Analysis of Investment Choices of Consumer Cyclical Sector in US

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Abstract. This paper presents a meticulous financial analysis of Tapestry, Inc., Capri Holdings Limited and Signet Jewelers Limited, three companies in the consumer cyclical industry. Each company's focus varies. The study attempts to give insights into these organizations' excellent investment strategies. The investigation includes an analysis of recent financial indicators for these companies, such as determining the meaning of various data, as well as an examination of asset selection challenges faced by nine distinct investor profiles, including Value, Income, PEG, Index, Ratio analysis, DCF, Momentum, Insider buying, and Stock buyback investors. They guide different types of investors to make appropriate investment choices. Using existing financial models, the study finds that Momentum and Insider Buying investors are likely to buy in all three equities. Additionally, Index and Ratio analysis investors are attracted to invest in Tapestry, Inc. The study conducted yields valuable insights that aid in the creation of customized investment strategies with the goal of maximizing financial profits in the consumer cyclical sector.

Keywords: Investments; risk; profitability; ratio.

1. Introduction

In the modern era, people not only save their money, but they also consider how the money will generate profits in the present and future. Saving money to make a profit is referred to as investing. Investments are an activity in which funds are kept by a person with the expectation that they would generate earnings now and that their fund will increase later [1]. The significance of investment is underscored by this demonstration. According to the Global Industry Classification Standard (GICS), this article will focus on the consumer cyclical sector. A cyclical industry is one that responds to domestic and international economic swings. It is often assumed that businesses with strong demand income elasticity, such as consumer products and durable goods production, are cyclical. Periodic industrial businesses are the primary components of the stock market, and fluctuations in the dynamic economic cycle cause their performance and share values to grow and decrease [2]. Three representative companies, including Tapestry, Inc., Capri Holdings Limited and Signet Jewelers Limited are chosen in this article. The primary focus of these three companies lies in the luxury goods of the industry, thus having the value of investing. The paper also analyzes in turn the financial performance of these three companies and the choices made by nine kinds of investors in the market based on them.

2. Profile of the Selected Companies

Tapestry, Inc.: The parent business of three prominent brands, Stuart Weitzman, Kate Spade New York, and Coach New York, is headquartered in New York City. The company was founded as Coach, Inc. and renamed as Tapestry on October 31, 2017. Most of these products are minor fashion accessories including shoes, purses, key chains, and other accessories. They are offered for sale on their own e-commerce sites, department stores, specialized shops, and retail locations. Furthermore, Tapestry is dedicated to corporate social responsibility and environmental programs throughout its whole business.

Capri Holdings Limited: It was originally known as Michael Kors Holdings Limited and is a global holding corporation for fashion. Founded by American designer Michael Kors in 1981, it currently serves as the parent company for Versace, Jimmy Choo, and Kors' own brand. The business offers purses, watches, clothing, shoes, and other items for sale. The firm operated more than 1,500 in-store shops and more than 550 locations across many nations in 2015.

Signet Jewelers Limited: It is now the biggest reseller of diamond jewelry in the world as of 2015. Founded in 1949, the group first expanded naturally before making several acquisitions in the late 1980s and early 1990s that led to a fast expansion. The Ratner Group was its previous name. It is the market leader in the US, Canada, and UK specialty jewelry marketplaces and operates in the medium market jewelry area. The upper middle market is home to a few brands, including Jarred in the US and H. Samuel/Ernest Jones/Leslie Davis in the UK. The businesses Blue Nile, Zales, Kay Jewelers, Jared, James Allen.com, and others are owned and run by Signet Jewelers.

3. Financial Indicators of the Companies

The financial indicators are derived from the financial accounts of each company, with the year 2024 serving as the time range that is defined for these financial statements.

3.1. Risk

While investing funds in a variety of assets, such as stocks, bonds, real estate, or other financial instruments, there is always the possibility of incurring a financial loss or experiencing unpleasant consequences. This is what is meant by the term “risk” [3]. A measure that is used to show a metric that portrays the comprehensive value that encompasses a company's outstanding shares inside the stock market is referred to as Market Cap. Beta is a statistic that demonstrates how the price of a certain stock tends to vary concerning moves in a broader market index. It is also known as the beta coefficient. The Total Debt Ratio is a financial metric that aims to assess the degree to which a company's total assets are financed by debt. This statistic provides significant insights into the extent to which a corporation employs leverage to facilitate its operational activities and investment pursuits. Related results are shown in the following Table 1.

Table 1. Risk

Risk	Market Cap	Beta	Total Debt Ratio
Tapestry, Inc.	10.831Billion	1.54	0.68
Capri Holdings Limited	5.34Billion	2.08	0.75
Signet Jewelers Limited	4.501Billion	2.18	0.66

According to the table, all of them are medium-sized companies with a market cap are between 2 billion and 10 billion. Even though Tapestry, Inc. exceeds the definition of market capitalization regarding mid-sized companies, it does not overdo it, and therefore it will still be judged as such.

