Financial Analysis Of Various Companies In The Pigs Group Of Countries

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Abstract

This paper attempts to examine and offer insight in the investment opportunities in several industries of different sizes located in two of the PIGS countries (Portugal, Italy, Greece, and Spain) looking at their similarities/differences as well as anomalies in comparison to their US counterpart. These companies were chosen because of a number of factors including size, age, and relevance to the current world economy:

- *The Buckle Corporation (US) and Inditex (SPAIN)*
- *Coach (US) and Prada (ITALY)*
- *Ford (US) and Fiat (ITALY)*
- *Verizon Wireless (US) and Telefonica S.A.(SPAIN)*

By examining pertinent financial ratios, namely Net profit margin, Current ratio, Quick ratio, return on Assets, return on Equity, return on Investment, P/E ratio, and Price to Book Value ratio, and using various statistical methods we have determined the optimum investment alternatives.

Introduction

This paper attempts to examine and offer insight in the investment opportunities in several industries of different sizes located in two of the PIGS countries (Portugal, Italy, Greece, and Spain) looking at their similarities/differences as well as anomalies in comparison to their US counterpart. These companies were chosen because of a number of factors including size, age, and relevance to the current world economy:

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- Verizon Wireless (US) and Telefonica S.A.(SPAIN)

Literature Review

T Jahankhani & Sohrabi stated that most companies today operate in an environment of limited resources and business is judged by its ability to perform satisfactorily in order to increase shareholder wealth. There is a definite relationship between financial and accounting ratios and company performance and also correlation to the optimal manner to understanding performance. The traditional financial ratios remain as the most practical

planning analysis tools as it has become increasingly difficult to assess a company's performance over time (Kabajeh, Nu'aimat, and Dahmash, 2012). By choosing selected companies we compare their financial ratios to an American counterpart. The Buckle annual report does a remarkable job reviewing the company history but is considered a "little guy" in comparison to Inditex, which is a much larger company (Inditex 2013). The use of ratio analysis reveals that size does not matter as much as exceptional management of whatever amount of assets is entrusted to them. Grimsley (2013) reported that financial ratios are the most desirable method to predict future corporate results. This provides a cogent basis for investment decisions. Looking at the annual reports of Coach and Prada we see almost identical ratio relationships, regardless of the country of operation.
Norušis, 2008 reveals that measures of statistical significance or insignificance can be used as a poor substitute for careful thought and common sense. There are, in reality, numerous potential unaccounted for variables that may or may not be affecting the book value per share of an individual company at any time. Kabajeh, Nu'aimat, & Dahmash, 2012 talk about the statistically significant relationship between ROI and book value per share, supporting the results of similar studies that had the benefit of larger and more comprehensive sample sizes). Al Matarneh, 2008 looks at The Return on Investment ratio to measure a company's efficiency in utilizing capital. It is a representation of a company's ability to effectively use and manage resources to generate the expected return and therefore, shareholder value.

Methodology

This study employed an evaluation design and involved a descriptive ex post facto analysis that attempted to derive conclusions from quantitative data. It followed a deductive research process and involved the collection of financial and accounting data from mixed sources in order to identify possible statistical relationships between the variables. The data utilized for this study was secondary data because it had been compiled and collected in databases of publicly available information (Rosenberg, 2008). All data was coded into the Statistical Package for the Social Sciences (SPSS) version 19. SPSS was then utilized to complete all statistical analysis functions. Due to the variance in size and function of the companies chosen for this study a "partial correlation" analysis function was utilized to examine the relationships between variables. The partial correlation function in SPSS is a Pearson bivariate correlation that adds one or more control variables. It quantifies the strength of relationships (degree and direction) between two variables while controlling for the effects of one or more variables. The goal of this procedure is to eliminate any possible spurious correlations (Norušis, 2008).

