

# The financial analysis of a specialty apparel retailer

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The Talbots, Inc. is a national specialty retailer and cataloger of women's and children's classic apparel, accessories and shoes. Founded in 1947, Talbots became a publicly traded company in 1993. The Company, classified as part of the Retail-Apparel industry in the Services sector, is listed on the New York Stock Exchange under the trading symbol " TLB. " Talbots offers a collection of classic sportswear, casual wear, dresses, coats, sweaters, accessories and shoes, consisting exclusively (99%) of Talbots own branded merchandise in misses, petites and woman's sizes.

In addition, Talbots Kids ; Babies offers an assortment of clothing and accessories for infants, toddlers, boys and girls. Most of this merchandise is manufactured to the specifications of the Company's technical designers and product developers, enabling it to offer merchandise that differentiates it from its competitors. Talbots stores, catalogs and Internet Website offer a variety of fashion items and an assortment of accessories and shoes, which enable customers to assemble complete wardrobes.

Talbots utilizes Talbots Outlet stores that are separate from its retail stores to provide for clearance of store and catalog merchandise remaining from each sale event. The consistency in color, fabric and fit of Talbots merchandise allows a customer to create wardrobes across seasons and years. The majority of the Company's customers are college-educated and employed, primarily in professional and managerial occupations. The Company has established a market niche as a brand in women's and children's classic apparel, accessories and shoes.

The specialty apparel chains continue to take market share away from the traditional department store and mass merchandiser. These companies offer specific products targeted to specific customers in order to better serve the individual. All specialty retailing industry sectors are heavily dependent on consumer spending. Since consumer spending represents two-thirds of the U. S. economy, these specialty retailers become extremely vulnerable to wide economic swings. Specialty retailers are heavily dependent on sales during the Christmas selling season.

This period is measured as the time period between Thanksgiving and Christmas Eve. Some retailers generate over 50% of their profits during the year at this time period. This has become an extremely important measure for a retailer's success. Yearly profits depend on their performance during the Christmas selling season. These retailers must do a good job of managing their inventory levels, personnel needs, and style/fashion trends to ensure they will not lose a consumers' business during this period. The market price of the Talbots Inc. stock on September 1st was \$31. 17 and the closing stock price November 30th was \$30. 34. When looking at the September 1st 2002 and November 30th 2002 Talbots Inc. closing stock prices, one would see there was only a slight decrease in share price. However, in the month of October the stock price fell to a low of \$22. 90. This drop occurred as a result of the news release of a 6. 1% decline in same-store sales for September.

Disappointing September sales were due primarily to consumer cutback on spending amid fears of war in Iraq, more layoffs, and a volatile stock market. Read also Walmart Financial Analysis paper

While consumers remained on edge about the economy, the stock market, and unrest in the Middle East, they made a comeback in October, when retail sales were stronger than expected. Talbots October same-store results rose 1.7%, propelled by an increase in full-price selling. These numbers increased the third quarter (ending November 2, 2002) earnings to 63 cents per diluted share, a third quarter company record, and 9% increase over last year's exceptional achievement of 58 cents during the difficult time of the September 11th tragedy.

Behind the performance improvement was effective management of inventory and expense levels and a significant increase in regular-price sales within a challenging economic environment. Two factors argued against attaching too much significance to October sales. First, there were easy year-to-year comparisons because last October many consumers were still reeling from the terrorist attacks of September 11. Second, September 2002 was unseasonably mild, so some pent-up demand for fall and winter clothing got squeezed into October. One thing October proved was that weather has an impact on apparel retailers.

The unseasonably cold weather drove consumers to the warmth of the malls. November brought a 3% decrease in same-store sales for Talbots, which was in line with the company's expectations. The late Thanksgiving was partly to

blame for the disappointing November sales. Many consumers do not begin their holiday shopping until after Thanksgiving, and a late Thanksgiving means a shorter shopping season and fewer sales. Sales were dismal throughout the majority of the month and the holiday shopping fiasco at month-end gave a welcome increase, but not enough to recover for the entire month.

Therefore, as of November 30th, the stock price has most certainly recovered from the October plummet and comes in close proximity to the September 1st stock price. The liquidity position of Talbots Inc. can be evaluated by comparing the current assets with current liabilities. This means we need to measure liquidity in terms of the assets that should be converted into cash within the year and with the debt that is coming due and payable within the year. The comparison of assets to liabilities renders both a current ratio and quick ratio for further comparison against the industry standards.

If the ratio is greater than the industry average, then it means the company is relatively more liquid than other firms in its industry. When a company has a current ratio or quick ratio of less than one dollar, this means liabilities outweigh assets dollar for dollar. The current ratio for Talbots is 2.17 and the quick ratio is 0.94, meaning the company is fairly liquid. For every \$1 in liabilities, Talbots has \$2.17 in assets. In comparison to a competitor company, Ann Taylor Stores Corp. ("ANN" on the NYSE) with a current ratio of 2.71 and a quick ratio of 1.12,

Talbots appears to be less liquid than its competition. However, when looking at the industry average of a 2.07 current ratio and a 0.78 quick ratio, Talbots exhibits above average liquidity in relation to the competition. The second way to measure the liquidity of Talbots is to examine how long it takes to convert accounts receivable and inventory into cash. The average collection period for the firm is 43.6 days, if we assume the total sales to be credit sales. Talbots has a long collection period because of the significant amount of credit sales that occur within the retail apparel industry.

The receivable turnover for Talbots is 9.00, the industry is 43.69, and its competitor Ann Taylor's is 39.55. This is an indication that Talbots is much slower at collecting its receivables in comparison to its competitors. Talbots inventory turnover is 4.90, Ann Taylor's is 3.50, and the industry ratio is 4.68, signifying Talbots inventory is turned over every 74 days or so and is in line with its average competition since the industry has an inventory turnover of 78 days and Ann Taylor seems to lag behind at 104 days.