

A Financial Comparative Analysis of Garment Enterprise

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Abstract. Under the environment of fast-growing economies, people start to learn more about the fundamental basis of our financial system. With people drawing more attention to the financial world, stock, the most popular and well-known financial security, appears to be involved in many people's lives. Over 6000 companies issue stocks that are traded in the US stock market. Thus, choosing a healthy, potential, and well-developed company has become a heated topic in the financial world. For this reason, this article chooses three well-known and influential companies (Nike, Lululemon, and Chipotle) to analyze and compare performances of their stocks. By achieving the goal, this article combines the traditional fundamental analysis, which is based on the financial information from companies' financial statements, with comparative analysis, which is based on the time horizon to evaluate stock's performance under different time periods. In conclusion, conservative investors who invest in a longer time period can prefer Nike and Lululemon for their excellent financial numbers and good reputations, while short-term investors or technical day traders prefer to choose Chipotle for its predictability on the patterns on the chart.

Keywords: Stock, Fundamental analysis, Finance, Portfolio.

1. Introduction

As the global financial market keeps developing and getting more mature over time, a variety of different securities or investments emerge in the public. More and more people "put capitals into assets with the expectation that the assets will be worth more when they are sold or liquidated" [1]. With that being said, a well-selected portfolio matters the most in terms of monetizing assets. This article focuses on detailed analysis of 3 well-known companies' stock performances: Nike under the ticker, NKE; Lululemon under the ticker, LULU; and Chipotle under the ticker, CMG. Chapter 2 reviews the overall global financial market. Chapter 3 presents the financial information for each company and evaluates their performances from 3 perspectives: Risk level, Profitability, and Market ratios. The clarification of the methodology of analyzing financial information is incorporated within section 3.1. Next, a comparative analysis of three stocks based on time horizon is discussed to determine whether these stocks are better performed under longer time periods. Lastly, one of the 3 companies, Lululemon, is further analyzed with exclusive insights and forecasts. The significance and value of this article are embedded in the integration of traditional fundamental analysis and effects of time horizon on the values of securities. Furthermore, by deep diving into the leading companies of their industries, general developing trends of those industries can be perceived as well. In short, this article provides valid information and strategies of picking stocks with values and potential developments for all types of investors.

2. Literature Review

Lululemon and Nike fall in the clothing and retail industry, while Chipotle is classified as a restaurant industry. Although both Nike and Lululemon are in the same industry, their marketing strategies vary. In contemporary society, there is an increasing consumer demand for corporate sustainability, ethical sales practices, and social responsibility [2]. Liyuan Wang claims that this trend is particularly prominent in the sports apparel industry, where consumers are inclined to purchase products that align with their values. As a high-end sports apparel brand, Lululemon understands this dynamic and recognizes the significance of promoting sustainability, ethical sales, and social responsibility [3]. The company's commitment to these trends has resonated with socially conscious

consumers [4]. As for Nike, its success can be primarily attributed to the company's investments in advertising and marketing, as well as sports marketing activities [5]. Xiaoran Wu insists that Nike's commitment to advertising and marketing has played a crucial role in driving consumer awareness and engagement with their products. Nike's sports marketing expenses and partnerships with professional athletes have significantly boosted demand for their products, enhancing brand visibility and credibility [6]. Lastly for Chipotle, since the restaurant business has been changed dramatically due to COVID, multiple important factors must be considered when analyzing Chipotle's stock. According to Hyoung Ju Song, Jihwan Yeon, and Seoki Lee's experiment, the tax benefit from leverage still clearly exists, possibly creating an interesting situation where investors may see some extra value in a restaurant firm with high leverage due to this tax benefit. In this regard, after COVID-19 shock, a firm with higher leverage may be regarded more optimistically by shareholders and investors; thus, leverage of restaurant firms may alleviate stock declines [7].

Moreover, Lan Jiang and Michael Dalbor concluded that the long-term debt ratio was also significant and negatively related to operating expense ratios, suggesting that a high leverage ratio for restaurant owners tends to be beneficial for firms [8]. In the end, this article is mainly based on fundamental analysis, and fundamental analysis is considered as significant in finance. However, the Random-walk hypothesis reveals the unpleasant view of the predictability of the stock market. The assumption holds the belief that the stock price is fundamentally stochastic; hence, any initiative or effort to forecast or predict the future stock price will inevitably fail. If indeed the market is stochastic, then there is a little chance of continuing [9-10]. Therefore, limitations on the validity of this article inevitably exist.

