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# *Comparative Analysis of the Investment Value of the Apparel Companies*

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***Abstract:*** This article focuses on the business situation and financial solution of four top performers in the apparel industry, in order to select the most valuable companies for investment. In the academic field, this paper proposes the optimal investment term by analyzing specific financial ratios, and also provides new ideas for subsequent research to solve the investment decision problem. In the application field, this paper provides a reference option for the real investment community, especially in the field of fashion and apparel. The data in this paper are all from the annual financial statements disclosed by the companies, and computer software such as excel is used to compare and analyze them. Ultimately, this paper has obtained a top apparel company to invest in, which has demonstrated significant strengths in numerous financial indicators. This shows that the development potential and market value of this enterprise is more excellent compared to its competitors.

***Keywords:*** Apparel industry, Financial analysis, Investment.

## 1. Introduction

### 1.1. Research Background and Significance

As a member of the traditional manufacturing industry, the apparel industry has experienced a shift from high production and low value-added to high quality and individuation in different countries. Developed countries are at a more advanced stage, while developing countries are at a more nascent stage. Therefore, the products in the apparel industry have shown a trend of individuation and customization, especially in the USA. At the same time, the development of the e-commerce industry and online shopping has led to apparel brands turning to the integration of online and offline. This has brought opportunities for the whole industry to develop, as well as risks and challenges. As one of the core competitiveness of the apparel industry, the role of brand is also getting stronger and stronger. Therefore, it is undoubtedly of great value to study the market potential and investment value of companies belonging to apparel brands.

The contemporary U.S. textile and apparel industry faces significant challenges as the number of imported goods entering the American market continues to increase [1]. Comparative advantage seems to have doomed the American apparel industry. Apparel is a labor-intensive industry. Yet capital per employee in the U.S. is much lower than in some developing countries, which directly contributes to the stunted growth of the apparel industry. The apparel industry is also facing major changes. The rise of social media and e-commerce live streaming has directly led to changes in the

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macro environment of the apparel market. Product update speed is faster while single product sales cycle and explosive cycle are greatly shortened. Consumers are more interested in original products or products with more innovative elements. In order not to be eliminated by the market, the brand has to increase development efforts and improve the speed of development. In the process of rapid product turnover, it may also lead to brand style inconsistency or departure from the original intention of the brand design. This may eventually lead to a decline in brand credibility and customer loyalty.

However, the comparative advantage of the apparel manufacturing industry does not depend entirely on labor costs. The U.S. apparel industry has a number of offsetting advantages - lower transportation costs, faster supply times, closer proximity to fashion and design centers, and a greater ability to respond quickly to changing market demands [2]. The United States, as a major fashion consumer, has an annual per capita fashion consumption of 1,123 U.S. dollars, which is nearly five times the global annual per capita fashion consumption [3]. Although fashion clothing brands were hit by a big impact during the new crown epidemic, they still have a great potential for development.

The research significance of this paper is mainly reflected in the value of the methodology for academic research and the value of the research conclusions as a guide for practical investment. Its research process can not only be applied in the field of clothing, but also can be extended to other fields.

### 1.2. Literature Review

With the rapid development of the stock market, the study of the intrinsic value of stocks has been the focus of both academics and investors. In the stock market, investors often rely on the data published by listed companies to understand the company's operating conditions, so as to judge the company's intrinsic value and future development prospects [4]. Zhang Jingwen used the hierarchical analysis method to study the intrinsic value of China's high-end liquor stocks by taking Guizhou Moutai Liquor Company Limited, Wuliangye Group Company Limited, Luzhou Laojiao Company Limited, and Jiangsu Yanghe Winery Company Limited as examples, and put forward the corresponding investment decisions [5]. Yang Gangqi showed that return on net assets, shareholders' equity turnover, cash ratio of operating income is positively correlated with stock returns, while the first two indicators can effectively explain stock returns, and the cash ratio of operating income is not significant; beta coefficients, company size, and company growth have a negative effect on stock returns [6]. It is believed that this study is of reference significance for investors to improve their investment decision-making level and listed companies to carry out value management. When making choices, investors should firstly consider the relationship between the intrinsic value of a company and its stock price, and secondly, they should study the real-time changes in intrinsic value and stock price of listed companies in the banking industry, and analyze them by using relative valuation methods, including price-earnings ratio, price-net ratio, and price-sales ratio [7]. In the perspective of investment decision-making, there are more calculations and studies carried out in depth in a certain perspective. The literature for a specific practice area to carry out a specific analysis is less, and there is almost no investment analysis of enterprises in the field of clothing. Therefore, this paper carries out financial analysis for four apparel companies to get the most investment value of a company.

