A global strategic financial analysis of the luxury retail industry

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A GLOBAL STRATEGIC FINANCIAL ANALYSIS OF THE LUXURY RETAIL INDUSTRY

by

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ABSTRACT

A global strategic financial analysis of the luxury retail industry was conducted. The research entailed comprehensive analyses and forecasts of the global economy, the luxury retail industry and four of the most prominent, multi-national luxury goods firms in the world. These companies included: Coach, Michael Kors, Tiffany & Co., and LVMH Moet Hennessy, whom market among the world's finest personal luxury goods from handbags, clothing and accessories to diamonds, jewelry, watches, fragrances, cosmetics and wines.

The macroeconomic analysis focused on factors pertinent to the luxury goods industry such as: (1) the lasting effects of the global financial crisis, our gradual emergence from the Great Recession and the impact these conditions have had on consumer spending and confidence; (2) the generational shift of consumers from the retiring baby boomers to the technologically savvy Generation Z and their unique demands for products as well as experiences; and (3) the growth and demand from emerging economies, especially China which is the globe's top luxury nationality accounting for 25% of all luxury purchases worldwide.

Comprehensive financial ratio analyses, SWOT assessments, technical trends and forecasts of revenues, earnings and share prices for the four companies, resulted in recommendations to investors and advice to top management of the four firms.

Luxury retail is a fascinating, recession resilient industry and it is expected to reach €1 trillion within the next 5 years. However, regardless of how successful firms in this industry have been in the past, to survive and continue to succeed, it is imperative that they remain flexible and adaptable in this ever-changing world.

DEDICATION

For my mentor, Dr. Richard Curcio: for all of your advice, knowledge, support, and motivation during this process.

For my best friends and roommates especially Kristen, Ron, Jourdan, Christie, Shamira, and Danika: thank you all for listening to me vent about my thesis this past year and always telling me that I'm crazy but if anyone can do it, it's me.

But most of all, for my family: Dad, Mom, Jennifer, Richard, and Elise: thank you for providing me with all the motivation and opportunities in the world but mostly for believing in me and supporting me no matter what endeavors I decide to pursue.

ACKNOWLEDGEMENTS

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CHAPTER I: INTRODUCTION

The purpose of this thesis is to conduct a comprehensive, global strategic financial analysis of the luxury retail industry. Personal luxury products include handbags, watches, jewelry, fragrances, cosmetics, clothing, and footwear. A more encompassing description of the total luxury goods market includes, in addition to personal luxury products: luxury cars, hotels, wines, foods, home furnishings, and yachts.

Bain consulting company projects that the global personal luxury goods industry will generate revenues of €212 billion in 2012, up 10% over 2011. If achieved, this would mark the third straight year of double digit growth for this industry, following the “great recession”. Further, in real terms, Bain forecasts that the industry will grow to between €240 and €250 billion by the end of 2015. For the broader, total worldwide luxury goods category, Bain forecasts €750 billion of affluent spending just for 2012 alone. (2012 Luxury Goods Worldwide)

The strength of the emerging markets, especially in BRIC (Brazil, Russia, India, and China) countries, must also be taken into account, considering these markets have been the fuel to the recovery of the global economy. “...BRIC will contribute approximately 36 per cent of the global luxury market by 2015 and is predicted to have the largest base of luxury customers” (Som 75).

Some believe that the industry is recession proof and thus, adds stability to the global economy in these economically uncertain times. Others, like Bain and Co., argue that in our current worldwide, highly volatile business environment, the performance of the industry or at least some segments of the industry may, to some degree, be subject to the ebbs and flows of the global economy. The strong performance of the luxury goods industry following the Great Recession seems to bode well for the recession proof argument. However, in 2009, following the financial crisis which began in 2008, the luxurious goods industry did suffer it worst decline since its consolidation in the 1990s. So, recession resilient might be more appropriate than recession proof. (Passariello) Nevertheless, the global economy is facing some daunting head winds as numerous countries struggle to reduce enormous, burdensome sovereign debt while simultaneously attempting to implement monetary and fiscal policies which will get them back on a path to strong sustainable economic growth. What will be the impact of the trend in the United States towards reduction of corporate executive pay and bonuses, especially in the financial industry? Can such executives continue to afford to buy their friends, spouses or significant others, expensive jewelry at Tiffany's? Will the movement to increase taxes on the wealthy which has already taken place in France and California, and is being vigorously pursued by the recently reelected President of the United States, impact the sales of luxury goods? What if the United States goes off the widely feared "Fiscal Cliff"? (Boles)

These issues and others will be addressed in this research because it is critical to consider the rapidly changing market and consumer base for luxury goods. Just because a company has been successful in the past does not mean that it will continue to prosper in the future. Overall, the global, strategic analysis of the luxury retail industry in this thesis will be structured as a top-down analysis.

First, in Chapter II, the global macroeconomic and financial market environments will be analyzed. Prospects on future economic growth and financial market performance across major sectors of the world will be analyzed and two years of forward predictions from reputable economic forecasters and stock market analysts will be discerned and summarized.

In Chapter III, a thorough analysis of the luxury goods industry was conducted. A detailed breakdown of revenue and growth rate forecasts for each individual luxury good category will be discussed and analyzed. Revenue and growth projections for the total luxury goods industry will be separated out by major market segments and geographic areas of the world.

Chapter IV will entail a comprehensive fundamental analysis of four major luxury goods companies which include: Coach (COH), Michael Kors Holdings Ltd. (KORS), Tiffany & Co. (TIF), and LVMH Moet Hennessy (LVMUY). These companies will serve as a basis and a good predictor of how the rest of the luxury retail market will perform because they encompass a variety of characteristics from old and established firms to new and trendy firms, industry leaders, and those firms planning rapid expansion into the world's emerging economies.

This process includes a comparative and/or trend analysis of six categories of ratios: (1) liquidity; (2) asset management; (3) debt management; (4) profitability; (5) market value and 6) efficiency for each of the four companies. The analysis will extend over the most recent 5 year period. A strengths, weaknesses, opportunities and threats (SWOT) matrix will also be composed for each of the companies. Third, revenue, earnings, and share price is forecasted on a most likely, optimistic, and pessimistic basis for two years for each of the companies. Fourth, technical analyses using moving averages, support and resistance, relative strength index and moving average convergence/divergence (MACD) indicators to discern pricing patterns will be employed.

Chapter V will include the results of the analysis that will be summarized and used to formulate investment recommendations to investors and portfolio managers. The results of the analysis will also be used to provide advice and recommendations to the CEOs and other top management of these four firms, on how to improve future performance.

Chapter VI will include the summary and conclusions of this financial analysis and how these findings can be generalized for the overall luxury retail industry.

CHAPTER II: THE MACROECONOMIC AND FINANCIAL WORLD

As the global economy recovers from the Great Recession, there is still much uncertainty lingering over future expectations. According to the International Monetary Fund world output in 2012 was recorded as a 3.2 percent increase and is forecasted to reach 3.5 percent in 2013 and then 4.1 percent by 2014. Output has been revised down since the October World Economic Update due to the high amount of uncertainty. ("Gradual Upturn in Global Growth") Growth in emerging economies as well as the positive outlook for growth in the United States is fueling this projected global growth. Growth will depend on the US and Euro area's short term outlook and policy actions. Most of the lag on global recovery stems from the possibility of another crisis or lingering stagnation in Europe.

In addition to the financial crisis, many other factors will affect the macro economy. Bain believes that the most dominate macroeconomic factor will be the generational shift of consumers. Meaning that, the techniques and strategies that have worked in the past are unlikely to return the same results in the future. The framework and character of the consumer has changed drastically from the retiring baby boomers to the entitled and technological savvy Generation Z who is looking for different characteristics of products than their parents or grandparents. Generation Y and Z are the up and coming shoppers so it is important that companies alter their strategies to incorporate aspects that these generations are demanding including instant gratification through multiple channels, a customer centric environment, and unique products as well as experience. (2012 Luxury Goods Worldwide 44)

Macroeconomic Factors and Projections by Region

United States

In the United States, growth is projected at 2 percent for 2013 and should gradually pass that threshold into the second part of the year as long as there are no major changes to the market. (Gradual Upturn in Global Growth) This growth is supported by the positive outlook and rise in prices in the housing market. Mortgage rates are being kept low and prices are increasing: the housing market has an upward sloping yield curve which is a positive signal for recovery. As of November 2012, property values in the United States have increased the most since August 2006. ("Consumer Confidence in US"). Although the housing market is on the rise and the stock markets are trending upwards, consumer confidence index and comfort in the US has dropped. The consumer confidence level in the US has fallen to the lowest level since 2011 on January 29, 2013. Due to the two percentage increase in payroll tax, many Americans are seeing less money in their paychecks. The confidence level fell to 58.6, which was even less than the most pessimistic level that was forecasted according to a Bloomberg survey. The consumer comfort index also dropped at the end of January to -36.4, which is the lowest level since October. ("Consumer Comfort Falls") Furthermore, the growth of not only US, but globally as well, is extremely sensitive to the debt ceiling that the US is currently facing. The house voted to suspend the current debt ceiling until March 29, 2013; it was a crucial decision to aid in global recovery but the suspension is only a temporary solution. Spending is what will fuel the recovery process in the United States. "The priority is to avoid excessive fiscal consolidation in the short term" ("World Economic Outlook October").

Euro Area

The Euro area is the biggest downside risk to growth and the financial sector that the global economy is currently presented with. Even with some strengthening policies enacted, projected growth for the Euro area has been lowered since the International Monetary Fund's last October's Economic Update. Activity in this area is now projected to decrease by 0.2 percent in 2013 as opposed to last October when it was predicted that it would grow by 0.2 percent. ("Gradual Upturn in Global Growth")This contraction is due to the high uncertainty and financial linkage between the countries in this area. Many doubt the feasibility of the Economic and Monetary Union (EMU) and its plans to fix the current account imbalances. Although investment levels in Europe are weak, unlike many other economies, the capital that is being invested has been sent to safe zones such as Germany, Switzerland, and other Scandinavian countries, which aids in stimulating lending by decreasing bond yields. ("World Economic Outlook October") The Euro area has and will be the deciding factor other whether or not global growth will be accelerated.

Japan

Reconstruction effects in Japan from previous natural disasters like the earthquake, tsunami and floods in 2011 were short lived as Japan fell into a recession in 2012. But now, with the current stimulus package in place, growth should be boosted in the near future and Japan's projections remained unchanged of 1.2 percent growth for 2013. They have enacted several temporary aids to help Japan recover quicker by planning to weaken the Yen slightly. Japan has loosened their monetary policy as of September 2012 in hopes of growth and decreasing the amount of inflation. ("Gradual Upturn in Global Growth")

China & Other Emerging Markets

China and Chinese consumers are the key contributors to global stimulation. But as growth rates slow due to limited external demand and less internal demand, even China's growth has been affected by the global slowdown and is starting to feel these global effects. For fiscal year 2013, China is expected to grow at 8.2 percent which is more sustainable than the double digit growth rate that China has been experiencing over the last few years. ("Modest Growth Pickup") Other emerging and developing economies of the world also experienced major growth back in 2010 and 2011. For 2013, on average, emerging markets are projected to grow at about 5.5 percent. For example, with easing monetary policy and strong employment, Brazil is projected to grow at 3.5 percent in 2013 and 4.0 percent in 2014. India's economy has been weakened due to government issues, high inflation, and the depreciation of the Rupee. Despite those factors, with 17.5 percent of the world population is in located in India, India is a promising investment as it is projected to grow at 5.9 percent in 2013 and 6.4 percent in 2014. ("Modest Growth Pickup") Russia's robust growth has acted as an insulator from Europe's crisis and has even aided in increase the Euro area's external demand. Russia is projected to grow at 3.7 percent in 2013 and 3.8 percent in 2014. Sub-Saharan Africa is projected to grow at 5.8 percent in 2013 and 5.7 in 2014 with one major exception. South Africa's ties to Europe have severely hurt its economy and growth and will not experience the same high growth rate as the rest of these emerging economies. (2012 Luxury Goods Worldwide) Although the problems and stagnation in the advanced economies are trickling down to the emerging economies, these countries are fairly insulated from the crisis and still have a very positive outlook for growth.

CHAPTER III: ANALYSIS OF THE LUXURYRETAIL INDUSTRY

The luxury goods industry is a most important and fascinating industry. This industry has seen steady growth for the past 15 years and has turned out to be one of the most attractive and profitable industries. (Kim) 2012 marks the third year of double digit growth post-recession. Bain forecasts that the total worldwide luxury good category will reach €750 billion in 2012, a 9 percent increase from 2011 and estimates that this figure will approach €1 trillion within the next five years. (2012 Global Luxury Goods Worldwide) Even so, with the recently enacted 2 percent payroll tax increase, consumers may spend less on luxury items, perhaps specifically on luxury apparel. (Aseada) Similar to the recession, this tax increase will affect a few of the segments in the industry more than others. Others will continue to outperform the industry and the rest of the market as well, for example leather goods and accessories have become the dominating category of luxury consumption for 2012 with leather goods and shoes revenues increasing by 14 percent. On the other hand, high ticket categories like cars, yachts, and design are struggling to grow or even stabilized. (2012 Luxury Goods Worldwide 43)

<u>By market segment:</u>

Apparel

Although an established and mature category, luxury apparel is seeing a slight consolidation due to the high pressures from competition, but still offers stable growth year over year. Men’s apparel is expected to increase by 10 percent in 2012 and women’s apparel is forecasted at 9 percent growth. Bain states “modernization of tradition is the foundation of apparel good performance” (2012 Luxury Goods Worldwide 23). Many retailers, like Coach, are focusing more attention and opening new stores in response to an increased demand for men's business accessories.

Accessories & Leather Goods

Outperforming the market and also all other luxury segments, accessories and leather goods claim the title as the champion category experiencing 16 percent growth. ("Bain projects global luxury goods") Jason Asaeda, an analyst at S&P Net Advantage, believes that the 2 percent payroll tax increase caused consumers to cut back on their apparel purchases but not necessarily on accessories because accessories are viewed as a better investment. (Aseada) Personal luxury goods, especially the accessories segment, will continue to thrive if consumers continue with this current mindset.

