

Capri Holdings Limited's Financial Strategy Analysis and Luxury Market Analysis Based on SWOT and Business Valuation

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Abstract. Due to the great impact of COVID-19 on the world economy, the luxury market has also been affected, and luxury companies of all sizes have been affected to some extent. Besides, luxury companies of all sizes have been hit to some extent. Capri Holdings Limited is a luxury goods company that is made of Versace, Jimmy Choo, and Michael Kors. He re-entered the luxury market during the global outbreak of the pandemic. Only four years later, Capri's profit value successfully turned from negative to positive, which is enough to prove the feasibility of Capri's financial strategy. According to the financial statement provided by Capri Company, the financial status quo of Capri Company in 2022 is analyzed from four aspects: DOL, net profit, liquidity ratio, and capital turnover, so as to analyze whether its financial strategy is reasonably applied. What's more, based on SWOT and enterprise valuation analysis, it determines Capri's position in the global luxury industry, and finally puts forward some suggestions for Capri's future healthy operation and development.

Keywords: Finance; SWOT; Enterprise Valuation.

1. Introduction

1.1 Background

The outbreak of COVID-19 has disrupted the world economic order and greatly affected the global luxury goods market [1]. Since COVID-19 broke out in late 2019, it has had multiple impacts on the global economy. To put it simply, first, COVID-19-related shutdowns and delayed resumption of work are having an impact on global industrial and supply chains. As a result, the development of the global industrial chain faces the risk of resetting [2]. Secondly, normal production and trade activities were seriously affected, which eventually led to a global economic recession. Because of the economic recession, also brought market volatility. In this context, small and medium-sized enterprises lost offline sales channels due to the operation of the capital chain, resulting in bankruptcy. Meanwhile, big companies have been hit hard.

The first to suffer from this rapid worldwide epidemic are both domestic and foreign luxury brands. According to the Global Luxury Industry Study, which Bain & Company and Fondazione Altagamma jointly released. The whole luxury market, shrank by 20% to 22% at the current exchange rates, with a prediction at approximately €1 trillion globally, back to its 2015 levels [3]. Monthly orders for Gucci handbags declined in the first quarter of 2020 at the start of the pandemic. Hermes, located in the European luxury market and is the main one among them, even closed 42 production bases in France in the face of the impact of the epidemic [4]. As home to the greatest concentration of luxury brands in the world, the whole European luxury market has been adversely impacted. Among luxury brands, Capri has a presence in the market. It's only been four years since the company acquired Versace, but Capri's influence can't be underestimated. This report will focus on Capri's financial strategy and operational strategy to analyze how Capri improved its profit level and market share during the period of COVID-19.

1.2 Related research

First and foremost, the formulation of strategy is the key to the enterprise's operation. It can be obtained through the in-depth analysis of the enterprise system and reference to the peer strategy to learn something which can also profit from themselves. As a compass to point out the direction of

enterprise development, the formulation of strategy is particularly important. The whole body can also work together to achieve the strategic goal, allowing the employees to understand and support the enterprise's strategy and goal. Pay greater attention to long-term development as well as short-term success in order to maintain the enterprise's fundamental competitiveness and overall performance.

In the data era, an enterprise strategy analysis framework based on the two dimensions of industrial ecosystem positioning and enterprise digital capability should be constructed [5]. In this analysis report, a SWOT analysis will be adopted and Capri enterprise valuation will be reckoned.

SWOT is the first letter abbreviation for Strengths, weaknesses, opportunities, and threats [6]. The scenario analysis of the internal and external competitive environment and competitive situations form the basis of the so-called SWOT analysis. In order to match the numerous components for analysis, it first lists the key internal strengths, weaknesses, external opportunities, and dangers that are directly connected to the research object. It then organizes these factors in a matrix format. They allow for the deduction of a number of matching conclusions, most of which involve some level of judgment.