The United States remains the world's largest consumer market for apparel. According to Statista's forecast, the U.S. apparel market revenue will reach 343.7 billion U.S. dollars in 2023, accounting for 19.75% of the global share; per capita sales will reach 23.96 pieces [8]. Diversification of sales models has become an irreversible trend in the apparel industry, and traditional apparel brands are facing equally great challenges in such an industry environment. The growth of the global economy and the changing needs of consumers have had a far-reaching impact on the apparel industry, while technological innovations have also brought new opportunities for the apparel industry [9]. In the future, the apparel industry will develop in a more diversified, intelligent and sustainable direction.

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Therefore, the research on the stock investment of apparel enterprises also has strong practical significance and value [10].

### 1.3. Research Contents

First, this paper selects four fashion apparel brands from the apparel sector that are popular among consumers. Secondly, the companies behind the brands are identified and their disclosed financial statements for all the years are comparatively analyzed. Finally, important data is extracted and ratios measuring different aspects of the company's risk and capability are calculated to arrive at the conclusion.

## 2. Background of Companies

All four companies analyzed in this article are top performers in the apparel business. Gap is one of the largest apparel companies in the United States, founded in 1969. Its product line includes several categories such as apparel, shoes, and accessories, covering different markets such as men, women, and children. The product styles are simple and fashionable, meeting the aesthetic needs of young people, and attracting the target audience through low- to mid-range pricing. Ralph Lauren is an "American classic" brand in the fashion industry, with a strong American flavor, highly stylized style and high taste fashion brand. Founded in 1968, Ralph Lauren has always had a unique philosophy that combines luxury, elegance and timelessness in its style. Levi's is a representative of the American spirit, with a clear symbolic meaning, but also represents a kind of "independence", "freedom", "adventure" and "sexy". Levi's is the most representative jeans brand in the world, founded in 1853, and has even become part of American history. Giles is a clothing brand that was founded in 1081 and was one of the first to make denim clothing. The tone of Giles' designs has always had a western flavor. In the presentation of texture, Giles shows a comfortable, natural and adventurous sense of ruggedness. With the change in fashion, urban elements such as fit and simplicity, and sexiness have gradually entered the brand's designs.

Table 1: Basic information of companies

| Company | Gap Inc (GPS) | Ralph Lauren Corporation (RL) | Levi Strauss & Co (LEVI) | Guess Inc (GES) |
|---|---|---|---|---|
| Year of incorporation | 1969 | 1967 | 1853 | 1981 |
| Market Cap | 7,974,491,939 | 10,642,326,563 | 8,410,357,672 | 1,394,908,200 |
| Main Products | jeans/T-shirt/ hoodie | tie/shoes/ bag/perfume | jeans/shirt/ jacket/shorts | jeans/shoes/ timepiece |
| Industry | fashion and clothing industry | | | |

The apparel industry is also facing major changes. The rise of social media and e-commerce live streaming has directly led to changes in the macro environment of the apparel market. Product update speed is faster while single product sales cycle and explosive cycle are greatly shortened. Consumers are more interested in original products or products with more innovative elements. In order not to be eliminated by the market, the brand has to increase development efforts and improve the speed of development. In the process of rapid product turnover, it may also lead to brand style inconsistency

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or departure from the original intention of the brand design. This may eventually lead to a decline in brand credibility and customer loyalty.

## 3. Comparative Analysis

First of all, P/E is one of the most important figures in the financial analysis of a company. If a stock's P/E is higher than that of its peers, it proves that the market believes that the stock is likely to be profitable in the future, which will add points to the decision to buy it. However, if the P/E ratio deviates significantly from the industry average, it could mean that the company's P/E value is not informative at this point in time. Between 2023 and 2024, Gap's P/E ratio is expected to remain stable, falling from 14.04 to 14.45. Ralph Lauren's P/E ratio is likely to fall by 2.5 compared to this year's 17.15. Similarly, Levi's P/E ratio is likely to see a more pronounced decline, falling from 20.64 to 15.71. In contrast, Giles' P/E is projected to rise by 1.64 from 8.40.

