Tapestry, Estée Lauder feel earnings pinch from China lockdowns

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Tapestry Inc and Estée Lauder Cos Inc forecast full-year earnings below estimates on Thursday, spotlighting the hit America's luxury goods companies are taking from China's Covid-19 lockdowns.
Major Chinese cities have imposed multiple rounds of restrictions this year following Beijing's "dynamic zero-Covid", leaving companies with a presence in the country stuck with piles of unsold stock as cautious consumers avoid visiting crowded shopping districts.

Tapestry and Lauder join the likes of Gucci owner Kering, Ray-Ban maker EssilorLuxottica and Ralph Lauren Corp in flagging a sales hit in China, a key growth market for high-end fashion companies.

Lauder gets over a third of its revenue from China, while Coach handbag maker Tapestry generates about 20% of its sales from the region, according to analysts.

Tapestry, which also owns the Kate Spade and Stuart Weitzman brands, said it was beginning to see a recovery in demand in China, with sales expected to fall 15% in the first quarter compared to a 32% drop in the fourth quarter.

"The weakness in China has only really come about because of the lockdown. Once that region is out of those lockdowns, we see green shoots of the consumer coming back there," Jane & Hali Associates analyst Jessica Ramirez said.

Tapestry forecast fiscal 2023 earnings between $3.80 and $3.90 per share, lower than estimates of $3.91, according to IBES data from Refinitiv. Lauder said it expected adjusted profit per share to increase between 5% and 7%, below Wall Street view of a 10.5% gain. Its 2023 sales growth forecast of 3% to 5% was also below estimates of a 7.6% rise.

Still, they both beat fourth quarter profit estimates as affluent American shoppers, largely still ignorant of rampant inflation, splurge on high fashion as they resume socialising.