The second method will be used to evaluate the value of Capri enterprises. The value is mainly aimed at the internal value of enterprises, and its value is calculated mainly for the self-positioning of enterprises in relevant markets. Compared with the average market value, the conclusion is drawn whether the enterprises themselves are overvalued or undervalued. It can also reflect the value of an enterprise's products. The method chosen to evaluate the enterprise will affect the evaluation results, so the enterprise should carefully analyze the differences between these evaluation methods, and then choose the evaluation method according to the needs of the enterprise [7].

1.3 Objection

To sum up, this paper will analyze Capri Group. In order to understand how Capri, an emerging enterprise, will survive the impact of COVID-19, first of all, analyze Capri's financial situation, and then use the SWOT analysis method to judge Capri's strengths, weaknesses, opportunities, and possible threats. Then the enterprise valuation is carried out to see whether it exceeds the average value of the industry, and the enterprise valuation of 2023 Capri will be predicted. Finally, the sustainable development of Capri Group is proposed.

2. Basic Descriptions of Capri Holdings Limited

Capri Holdings Limited, its original name was Michael Kors Holdings Limited. After they bought Versace brand, the company change its name in 2018. Capri, this name, is derived from the legendary island, which has long been regarded as a famous, elegant, and opulent vacation spot. Capri is a worldwide fashion luxury company that consists of famous brands which are Versace, Jimmy Choo, and Michael Kors that are leaders in their fields in terms of design, style, and workmanship.

Versace was founded in Milan by Gianni Versace in 1978. This brand has chosen Medusa as its ideal symbolic representation because the inspiration of design is fatal attraction, just like a Medusa. Versace is a brand with a short history, but this young has become one of the major Italian fashion brands alongside Armani, Gucci, and Valentino.

In charge of leading Jimmy Choo's design staff, Sandra Choi, has served as the company's Creative Director from the brand's foundation in 1996 [8]. Avant-garde and gorgeous are synonymous with Jimmy Choo, and these precisely become unique characteristics that made Jimmy Choo a world-class luxury brand. This brand specialized in luxury accessories that set off the beauty of women, including shoes, handbags, belts and leather goods, scarves, and jewelry. In addition, this brand also is in the area of men's productions.

Michael Kors, a well-known designer, established the Michael Korsbra brand more than 40 years ago [8]. In the Americas and Europe, Michael is a well-known name in luxury fashion, and its

popularity is spreading to other international markets. With a jet-set aesthetic that fuses elegant style with an athletic attitude, Michael Kors offers exceptional designs, materials, and workmanship.

Over the past 20 years, although the luxury market has not grown as fast as the affordable goods industry, it has steadily increased. Due to the recovery of the world economy in recent years, the market demand for luxury goods is also growing. Moreover, population and socio-economic changes have led to an increasing proportion of young people in the Z generation in the total number of luxury goods buyers. Because Capri's performance in all aspects has risen steadily over the past five years, its size and influence are also growing bigger. Choosing profitable financial and operational strategies are very essential, so this report will base on big data to realize how Capri runs their companies.

3. Balance sheet

3.1 Financial strategy analysis

Table 1. Capri Holdings Limited and Subsidiaries Consolidated Statements of Operation and Comprehensive Income(Loss)
(In millions, except share and per share data)

	Fiscal Years Ended		
	02/04/2022	27/03/2021	28/03/2022
Total revenue	5654\$	4060\$	5551\$
Cost of goods sold	1910\$	1463\$	2280\$
General and administrative expenses	2533\$	2018\$	2464\$
depreciation and amortization	193\$	212\$	249\$
total operating expenses	2841\$	2578\$	3463\$
The profits	960\$	-81\$	-82\$

Table 1 above is part of the Capri Holdings Limited and Subsidiaries Consolidated Statements of Operation and Comprehensive Income(Loss). According to this table, the total revenue is \$5654m and the sum of variable cost and fixed cost also called total operating expenses is \$2841m, so the EBIT can be calculated as \$2813m.