After reviewing all these references, most articles provide specific background information and marketing strategies for Nike or Lululemon, enriching the contents of this article. Other literature references examine the debt situation for the restaurant industry, accentuating the role of debt in the development of companies in the industry. Granted, all these articles lack the comprehensive analysis of different industries or companies by evaluating companies' financial information. The following sections compare Lululemon, Nike, and Chipotle's financial performances and provide investment advice.

3. Detailed Analysis of three stocks

3.1. Nike

3.1.1 Overview

Nike as one of the most influential footwear companies provides athletic and casual footwear, apparel, and accessories. In the stock market, Nike's stocks are categorized under the Footwear & Accessory Industry of the Consumer Discretionary Sector. Nike's market value takes up 38.2% of total market value for the Footwear & Accessory Industry. Below is the detailed analysis of Nike's stock performances from 4 perspectives: Risk Factors, Profitability, Asset Utilization, and Market Ratios.

Table 1 Nike's Risk Ratios

Metrics	Market Cap	Current Ratio	Debt Ratio	Beta
Nike (NKE)	\$110.29 B	2.4	32%	1.01

3.1.2 Risk Factors

As Table 1 shows that when people start to operate the due diligence for a company, determining the company's relative risk level to the whole stock market is necessary. Looking at Nike's market capitalization, which is calculated by multiplying the number of stock shares outstanding with the current price of the stock, Nike has a market value of 110.29 billion dollars. Thus, Nike falls under the spectrum of large capitalization since Nike's market value is above 15 billion dollars. Since Nike

holds a huge market capitalization and earned a good reputation in the Footwear & Accessory Industry, Nike is one of the most significant leading forces in the industry. Therefore, Nike has relatively lower size risks in terms of its stock performances. With that being said, investors in the public traded market still require a quantitative measurement of a company's relative risk level to the stock market to better understand the potential systematic risk of a company. For this reason, Beta value becomes a prominent measurement for determining a stock or a portfolio's volatility, or systematic risk, to the whole market, widely used by all types of investors. The market risk is defined as 1. Any securities that have Beta values higher than 1 indicate an above average market level of risk. Any portfolios that have Beta values below 1 suggests a below average market level of risk. In terms of Nike, a Beta value of 1.01 suggests Nike, on average, has a similar risk level with the whole market. After the discussion of the company's relative risk level to the market, within the company, liquidity and solvency ratios also draw lots of attention from investors. Usually measured by Current ratio, a company's liquidity reflects how well a company balances their assets and debts. Current ratio measures the ability of a company to pay off all their current liabilities with their current assets. Companies with a current ratio higher than 1 tend to have good credit ratings. Nike has a current ratio of 2.4, showing a good level of liquidity. Last but not least, the Solvency ratio reflects a company's level of leverage. In this case, debt ratio measures the percentage of assets for a company that are financed by debts. Nike with 32 % of debt ratio indicates that Nike leverages around 30% of their assets. Usually, a company with a high debt ratio tends to outperform the market when the market booms, but has a higher possibility of losing a significant amount of value when the economy turns down.

Table 2 Nike's Profitability Ratios

Metrics	Total Asset T/O	Profit Margin	Return on Asset (ROA)	Return on Equity (ROE)
Nike (NKE)	1.36	11.10%	11.06%	40.09%

3.1.3 Profitability

As Table 2 shows that the most direct method of valuing a company is to examine the profitability of the company. From the beginning of the process of selling products, a quantitative measurement of the efficiency with which a company uses its assets to produce sales is introduced: Total Asset Turnover. In reality, it corresponds with how often a customer comes back to buy the company's products. A Total Asset Turnover of more than 1 suggests that the company uses fewer assets to produce more sales. Nike has a Total Asset T/O of 1.36. For the next step of turning sales into net income, profit margin measures the proportion of a company's sales that can be turned into net incomes. From sales to net incomes, costs of goods sold, management operating costs, and financial operating costs must be controlled properly to maximize the company's net incomes. Nike with 11.10% of profit margin indicates that 11.10% of its sales eventually turned into net incomes. By multiplying the profit margin with the Total Asset T/O, Return on Asset (ROA) measures how efficient a company's management is in generating profit from their total assets on their balance sheet. ROA is an important indicator for ratio analysts to consider which companies to invest in. Compared with the market average return of 10%, Nike with ROA of 11.06%, Nike outperforms the market by around 1%. Given that Nike has a similar risk level as the overall market (similar Beta value), Nike is included in most investors' portfolios. A similar indicator as ROA is the Return on Equity (ROE). ROE measures the net profits generated by a company based on each dollar of equity investment contributed by shareholders. Nike with over 40% of ROE outperform the industry's average level 23%. Given Nike's low debt ratio, Nike efficiently maximizes the value of its leverages.

