



Tapestry Seen Continuing Luxury Retail Strength Trend

Ticker/Price: TPR (\$25.90)

Analysis:

Tapestry (TPR) with 5,500 November \$26.50 calls bought today for \$1.20 in a stock replacement ahead of 11/6 earnings. Today's action follows 3,600 November \$27 calls bought yesterday up to \$1.25 and the May \$30 calls bought 2,250X on 10-15, spread with sales of the \$20 puts in bull risk reversals. TPR still has over 5000 November \$25 calls in OI from buyers and put sales out to Jan. 2021 where the \$22.50 strike has traded 4,400X. On the chart, shares have been in a steady downtrend since October but snapping back from the August lows and now basing under the 20-week, a change of character. Shares cleared the downtrend recently and have room back to the April VPOC around \$30 in the near-term and then \$40. We've seen some positive read-throughs over the last two weeks from peers **Kering** and **Hermes** which are tempering some fears of a slowdown in tourist spending or disruption in Hong Kong. On 10-10, **LVMH** also posted a strong quarter with international trends improving. The \$7.5B company trades 9.5X earnings, 1.25X sales, and 6X cash with a big 5.2% yield. TPR sees mid-to-high single digit growth the next two years with revenues around 3-4% vs 2% in FY20. TPR's core brand, Coach, has performed well in both retail and e-commerce channels but the company has been weighed down by slower turnaround efforts at Kate Spade and Stuart Weitzman. Analysts have an average target for shares of \$35. UBS lowering to Neutral on 10-14 citing expectations for a more muted US holiday season. Needham with a \$35 PT noting that concerns over Kate Spade are well known and Coach has performed well in a tough environment. The firm is also positive on FCF. Short interest is 4.7%. Hedge fund ownership jumped into the Q2 weakness, up 27%. On 5-30, a director bought \$210k in stock at \$30, the only open market buy in four years.

Hawk Vision:



Hawk's Perspective: TPR is wildly cheap on valuation but to this point unable to gain the kind of strong sales traction as the leaders, so I continue to hesitate on owning a lower quality name.

Confidence Ranking: \$\$