The beta of Signet Jewelers Limited is the highest among the three companies. It is therefore the riskiest investment option. The beta of Capri Holdings Limited is 2.08, which is the average. Since Tapestry’s beta ratio is 1.54, the company carries the least amount of investment risk.

The total debt ratio of Tapestry and Signet Jewelers are quite similar. Tapestry is 0.68 and it is bigger than Signet Jewelers which is 0.66. The total debt ratio of Capri Holdings is the highest which is 0.75.

There is a basic intuition. Once debt becomes hazardous, further leverage comes at a cost. Shifting from inflated risk in equity securities to reasonably valued risk in debt raises the cost of capital. This cost is considerable for organizations with high-risk assets, even at moderate levels of leverage. For organizations with very low-risk assets, this cost remains modest until leverage increases [4].

3.2. Profitability

Profitability ratios are indicators of the company's overall efficiency. It is commonly used to calculate a company's earnings during a certain time period based on its sales, assets, capital employed, net worth, and earnings per share. They reflect a firm's earning capability and are used to assess its growth, performance, and control [5]. Total assets (TA) in this context denote the aggregate value of all valued resources possessed by a corporation or individual. The profit margin is a financial metric that quantifies the revenue-to-cost ratio. The financial indicator known as Return on Assets (ROA) is utilized to assess a company's capacity to generate earnings. Return on Equity (ROE) is a financial ratio that quantifies a company's profitability relative to the percentage of ownership held by its shareholders. Related results are shown in the following Table 2.

Table 2. Profitability

Profitability	Total Asset T/O	Profit Margin	ROA	ROE
Tapestry, Inc.	0.95	13.8%	13%	40.7%
Capri Holdings Limited	0.72	3.96%	2.9%	11.3%
Signet Jewelers Limited	1.21	5.18%	6.24%	18.5%

The profit margin of Tapestry is 13.8%, which is the highest among the three companies. Next up are Signet Jewelers and Capri Holdings, respectively, whose profit margins are 5.18% and 3.96%.

ROA of Tapestry is the greatest one, which is 13%. ROA of Signet Jewelers is 6.24%. ROA of Capri Holdings is 2.9%, which is the lowest one.

ROE of Tapestry is 40.7% which is the highest one. ROE of Signet Jewelers is 18.5%. ROE of Capri Holdings is 11.3% which is the smallest one.

When comparing all the data in the above table, Tapestry has the highest ROE primarily driven by a strong profit margin. Capri Holdings has a moderate profit margin and high asset turnover. Signet Jewelers has a balanced contribution from profit margin and asset turnover. To sum up, Tapestry is strong in profitability. Capri Holdings excels in asset turnover, contributing to a decent ROE. Signet Jewelers demonstrates a balanced performance across the components.

3.3. Market Ratio

Market ratio encompasses many ratios employed to assess a company's performance and market worth. Ratio analysis is a standard method of examining a company's financial statements. Using such method, the analyst can explain or show a company's positive and negative conditions or financial status [6].

Price-to-Earnings (PE) ratio is a kind of index used to assess the value of the companies. Price-to-Book (PB) ratio is a kind of book value. The dividend yield is a financial metric that measures the annual distribution of dividends that an investor may expect to receive from a particular stock investment relative to its current market value. Price/Earnings to Growth (PEG) ratio is a financial metric that assesses the relationship between a company's price-to-earnings (PE) ratio and its projected earnings growth rate. Discounted Cash Flow (DCF) is a valuation method used in finance to estimate the intrinsic value of an investment, such as a stock, bond, or company. Momentum (Mom) is a trading strategy when stocks rise or fall sharply. The column in question was not included in the table, however, the criteria are based on the 50-Day Moving Average and 200-Day Moving Average. Related results are shown in the following Table 3.

Table 3. Market Ratio

Market Ratio	PE	PB	Dividend Yield	PEG	DCF	50-Day Moving Average	200-Day Moving Average
Tapestry, Inc.	12.02	4.12	2.96%	2.3	-0.33	40.44	36.65
Capri Holdings Limited	24.1	2.79	N/A	0.89	N/A	48.68	46.15
Signet Jewelers Limited	12.05	2.9	0.91%	1.42	-0.01	101.37	101.10

All the companies are growth stocks because of the high PE and PB ratio. The dividend yield of both Tapestry and Signet Jewelers are lower than 3%, which is 2.96% and 0.91%. The same holds for their PEG ratios, both of which exceed 1, with values of 2.3 and 1.42 respectively. However, the PEG ratio of Capri Holdings is 0.89, which is lower than 1. The DCF of Capri Holdings is unknown, but the other two are both negative, specifically negative 0.33 and negative 0.01. All the 50-Day Moving Average of these three stocks is greater than the 200-Day Moving Average.

