Financial analysis on retail industry

Business, Industries

Executive Summary This analysis studied financial information of three multinational corporations in the retail industry, Ralph Lauren, American Eagle, and Gap. This examination is predominantly and analysis of Ralph Lauren and American Eagle, and it compares its financial and performance to that of Gap. In order to reach a decision on which firm my company should invest in; we recreated and cleaned both company's financial statements followed by an analysis using key financial ratios and metrics. My company is searching for the firm that would be more profitable in the following sisal years.

After completing an in-depth analysis of these companies, we concluded that Gap would be the best investment for future growth in the industry of retail. Gaps sales growth may not be relatively high compared to other industry leaders but it is on the rise. Also the sales decrease can be related to the closing of stores and restructuring of international operations. This also relates to net income growth showing signs of regression in the past fiscal years. Gap's BIT Margin and EBITDA Margin suggest that the company is healthy and also properly managed.

Gap is headquartered in San Francisco, California and the year-end date is January 30. American Eagle is headquartered in Pittsburgh, Pennsylvania and their year-end date is January 30. Ralph Lauren is headquartered in New York, New York and there year-Eden date is April 3. To perform this case analysis to determine which company which is more profitable using key financial ratios and metrics accompanied with industry research and trends of the apparel retail sector. We have recreated and cleaned financial statements for Ralph Lauren and American Eagle, comparing both to Gap.

Using these recreated financial statements, we have performed a case analysis of these three companies in order to mind out which company was most profitable. Gap is the largest of the three with a market capitalization of nearly 16 billion while Ralph Lauren comes in second with roughly 15 billion market capitalization. Although Gap leads with market capitalization, American Eagle generates the most revenue that leads to highest net income as well, compared to both Gap and Ralph Financial Analysis on Retail Industry By Something but rather with its margins.

They are consistently above the industry average and are also much higher relative to the other companies we analyzed. Ralph Lauren also shows the best percentage of sales growth in the past fiscal years. Sales Growth 3 Yr Trend Polo 14. 3% 21 American Eagle 0. 9% 6. 5% Gap -2. 3% 3. 3% For apparel retailers, new fashion trends and steady flow of promotions will help a low single digits increase in sales in 2012. This is what you see with Gap and American Eagle they do not show major increases in sales growth but on steadily rising at roughly 5% in the three year trend.

Ralph Lauren shows a Jump of 7% which could be due to the luxury brand section of retail section because of the opportunities in emerging markets such as Asia and Latin America according to industry reports. American Eagle plans on accelerating growth through internet sales. This generates higher margins for the company, last year it accounted for 12% of company revenues. This trend is also apparent in the other two companies because most retailers want to offer the convenience of online shopping to customers. The online channel provides a cost effective way for retailers to widen their reach across existing and new markets.

Gap intensified its international strategy as well, opening stores in Europe and China, and outlets; accompanied by an e-commerce platform in Canada, Europe, and China. The company has 22% of sales from regions outside the US, up 7. 6% from the year-ago period. This industry shows a thrust of penetration in the international markets looking to increase in the next few years. Teenagers also play an important role in the industry trends. With 7. 1% of US population they have been a powerful force in retail with the leading beneficiaries being Gap, Firebombed, American Eagle, and Urban Outfitters.

This ties sales growth for both Gap and American Eagle due to a majority of the teen population shopping at these two companies. Helping increase sales growth and produce for revenues for the firm. The biggest window for opportunity in the retail sector seems to be the overseas markets but especially China, according to the S&P industry reports. Gap's profitability has grown over the past three years showing larger BIT and EBITDA margins which shows strong management and healthy earnings. Ralph Lauren is also growing profitably as well as their margins have increased with time.

American Eagle has been on teetering between being profitable and running efficiently to stay in the game. Net Income Growth 18. 4% 14. 0% 20. 0% -16. 8% 7. 9% 9. 3% are a luxury brand which tends to have higher margins. This makes up for their lack f revenues because people buy less quantity of the luxury brands and tend to buy more of the standard products that are affordable and still have above average quality, such as Gap Inc. And American Eagle. The industry research showed that the recent drop in cotton prices will help retail companies enormously in profit margins.