Buckle And Inditex

Buckle began as a men's clothing store in 1948 in Kearney, Nebraska. The Buckle is incorporated as a United States Public Company. The first store was founded by David Hirschfeld and operated under the name "Mills Clothing". In 1967, a second store was purchased and operated under the name "Brass Buckle". At that point, the Company began selling more casual men's clothing and by the early 1970s Brass Buckle had developed into a store specializing in the sale of denim, or jeans, products. In 1977 the Company introduced lines of women's clothing. In 1991, Brass Buckle changed its name to The Buckle, and in 1992 the Company went public on the NASDAQ and traded as BKLE. In 1997, The Buckle moved to the New York Stock Exchange where it now trades under the symbol, BKE.
Buckle markets a wide selection of brand names and private label casual clothing, including denims, other casual bottoms, fashion tops, sportswear, outerwear, accessories and footwear. The main women's and men's brands found at the Buckle are BKE, Miss Me and Rock Revival. The Buckle is most popular for their jeans. These jeans typically have intricate multicolored stitching and/or rhinestones on the back pockets. (The Buckle, 2013)

The company emphasizes personalized attention to its guests (or customers) and provides individual customer services such as free alterations, free gift–wrapping, layaways and a frequent shopper program. Employee Commission is 3 percent. Most stores are located in upscale malls across the country and have an online store. There is a Buckle at the Walden Galleria Mall, Cheektowaga, New York.

Buckle opened 13 new stores and completed 24 substantial remodels; closed 2 stores to end the fiscal year with 431 stores in 43 states. The Buckle achieved average net sales in excess of $1 Billion in fiscal 2011. Average sales per square foot were $462, up from $428 in fiscal 2011. Total denim sales increased for the twelfth consecutive year, reaching over five million pairs of jeans sold. Improved merchandise margins for the tenth consecutive year and achieved gross margins of 44.1%, as a percentage of net sales. Buckle purchases its products from both within the United States and foreign sources. All vendors are required to sign a Code of Conduct and Standards of Engagement memorandum. (The Buckle Annual Report, 2011) As a United States publically traded Corporation, The Buckle publishes its financial data in accordance with US GAAP, files quarterly 10-Q reports and a 10-K Annual Report.

Industria de Diseño Textil, S.A. or “Inditex” is one of Spain’s largest corporations and possibly the world's largest fashion group (It is difficult to measure year to year based upon current acquisitions). Inditex is made up of almost a hundred companies dealing in activities related to textile design, production and distribution. Amancio Ortega, Spain's richest man, and one of the world’s richest men is the founder and current largest shareholder. The Inditex Chairman of the Board is Pablo Isla.

Inditex operates more than 5,500 stores worldwide and owns brands like Massimo Dutti, Bershka, Oysho, Pull and Bear, Stradivarius, Zara, Tempe and Uterqüe. Zara is the Inditex trademark brand. The majority of stores are corporate-owned. Franchises are only conceded in countries where corporate properties cannot be foreign-owned. This has occurred in India, China and some Middle Eastern countries. The group designs and manufactures almost everything by itself. Zara stores, for example, receive new designs twice per week. (Inditex, 2013)

Coach And Prada

Coach an American company was founded in 1941 as a family-run workshop. Soon Coach gained its loyal customers who were amazed of the quality and unique product of Coach. Nowadays Coach has been expanded and continues to hold the highest standards for materials. As an American company. Coach’s attitude to design is based on superior product quality, combination of American elements and also customer service. In Coach’s product lines present the highest quality combined with American style. Coach is known in the world as America’s designer and producer and its product lines include accessories and gift for women and men such as handbags, women’s and men’s leather goods, weekend and travel accessories footwear, watches, outwear, scarves, sun wear, fragrance, and fine jewelry. Today, Coach is one of the most recognizable brands in North America with its multi-channel strategy. Coach has 500 stores in US and Canada, 300 locations in Japan, China, Singapore, Taiwan, Malaysia and South Korea. Besides stores Coach has boutiques located in department stores in these countries. (Coach, 2010)