Perfume & Cosmetics

Along with apparel, perfume and cosmetics are the historic giants of personal luxury goods. The cosmetics segment is projected to grow slightly faster at 5 percent in 2012 than perfumes, at 4 percent, due to new and increased product innovation and a specific focus on the emerging economies. ("Bain projects global luxury goods")

Hard Luxury

The hard luxury segment includes jewelry and watches and has been outperforming the market as well. Forecasted at 13 percent for 2013 and 14 percent growth for 2014, this segment will continue to thrive as long as consumer demand stays high. (2012 Luxury Goods Market Worldwide 25)

Cars

After reaching double digit growth in 2010 and 2011, the market growth for luxury cars has slowed to an estimated 4 percent for 2012. Mature markets in Europe, especially those in Italy, are seeing the largest decrease in consumption. In addition, Asia is also experiencing a slight decline in growth from years prior. Many luxury car dealers need to focus on environmental issues such as sustainability and green initiatives. Hybrid and electric vehicles are going to become more prominent, even in the luxury industry. (2012 Luxury Goods Market Worldwide 34)

Wines & Spirits

At 12 percent growth for 2012, wines and spirits are incrementally gaining market share. Champagne accounts for 30 percent of all total luxury wine sales while China is about to become the biggest importer in the next 5 to 10 years of these beverages. For spirits, Vodka is the category leader with household consumption increasing in all geographical segments. (2012 Luxury Goods Market Worldwide 35)

Hospitality

After a record year in 2011, growth is even higher in the hospitality market which is seemingly gaining relative importance to the luxury consumer. As with any product, the services provided must offer consumers a unique experience and differentiation and customization opportunities for the customer. If the hospitality industry can meet those needs, there is a good chance that the positive trend will continue with double digit growth. (2012 Luxury Goods Market Worldwide 36)

Food

Consumers are starting to prefer quality local products in home as opposed to restaurants. Out of home fine restaurants sales have declines but companies are still able to maintain their loyal client base. Beverages, including bottled water sales are still best sellers in the US and Asia. Luxury food overall was forecasted to increase by 8 percent for 2012. (2012 Luxury Goods Market Worldwide 37)

Design & Furniture

Even with slower recovery, the design and furniture sector is slightly growing. With added stability and recovery of the housing market, consumers are beginning to feel comfortable with spending money on design and furniture. “Design luxurization”, is a new trend in developing countries while advanced economies are seeing slower growth only about 3 percent for 2012. (2012 Luxury Goods Market Worldwide 38)

Yachts

The Yacht segment is projected for 2012 to have the slowest growth of any of the luxury goods segments at 2 percent growth. That is a 3 percent decrease from 2010 to 2011. With the lingering effects of the financial world, high investment purchases have significantly been slowed. Opportunities lay within the emerging markets but these markets would require major infrastructure construction. (2012 Luxury Goods Market Worldwide 40)

Important Factors and Considerations in the Luxury Retail Industry

Input Prices

Many retail companies were affected by the severe price inflation of cotton in 2011. Gross margin and net sales for many companies dropped from these higher prices. As cotton prices are expected to fall and as companies are working to improve their supply chain, these factors should reverse the previous negative impact on gross margin and help companies expand in 2013. (Asaeda)The diamond industry has also been extremely volatile over the past few years. Looking forward, it is expected to stabilize but many jewelry companies are still fighting to control the supply in order to achieve pricing power.

China

Referred to as “the luxury sweet spot”, China will continue to hold that title even after slowing to single digit growth. China has recently replaced Japan as the world’s second largest market for luxury consumption. The Chinese also hold the title as top luxury nationality: they represent about 25 percent of all luxury purchases worldwide. With a weaker Euro and many other depreciating currencies, Chinese consumers make 60 percent of their luxury purchases abroad, a 37 percent increase in 2012. (“Chinese Shoppers”) It is becoming increasingly important that luxury retailers consider the rapidly changing Chinese preferences knowing the large impact they have on this industry. Visible logos, in the past, were the key selling points of luxury products for Chinese consumers but now their tastes are shifting to unique and high quality items. The demographics of luxury consumers are also changing in China. Many luxury products in the past were purchased as business gifts and now less than 25 percent are because the custom is slowing disappearing but allows the possibility of new consumption patterns to younger shopper sand those power women who wish to assert their own spending power and are attracted to edgier fashion. (“Chinese Shoppers”) China’s demand for luxury products is crucial to luxury companies, especially since many of which have expansion plans that consist of expanding internationally with a specific focus on China and the rest of Asia.

Emerging Economies

Even with China as the dominant powerhouse economy, there are also many other emerging economies that offer high growth opportunities as well. Increasing growth rates of the wealthy class in countries like BRIC, offer large untapped markets for the luxury industry.

> BRIC today account for approximately 18-22 per cent of the world’s luxury market. The luxury market is growing at 20-30 per cent in these countries and it is estimated that BRIC will contribute approximately 36 per cent of the global luxury market by 2015 and is predicted to have the largest base of luxury consumers. (Som 75)

Within the past few years, industry leaders like Louis Vuitton Moet Hennessey (LVMH) have opened more operations overseas in these emerging economies in order to reap the benefits. Furthermore, other than BRIC, countries like South Africa, Colombia, Indonesia, Vietnam, Egypt, and Turkey need to be recognized and carefully monitored as they are likely to offer extreme growth opportunities in the near future. (Kapferer) Although the backbone of the global economic recovery process, emerging economies do not come without their own set of unique hurdles and challenges, such as education and knowledge level, the overwhelming population in these countries, and distribution challenges. There is also the possibility that too much expansion may dilute the brand name because it is more accessible and lessens the exclusivity of the products.

Current Industry Trends

Long term growth and sustainability for companies in this industry will be determined by their ability to detect and adapt to the rapid changes in the market and the consumer: “Luxury 2.0” as Bain calls it. (2012 Luxury Goods Market Worldwide 45)Just because a company has been successful in the past does not mean that it will continue to find that same level of success unless it quickly adapts to these changes. In order to be profitable in the next 10-15 years in the luxury goods industry, the company must offer competitive pricing while using creative marketing to ensure an appealing customer experience whether online or in the store using omni-channel strategies, and lastly focusing on entertaining the consumer by having a retail culture and an experience that will impress Generation Z. Bain also cites major structural shifts which are occurring in the global personal luxury goods market such as: (1) after having bypassed Japan, Greater China is now the sector’s second largest market, behind the United States; (2) expectations are that sales at off-price (discount) outlets and ecommerce will experience 30% and 25% growth per year, respectively; (3) an emerging generational shift, in which young consumers are seeking significantly different experiences from luxury consumption, opting for uniqueness over heritage, 24/7 access over exclusivity and with a greater penchant for entertainment over mere shopping; (4) the core category is now accessories, with leather goods and shoes at 27% of sales, becoming, for the first time, the largest piece of the market; (5) tourism and luxury spending have become more tightly intertwined with tourists now accounting for 40% of total luxury spending. (“Brain projects global”)

CHAPTER IV: INDIVIDUAL COMPANY ANALYSIS

An in-depth company and financial analysis was conducted on each of these four specific firms in the luxury retail industry: Coach, Inc. (COH), Michael Kors Holdings Ltd. (KORS), Tiffany & Co. (TIF), and LVMH Moet Hennessy Louis Vuitton (LVMUY). After analyzing these companies, judgments and suggestions can be inferred to the general luxury retail industry as a whole due to the varying characteristics of each company which serve as an acceptable representation.

Please note that the luxury retail index is not easily accessible and therefore the data that is compared to the industry is based on which particular index the reporting company used to compare the data and often times was not specified. Also take notice LVMH Moet Hennessy Louis Vuitton (LVMH) is traded on the Paris exchange and quoted in Euros so we are using LVMH Moet Hennessy Louis Vuitton SA (LVMUY) which is listed on the equity in the United States and is listed in dollars. The ratios and financials are equivalent to that of LVMH except that the share price and Earnings per Share (EPS) are a divisor of 4 meaning that 1 share of LVMH is equivalent to 4 shares of LVMUY and that ratio was used throughout for my analysis. The financials from LVMH were listed in Euros so to keep numbers consistent, the exchange rate from March 19th, 2013 was used of \$1.29 =1.00€.

A 5 year time horizon was used for this analysis, as the past 5 years have impacted luxury retail companies significantly which have led to important decisions for these companies that will affect their future success.

For a general description and explanation of each of the ratios that were used in the ratio analysis section for each company please refer to Appendix A.

Coach Company Profile:

Founded in 1941 and headquartered in New York, New York, COH has been a strong competitor in the luxury goods industry. Throughout the past decade, COH became known as America's leading designer, marketer, and retailer of high quality accessories including handbags, wallets, footwear, watches, jewelry, and wearables. COH has maintained its market leadership in North America despite strong competition from other U.S. brands like Michael Kors and Kate Spade. Currently COH operates over 500 stores between the U.S. and Canada and in 2013, is planning to expand its square footage domestically by 10 percent. ("Coach Inc.- Stock Report") Approximately, 1/3 of stores in North America are factory outlets which has allowed COH the ability to reach a different demographic of luxury consumers. (Swinand) In addition to North America, COH directly operates 300 locations in Asia, specifically Japan, China, Singapore, and Taiwan as well as recently expanding operations to Malaysia and South Korea.. Through a multi-channel distribution strategy including boutiques in department stores, specialty shops, and also distributor-operated location in Asia, Europe, and Latin America COH is able to maintain these different locations. ("Coach Company Profile")

Strategic Growth Plans and Initiatives

COH plans on expanding its addressable market through a new focus on men's business accessories. COH is expecting a 10 percent square footage increase in North America driven by the opening of 10 men's factory stores and expansion of existing stores. As for international expansion, COH plans to increase their present in markets by introducing 30 dual gender stores in China and 13 stores in Japan. This increases COH's footprint in these markets by 35 percent and 10 percent respectively. The main focus for male stores will be in Asia due to the general belief that Asian men are more fashion conscious. Overall, COH projects a $12 billion market for the men's market and of that, China is responsible for about $3.2 billion. ("Coach Inc.-Stock Report")

SWOT Analysis--COH

Strengths	Weaknesses
• Strong management team • Diverse channels of retail distribution (full price, outlet, internet, catalog) • Leading position in the men's market • High operating margins make COH attractive to investors	• Known only for handbags not rest of product line • Dilution of brand due to increasing numbers of factory outlets • Due to lower price point, customers are more aspirational and sensitive to the current economic state
Opportunities	Threats
• Macro trend of consumer preferences from logo handbags to leather • Major expansion in China • Wealth and demand from emerging economies • Due to economic hardship, consumers are purchasing more accessories as opposed to apparel	• Decline in global consumer spending • Increasing competition • Changing consumer preferences

Table 1: SWOT Analysis--COH

Company Performance

COH is a stable company that has taken some hard hits recently but overall maintains an extremely sound foundation and strong overall performance. Revenue has increased yearly even during the Great Recession. In 2012, revenue grew by 14.53 percent and between the two most recent quarters of 2013 it grew by more than double that, reaching 29.54 percent.. Net income took a hit in 2009 and fell by 20.3 percent but has been back in the high double digits ever since and in 2012, it grew by 17.93 percent. Having extremely little debt and ample cash of $917 million, leaves opportunity for growth and expansion. ("Coach Inc.-Stock Report")

Stock Performance

As of March 11th, 2013, COH, at close, was trading at $49.50 with a 52 week high of $79.70 and a low of $45.87. COH also paid a recently higher dividend of $1.20 with a yield of 2.40 percent. The company has 280.78 million shares outstanding with institutions holding 91.90 percent and insiders only retaining 0.94 percent ownership. ("COH-Key Statistics") S&P Net Advantage gives COH a quality ranking of B+. ("Coach Inc.-Stock Report") Since 2008, the stock has been quite volatile mostly in turn from the economic downturn which triggered more conservative spending especially from the large base of aspirational consumers that Coach attracts.

Figure 1: Stock Price 5 years--COH: Yahoo Finance

Looking at year to date stock price comparison back in February, COH has performed the worst with almost consistently staying beneath all other stocks and the index as well. COH's stock price has been increasing throughout March and should be more attractive now and in the future.

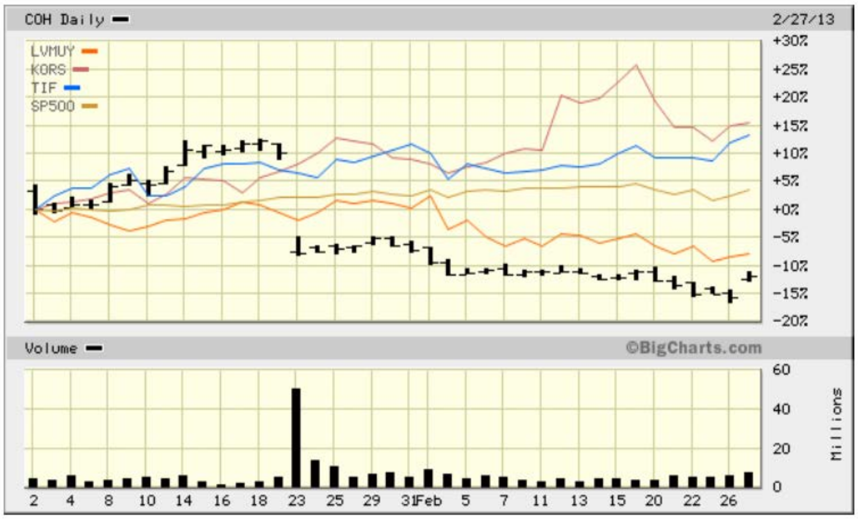

Figure 2: YTD Stock Price Comparison: Bigcharts.com

Ratio Analysis

Short Term Liquidity

COH had a current ratio in 2012 of 2.51. If need be, COH could have paid off all of its short term liabilities with short term assets two and a half times. In 2011, 2.45 was the lowest that the current ratio has ever been and even then, COH could have paid off over twice its amount of debt. (“COH-Key Ratios”)

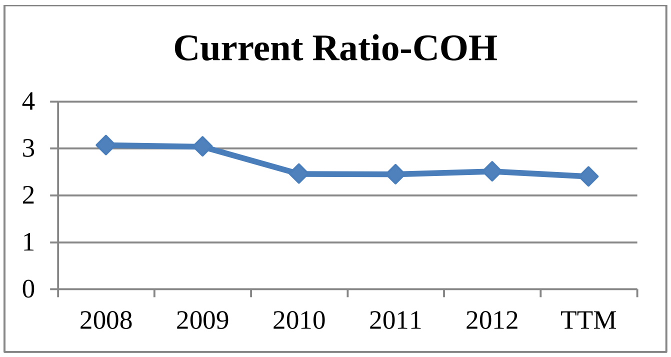

Figure 3: Current Ratio--COH

Asset Management

Coach has a fixed asset turnover of 7.77 for 2012.The upward trend signals COH has been increasingly becoming more effective at using its fixed assets at generating greater levels of revenue.

At 1.66, COH has a total asset turnover that has been steadily increasing since 2007 with only a .01 drop in 2009. This trend may have to do with pricing strategy and factory outlets so COH’s total assets are generating more revenue. (“COH-Key Ratios”)

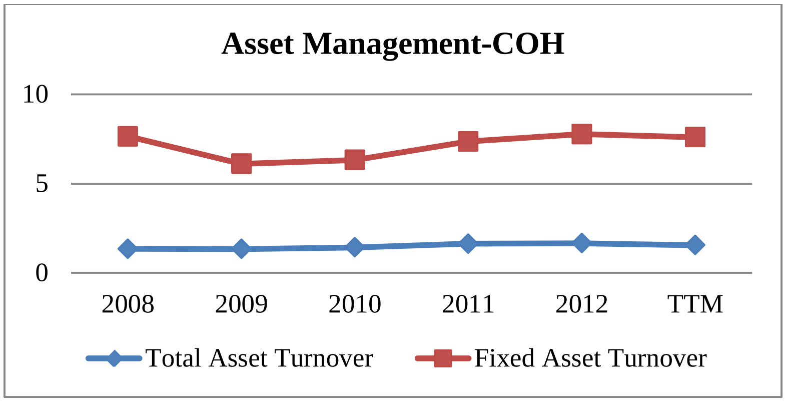

Figure 4: Asset Management--COH

Debt Management

COH has held very little debt with its highest debt to equity ratio of 0.02 in 2010. In 2012, COH had a D/E equal to 0; therefore had the ability to pay for all of its assets with equity as opposed to debt. A strong credit rating and holding little debt are key factors when trying to finance new projects.