Table 3 Nike's Market Ratios

Metrics	P/E	PEG	Valuation	Insider Buying	Stock Buyback
Nike (NKE)	19.59	1.63	\$73.2	Buy: 1 Sell: 7	\$13.8 B

3.1.4 Market Ratio

As Table 3 shows that when people look into the company even deeper, ratio analysis comes to the table. Ratio analysis makes up the majority of the fundamental analysis. P/E ratio is calculated by dividing the price of the stock over its earning per share (EPS). It indicates how many more times of money an investor is willing to pay for one share of the stock over the stock's EPS. A company with P/E ratio less than 10 is usually considered as a value stock, suggesting that the company's performance will recover to its average level even though the company's stock price is on sale. A company with a P/E ratio greater than 10 is a growth company, indicating people are willing to pay more than the company's EPS to buy the company's stocks. Nike with a P/E ratio greater than 10 is not favored by value investors. Its high P/E ratio is partially due to a lower EPS. Dividing P/E ratio over the company's growth rate, PEG ratio is used by PEG investors to pick valuable growth stocks. Usually, PEG investors choose stocks with PEG ratio less than 2. Thus, PEG investors consider the price of Nike's stocks matches Nike's growth rate. In terms of valuating the price of a stock, multiple valuation models are invented. According to the Gordon Growth Model, a fair price, or intrinsic value, of Nike's stock price should be 73.2 dollars per share. Compared with Nike's current stock price per share, Nike's stock is neither overvalued or undervalued, indicating that Nike's stocks are traded at a fair price. Last part of the market ratio analysis ties back to actions inside of the company. Insider buying suggests that insiders in the company have changed their positions on their stock. Stock buybacks refers to the process that a company repurchases certain amounts of their stocks from the public traded market. Stock buyback indicates the company's great confidence in their stock price or the company believes that their stock price has been undervalued. Moreover, by repurchasing their common stocks, the EPS of their company will be improved. Usually, more than 5% of stock buyback relative to its market capitalization can have an influence on their stock price. Since 2022, Nike has repurchased its own stocks for 13.5 billion dollars, taking up to around 12% of its market capitalization. Thus, Nike's repurchasing is significant.

3.2. Lululemon

3.2.1 Overview

Lululemon as a fast growing and trending clothing company offers pants, shirts and jackets for a healthy lifestyle. Lululemon's stocks are categorized under the Apparel & Retail Industry of the Consumer Discretionary Sector. A detailed analysis of Lululemon's stock performance will be provided.

Table 4 Lululemon's Risk Ratios

Metrics	Market Cap	Current Ratio	Debt Ratio	Beta
Lululemon (LULU)	\$36.15 B	2.49	40.33%	1.26

3.2.2 Risk Factor

Table 4 shows that lululemon's market capitalization reaches 36.15 billion dollars, categorized as a large caps company since its market capitalization is greater than 15 billion dollars. Lululemon has a beta value of 1.26, suggesting that Lululemon's stocks are 1.26 times riskier than the average market risk. Based on this information, Lululemon has no size risk and is relatively sensitive to the market's volatility. In terms of liquidity, Lululemon has a current ratio 2.49, indicating that Lululemon has an excellent credit rating and no liquidity issues. For the solvency ratio, more than 40% of Lululemon's

assets are financed by debts. Still, under the condition of Lululemon's huge market shares, a debt ratio of 40% will not be a concern for investors.

Table 5 Lululemon's Profitability Ratios

Metrics	Total Asset T/O	Profit Margin	Return on Asset (ROA)	Return on Equity (ROE)
Lululemon (LULU)	1.36	16.09%	22.56%	41.94%

3.2.3 Profitability

Table 5 indicates that Lululemon's Total Asset Turnover is 1.36. For profit margin, Lululemon turned 16.09% of its sales into net incomes. Lululemon's profit margin is above the average market number. By multiplying total asset turnover with profit margin, ROA for Lululemon is 22.56%, which is above the average market return of 10%. Thus, ratio analysts will favor Lululemon for its potential return. Lastly, Lululemon can bring 41.94% of return for its shareholders. Given Lululemon's debt ratio of 40%, it shows a great efficiency of utilizing leverages to generate more value for shareholders. Thus, more than 40% of ROE will attract more investors to put money in Lululemon's stocks.