Prada spa was established by Mario Prada in 1913 in the Galleria Vittorio Emanuele 2nd in Milan. Initially the store was selling leather handbags, travelling trunks, leather accessories and beauty cases, luxury accessories. Prada spa with its subsidiaries is a leader in the design, production and distribution of luxury handbags, leather goods, footwear, apparel, accessories, eyewear and fragrances. Prada was selected as an official supplier to Italian Royal Family in 1919. Prada managed to launch 3 new brands: MIU, Church’s Group, Car Shoe. In each brand Prada tries to put Italian culture and tradition as well as elegance and high quality. Different brands of the company have individual approach for anticipating its customer’s tastes. Prada products are made in its 16 state-of-the-art facilities in Italy and in England and through (Prada, 2010)

Ford And Fiat

According to Forbes (2013), Fiat SpA is an Italy-based company active in the automobile sector. It produces and sells under the Fiat, Lancia, Alfa Romeo, Fiat Professional, Abarth, Ferrari, Masearti, Chrysler, Dodge, Jeep, Ram Truck, SRT, brands. Fiat also has manufactured railway engines and carriages, military vehicles, farm tractors and aircraft. Fiat-based cars are built around the world. Outside Italy, the largest country of production is Brazil, where the Fiat market leader. It has also factories in Argentina and Poland and a long history of licensing of its products in other countries. It has also numerous alliances and joint ventures around the world, the main ones being are located in Italy, France, Turkey, Serbia, India and China. Fiats outside Italy are Brazil, Argentina Serbia, Poland, Russia, Sollers, Bulgaria, Ethiopia, Spain, India, Pakistan, Sri Lanka, North Korea and China.

	Ford Motor	FIAT
Industry	Auto & truck manufacturers	Auto & truck manufacturer
Market capital	$ 51.8 Billion	$ 7.79 Billion
Founded	1903	In 1899
Country	United States	Italy
Employees	165,000	197,021
Sales	$ 134 Billion	$ 77.15 billion
Global 2000 ranking	# 53	# 314
In sales	# 27	# 81
In profit	# 96	# 355
In Asset	# 143	# 240
In market value	# 153	# 1156
World's most powerful Brands	# 59	No

Source: Forbes, 2013

The cultural influence

Source: (Geert Hofstede) http://geert-hofstede.com/

Verizon And Telefonica, S.A.

The telecommunication industry was a major driver for this ongoing economic recovery. It provided a comprehensive range of infrastructure products for both the emerging and developed countries. Additionally, this industry encompasses a wide range of technology-related businesses, such as wireline phone services, telecommunications, wireless communications, Internet services, fiber optics networks, cable TV networks, and commercial satellite communications. However, there will be some major opportunities and threats facing the telecommunication industry and the related-companies, such as Verizon, Portugal Telecom, Telefonica, and Samsung.

In contrast, the telecommunications industry have been benefiting from this improving global economy, as well as the significant technological inventions that created a huge market demand for innovative products. Secondly, this industry had revolved into a necessary utility for serving the infrastructure needs of both the rural and urban areas in the emerging and developed countries. Thirdly, with the massive worldwide demand of smart-phones, it provides enormous opportunities for companies to expand and develop innovative products to sustain their market share and profitability. Fourth, since the telecom companies have limited protection when they diversify internationally; they are often presented with hedging opportunities after reviewing the country's local economic weaknesses and currency exchange differentials. In summation, the telecommunications industry are currently focusing on 3G wireless technologies, emerging super quickly 4G (LTE and WifiMax) technologies,

broadband and fiber-to-the-home/premises networking to meet the global demand for super faster data connectivity and high-speed networks.
Verizon Wireless is a newer company brought forth by a Joint Venture between Verizon Communications and Vodafone in 2000. Verizon Wireless offers video, broadband and wired/wireless services to governments, businesses and individual consumers. In this partnership, Vodafone retains 45% ownership in Verizon Wireless. Verizon Wireless is headquartered in the United States and operates the largest 4G network while servicing the most advanced fiber optic network for its customers. (Verizon Wireless, 2013)