Comparatively, COH and KORS are in the strongest positions with financing their assets with the lowest amount of debt, none. ("COH-Key Ratios")

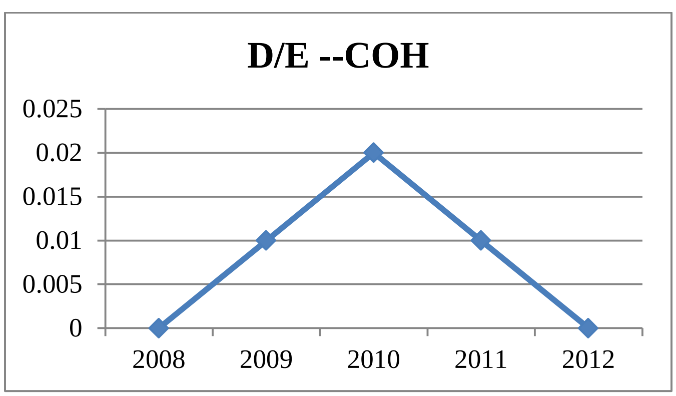

Figure 5: D/E ratio--COH

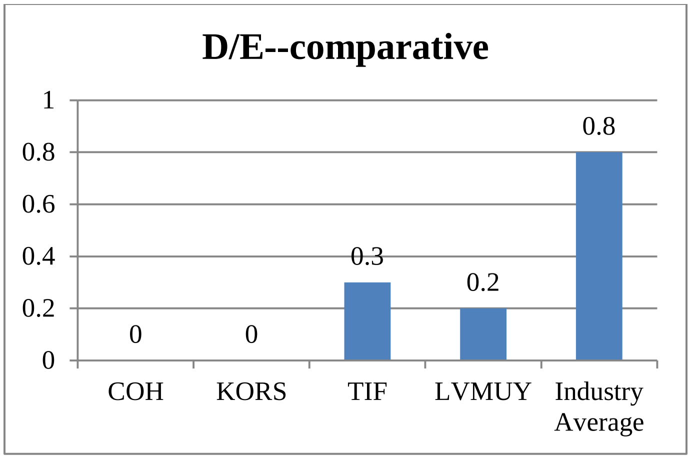

Figure 6: D/E--Comparative

Profitability Ratios

In 2012, COH had a profit margin of 21.8% meaning it earned 21.8% on every dollar in sales. Although slightly lower than years prior, COH still maintains the strongest profit margin by far relative to the industry and its competitors. (Constanza)

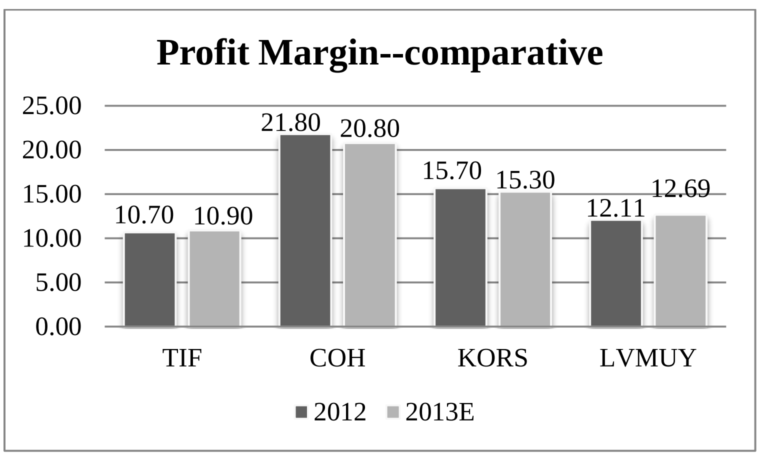

Figure 7: Profit Margin—Comparative

After Return on Assets (ROA) fell to 25.77% from 2008 to 2009, ROA for COH is at 36.2% in 2012. If this trend continues, Coach could prove to be earning higher return for the level of assets it has.

With 57.63% Return on Equity (ROE), Coach is an extremely attractive investment for investors with such a high percentage of return for their investment. ROE hasn't dropped below 38.82% (2009). ("COH-Key Ratios")

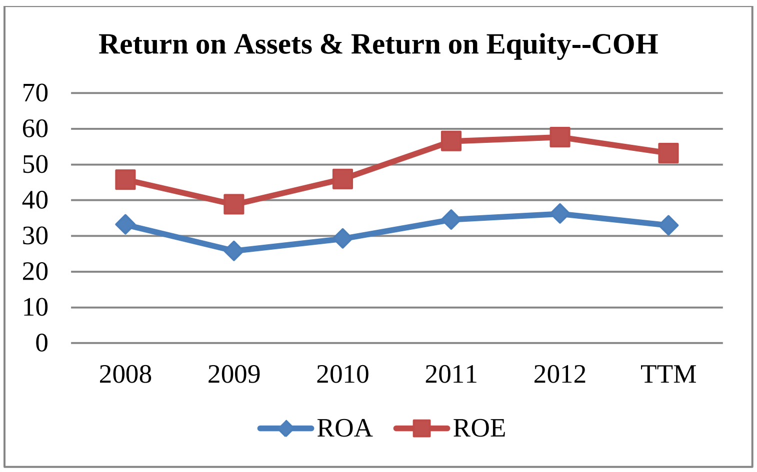

Figure 8: Return on Assets & Return on Equity--COH

Market Value Ratios

Current Price to Earnings (P/E) ratio is 13.7. The P/E multiple for COH has been steadily declining since 2009 which is a signal that investors are pessimistic about the future earnings of COH, especially relative to other competitors in the industry. Investors, over time, are willing to pay less for $1 of current earnings. ("COH-Key Ratios")

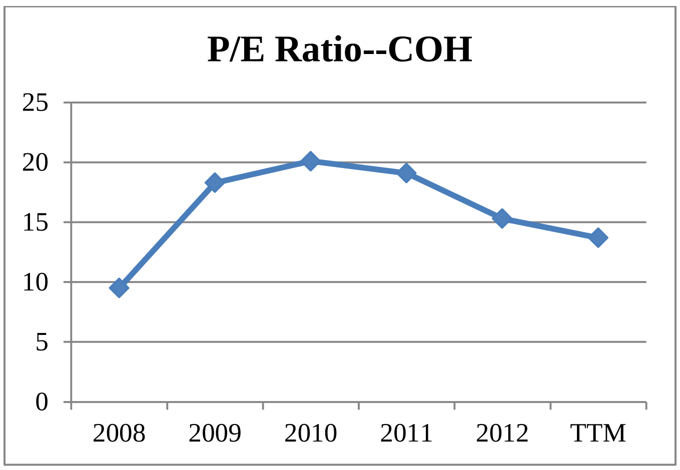

Figure 9: P/E Ratio--COH

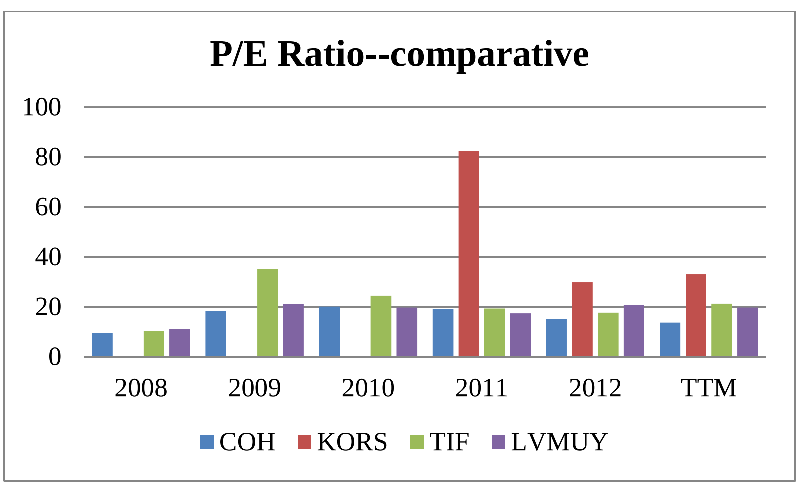

Figure 10: P/E Ratio--Comparative

The current Price to Cash Flow (P/CF) for COH is 11.8. COH is a financially stable company so it is strange to see a downward trend in price to cash flow especially with the expansive expansion plans. The market doesn't believe that COH will be as financially healthy as compared to in the past or to other companies. ("COH-Key Ratios")

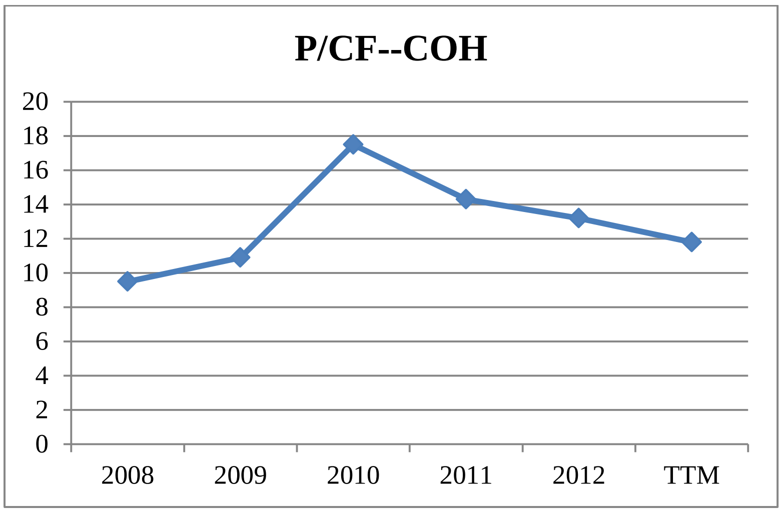

Figure 11: P/CF Ratio-COH

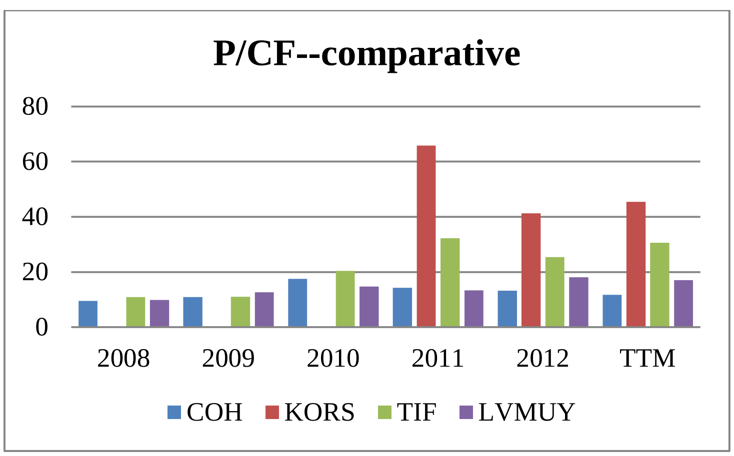

Figure 12: P/CF Ratio--Comparative

Efficiency Ratios

Inventory turnover has been increasing since 2007 and for the past 4 years has stayed around the 2-3 mark. Turnover was at 2.80 in 2012 but has increased to 2.91 for the trailing twelve months (TTM). As the global economy recovers we should see a faster turnover in inventory due to an increase in demand. ("COH-Key Ratios")

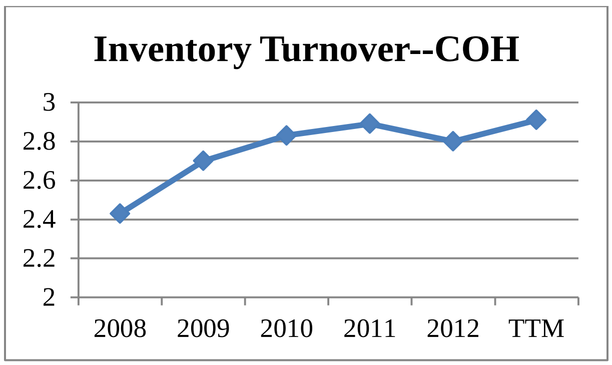

Figure 13: Inventory Turnover-- COH

Days Sales Outstanding (DSO) declined until 2010 and then started to trend back up. The TTM is at 16.11 which is a large difference from 2012 of 12.16. This continuous upward trend is somewhat concerning because it's taking COH longer to collect its receivables. Even though COH has ample liquidity, DSO is important for cash flows. ("COH-Key Ratios")

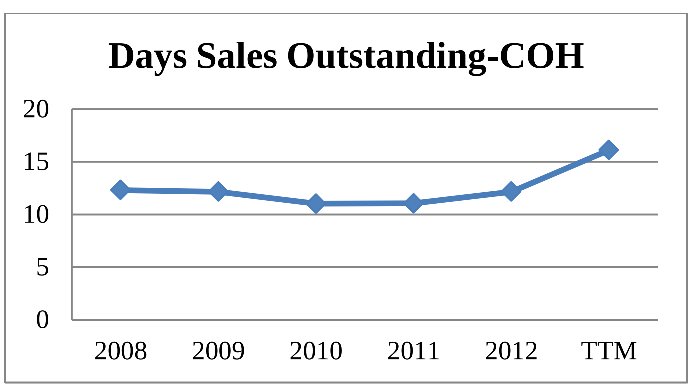

Figure 14: Days Sales Outstanding--COH

Technical Analysis

In general, prices of COH having been consistently below the moving average. COH could be facing a bear market which entails falling prices and a negative trend since it's been very consistent with one notable exception, the beginning of 2013. Even then, prices fell drastically in February of 2013 back below the moving averages. The EMA 50 line has been constantly below the EMA 200 so that also indicates a negative trend.

January was a volatile month for relative strength index (RSI). COH crossed the 50 line from below and then above and has been pretty stable around that RSI level. The end of February was showing signs of heading back up towards the fifty. There are no strong oversold or undersold signals as of right now.