Table 6 Lululemon's Market Ratios

Metrics	P/E	PEG	Valuation	Insider Buying	Stock Buyback
Lululemon (LULU)	23.21	1.17	\$336	Buy:12 Sell:1	\$1 B

3.2.4 Market Ratio

Table 6 shows that Lululemon has a P/E ratio of 23.21, not favored by value investors. Lululemon has an excellent number of EPS. However, due to an overvalued price, Lululemon has a high P/E ratio. For PEG investors, PEG ratio of 1.17 indicates that Lululemon is a great company to invest in since its growth rate is fairly matched with its stock price. For valuation purposes, Lululemon is valued at 336 dollars per share. Compared with its current price, the intrinsic value of Lululemon's stock is higher than its current price. Thus, Lululemon's stock price will most likely experience an upward trend. Next, from inside of the company, in the past three months, Lululemon has had 12 times insider buying, suggesting the company has great confidence in their stocks. Lululemon has a stock repurchasing of 1 billion dollars, taking up to 4.9% relative to its market capitalization. Thus, Lululemon's stock should also be taken into consideration for investors.

3.3. Chipotle

3.3.1 Overview

Chipotle is a popular Mexican restaurant that offers healthy food and beverages. Chipotle's stocks are categorized under the Restaurant Industry of the Consumer Discretionary Sector. A detailed analysis of Chipotle's stock performance will be provided.

Table 7 Chipotle's Risk Ratios

Metrics	Market Cap	Current Ratio	Debt Ratio	Beta
Chipotle (CMG)	\$75.93 B	1.57	62%	1.24

3.3.2 Risk Factor

Based on Table 7, Chipotle's market capitalization takes up 36.15 billion dollars, categorized as a large caps company since its market capitalization is greater than 15 billion dollars. Chipotle has a beta value of 1.24, suggesting that Chipotle stocks are relatively riskier than the average market risk. Based on this information, Chipotle has no size risk and is relatively volatile when the market's volatility is high. In terms of liquidity, Chipotle has a current ratio 1.57. Still, Chipotle has an excellent

credit rating and no liquidity issues. For the solvency ratio, more than 62% of Chipotle's assets are financed by debts. More than 60% of debt holding suggests that Chipotle might have a solvency problem when the overall market is down. Granted, considering the market size of Chipotle, a higher leverage ratio might also suggest their ability of using leverage efficiently.

Table 8 Chipotle's Profitability Ratios

Metrics	Total Asset T/O	Profit Margin	Return on Asset (ROA)	Return on Equity (ROE)
Chipotle (CMG)	1.23	12.70%	13.47%	44.37%

3.3.3 Profitability

From Table 8, Chipotle's Total Asset Turnover is 1.23. For profit margin, 12.70% of Chipotle's sales become its net incomes. Chipotle's profit margin is above the average market number. By multiplying total asset turnover with profit margin, ROA for Chipotle is 13.47%, which is above the average market return of 10%. Thus, ratio analysts will favor Chipotle for its potential return. Lastly, Chipotle can generate 44.37% of return for its shareholders. Given Chipotle's high debt ratio of 62%, Chipotle proves a great efficiency of utilizing leverages to generate more value for shareholders. Thus, more than 40% of ROE will attract more aggressive investors to put money in Chipotle's stocks.

Table 9 Chipotle's Market Ratios

Metrics	P/E	PEG	Valuation	Insider Buying	Stock Buyback
Chipotle (CMG)	59.01	2.70	\$32.7	Buy: 9 Sell: 8	\$27 M

3.3.4 Market Ratio

Table 9 indicates that Chipotle has a P/E ratio of 59.01, turned down by value investors. Partially, Chipotle has a low number of EPS. For PEG investors, PEG ratio of 2.7 indicates that Chipotle is not a good company to invest in since its growth rate is overvalued, given its current stock price. For valuation purposes, Chipotle is valued at 32.7 dollars per share. Compared with its current price, the intrinsic value of Chipotle's stock is lower than its current price. Thus, Chipotle's stock price will most likely experience a downward trend since Chipotle is overvalued. Next, from inside of the company, in the past three months, Chipotle has had 9 times insider buying and 8 times insider selling, suggesting the company insiders have big actions to their stock position. Chipotle has a stock repurchasing of 27 million dollars. Chipotle's repurchasing is not significantly different.