Telefónica S.A. is an international telecommunications company headquartered in Spain that services many countries throughout Europe and Latin America. Telefónica was formed in 1924 in the capital, Madrid. Twenty one years later (1945), the federal government of Spain purchased 79.6% equity of Telefónica and had maintained such ownership position until the 1990's. Within Spain, Telefónica is a giant, attracting approximately 47 million customers and contributing an estimated 2% of Spain's GDP (Telephonica, 2013)

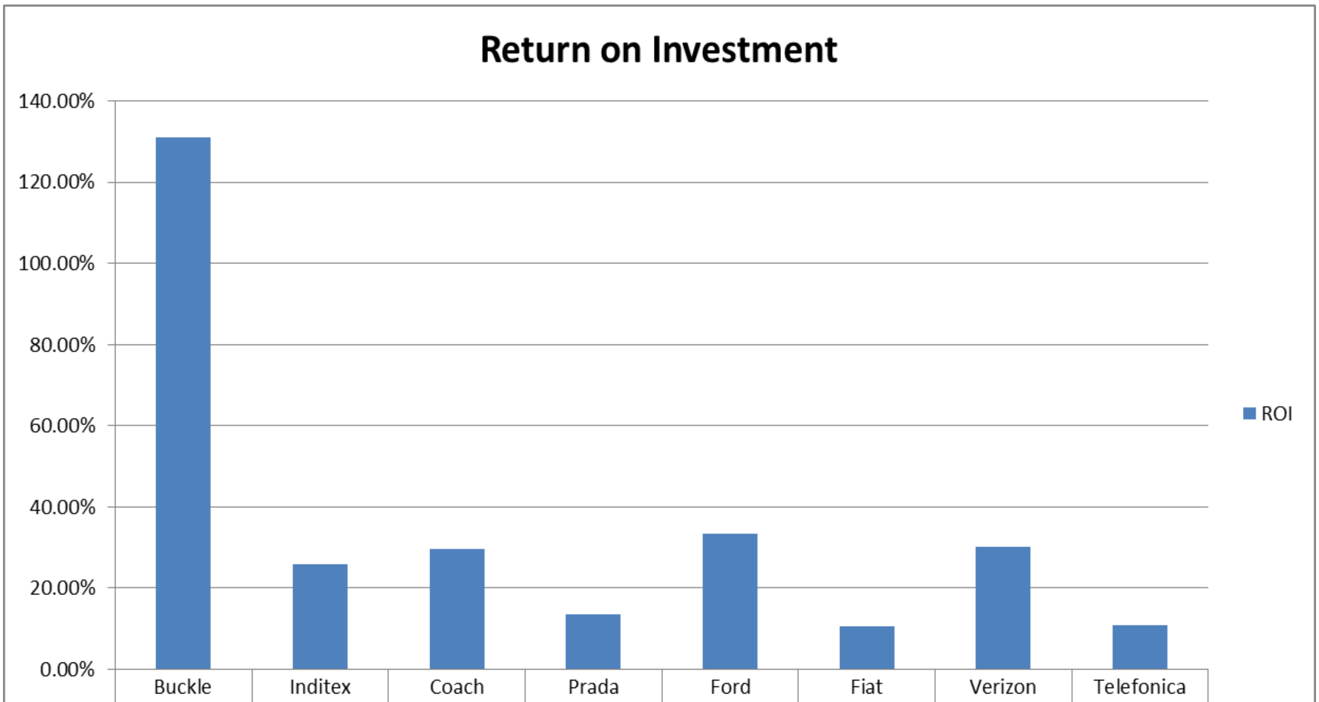
Theoretical Framework

This study is grounded in positivist theories of financial planning analysis that argue there is a predictable relationship between financial and accounting ratios and company performance. Because all companies operate in an environment of limited resources, ensuring they utilize these resources in an optimal manner is a vital component to understanding performance (Jahankhani & Sohrabi, 2010). Companies that tend to operate in an efficient manner tend to exhibit these strengths in their financial ratios. Although it has become increasingly difficult to assess a company's performance, and numerous exotic measures have been developed over time, the traditional financial ratios remain as the most practical planning analysis tools (Kabajeh, Nu'aimat, and Dahmash, 2012).
The collection of financial accounting data (as represented in financial ratios) is utilized to faithfully represent the fundamental characteristics of a company in an effort to predict future outcomes (Grimsley, 2014). For the purposes of this study, the following financial accounting data variables were utilized: Earnings Per Share (EPS); Book Value per Share; Return on Assets (ROA); Return on Equity (ROE); Return on Investment (ROI); Price-Earnings Ratio, Current Ratio, Quick Ratio. These variables were derived (and calculated) from publicly available data (2013 and 2014) for the companies of Buckle, Inditex, Coach, Prada, Ford, Fiat, Verizon, and Telefonica. Data were collected from individual sources for each company and then compiled into an ancillary data set in Microsoft Excel. This ancillary data set was then used as the source of input for all statistical testing. Given the null hypothesis that the correlation coefficient is equal to zero, individual partial correlations of the financial ratio variables with Book Value per Share were completed at an alpha level of .05, controlling for the effects of size. For the purposes of this study, size of a company was measured with the variables of "Total Assets", "Total Equity", and "Total Yearly Sales".

Results