The short and long lines are moving closely together both on a steep decline which would suggest to investors that they may want to sell. Another possibility is COH could be experiencing a bearish divergence meaning that the MACD is falling to extreme lows while prices are not following. ("Technical Analysis")

Figure 15: Technical Analysis—COH: Bigcharts.com

Michael Kors Company Profile

A hot new ticker item—KORS, just as recently as December 2011, became a publically traded company. Since 1981 KORS has been focused on the design, marketing, distribution, and retail and wholesale of women's and men's apparel along with women's accessories including handbags, wallets, footwear, watches, and fragrances. Even though based in Hong Kong, KORS has an international footprint in 74 different countries and maintains a reputation of being a lifestyle, jet-setter brand. This lifestyle brand appeals to different target markets through two primary collections, the Michael Kors luxury collection and the MICHAEL Michael Kors accessible luxury collection. Since founding, the Michael Kors collection has been focused on the combination of elegance and a sporty attitude to create that jet setter image. In 2004, KORS noticed an increase in demand for more accessible luxury goods. In turn, MICHAEL Michael Kors was created in order to fill that void with its main focus on accessories and a lower price point to appeal to a younger generation. ("KORS Corporate Profile")

SWOT Analysis

Strengths	Weaknesses
• New and trendy lifestyle brand • Diverse product line • Price range appeals to a large demographic • Michael Kors as the lead designer—well known and established in fashion community	• Brand name not well known in emerging markets • KORS style by some is not considered high fashion—too simplistic
Opportunities	**Threats**
• Massive market in China • New product innovation • Online market potential • Analyst have a very positive outlook for growth	• High competition in industry • Downturn in the global economy would lead more aspirational buyers to stop buying

Table 2: SWOT Analysis--KORS

Strategic Growth Plans and Initiatives

As of March 2012, KORS maintains 191 retail stores, 46 of which are throughout Europe and Japan and also operates through its wholesale chain in 2,027 department stores in North America and 650 internationally. KORS has a large geographical presence but international expansion will continue to focus on Europe, China, and other underpenetrated markets. KORS is also focus on growing its product lines to put more emphasis on other items such as fragrances, shoes, and watches. (Smith)

Company Performance

Growth for KORS since its IPO has been explosive. From 2011 to 2012, revenue grew by 62.14 percent and the year prior by 58.07 percent net income increased this past year by about 101 percent and is projected to hold that type of growth for this upcoming year. KORS is a financially healthy company with extremely low amounts of debt and large amounts of cash with $406 million as of December 2012. ("Michael Kors Holdings Ltd KORS")

Stock Performance

On March 12th, 2013, KORS was trading at $56.28 at close. KORS has a 52-week high of $65.10 and a low of $35.50. ("Michael Kors Holdings Ltd KORS) 199.59 million shares are outstanding and KORS is owned 73.60% by institutions and 21.74% by insiders. The beta of KORS is 2.866 and being a high growth stock, KORS does not pay a dividend, rather investing their earnings back into the company in order to fuel future growth. ("KORS-Key Statistics.")

Looking at year to date stock price comparison back in February, KORS has seen the most growth in its stock and it spiking to new rates much higher than the rest but has come down to an average level near Tiffany & Co. but still significantly higher than the rest.

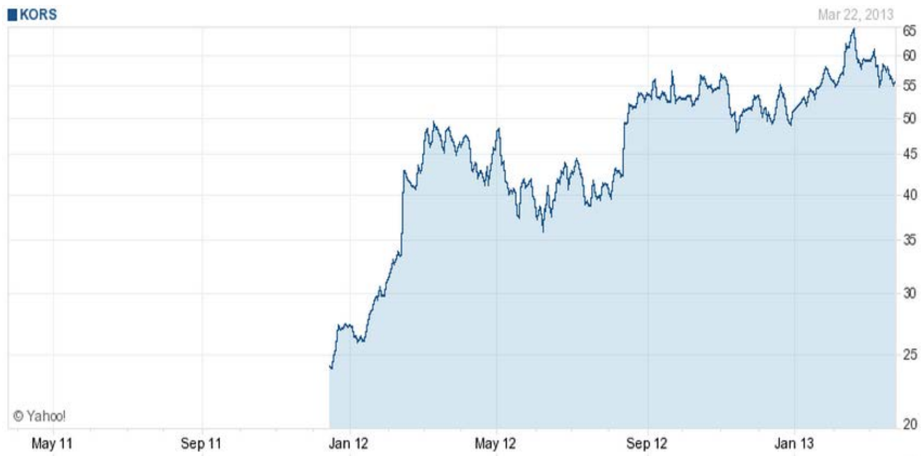

Figure 16: Stock Price 5 years--KORS: Yahoo Finance

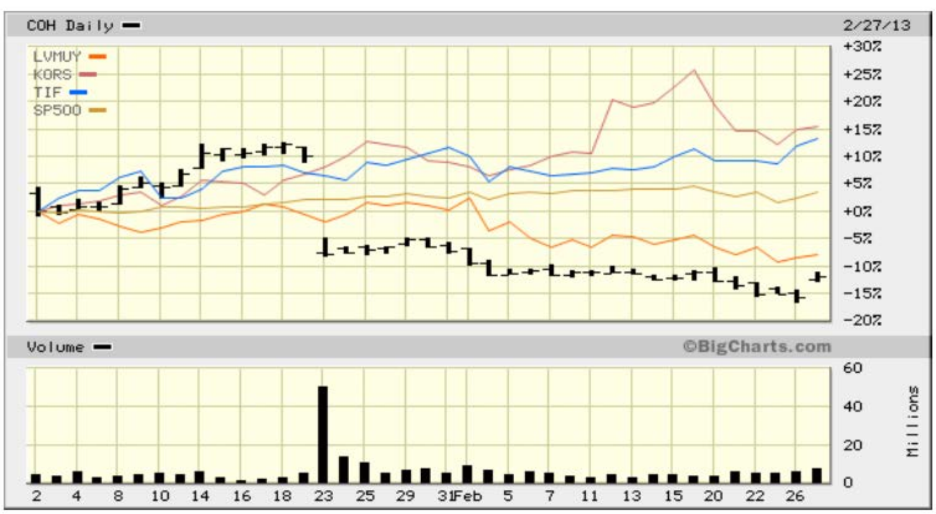

Figure 17: YTD Stock Price Comparison: Bigcharts.com

Ratio Analysis

Short Term Liquidity

Last quarter, KORS had a current ratio of 4.81 which is more than a 1.5 increase from 2012 and has been increasing since its Initial Public Offering. In 2012 the ratio was 2.81 meaning that if needed, KORS could have paid off all of its short term liabilities with short term assets almost three times. (“KORS-Key Ratios”)

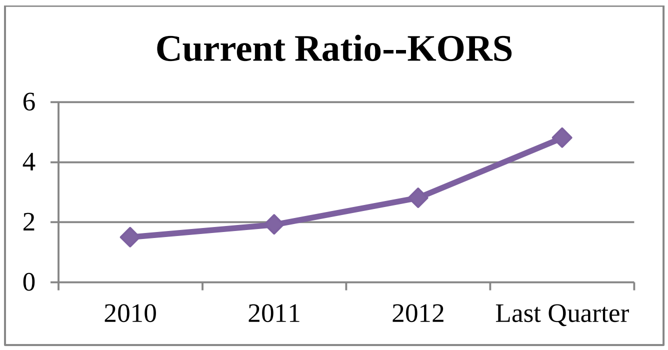

Figure 18: Current Ratio--KORS: Morningstar.com

Asset Management

As each year passes, KORS is able to generate a higher fixed asset turnover signaling that it is able to earn more revenue with its fixed assets. In 2012 the fixed asset turnover was 8.98 and increased for the TTM to 9.03. If this trend continues into the future, KORS should expect higher sales for fixed assets.

Total asset turnover increased from prior years from 1.80 in 2010 to 2.43 in 2012 KORS is showing the ability to turn assets into cash. (“KORS-Key Ratios”)

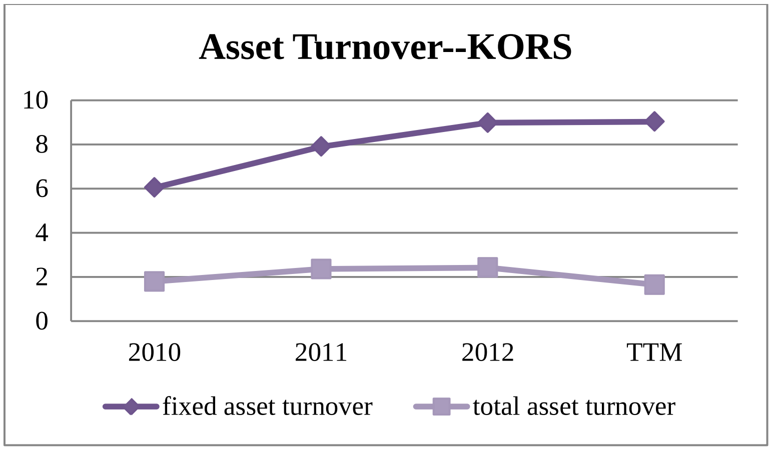

Figure 19:Asset Turnover--KORS: Morningstar.com

Debt Management

KORS has a debt to equity ratio of 0 as of 2012. This implies that all debt will be paid off and will not be financing any of its assets with debt but rather, with equity.

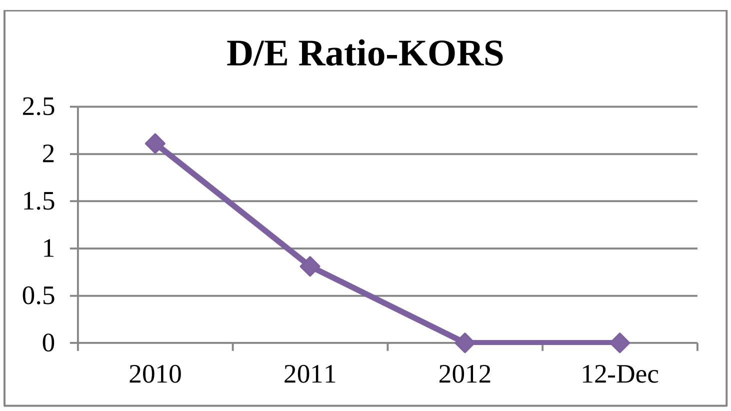

Figure 20: D/E Ratio--KORS: Morningstar.com

Even though most companies in this industry have extremely low debt to equity ratios, KORS and COH comparatively are putting themselves in an even stronger and more financially attractive position to investors by holding no debt. (“KORS-Key Ratios”)

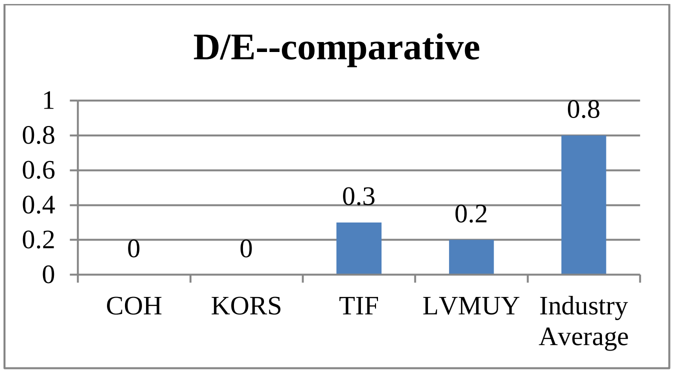

Figure 21: D/E Comparative

Profitability Ratios

In 2012, KORS earned a 15.7 percent profit margin. Comparatively, KORS has a greater profit margin that TIF and LVMUY but still about 5 percent less than COH. KORS earned $15.70 for every $1.00 in sales in 2012. (Patrikis)

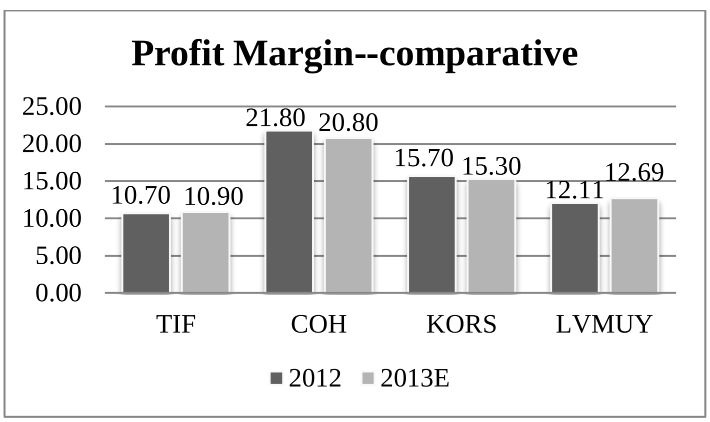

Figure 22: Profit Margin—Comparative: Value Line & Net Advantage

Return on Assets has been steadily increasing since 2010 from 10.92% to 23.49% in 2012 and 28.64% as the TTM. COH is steadily earning more money on less investment in assets.

Initially increasing from 2010 to 2011, Return on Equity has been dropping for KORS from 65.25% in 2011 to 43.38% in 2012 and 36.80% as TTM. Normally a decreasing trend would be worrisome but ROE is still above the industry average. (“KORS-Key Ratios”)

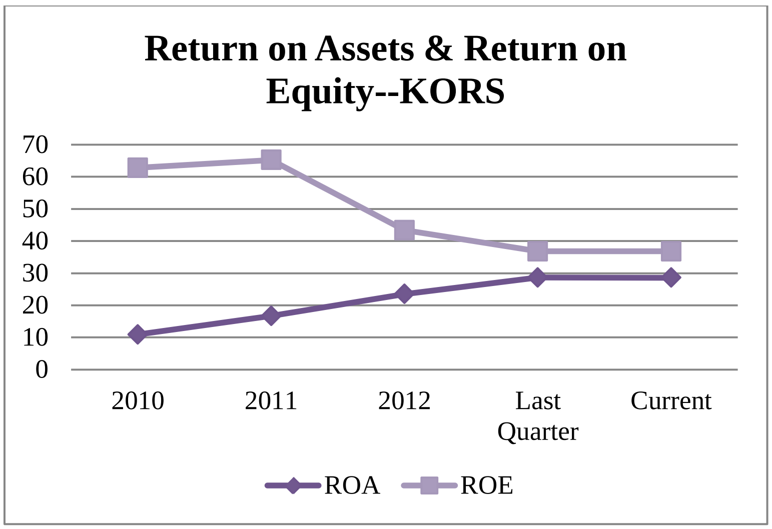

Figure 23: Return on Assets & Return on Equity--KORS: Morningstar

Market Value Ratios

Currently, the P/E ratio for Kors is at 33.1. It appears as if there has been a significant drop by 2011 was when KORS offered its Initial Public Offering and then is starting to level out since then.