Table 2: Financial Ratios Comparative Analysis

| | **Gap Inc** | **Ralph Lauren** | **Levi Strauss & Co** | **Guess Inc** |
|---|---|---|---|---|
| Ticker symbol | GPS | RL | LEVI | GES |
| Share price | \$20.08 | \$163.11 | \$21.05 | \$26.45 |
| TTM EPS | 1.43 | 9.51 | 1.02 | 3.15 |
| NTM EPS | 1.39 | 11.13 | 1.34 | 2.86 |
| EPS growth rate | -2.8% | 17.0% | 31.4% | -9.21% |
| Revenue growth rate | -0.5% | 3.6% | 6.8% | 12.39% |
| TTM P/E | 14.04 | 17.15 | 20.64 | 8.40 |
| NTM P/E | 14.45 | 14.65 | 15.71 | 10.04 (until 2024/4/19) |
| PEG | (5.02) | 1.01 | 0.66 | (0.91) |
| GP/A | 52.3% | 61.4% | 58.1% | 47.2% |

Regarding the expected EPS growth rate, the higher the better, of course, as Ralph Lauren and Levi Strauss both have positive growth rates of 17.0% and 31.4%, respectively, while Gap and Guess have negative growth rates of -2.8% and -9.21%, respectively. However, Gap and Guess have negative growth rates of -2.8% and -9.21% respectively, and Ralph Lauren, Levi Strauss and Levi Strauss have higher positive gross revenue growth expectations (3.6% and 6.8%) on this basis. Gross revenue growth expectations represent a company's ability to capture revenue, and the higher the percentage, the better. guess, while the worst performer in terms of expected earnings per share growth, has the highest expected gross revenue growth at 12.39%. gap performs poorly on both fronts, other than its stock price, which is slightly ahead of its peers. From this perspective, this article probably wouldn't pick Gap as an investment for now.

PEG is the ratio of P/E to expected earnings growth and is one of the most important tools used to determine whether a stock is overvalued or undervalued. When PEG is less than 1, it means that the stock price is lower than the expected earnings growth and the stock is undervalued. This usually means that the stock has more upside and is a buying opportunity. When PEG is equal to 1, it means that the stock price is in line with expected earnings growth and the stock is reasonably valued. This is a safe zone to hold. When PEG is more than 2, it means that the stock price is higher than the expected earnings growth and the stock is at risk of being overvalued. At this point, sell or reduce the

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stock to avoid the risk. In addition, the PEG ratios of stocks in the same industry can be used as a benchmark, as stocks with lower PEG ratios are more attractively valued; Ralph Lauren and Guess have similar PEG ratios (1.01 and 0.91), and Levi Strauss is not far behind with a PEG ratio of 0.66. The data suggests that the company is undervalued by the market, making it a relatively good investment. Gap's PEG ratio is only -5.02.

GP/A is the ratio of Gross Profit to Total Assets and is also one of the indicators of a company's profitability (the higher the better). The ratios of the four companies in descending order are Ralph Lauren (61.4%), Levi Strauss (58.1%), Gap (52.3%), and Guess (47.2%). By analyzing the comparison, Guess has a much lower GP/A than Gap, while the stock price is $6.37 higher than Gap. From this, this article can conclude not to invest in Gap for the time being.

Based on the gross and net margin figures for the quarter, it is also possible to validate the previous point that Ralph Lauren and Levi Strauss performed relatively well overall, with the difference between the two not being significant, while the other two companies that have been excluded showed significantly worse figures.

That leaves Ralph Lauren and Levi Strauss. By comparing the annual gross margins and annual net margins of the two companies, this article find that Levi Strauss has been more profitable than its competitors in recent years, especially in terms of earnings potential (see Figures 1-2). Therefore, Levi Strauss is the best stock to invest in at this time.