A partial correlation was completed with the variables of Earnings Per Share and Book Value per Share to determine if a statistically significant relationship existed ($H_{0(EPS/BVShare)}$; $p = 0$: $H_{1(EPS/BVShare)}$; $p \neq 0$). This procedure showed a weak positive correlation ($r = .220$, $p = .772$). Because the p-value is above .05, we accepted the null hypothesis as plausible.
A partial correlation was completed with the variables of Return on Assets and Book Value per Share to determine if a statistically significant relationship existed ($H_{0(ROA/BVShare)}$; $p = 0$: $H_{1(ROA/BVShare)}$; $p \neq 0$). This procedure showed a weak positive correlation ($r = .226$, $p = .715$). Because the p-value is above .05, we accepted the null hypothesis as plausible.

A partial correlation was completed with the variables of Return on Equity and Book Value per Share to determine if a statistically significant relationship existed ($H_{0(ROE/BVShare)}$; $p = 0$: $H_{1(ROE/BVShare)}$; $p \neq 0$). This procedure showed a weak positive correlation ($r = .244$, $p = .692$). Because the p-value is above .05, we accepted the null hypothesis as plausible.
A partial correlation was completed with the variables of Return on Investment and Book Value per Share to determine if a statistically significant relationship existed ($H_{0(ROI/BVShare)}$; $p = 0$: $H_{1(ROI/BVShare)}$; $p \neq 0$). This procedure showed a very strong positive correlation ($r = .883$, $p = .046$). Because the p-value is below .05, we reject the null hypothesis and accept the results as statistically significant.
A partial correlation was completed with the variables of Price-Earnings Ratio and Book Value per Share to determine if a statistically significant relationship existed ($H_{0(PE/BVShare)}$; $p = 0$: $H_{1(PE/BVShare)}$; $p \neq 0$). This procedure showed a strong negative correlation ($r = -.524$, $p = .365$). Because the p-value is above .05, we accepted the null hypothesis as plausible.
A partial correlation was completed with the variables of Current Ratio and Book Value per Share to determine if a statistically significant relationship existed ($H_{0(Current/BVShare)}$; $p = 0$: $H_{1(CurrentBVShare)}$; $p \neq 0$). This procedure showed a strong negative correlation ($r = -.689$, $p = .196$). Because the p-value is above .05, we accepted the null hypothesis as plausible.
A partial correlation was completed with the variables of Quick Ratio and Book Value per Share to determine if a statistically significant relationship existed ($H_{0(Quick/BVShare)}$; $p = 0$: $H_{1(Quick/BVShare)}$; $p \neq 0$). This procedure showed a very strong negative correlation ($r = -.754$, $p = .141$). Because the p-value is above.05, we accepted the null hypothesis as plausible.