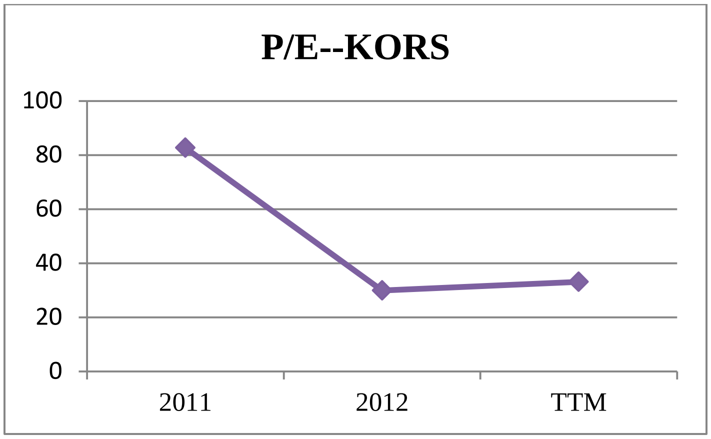

Figure 24:P/E--KORS: Morningstar

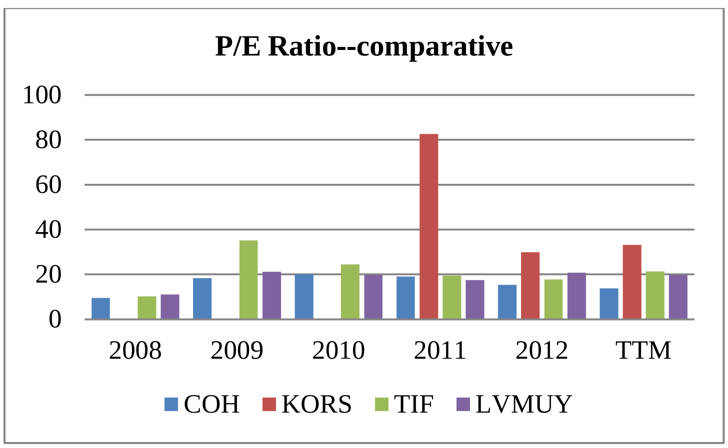

Figure 25:P/E--Comparative: Morningstar

KORS has a very strong P/CF at 41.3 in 2012. Investors are predicting strong financial health from this company. KORS has enough cash flow to cover all obligations as well as maintain the option to expand and grow. Comparatively, KORS is outperforming all of its competitors as well as the industry. (“KORS-Key Ratios”)

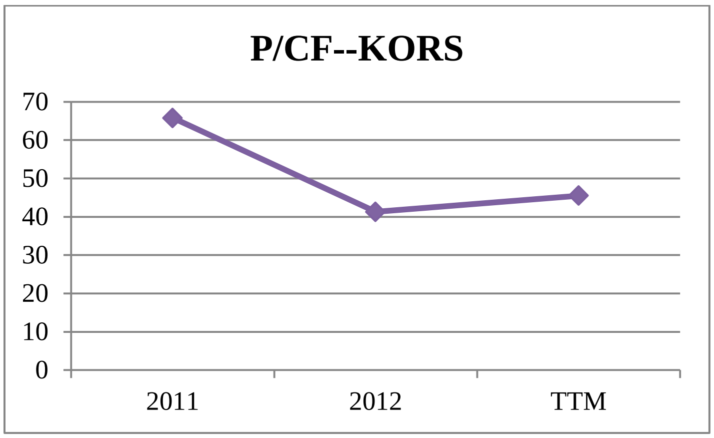

Figure 26: P/CF--KORS: Morningstar

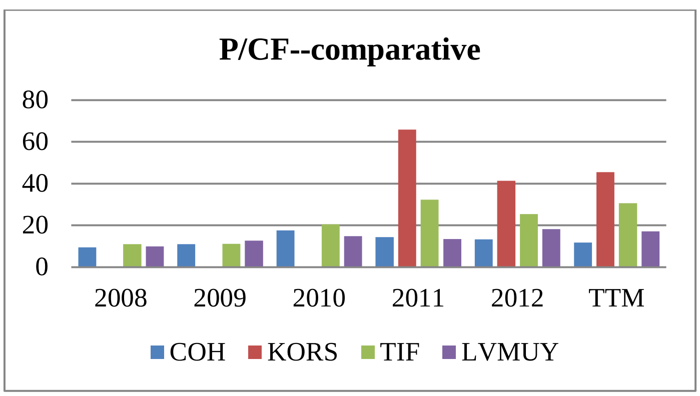

Figure 27: P/CF--Comparative: Morningstar

Efficiency Ratios

The inventory turnover rate for KORS has also slowed. In 2011 inventory turnover was at 3.92 and 2012 decreased to 3.61 and TTM is at 2.74. But relative to the industry, KORS is turning its inventory over more frequently than the industry which is at 1.6. (“KORS-Key Ratios”)

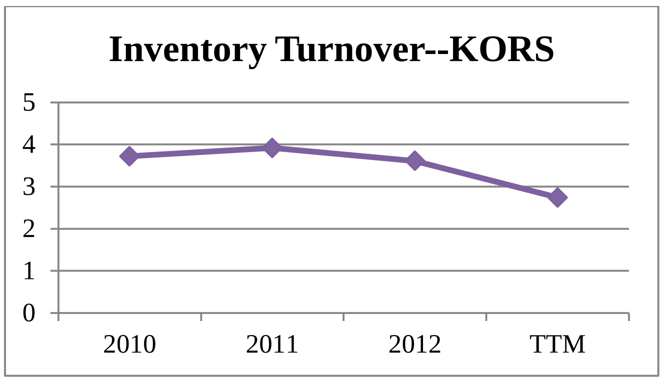

Figure 28: Inventory Turnover--KORS: Morningstar

Days sales outstanding is back on the rise and shows that, now, KORS is able to collect its money faster now than 3 years ago. In 2012, it took 35.86 days to collect and TTM is at 32.08. The faster that KORS can collect its money the sooner it can be reinvested for future endeavors. (“KORS-Key Ratios”)

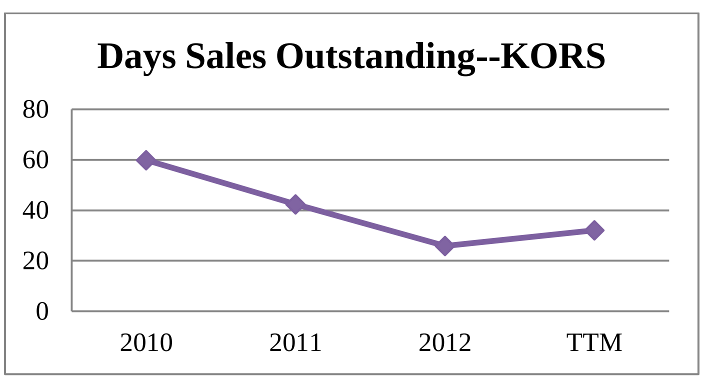

Figure 29: Days Sales Outstanding--KORS: Morningstar

Technical Analysis

The EMA 50 for KORS is above EMA 200 and both are trending upwards showing strong upward momentum for this stock. Price of KORS is once again back above it EMA 50 so that could signal a buy. The RSI hit just about 80 mid-February and therefore signaling that KORS may be being overbought and then sharply decrease back down to near 50 where it maintains its average currently. With the returns and projected growth for KORS many investors see the growth potential but may be paying too much relative to what it's worth. It is rising at a more subtle pace which could prove to be more sustainable than any sharp increases which many believe would just return to normal level soon after. Currently the MACD (12,26) line is below the MACD (9) but any cross of these lines could be a signal to buy. ("Technical Analysis")

Figure 30: Technical Analysis--KORS: Bigcharts.com

<u>Tiffany & Co. Company Profile</u>

Tiffany and Co. (TIF) just celebrated its 175th anniversary and still maintains a strong image of being a top designer, manufacturer, and retailer of fine jewelry and other specialty items like timepieces, sterling silver, crystal, and leather accessories. Although diversified within product lines, 91 percent of its net sales in 2012 can be attributed to jewelry. ("Tiffany & Co—Stock Report") Although based in New York, TIF maintains four reportable segments including the Americas, Asia-Pacific, Japan, and Europe. In 2012, the Americas accounted for 50 percent of net sales, Asia Pacific at 21 percent, Japan at 17 percent, and Europe with 12 percent. These sales revenues are not only attributed to stores but also business to business transactions, Internet and catalogue sales, and also wholesale operations. ("Tiffany & Co—Stock Report") After recently becoming more vertically integrated, TIF retains more control over its supply and sourcing issues of diamonds. This allows TIF to be more flexible with supply and demand as well as changing consumer preferences which is becoming ever more important.

SWOT Analysis

Strengths	Weaknesses
• Strong identifiable brand –175th anniversary • Vertical integration leads to greater control over supply chain • Internally produced 60% of what was sold • High capital budget for expansion • Use of e-commerce: operating website in 13 countries • Pricing power in the industry	• Majority of sales comes from only US and Japan • Negative same-store sales growth in the Americas • Custom of diamond engagement ring could decline and diamonds are the main sale for TIF • Exclusive designer, Elsa Peretti, accounts for 10% of TIFs sales
Opportunities	**Threats**
• TIF is underpenetrated in emerging economies • International expansion in Europe • New product development	• Higher taxes for wealthy may decrease spending • High end jewelry is more aspirational than other categories • High competition in the domestic diamond industry • Volatility in diamond and financial markets decrease tourist sales

Table 3: SWOT Analysis--TIF

Strategic Growth Plans and Initiatives

In the beginning of 2013, TIF opened a store in Prague, Czech Republic and will in the near future open and develop stores in other emerging economies like Russia and India. Analysts believe that TIF still has more room for expansion within Europe and China. Also testing a new demographic, TIF is opening up smaller locations in rural and suburban areas as opposed to the norm of mainstream locations in big cities. TIF is also attempting to expand its product line into more non-jewelry areas such as fine gifts and accessories. ("Tiffany & Co TIF")

Company Performance

Although TIF saw negative revenue growth from 2008-2010, TIF recovered fairly quickly for the depths of the recession where fine jewelry and gifts are more aspirational than ever. In 2011, as the economy recovered, revenue grew by 13 percent and in 2012 it grew by 18.09 percent. On the other hand, net income only took a fall in 2009. Net income has generally averaged about 20 percent-30 percent except for, notably, in 2011 when net income grew by 38.35 percent. ("Tiffany & Co-Stock Report") TIFs cash availability is strong for how much it fluctuates; this fluctuation in cash can most likely to be attributed to TIFs expansion initiatives.

Stock Performance

Although the stock has been volatile in the past year, as of March 11th, 2013, TIF closed at $69.11 which was near its 52-week high of $74.20 (low of $49.72). ("Tiffany & Co. TIF") TIF is owned 87.40 percent by institutions and 11.98 percent by insiders with 126.77 million shares outstanding offering a dividend of $1.28 and yield of 1.82 percent. There has also been an increase in insider buying which is a positive signal for TIF investors. S&P gives TIF a quality ranking of an A-. Given a beta of 1.78, a positive trend for the market would mean even better news for TIF. ("Tiffany & Co-Stock Report")

Figure 31: Stock Price 5 years--TIF: Yahoo Finance

Comparatively, over the past year TIF has remained a competitor as far as stock price beating out other companies and the industry except for Michael Kors.

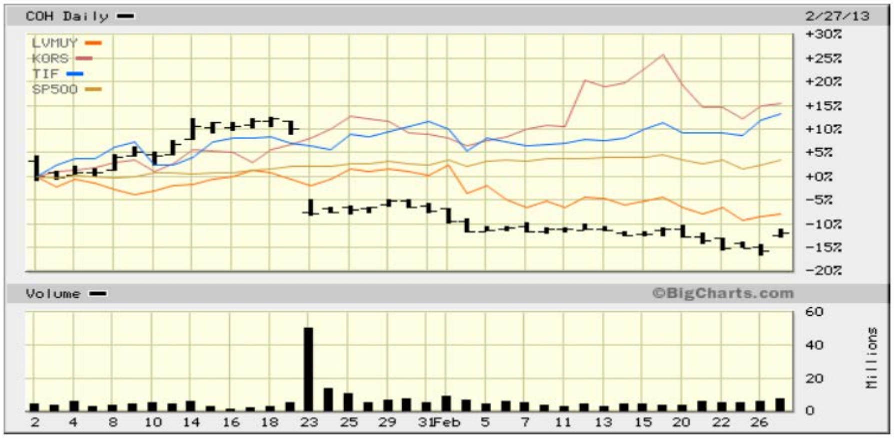

Figure 32: YTD Stock Price Comparison: Bigcharts.com

Ratio Analysis

Short Term Liquidity

Starting at a current ratio of 3.15 in 2008, TIF increased its current ratio to 4.61 in 2012 and a TTM of 5.46. TIF is an extremely strong position to pay for its current liabilities: if needed, TIF could pay them off almost five times. This signals strength and plenty of cash on hand which can be used for other endeavors, like expansion. ("TIF-Key Ratios")

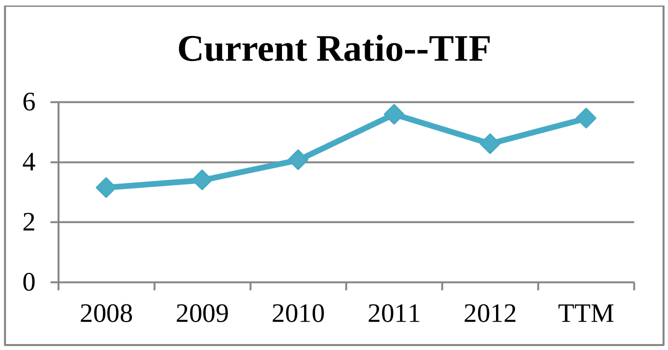

Figure 33: Current Ratio--TIF: Morningstar

Asset Management

As of 2012, fixed asset turnover increased to 5.09 for TIF. This indicates that Tiffany is increasing their efficiency of using its fixed assets to generate more revenue.

On the other hand, Tiffany is staying right around its average for total asset turnover. TIF saw a slight decline and a total asset turnover of .92 in 2012. This may be due to their high pricing strategy. ("TIF-Key Ratios")

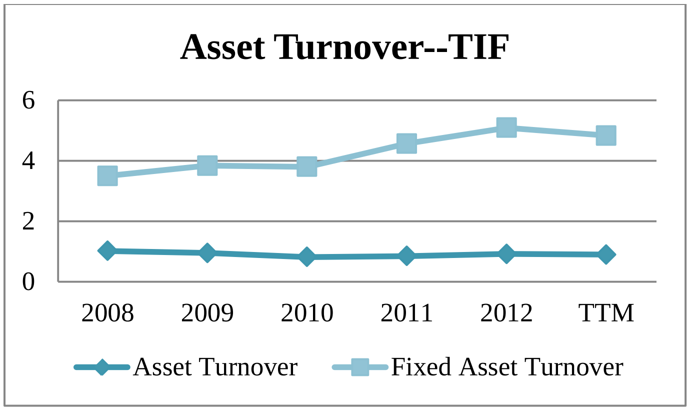

Figure 34: Asset Turnover--TIF: Morningstar

Debt Management

As of 2012, TIF had a D/E ratio of .23 which is a normal ratio for this industry. Only 23 percent of assets are financed with debt and that can be attributed to strong cash availability. Comparatively, TIF is right around the average of these companies and is lower than the industry's average. ("TIF-Key Ratios")

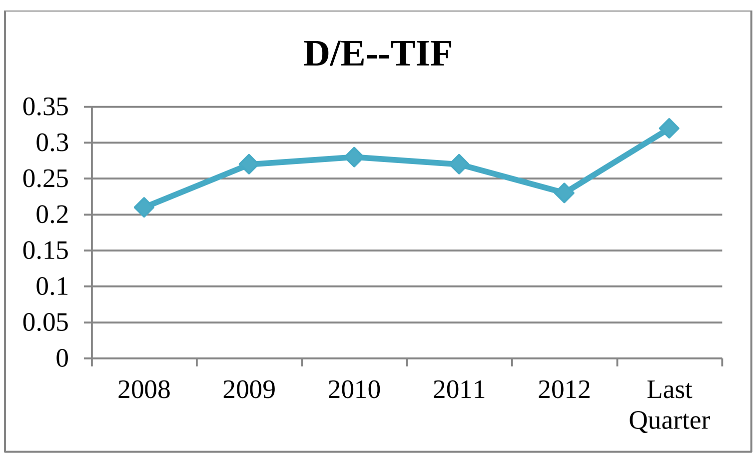

Figure 35: D/E--TIF: Morningstar

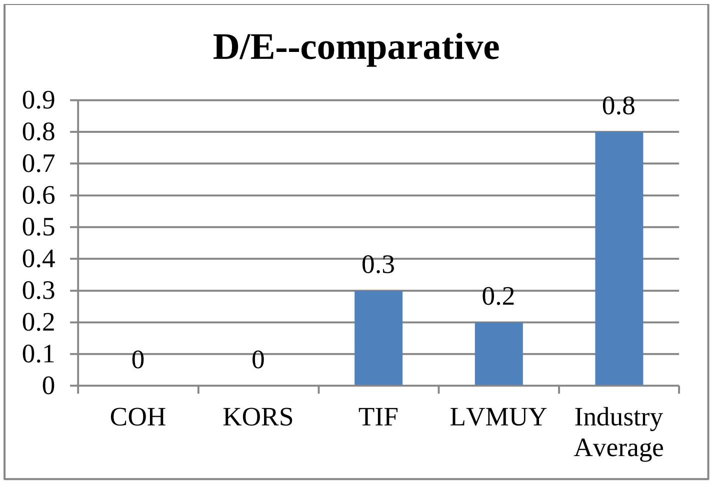

Figure 36: D/E Comparative--Morningstar

Profitability Ratios

TIF has seen a decrease in profit margin from 2011 to 2012 to 10.7 percent but is forecasted to increase slightly in 2013 to 10.9 percent. Comparatively, TIF has the lowest profit margin and therefore makes only 10.7 percent on each $1.00 in sales. (Hellman)

