14% led by growth in Australia, South Korea, and Thailand, while **Japan** sales declined 2%.

[PAUSE]

Now, touching on revenue by channel for the quarter.

- **Our Direct-to-Consumer business grew 9% compared to the prior year at constant currency**, which included a mid-teens percentage increase in Digital revenue and a mid-single digit increase in global brick and mortar sales.
- **And, Wholesale revenue grew in the quarter** in keeping with our expectations and strategy to find <u>targeted</u> opportunities to expand our brands' reach with consumers.

[PAUSE]

Moving down the P&L, we delivered a **gross margin** of 76.1% - representing our highest quarterly gross margin in over 15 years. This was ahead of plan and 140 basis points above prior year, driven by operational outperformance. Our strong gross margin performance is a core element of our value creation model, providing us with flexibility and fuel to drive long-term growth.

Turning to SG&A… expenses rose 7% and were even with prior year on a rate basis. This included increased brand-building investments and higher compensation costs, offset by leverage on fixed costs. As compared to expectations, there was a benefit of approximately $20 million or five cents primarily related to marketing timing with the fourth quarter.

Taken together, **operating margin** increased 140 basis points in the quarter, driving profit expansion ahead of expectations and **16% over the prior year**.

And, our record third quarter **EPS of $1.03 grew 27% over prior year** and exceeded our guidance.

[PAUSE]

Now, turning to our **shareholder return programs**…

- As previously announced, in November we executed a **$2 billion Accelerated Share Repurchase Program**, which remained underway during the fiscal third quarter. In addition to the ASR program, we have $800 million remaining under our previous share repurchase authorization.
- Together with our **Dividend**, which is expected at $1.40 per share for the year, we are positioned to return over $2 billion or more than 100% of adjusted free cash flow to shareholders in FY25 **– a testament to our strong organic business and robust cash flow generation.**

[PAUSE]

And now before turning to the details of our balance sheet and cash flows, I'd like to reiterate our **capital allocation priorities**, which are unchanged.

<u>We have two foundational commitments</u>.

- First, to **invest in our brands and business** to support long-term, sustainable growth, and
- Second, to return capital to shareholders via our **dividend,** with the goal over time to increase the dividend at least in line with earnings to achieve our stated target payout ratio of 35% to 40%.

<u>Beyond these two foundational commitments, our robust cash flow generation provides us with balance sheet flexibility for value creation.</u>

- This includes the opportunity **for share repurchase activity,** which is on display this year.
- And finally, utilizing our rigorous, four-lens framework, we consistently evaluate opportunities for **strategic portfolio management**. **<u>Importantly, and as previously communicated, before moving forward with any acquisitions, we will ensure Coach remains strong and Kate Spade has returned to sustainable topline growth</u>**.

These clear capital allocation priorities are underpinned by our **firm commitment to a solid investment grade rating** and maintaining our long-term gross leverage target of below 2.5x.

[PAUSE]

Now, turning to the details of our balance sheet and cash flows…

- We ended the quarter with $1.1 billion in **cash and investments** and **total borrowings** of $2.7 billion, representing **net debt** of $1.6 billion. At quarter-end, our gross debt to adjusted EBITDA was 1.6x. In addition, after our quarter-end, we repaid our April 2025 bonds at maturity, totaling $303 million.
- **Adjusted Free cash flow for the third quarter,** was an inflow of $135 million, and

CapEx and implementation costs related to Cloud Computing were $36 million.

- **Inventory** levels at quarter-end were 6% above prior year, excluding $87 million of Stuart Weitzman inventory reflected in 'Assets held for sale' on our balance sheet. Our inventory continues to be current and well-positioned globally, and by brand, in support of our growth ambition.

[PAUSE]

Now, moving to our guidance for FY25 which is provided on a non-GAAP basis… We are raising our Fiscal year 2025 revenue, earnings, and cash flow outlook.

We continue to view this outlook as prudent and achievable, and we remain clear-eyed about the realities of the external environment, balanced with the opportunities we see for our business,

For the fiscal year:

- We now expect **revenue** of approximately $6.95 billion, representing growth of 4% versus prior year on a reported basis, including an expected currency headwind of nearly 50 basis points.
  - Touching on sales details by region at constant currency…
    - In **North America**, we now expect revenue to increase 3% to 4%
    - In addition, we still expect growth in **Europe** in the area of 30%, where we are underpenetrated and have strong traction.
    - In **Greater China**, we remain on track to achieve low-single digit growth over prior year.
    - And in **Other Asia**, we continue to anticipate high-single-digit gains, while in **Japan**, we're now forecasting a mid-single digit decline.