	Buckle	Inditex	Coach	Prada	Ford	Fiat	Verizon	Telefonica
ROI	130.97%	25.94%	29.53%	13.47%	33.40%	10.70%	30.30%	11.00%

Discussion

Although the results of the data analysis showed possible significant relationships between the variables, the existence of relatively high "p" values resulted in acceptance of the null hypothesis for all except one of the tests. It is possible that by not rejecting the null hypothesis in all but one instance Type II errors were created (not rejecting when one should have). But, it is more likely that the high p-values are the result of a low sample size. The use of a larger sample size was beyond the scope of this current study but the results that were obtained

suggest further research in this area is needed. Acceptance of the null hypotheses resulted in this study being unable to conclusively support the literature that has shown a significant statistical relationship between ROA and ROE with Book Value per Share. However, these results strengthen the argument that individual financial ratios and accounting data elements should not be considered in isolation when making an investing decision.
The goal of this study was not to uncover a predictable relationship between the variables and a company's book value per share but rather to investigate possible relationships between and among the variables to better inform the investment decision. This study succeeded in its investigation of possible relationships between book value per share and the financial/accounting variables. Unless considered as complete chance, the results of the statistical analysis showed the possibility of relationships between the variables that deserve further examination. These results should be utilized as one component to an overall larger investment decision.
Too often, measures of statistical significance or insignificance can be used as a poor substitute for careful thought and common sense (Norušis, 2008). Although an attempt was made to control for intervening variables (company size) there are, in reality, numerous potential unaccounted for variables that may or may not be affecting the book value per share of an individual company at any time. The results of this study showed a very strong and statistically significant relationship between ROI and book value per share, supporting the results of similar studies that had the benefit of larger and more comprehensive sample sizes (c.f., Kabajeh, Nu'aimat, & Dahmash, 2012). The Return on Investment ratio measures a company's efficiency in utilizing capital. It is a representation of a company's ability to effectively use and manage resources to generate the expected return (shareholder value) (Al Matarneh, 2009). The statistical significant and very strong positive correlation between ROI and book value per share provides a starting point for a wider discussion of which company to invest in. In addition, the results of the data analysis showed relationships between the variables that support traditional views of financial ratios and their use in investment decision analysis.

Conclusion

In the final investment analysis several factors stand out which we can use to make an educated decision as to the investment quality of these companies. Coach pays the highest dividend of 3.9% and an excellent P/E ratio of 11 compared to the S & P of ~ 18. In terms of Balance Sheet strength Ford wins hands down while Buckle presents the best ROA of .32 and Prada the best ROE of .35 Buckle, though has the best debt to equity ratio of .16 which indicates superb management ability and this goes hand in hand with their ROI of 130% (Table 2). Another interesting and important statistic in table 2 below shows Coach with a 24 point high/low spread over 12 months and Buckle a 10 point spread. The other companies have not moved a great deal in price.
While realizing the limitations of only choosing a few well-known brand companies and small sample size we are compelled to rate both Coach and Buckle as the best investment alternative.
An analysis of the 2014 52 week stock price range for all of the chosen companies (Table 1) resulted in a mean range, $\mu = 8.74875$, and a standard deviation, $SD = 6.74995$. A review of the resulting dot plot showed a clear left-hand skew with two outlier scores. Five of the companies (Inditex, Prada, Ford, Fiat, Telefonica) exhibited 52 week stock price ranges that were below the mean for the group with one company (Verizon) exhibiting a range equal to the mean. Only two of the chosen companies exhibited ranges above the mean (Buckle, Coach) with Coach exhibiting a result that was almost 4 standard deviations above the mean. The results of this analysis revealed that Buckle and Coach might exhibit higher rates of volatility as compared to the other companies.
To investigate this further the 60 month Beta was utilized. The 60 month Beta is a calculation that uses a regression model to measure the risk of a stock in relation to the overall movement of the market. A positive Beta indicates that the price of the stock tends to move in the same direction as the entire market and the magnitude of the Beta can predict the size of the movement. A negative Beta would indicate a reverse correlation in which the stock price tends to rise when the stock market recedes and vice versa. The Beta is equal to the slope of the linear regression line with the symbol R_f representing the risk free rate, R_{Market} representing the