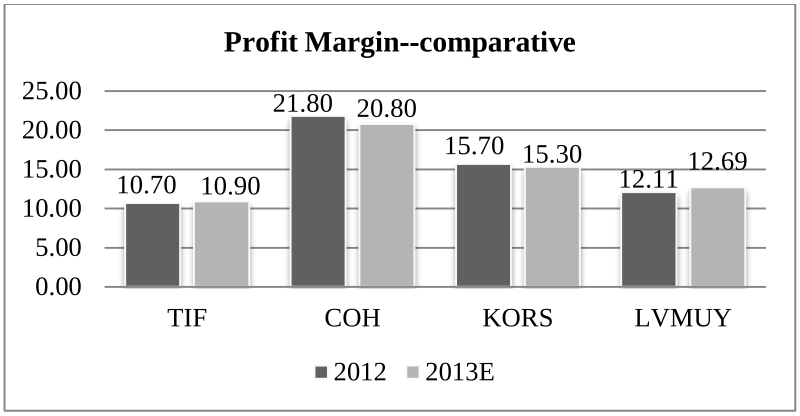

Figure 37: Profit Margin--Comparative

Return on Assets took a hit with the recession and was at the lowest in 2009 but since then has been rising and is at 11.13 percent for 2012.

Similar to ROA, Return on Equity fell to 13.64 percent in 2009 but has been steadily increasing over the past few years. For 2012, ROE was at 19.41 percent meaning that investors received almost a 20 percent return on their investment. (“TIF-Key Ratios”)

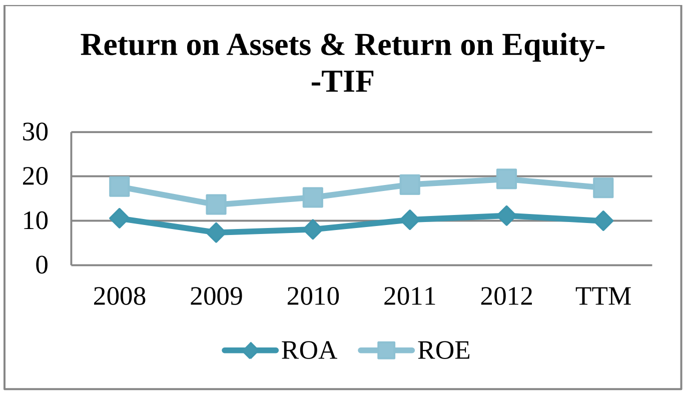

Figure 38: Return on Assets & Return on Equity--TIF: Morningstar

Market Value Ratios

With a P/E ratio at 21.20, investors are willing to pay $21.20 for $1.00 of TIF's current earnings.

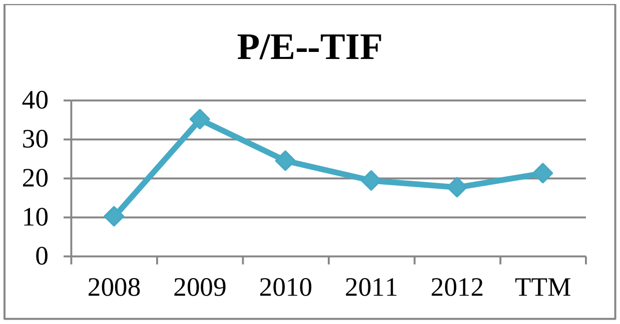

Figure 39: P/E--TIF: Morningstar

Although less than the industry's, TIF has a relatively high P/E compared to the other companies analyzed, meaning that investors are expecting to receive higher earnings in the future from TIF. ("TIF-Key Ratios")

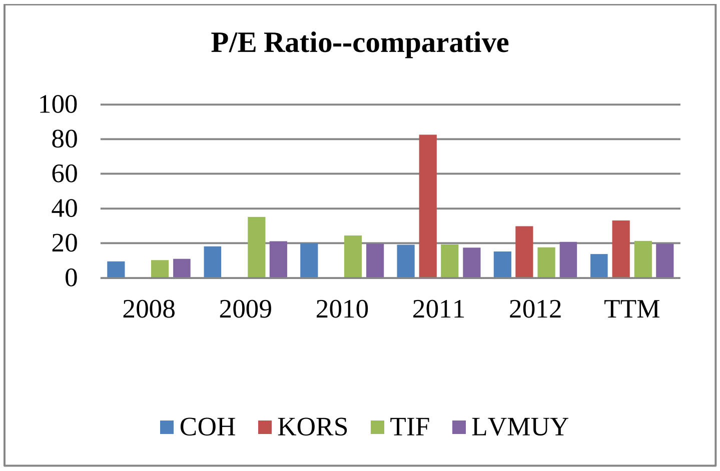

Figure 40: P/E Ratio—Comparative: Morningstar

At 30.6, TIF has a strong Price to Cash Flows which is about twice strong as the Industry's ratio. The ratio shows that TIF is a financially sound and stable company with cash to allocate to new product development as well as expansion into global markets. ("TIF-Key Ratios")

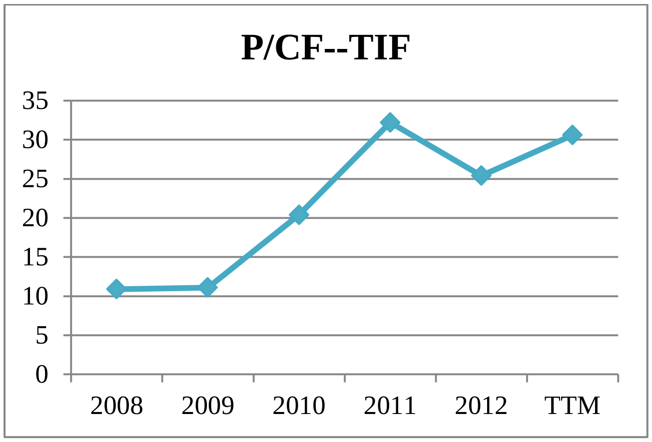

Figure 41: P/CF--TIF: Morningstar

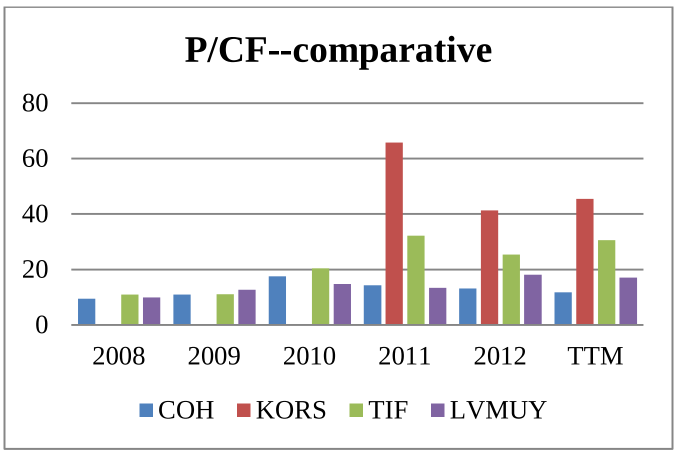

Figure 42: P/CF--Comparative

Efficiency Ratios

Inventory turnover is quite low at .81 in 2012 and an even lower turnover ratio for the TTM of .73. Due to the decline in purchasing power, fewer consumers have been making expensive gift or purchases for themselves, but as recovery continues and mature markets recover, inventory should increase as well. (“TIF-Key Ratios”)

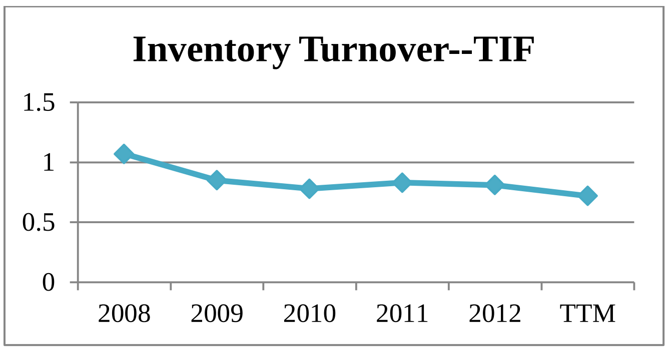

Figure 43: Inventory Turnover--TIF: Morningstar

With credit tightening, days sales outstanding is improving and Tiffany is receiving their accounts receivable sooner from 22.54 days in 2008 to 18.54 days in 2012 and 16.12 days for the TTM. Shortening the number of days is crucial so TIF can reinvest and grow the company. (“TIF-Key Ratios”)

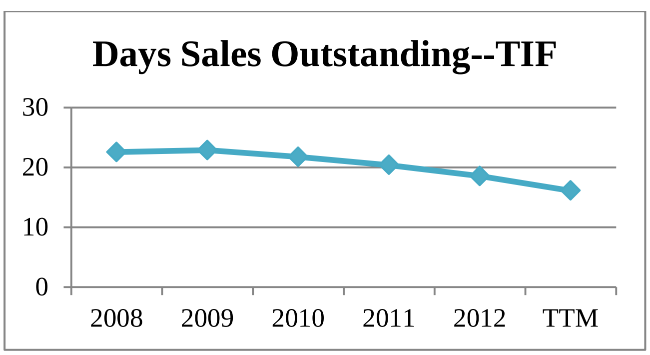

Figure 44: Days Sales Outstanding--TIF: Morningstar

Technical Analysis

At the end of February, the short term EMA 50, crossed back up over the EMA 200 which with time could signal a positive trend for TIF. Previously, the EMA 50 had been below the 200 but prices were still above the trend line, indicating a bullish market, with one notable exception during November and December of 2012. TIF released an unimpressed earnings report and didn't meet many of their targets this past holiday season. A dip in RSI concurrent with the low earnings released in November and December but went back up to about 60 where it has maintained its average since. The MACD line is indicating a buy signal because it is above the signal line consistently and appears to be fairly stable at that level. ("Technical Analysis")

Figure 45: Technical Analysis-- TIF: Bigcharts.com

LVMH Moet Hennessy Company Profile

The global luxury goods leading conglomerate of companies, Louis Vuitton Moet Hennessy (LVMH), maintains a portfolio of over sixty different brands and all of which are able to achieve leadership and pricing power within their respective product groups. Founded in 1854 in Paris, LVMUY is facing the maturity stage in the lifecycle but also is in the acquisition stage for luxury goods investments. There are five main segments of LVMUY including 1) fashion and leather goods; 2) wines and spirits; 3) perfumes and cosmetics; 4) watches and jewelry; and 5) selective retailing. Operating over 3,400 stores worldwide, there are six main areas that produce a significant amount of revenue for LVMUY in 2012: 28 percent of revenues from Asia (excluding Japan), 23 percent from the United States, 20 percent from Europe (excluding France), 11 percent from France, 10 percent from other markets, and 8 percent from Japan. (Arnault)

SWOT Analysis

Strengths	Weaknesses
• Present in every sector of luxury goods industry: diversified product lines • Good geographical balance of revenue • World's leading luxury goods conglomerate • Pricing power due to the well established brands	• Facing mature growth stage • Perfume and cosmetics are the largest of the mix and those categories offer the lowest amount of future growth • Bulk of production in Europe
Opportunities	**Threats**
• Increased consumption by power females • New product development • Focused retailing on emerging markets	• Geo-political events could impact travel • Chinese preferences changing • Hard exposure to foreign exchange risk

Table 4: SWOT Analysis--LVMUY

Strategic Growth Plans and Initiatives

LVMUY has been planning and expanding since its founding but over a longer time frame than most other luxury companies. Although quite diversified as to geographic locations already, there is still room for expansion within the emerging markets. LVMUY is mainly focused on its expansion of product lines and brands. The brands in the portfolio are what allow LVMUY brands to enjoy premium pricing power and the ability to maintain its competitive advantage. ("LVMH-Stock Report")

Company Performance

Despite barely negative growth in 2009, LVMUY has been growing each year but at a decreasing rate. LVMH offers attractive returns: in 2011 of 16.34 percent and a TTM of 11.30 percent. Net income has been volatile from year to year. After losing 14.88 percent in 2009, LVMUY grew by 68.20 percent in 2010 and then only by 4.40 percent the following year and is about 12.38 percent for TTM. ("LVMH") Cash and liquidity for this company are quite high as well. As of June 2012, LVMUY had $3,355.29 million of cash on hand which allows for the large acquisitions, like Bulgari.

Stock Performance

On March 13th, 2013, LVMUY closed at $35.23 near its 52-week high of $38.47 (low of $26.43) with 2.50 billion shares outstanding. ("LVMH") S&P gave LVMUY a credit rating of an A and a Quality Ranking of A as well recognizing its strong financial foundation. LVMUY has a similar beta to the market of 1.10; so slightly more volatile but it can also offer greater returns. LVMUY recently increased its dividend to $3.79 and will be announced at the next shareholder's meeting. ("LVMH-Stock Report")

Figure 46: Stock Price 5 years--LVMUY: Yahoo Finance

Comparatively, LVMUY has performed the worst over the past year except for COH prices. LVMUY has a positive growth outlook for the future though so should recover in price.