  - In addition, our outlook assumes **operating margin** expansion of approximately 100 basis points versus prior year.

- We anticipate **gross margin** expansion to drive this increase, due to improvements in both AUR and AUC. Both freight and FX are still expected to have a negligible impact on gross margin changes for the full year.
- On **SG&A**, we expect expenses to increase above the pace of revenue growth, driven by increased marketing expense. **While we remain diligent with respect to overall expense control, we continue to make deliberate, growth-focused investments in our strategic priorities**.

- Moving to below-the-line expectations for the year…
  - **Net interest expense** is now expected to be approximately $25 million.
  - The **tax rate** is now expected to be approximately 17.5%.
  - And, our **weighted average diluted share count** for the year is forecasted to be approximately 223 million shares.

- Taken together, we are raising our **EPS** guidance to be in the area of $5.00, representing high-teens growth compared to last year, and ahead of our prior guide of $4.85 to $4.90.
  - This guidance fully embeds all trade policies as of April 10th. Incremental tariffs are expected to have an immaterial impact on FY25 results, based on the timing of our fiscal year-end.

Moving on…

- We now anticipate **adjusted free cash flow** of approximately $1.3 billion.

- And finally, we expect **CapEx and Cloud Computing Costs** to be in the area of $160 million.
  - We anticipate about half of the spend to be related to store openings, renovations, and relocations, with the balance primarily related to our ongoing Digital and IT investments.

[PAUSE]

Touching on the shaping for the fourth quarter…

To start, given the dynamic nature of the rapidly shifting market, it's important to note that our revenue trends quarter-to-date are in-line with our Q3 results. However, while we've seen no slowdown in our business to date, we are taking a more conservative approach to the quarter-to-go outlook. For the quarter:

- We are estimating **revenue** to grow at a mid-single digit rate on both a reported and constant currency basis.
- Further, we are forecasting **operating margin** to be in the area of prior year, which incorporates the expectation for continued gross margin gains, offset by higher SG&A costs, including the previously mentioned marketing expense timing shift from the third quarter.
- So taken together, we are modeling Q4 EPS to be **over $0.95**.

[PAUSE]

Before closing, I want to provide some additional context on our business in light of tariffs and the shifting global trade landscape.

- **First, as it relates to our supply chain:**
  - Our products are primarily manufactured in Vietnam, Cambodia, and the Philippines. These countries taken together represent 70% of our production, including Vietnam which accounts for one third of our total production.
  - Conversely, **we have very limited manufacturing exposure to China with less than 10% of production in the region across all categories.** This primarily includes manufacturing for jewelry and ready-to-wear, with negligible exposure in our core leathergoods category.
  - And as a point of reference, over the last twelve months, roughly $900 million of our cost of goods sold was related to product imported into the

U.S.

- <u>**Touching on our tariff mitigation strategies, we are taking thoughtful actions to protect the compelling value, quality and innovation we offer to consumers.**</u>

- <u>**To share some color:**</u>
    - We pulled forward inventory receipts ahead of the incremental tariffs going into effect in April.
    - In addition, we are leveraging our agile supply chain to optimize our global manufacturing footprint, minimizing our tariff exposure where possible.
    - We have scale and longstanding relationships with our service providers, and we are actively working together to unlock efficiencies.

And most importantly, I want to thank our supply chain organization. Their deep global trade expertise, operational excellence and culture of continuous improvement allowed us to take swift action in the face of this uncertainty.

Overall, while we are not immune to external factors, we are in a position of strength with structural advantages. Our fundamentals are strong, and our business has momentum, with compounding growth fueled by innovation, customer acquisition, and AUR gains.

In closing…

- We delivered another record-breaking quarter, highlighted by accelerated **top and bottom-line growth.**

- **And, we raised our outlook for FY25 and are on track to achieve EPS in the area of $5, while returning over $3 billion to shareholders over the last three years – consistent with the target we outlined at our September ’22 Investor Day.**

- **Moving forward, as we face an increasingly complex environment, we remain confident in our brands, our people, and our strategy – with a differentiated and highly cash generative business model that has proven agile, resilient, and adaptive to change.**

- **We will continue to focus on the factors within our control, operating with a commitment to discipline and consistency, to deliver long-term growth and shareholder value.**

[PAUSE]

I'd now like to open it up to your questions.

[Q&A SESSION]

[CLOSING REMARKS]