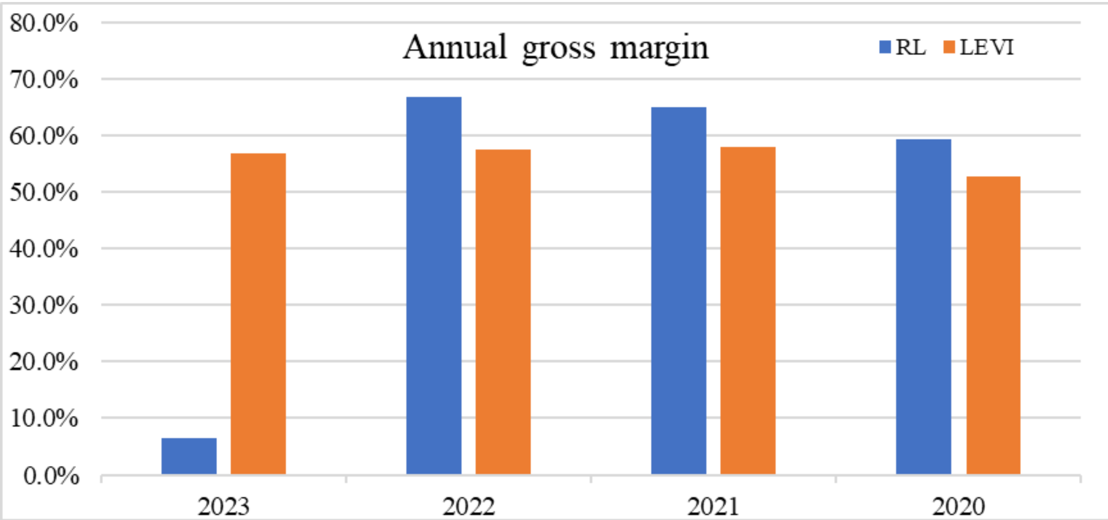


Figure 1: Annual gross margin

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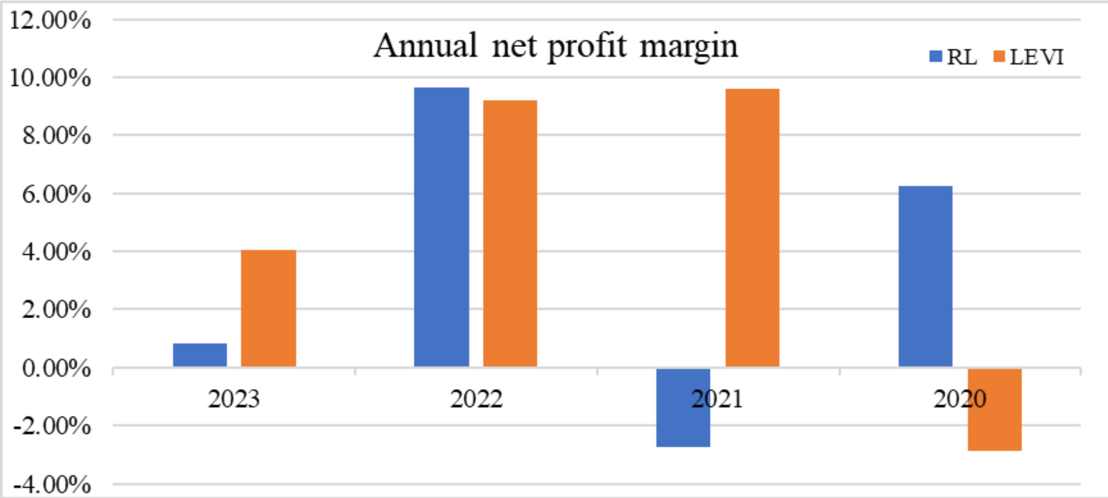


Figure 2: Annual net profit margin

## 4. Suggestion

Leverage Technology for Innovation. Utilizing advanced technologies such as 3D printing, AI for design and inventory management, and VR for virtual fitting rooms can streamline operations and create a more engaging customer experience. These innovations can reduce waste and improve efficiency.

Enhance Online Presence. The surge in online shopping, accelerated by the COVID-19 pandemic, continues to impact consumer behavior. Developing a robust e-commerce platform, optimizing for mobile users, and utilizing social media for marketing and direct sales can vastly expand market reach and customer engagement.

Focus on Direct-to-Consumer Channels. By building direct relationships with consumers, brands can gather valuable data to better understand and predict consumer needs and preferences. This can lead to more effective product development and marketing strategies.

Adopt a Flexible Supply Chain. Flexibility in the supply chain allows brands to respond quickly to changes in consumer demand and external shocks. This could involve localizing certain production processes or maintaining more adaptive inventory systems.

## 5. Conclusion

The central question of this paper is how to select one of the top performers from four companies in the same industry to guide subsequent investments. The apparel sector is a manufacturing industry that has been developed for many years, and many companies have relatively mature business models as well as their own brands and reputations. Therefore, the four companies in the apparel sector have abundant data and stable business conditions for comparative research. In this paper, Levi Strauss is chosen among Gap, Ralph Lauren, Levi Strauss, and Guess because its financials offer the greatest potential for investment. The combined assessment of the profitability and robustness of the business is much higher than the other three competing businesses. The other companies in the industry should be revised against the financial indicators of Levi Strauss in order to gain more profit while ensuring a reasonable risk, thus gaining favor with the stock market.

There are many perspectives to evaluate an enterprise, brand perspective, business perspective, social benefit perspective and other aspects have different values accordingly. The research in this paper is only limited to the financial indicators and does not focus on the business strategy and management of the enterprises concerned, nor does it consider the different impacts of sudden events

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on different enterprises. The differences in the fields may also lead to changes in the overall level of data, as the level of profitability and profitability models of different fields are significantly different, which is not comparable. It is more worthwhile to generalize the research methodology used in this study, i.e., the process of calculation and comparative analysis in the financial point of view and drawing the corresponding conclusions. Future research can pay more attention to other fields other than the apparel field on this basis, and at the same time take some management factors and external environment into consideration, in order to obtain a more scientific investment program

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