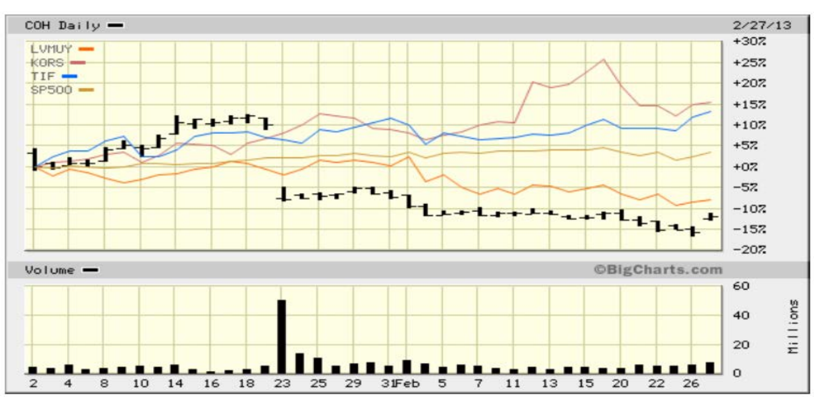

Figure 47: YTD Stock Price Comparison: Bigcharts.com

Ratio Analysis

Short Term Liquidity

Current Ratio for LVMUY at TTM is at 1.4. Current liabilities could be paid 1.4 times by current assets. The current ratio has been on a slight decline since 2008 but is still at a safe level for this industry. ("LVMUY-Key Ratios")

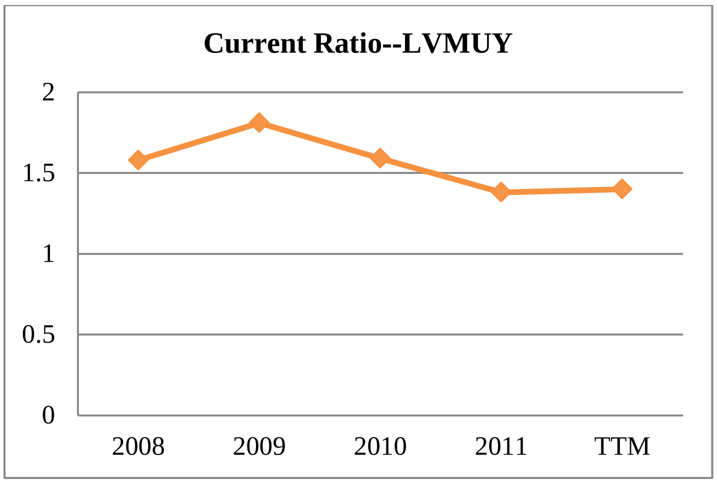

Figure 48: Current Ratio--LVMUY: Morningstar

Asset Management

The fixed asset turnover for TTM is 3.46 and has been increasing from 2.99 in 2008. Although LVMUY has a large number of fixed assets, it is consistently generating more revenue from those assets.

Total asset turnover for the TTM was .56 without much volatility over the years meaning that LVMUY isn't really improving their revenue from increasing total assets. ("LVMUY-Key Ratios") This is especially important when it comes to LVMUY and its acquisition purchases. Management needs to be focused on the value added to the overall portfolio.

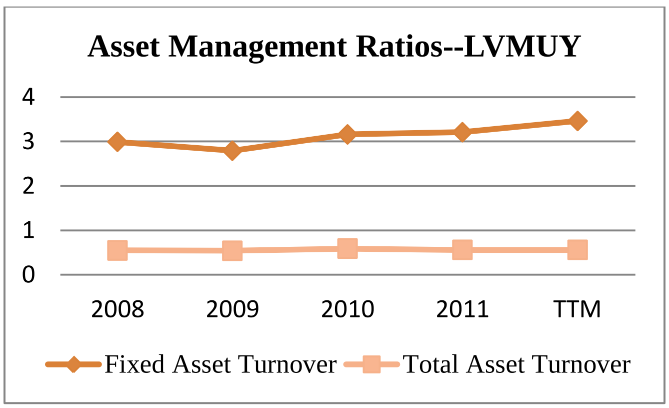

Figure 49: Asset Management Ratios--LVMUY: Morningstar

Debt Management

The debt to equity ratio for LVMUY has dropped to .17 for the TTM. LVMUY is financing less of its assets with debt than in previous years. This helps LVMUY to add stability to its earnings. (“LVMUY-Key Ratios")

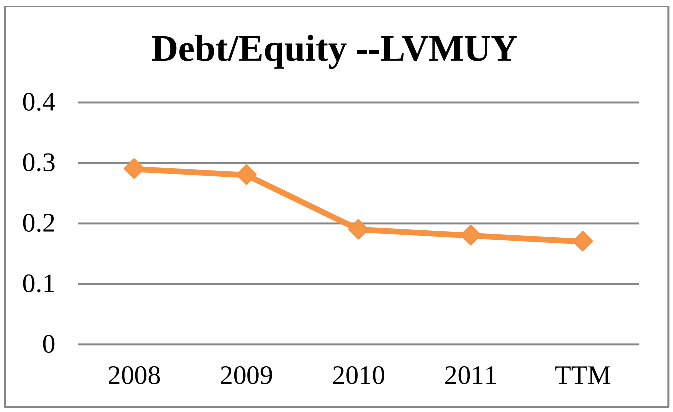

Figure 50: D/E Ratio--LVMUY: Morningstar

Comparatively speaking, LVMUY has a lower debt to equity ratio than only TIF and the industry as a whole but at 0.2 still maintains a healthy ratio with enough debt to leverage projects but also a low enough amount to receive an A credit rating.

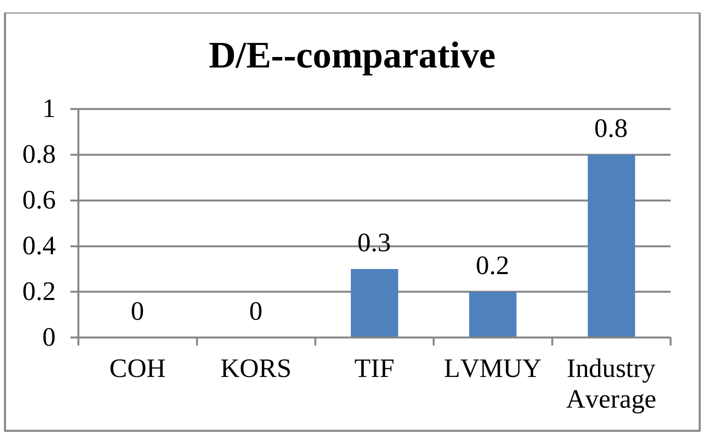

Figure 51: D/E Comparison

Profitability Ratios

Staying fairly constant, profit margin for LVMUY ranges from 10 percent-15 percent which is a good range for this industry. In 2012, LVMUY had a profit margin of 12.11 percent which is a little less than average comparatively but its margin supports a solid dividend and still leaves profit for reinvestment. ("LVMH-Stock Report")

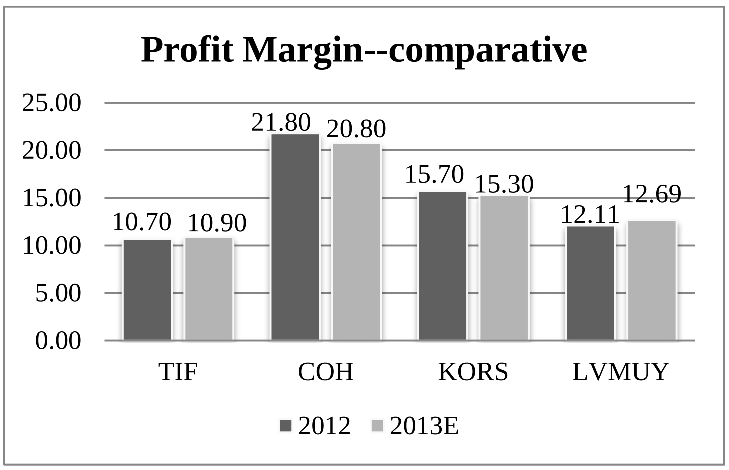

Figure 52: Profit Margin--Comparative

Return on Assets for LVMUY has been slightly volatile over the past 5 years increasing and then decreasing and then repeating. The TTM is 7.33 percent for ROA. (“LVMUY-Key Ratios”)

Following a similar pattern to ROA, ROE is also fluctuating up and down. Investors, for the TTM, earned 14.97 percent on their investment in LVMUY. (“LVMUY-Key Ratios”)

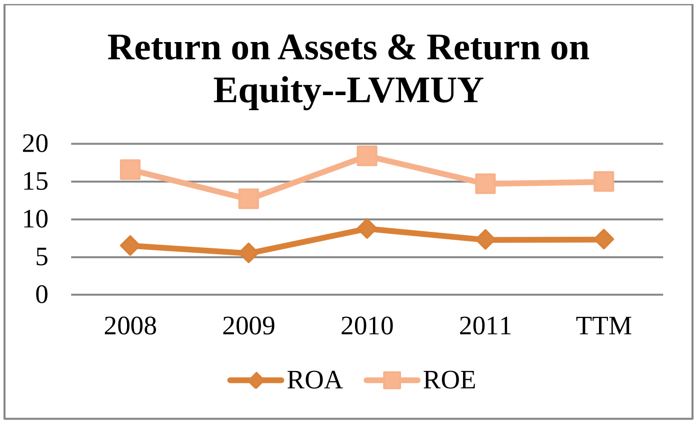

Figure 53: Return on Assets & Return on Equity- LVMUY

Market Value Ratios

Currently LVMUY has a P/E multiple of 19.7. This implies that investors are willing to pay $19.70 for $1.00 of current earnings. Comparatively, which is most important for the P/E ratio, LVMUY is not the highest so investors believe that KORS, TIF, and the industry itself will have a stronger earnings growth. (“LVMUY-Key Ratios”)

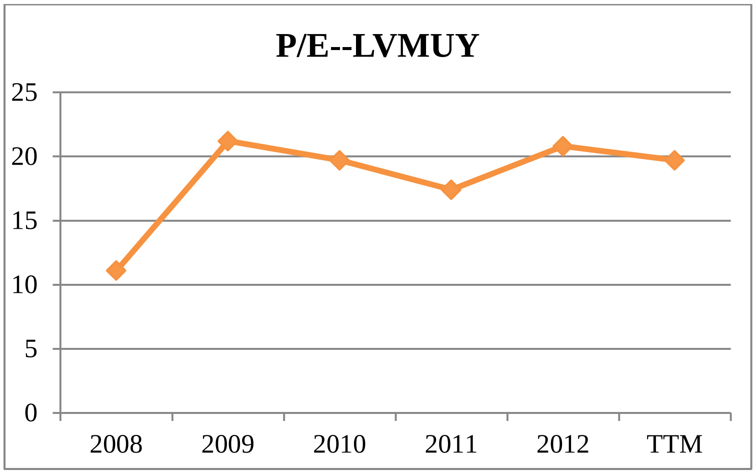

Figure 54: P/E--LVMUY: Morningstar

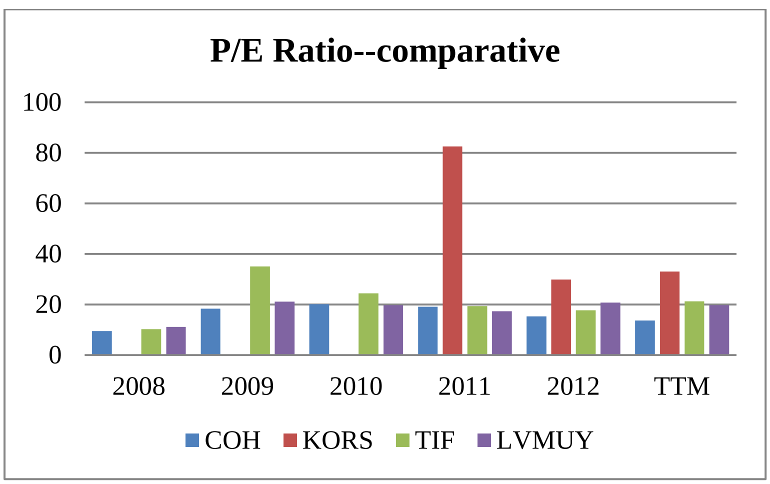

Figure 55: P/E Comparative: Morningstar

LVMUY shows a P/CF of 17.1 which is higher than the industry and the overall market. LVMUY has strong cash flow which is especially important in this industry and during this unstable economic period cash is a necessity in order to pay off debt as well as finance new operations like expansion and growth. (“LVMUY-Key Ratios”)

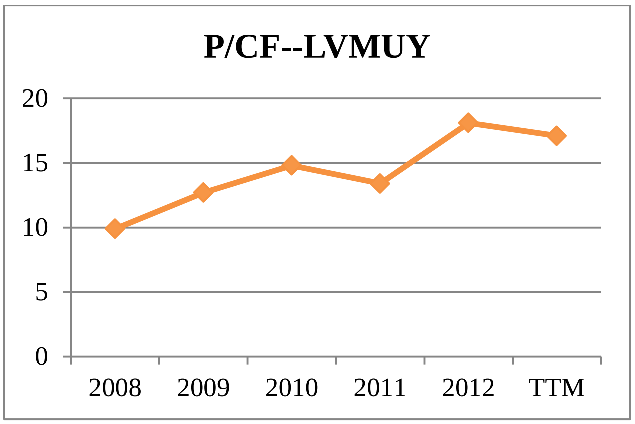

Figure 56: P/CF--LVMUY: Morningstar

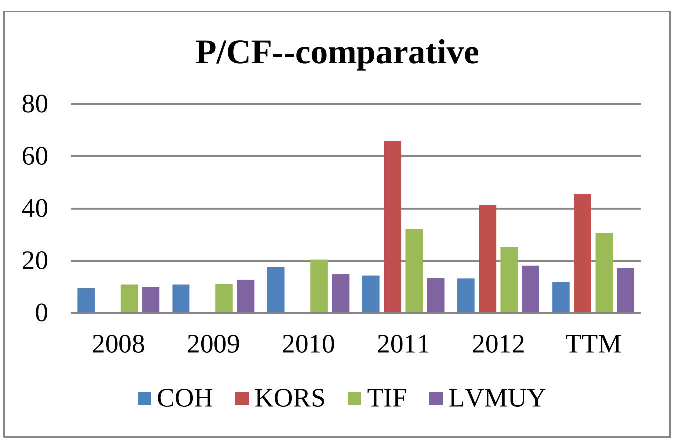

Figure 57: P/CF--Comparison: Morningstar

Efficiency Ratios

Inventory turnover has slightly slowed for LVMH from 1.23 in 2010 to 1.19 for TTM probably due to the 2 percent increase in payroll tax leaving consumers with less disposable income. (“LVMUY-Key Ratios”)

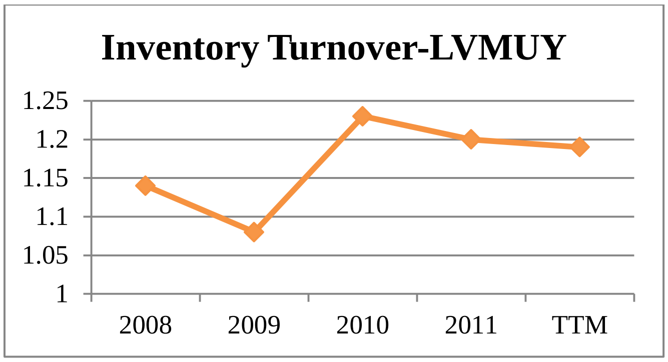

Figure 58: Inventory Turnover—LVMUY: Morningstar

The days sales outstanding, on the other hand, is decreasing every year which means LVMUY is shortening the amount of time to receive payment from their customers so they are able to reinvest that money back into the company sooner and increase profitability. TTM for Days Sales Outstanding is at 20.65 days which is significantly faster than the 34.45 days to collect back in 2008. (“LVMUY-Key Ratios”)

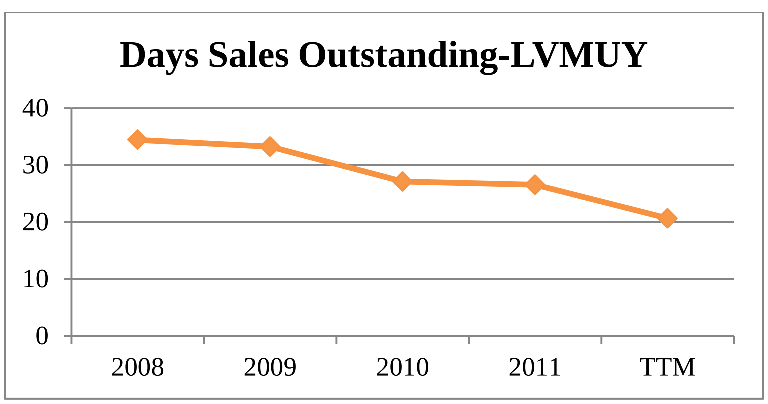

Figure 59: Days Sales Outstanding--LVMUY: Morningstar

Technical Analysis

Prices of LVMUY seem to be fairly volatile, not completely nor consistently trending above or below the EMA50 or EMA 200. Prices are now below the EMA 50 but still above the EMA 200 signaling that in the short term, LVMUY may see some decreases but is too soon to tell if LVMUY is entering a bearish market. Although the EMA 50 is above the EMA 200, it looks as if they are converging so there could possibly be some upward movement but not likely. The RSI almost reached 80 which would signal a strong buy back in the end of December but now has fallen below the 50 which would indicate a sell. Any upturn in the RSI could be an indication that it is time to buy again. The MACD lines also do not indicate a buy or sell signal currently but because the MACD (12, 26) line is currently below the MACD (9) line, but any crossing of lines could be a potential sign to buy. ("Technical Analysis")

Figure 60: Technical Analysis--LVMUY: Bigcharts.com

Projections

Projections for COH, KORS, TIF, and LVMUY are forecasted for 2013 and 2014 for the following: 1) Earnings Per Share 2) Stock Price 3) Sales/Revenue. All projections and earnings estimates are based on data gather from MSN Money as of March 11th, 2013 with one exception. LVMUY Earnings Per Share was taken from S&P Net Advantage and P/E from Value Line. Pessimistic and optimistic numbers were calculated as 10% below and above the most likely case for P/E because no projected data was available.