market return rate, and e representing the control for error. The Beta of Buckle is 1.21 meaning that, theoretically speaking, its stock price is almost 21% more volatile than the overall market (Yahoo Finance, 2015). This indicates the possibility for a high rate of return but also the need for a relatively high risk tolerance for the individual investor. Conversely, the Beta for Coach is .65. This indicates that the stock price for Coach tends to be less volatile than the overall market and poses less risk (Yahoo Finance, 2015).

These results indicate that there is a high risk/reward potential for Buckle. The results are inconclusive with regard to Coach. Coach exhibited a large range in price over the 52 week time period in 2014 but that range is not associated with a large Beta. One possible reason for this is that the company experienced a slow and steady increase in stock price over the 52 week time span, relative to the overall market volatility, and with a relatively low to moderate risk profile.

Table 1

Company Name	2014 Price Range
Buckle	41.45 - 52.70
Inditex	19.29 - 24.20
Coach	32.72 – 56.88
Prada	11.16 – 18.50
Ford	13.26 – 18.12
Fiat	7.53 – 13.76
Verizon	45.09 – 53.66
Telephonica	10.76 – 13.43

				Selected Corporate Financial Data and Ratios				
Company	Buckle	Inditex	Coach	Prada	Ford	Fiat	Verizon	Telefonica
Year End	Feb. 1st, 2014	Jan. 31st, 2014	Jun. 28th, 2014	Jan. 31st, 2014	Dec. 31st, 2013	Dec. 31st, 2013	Dec. 31st, 2013	Dec. 31st, 2013
in Billions:								
Total Assets	0.55	13.76	3.60	5.25	202.00	112.08	270.00	148.00
Total Equity	0.36	9.28	2.40	3.65	26.30	16.25	4.00	25.50
Sales	1.12	16.72	4.80	4.78	147.00	112.14	125.00	60.00
Ratio:								
Net Profit Margin	0.14	0.14	0.16	0.18	0.05	0.01	0.10	0.11
Current Ratio	2.77	1.95	2.28	2.08	6.74	1.16	2.62	1.16
Quick Ratio	1.77	1.47	1.63	1.44	6.34	0.86	2.59	1.12
RoA	32%	18%	22%	17%	4%	1%	5%	5%
RoE	29%	28%	33%	35%	10%	2%	19%	21%
RoI	131%	26%	30%	14%	33%	11%	30%	11%
D/E	0.16	0.27	0.26	0.34	1.20	0.85	1.95	0.77
EPS	3.39	0.75	3.28	2.42	1.16	0.73	4.48	1.42
BV/Share	8.49	2.80	8.82	1.40	6.90	10.15	3.60	16.87
Dividends Yield	.88 (1.9%)	0.02	1.35 (3.9%)	1.16 (2.18%)	.5 (2.9%)	0.00	2.12 (4.2%)	.42 (2.1%)
P/E Ratio	14.17	30.20	11.38	21.57	10.32	13.96	11.10	15.28
P/BV Ratio	5.66	8.05	4.20	37.78	2.39	1.01	13.69	1.29

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