3.4. Insider Buying and Stock Buyback

Insider buying refers to the acquisition of shares in a corporation by an individual holding the position of director, officer, or executive within the organization. A buyback is when a corporation repurchases outstanding shares to lower the number of shares on the market while increasing the value of the remaining shares. They are justified in the economics and finance literature as the optimal use of firm capital when internal funding sources are exhausted (Edmans 2017). In recent years, firms have spent an increasing amount of money on stock buybacks. In 2018 alone, business executives announced intentions to spend more than $1 trillion on buybacks.1 Stock buybacks 2 are the practice of executives using business funds—whether borrowed or retained earnings—to repurchase shares of their own stock on the open market, lowering the number of available shares and increasing the price of remaining shares [7]. Related results are shown in the following Table 4.

Table 4. Insider Buying and Stock Buyback

	Tapestry, Inc.	Capri Holdings Limited	Signet Jewelers Limited
Insider Buying	0.30%	2.50%	3.19%
Stock Buyback	NO	YES	YES

Due to their market capitalization, insider buying has a bigger impact on them. However, only Capri Holdings and Signet Jewelers have stock buyback.

4. Asset Selection

This article examines the process of selecting nine distinct categories of investors for three specific stocks. Value investing refers to an investment approach wherein value investors engage in proactive efforts to identify stocks that they believe are being undervalued by the stock market, selecting equities based on their perceived trade price being lower than their book value. Income investing is a financial approach that focuses on constructing an investment portfolio with the explicit objective of generating consistent and recurring income. For this type of investors, they primarily look at the Dividend Yield. Growth investing is a financial approach and tactic that prioritizes the augmentation of an investor's money. Investors commonly allocate their investments towards growth stocks, which refer to young or tiny firms anticipated to see above-average profits growth relative to their industrial sector or the broader market. Consequently, the PEG ratio is the emphasized criteria and can be also called PEG investors. Indices provide the assessment of securities, actively managed funds, and investment portfolios in relation to the overall market performance, giving investors the ability to analyze their performance. Indexes serve as benchmark measurements, prompting investors to focus their attention on the S&P500 or Nasdaq 100. Five fundamental ratios are commonly employed to choose equities for investing portfolios, including Price-to-Earnings (PE) ratio, Price-to-Book (PB) ratio, Price/Earnings to Growth (PEG) ratio, Debt-to-equity and Return on Equity (ROE). Therefore, ratio investors will base their investment on these metrics. As illustrated in the part of market ratio, DCF investors and momentum investors will decide which stocks to invest in related to Discounted Cash Flow (DCF), 50-Day Moving Average and 200-Day Moving Average. The findings of this study are subsequently shown in the Table 5.

Table 5. Investing selection

Types of investors	Tapestry, Inc.	Capri Holdings Limited	Signet Jewelers Limited
Value			
Income			
PEG		√	
Index	√		
Ratio analysis	√		
DCF			
Momentum	√	√	√
Insider buying	√	√	√
Stock buyback		√	√

Consumer cyclicals are equities whose performance is significantly influenced by the business cycle and the economy. In finance, where multiple factors impact the market, making investment decisions becomes much more complicated [8].

Based on the study findings, it is evident that Value Invests would refrain from acquiring these three firms due to their elevated PE and PB ratios, indicating an overvaluation. Income investors will be uninterested in three firms since the dividend yield is less than 3%. PEG investors will buy Capri Holdings because its PEG ratio is the one which is only lower than 1 among these three stocks. Since merely Tapestry can be found in the US500, index investors will buy it instead of Capri Holdings and Signet Jewelers. Ratio analysis investors will buy Tapestry because of its greatest ROE. DCF investors will not invest in all of them since Tapestry and Signet Jewelers have negative DCFs, while Capri Holdings is unclear. As can be seen from the above paragraph, all the 50-Day Moving Average of these three stocks is greater than the 200-Day Moving Average, so the momentum investors will invest in them.

5. Conclusion

This paper conducts a detailed financial analysis of three companies: Tapestry, Inc., Capri Holdings Limited and Signet Jewelers Limited. Through an analysis of nine investor profiles' issues and a review of recent financial data, the research seeks to provide these firms with insightful investment recommendations. These profiles cover a wide range of techniques, including DCF, Momentum, Insider Buying, Value, Income, PEG, Index, and Ratio Analysis. The study reveals that Momentum and Insider Buying investors are inclined to invest in all three stocks. Furthermore, Index and Ratio analysis investors show a preference for Tapestry, Inc. The investigation yielded useful information that facilitated the development of tailored investment strategies and optimized returns.

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