COH

According to MSN Money, EPS for 2013 is forecasted as $3.60 worst case, $3.72 most likely, and $3.90 best case scenario. In 2014 EPS is forecasted at $3.90 worst case, $4.14 most likely, and at $4.42 best case. EPS is projected to grow at 5.40% and 11.40% in 2013 and 2014 respectively, which is lower growth than the overall industry and lower than the S&P Index as well. As of March 11th, 2013, the current P/E multiple for COH was 13.5. Using the current P/E and projected EPS, projected stock price for the next two years including best case, most likely case, and worse case scenarios have been forecasted below. ("COH-Earnings")

Value Line projects COH to have sales in 2013 of $5,050 million and from 2015-2017 sales should reach $6,750 million. (Constanza)

2013	Pessimistic	Most Likely	Optimistic
EPS	$ 3.60	$ 3.72	$ 3.90
Stock Price	$ 48.60	$ 50.22	$ 52.65
2014	**Pessimistic**	**Most Likely**	**Optimistic**
EPS	$ 3.90	$ 4.14	$ 4.42
Stock Price	$ 52.65	$ 55.89	$ 59.67

Table 5: Forecasted Scenarios- EPS & Stock Price--COH: MSN Money

KORS

EPS was forecasted for 2013 and 2014 for pessimistic scenario at $1.81 and $1.95, most likely at $1.84 and $2.30, and optimistic scenarios at $1.88 and $2.60. (Morningstar) The growth rate of KORS for the short term is what makes it to be such an attractive investment. For 2013, KORS is expected to have explosive growth of 130.42% but then slow in 2014 to 26.82% which is still strong growth. Explosive numbers like 130% are not sustainable long term. The current P/E multiple of 33.2 was used to project estimated stock prices for the next two years below. (“KORS-Earnings”)

Sales are projected for 2013 to reach $2,450 million and by 2015-2017 sales growth will still be explosive and are projected to be at $4,235 million. (Patrikis)

2013	Pessimistic		Most Likely		Optimistic	
EPS	$	1.81	$	1.84	$	1.88
Stock Price	$	60.09	$	61.09	$	62.42
2014	**Pessimistic**		**Most Likely**		**Optimistic**	
EPS	$	1.95	$	2.30	$	2.60
Stock Price	$	64.74	$	76.36	$	86.32

Table 6: Forecasted Scenarios- EPS & Stock Price--KORS: MSN Money

TIF

EPS for 2013 and 2014 estimates are as follows: pessimistic is $3.20 and $3.37; most likely is $3.21 and $3.50; and optimistic cases are $3.22 and $3.84. Earnings are projected to grow at 6.29% for 2013 and then more rapidly in 2014 at 18.04%. Using a current P/E multiple of 21.7, stock price was projected for the next two years below. ("TIF-Earnings")

Sales for 2013 is projected to be at $4,070 million and from 2015-2017, sales will increase slightly to $5,500 million. TIF's sales in the short term are going to be slower than average but there is still optimism for longer term growth. (Hellman) "Copyright © (2013) Value Line, Inc. All Rights Reserved Worldwide. "Value Line" is a registered trademark of Value Line, Inc."

2013	Pessimistic	Most Likely	Optimistic
EPS	$ 3.20	$ 3.21	$ 3.22
Stock Price	$ 69.44	$ 69.66	$ 69.87
2014	**Pessimistic**	**Most Likely**	**Optimistic**
EPS	$ 3.37	$ 3.50	$ 3.84
Stock Price	$ 73.13	$ 75.95	$ 83.33

Table 7: Forecasted Scenarios- EPS & Stock Price--TIF: MSN Money

LVMUY

EPS for 2013 and 2014 were estimated to be respectively $2.49 and $2.62 after accounting for the divisor of 4 from LVMH to LVMUY, EPS are said to grow by 13 percent in 2013. No forecasted predictions were given for pessimistic and optimistic scenarios so we assumed 10 percent above and below the most likely case in order to project those earnings and found pessimistic in 2013 to be $2.24 and $2.36 in 2014. Optimistic EPS for 2013 was $2.74 and for 2014 is $2.88. A current P/E of 19.7 was used in calculating estimated future stock prices below. ("LVMH-Stock Report")

Value Line expects sales to grow around 8 percent over the next few years. In 2013, sales are projected at $39,208 million and in 2014 at $42,288. ("LVMH-Stock Report")

2013	Pessimistic	Most Likely	Optimistic
EPS	$ 2.24	$ 2.49	$ 2.74
Stock Price	$ 44.19	$ 49.10	$ 54.01
2014	**Pessimistic**	**Most Likely**	**Optimistic**
EPS	$ 2.36	$ 2.62	$ 2.88
Stock Price	$ 46.50	$ 51.66	$ 56.83

Table 8: Forecasted Scenarios- EPS & Stock Price--LVMUY: MSN Money

CHAPTER V: RECOMMENDATIONS

The luxury retail industry is said to have a positive outlook for the near and long term future. Most of the companies will offer returns greater than the market especially in 2013.

COH

Investors

STRONG BUY: It's believed that the COH stock is currently undervalued and to find a stock of this financial quality is so rare. COH should regain its price and then continue to grow with positive earnings projected for the future. With expansion in emerging markets and Europe and a renewed focus on a lifestyle brand in the home markets, COH should be able to regain its market price even though competitors like Michael Kors are continuing to grow quickly. COH is also in excellent financial health which aids its ability to grow. Shareholders earn a dividend of $1.20. Although complications may occur short term, COH has an extremely high return on equity.

Management

COH needs to rebrand and re-target in the United States and other mature markets. Focusing on the Legacy lifestyle brand but also its core competency, accessories as that is the segment that is appealing to consumers at this time. Ahead of the trend in the number of outlet stores, COH needs to be careful not to dilute its luxury status by offering coupons on already discounted merchandise which has severely devalued the brand. Continue to penetrate the emerging markets with a focus on China and expansion of men's shops. It is important to pay attention to Chinese preferences as they are shifting away from large visible logos.

<u>KORS</u>

Investors

BUY: If looking for a high growth company to invest in or if 130 percent return for 2013 sounds appealing, KORS is a solid investment. KORS should be able to maintain a moderate growth rate in the long term due to its financially sound foundation and availability of liquidity.

Management

Although, KORS exists in over 70 countries already, the emerging economies present untapped potential for a luxury lifestyle brand. That being said, diversification within the product lines will aid in the acceptance of KORS. Expanding the product mix is important but don't lose sight of what gives KORS the competitive advantage.

<u>TIF</u>

Investors

HOLD: With the volatility in the financial market as well as the diamond supply, it makes it difficult for TIF stock not to be sensitive and volatile as well. At least for the near term, growth is going to be slow and the forecasted stock price has a most likely scenario of a lower price than the current price. For the long run, the stock will do fine continuing to generate strong returns.

Management

The most critical factors that TIF management needs to consider are the importance of same-store sales growth in the Americas, e-commerce and international expansion, and new product development. Stores abroad offset the lack of sales in the Americas and Europe but it is critical not to forget about TIF's main market, the one in which that little blue box is engraved in the public's mind. With expansion in e-commerce as well as in emerging economies, new product development will be essential due to the diversity of the demands around the globe. Lastly, keep control of TIF's supply chain through the vertical integration in order to have more control over the diamond supply.

LVMUY

Investors

Buy/Hold. LVMUY is a financially strong company that is a safe investment that also pays a large dividend of $3.90. With such a broad geographical span, LVMUY limits its exposure and dependence on the demand and development of emerging markets. LVMUY also is extremely diversified within its product lines which lead to greater stability within the market as a whole.

Management

It is crucial that LVMUY management focuses on its competitive advantage: the brands. These brands need to be protected and continually improved. Such a diverse product mix makes it difficult to keep with the fast paced environment of the fashion industry. Acquiring additional high quality brands that add to the portfolio is essential as time passes, but it is also important to focus on the return that will be added from the acquisition. International expansion will be imperative in the future, especially within the emerging economies.

CHAPTER VI: CONCULSIONS

The luxury retail industry has remained quite healthy and attractive despite the macroeconomic and financial headwinds the world is currently facing. Although some sectors will grow slower than others, the luxury retail industry as a whole, is projected to grow in the future, short term and especially long term. Fashion is an industry that is constantly changing and that requires strong cash flows, extremely low levels of debt, and high profit margins. Companies in the luxury retail industry generally will make for an attractive investment even in times of recession or recovery.

APPENDIX A: GENERAL RATIO DESCRIPTIONS

General Ratio Descriptions

Short Term Liquidity

The current ratio measures a company's ability to meet its short term financial obligations by using short term assets. It is calculated by dividing current assets by current liabilities. A higher ratio shows a strong ability to meet short term debt obligations. A ratio less than 1 signals that the company would be unable to pay off its liabilities with its short term assets if they were now due. This could imply issues with receivables or long inventory turnover which can lead to liquidity problems.

Asset Management

Assets produce revenue but also cost the company money as well. Therefore, assets may be thought of as a percentage of sales. The correct mix of assets must be found in order to avoid wasting money by having too many assets or limiting profitability by having too few assets.

Fixed Asset Turnover measures the company's ability to generate sales from its investments in fixed assets such as plant, property, and equipment. The higher the ratio the better, meaning the company is being more effective in using their fixed assets to generate sales.

Total Asset Turnover focuses on all assets and how much $1 worth of assets generates in sales. A high total asset turnover could signal efficiency at using assets to generate revenue or indicates a strong pricing strategy. Companies with low profit margins tend to have high asset turnover.

Debt Management

Financing projects and assets with debt can provide leverage to a company and can, increase the value and rate of return, but if not carefully monitored debt can increasingly become a problem which would affect credit availability and also would result in less liquidity.

The debt to equity ratio shows the company's financial leverage and is calculated by dividing total liabilities by total shareholder's equity. This ratio indicated the proportion of debt and equity that the company is using in order to finance its assets. A high debt to equity ratio means that a company is financing most of its assets with debt which could lead to volatile earnings. D/E ratios are extremely dependent on the particular industry. In the luxury goods industry, because it is so volatile, it is crucial that companies in this industry maintain extremely low levels of debt.

Profitability Ratios

Profitability ratios are crucial to a company's success and appeal to stockholders. They show how well management is doing in order to earn profits. These ratios are not only important to the company internally but externally as well. Investors won't invest in a stock that does not offer competitive returns. Profit can be looked at as a percentage of sales, total assets, and total equity.

Profit Margin measures how much a company actually earns from every dollar acquired in sales. This margin is the amount that is left over for re-investment, how much in dividends that can be allocated to investors, or both. Profit Margin is found by dividing net income by sales. A higher profit margin relative to competitors signals a more profitable company that has greater control over its costs.

Return on assets looks at profit as a percentage of assets showing how efficient a company is at using its assets to generate profit and earnings. This is found by dividing net income by total assets. The higher the ratio the better because that would mean that they are earning more money with less investment in assets.

Return on equity measures the profitability of a company by showing how much profit a company makes from the amount of money that shareholders have invested. ROE is calculated by dividing net income by shareholder's equity and represents how much of a return shareholders are receiving on their investment in that stock. ROE is extremely important for investors so managers often focus on this return in order to make the stock seem more attractive.

Market Value Ratios

Market value ratios are used by a company in order to assess investor's opinions about the company's past performance and are also an easy way to identify areas of weakness. If all of the company's market value ratios are strong, it would be reflected in a strong and upward trending stock price.

Price to earnings ratio shows how much investors are willing to pay per dollar of current earnings. Anticipation of strong growth from investors will lead to a higher P/E multiple because they are expecting to receiving higher earnings in the future relative to other companies.

Price to Cash Flows provides a measure of the market's expectations for a firm's future financial health. Cash flows need to be strong in order to pay obligations, expand operations, and more. It is calculated by dividing share price by cash flow per share price. Like the P/E ratio, P/CF is a relative measure meaning that it is relative to other companies, an index, or historical measures.

Efficiency Ratios

For certain industries, specifically the retail industry, inventory is the key factor in the success of the company. Having the proper amount of merchandise and the right moment is a critical factor. Inventory is what generates sales for retailers so therefore inventory is a retailers' most valuable asset.

Inventory turnover shows how many times a company must replace its inventory, because it's sold, over a certain period of time. It is found by dividing sales by inventory. A low turnover signals poor sales which leads to excessive inventory or could signal too much inventory and capital is wasted because unused inventory has a return of 0. A high inventory turnover ratio could signal either strong sales or also ineffective buying procedures in which not enough inventory is bought.

Days sales outstanding is another ratio that is important in the luxury goods industry. It measures the amount of time it takes a company to collect its payment after a sale. Due to the importance of liquidity and cash within a business, it is necessary and important to collect outstanding payments as fast as possible so it will be reinvested in the company and produce additional profits. DSO is found by dividing accounts receivable by the total number of credit sales and then multiplying that by the number of days. A low DSO implies that it takes the company fewer days to collect its accounts receivable. A high DSO means that the company is selling more of its products to the customer on credit and is taking longer to collect the money which has an impact on liquidity.

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