4. Comparative Analysis

Based on all the data collected, different types of investors will evaluate different ratios to determine which stock to invest in. However, a comparative analysis of three stocks from some general perspectives will mostly fall into 2 spectrums based on time horizon: long-term investors (value investors) and short-term investors (technical-based investors).

For Nike, the total return for Nike (NKE) stock is -17.88% over the past 12 months, whereas index investing at the same period yields 29.16% of return. Thus, Nike's stock did not outperform the market in a short-term period. Looking at Nike's operating performance ratios, Nike with the lowest debt ratio among all three companies generates roughly the similar rate of return for shareholders, suggesting the most efficient usage of leverage. Moreover, Nike's stocks are favored by most professional institutional investors. From Yahoo Finance, 80.40% of stock shares that Nike issued are held by institutional investors. Furthermore, since 2022, Nike has authorized a stock repurchasing plan of 13.8 billion dollars, taking up to around 12% of Nike's market capitalization. Typically, such a large amount of stock buybacks indicates Nike's strong confidence in their company operation and believes that their stocks are currently undervalued. Nike's EPS, for this reason, will be improved

due to the lower amount of stock shares being traded in the market. In conclusion, Nike's stocks are better valued from a long-term perspective since Nike's huge market share, healthy financial and operating performances, and shareholders' confidence all suggest that Nike is still a promising company to invest in for a longer time period.

In terms of Lululemon, the total return for Lululemon (LULU) stock is -32.68% over the past 12 months, whereas index investing at the same period yields 29.16% of return. Since April 2024, Lululemon's stock price has dropped over 46%. However, looking into a 5-year horizon stock chart, given that Lululemon's current stock price is the lowest since 2023 Dec, the total return for Lululemon (LULU) stock is 45%. From 3.2.3, Lululemon with 22.56% of ROA is the most profitable company compared with Nike and Chipotle. Additionally, a 1.17 of PEG ratio suggests that PEG investors believe that Lululemon's stock price is attractive given their potential growth and performances. Similar to Nike, more than 88% of LULU stocks are held by professional institutional investors. Surprisingly, Lululemon as a clothing company has similar Receivables Turnover as Chipotle does, suggesting Lululemon's great efficiency of collecting receivables. Wenzhe Sun claims that "Lululemon's accounts receivable management strategy has proven to be dependable and steady. From 2021 to 2023, the company's recorded allowance for doubtful accounts was negligible. This suggests that the company's clients are extremely reliable in terms of account payment performance, with very low bad debt risk" [10]. In conclusion, Lululemon as one of the fastest growing companies in the past 5 years has been traded at an extremely high price in the stock market. Their unique understanding of fashion and healthy financial situations will persuade most long-term investors to add Lululemon in their portfolios. With all being said, Lululemon has one potential problem with its operating performances. According to its financial statements, Lululemon's continental revenues show that Lululemon generates most of its net incomes from the Chinese market, while for other countries or continents, Lululemon earns few or no net incomes. Thus, once the revenues from the Chinese market shrink, its operating performances or stock performances will be affected significantly.

Lastly for Chipotle, the total return for Chipotle (CMG) stock is 41% over the past 12 months, whereas index investing at the same period yields 29.16% of return. Looking at Chipotle's financial ratios, a 62% of debt ratio indicates potential solvency issues. For those long-term (value) investors, Chipotle's P/E ratio is higher than their benchmark. Additionally, having a over 50 of P/E ratio indicates that Chipotle has a low EPS. All this financial information suggests Chipotle's stocks will underperform the market. However, Chipotle generated over 40% of return for their shareholders. Thus, it would be counterintuitive to trade Chipotle stocks with fundamental analysis. A short-term technical analysis will be effective in terms of Chipotle's stocks. For example, Chipotle's stock 200-day moving average is above its 50-day moving average, indicating there is momentum for Chipotle's stocks to go up. This technical strategy may explain chipotle's high return at that period.

5. Conclusion

Based on all the analysis and comparison, financially speaking, all three companies show excellent financial performance. Nike's stock is the least risky, Lululemon's stock is the most profitable, and Chipotle's stock is the most leveraged. Long-term investors or value investors can prefer Nike and Lululemon for their stable financial numbers and predictability, while short-term investors or technical investors will choose Chipotle for its huge trading volume. A specific case analysis of Lululemon identifies Lululemon's promising future of great financial and operating performances. Next step of the research will focus on the strategy of mixing different types of time-sensitive investments into one portfolio.

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