$$\text{EBIT}=\text{TR}-\text{TOE} \quad (1)$$

Based on selling, general and administrative expenses overhead \$2533m, meanwhile the cost of goods sold \$1910m with depreciation and amortization \$193m, and the DOL can be deduced as 1.29, which is within the reasonable range of 1-3. What's more, the DOL 1.29 is close to 1, indicating that the financial risk of Capri in the year 2022 is small.

$$\text{DOL}=(\text{EBIT}+\text{F})/\text{EBIT} \quad (2)$$

$$\text{F}=\text{SGAE}-\text{CG}+\text{DA} \quad (3)$$

The profit of Capri is not stable in the recent three years. The net profit is negative in 2020 and 2021, but the net profit reaches \$960m in 2022. The global COVID-19 pandemic's effects have made the economy for garments and luxury products less hopeful from 2020 to 2021, which is also the cause of Capri's drop in profit throughout these two years. Because the total profit increased in 2022. Thus, the investment strategy of Capri is not mature enough and needs to be further optimized.

3.2 Cash holding analysis

Table 2. Capri Holdings Limited and Subsidiaries Consolidated Balance Sheet
(In millions, except share and per share data)

	02/04/2022	27/03/2021
Total current assets	1891\$	1546\$
Property and equipment , net	1891\$	1546\$
Operation lease right-of-use assets	476\$	485\$
Intangible assets, net	1358\$	1504\$
Goodwill	1847\$	1992\$
the total current liabilities	1566\$	1621\$
total liabilities	4922\$	5324\$

Table 2 above is part of the Capri Holdings Limited and Subsidiaries Consolidated Balance Sheet. According to this table, the total current assets are \$1891m while the total current liabilities are \$1566m in 2022. So the current ratio can be calculated as 120.8%, and it inferred that Capri is solvent in the short term but still struggling. Generally speaking, the number of current ratios is 200% can be in a good situation.

$$CR=TCA/TCL*100\% \quad (4)$$

In addition, on the basis of the formula of capital turnover ratio and the information given in the balance sheet table above, the sum of monetary capital, current investment, and bills receivable is \$5572m. The long-term viability of long-term debt is \$3356m, so the capital turnover ratio is 166.03%, which indicated that Capri's recent long-term debt repayment ability is strong and the security of creditor's rights is high.

$$CTR=(MC+CI+BR)/LTD*100\% \quad (5)$$

All in all, Capri's cash turnover is abundant in 2022, laying the foundation for the long-term operation and healthy development of Capri.

3.3 Accounting performance analysis

Capri recorded \$5654m in revenue, \$2533m in operating costs, and \$960m in net profit in 2022, after the global COVID-19 pandemic period. Compared to 2020 and 2021, the 2022 figures are significantly better, reflecting Capri's operational and management flexibility. There are many competitors of Capri in the luxury market, such as Gucci, Balenciaga, etc. Compared with them, Capri cannot reach the same level at present, but from the perspective of its solvency and profitability, Capri has a bright future. With the trend of aesthetic diversification, the market of clothing and luxury goods will be further reformed. Capri needs to keep pace with The Times so as not to be eliminated, and at the same time, Capri also needs to show its unique style to attract more and more consumers and potential customers. Besides, finding the right strategy to keep themselves running for a long time is definitely important.

4. Marketing

4.1 Business valuation research

When it comes to enterprise valuation, the enterprise value multiple is a very important indicator, which can be calculated by dividing EBITDA by EV.

$$\text{Valuation}=\text{EBITDA}/\text{EV} \quad (6)$$

EBITDA stands for Earning before interest, tax depreciation, and amortization, and EV stands for Enterprise value. According to Fig1 and Fig2, EBITDA can be calculated as \$3006m. Since the market value of Capri is \$73.80 billion, the calculated EV is \$11460m, so the enterprise valuation multiple is 3.81. Specifically speaking, 3.81 means Capri's enterprise value increased by 3.81 percent compared to last year. Based on the current data, Hermès increased by 73 percent while Chanel increased by 13 percent in the luxury industry [9]. Besides, the average enterprise valuation in the luxury industry is about 5.8 percent. Obviously, Capri's enterprise valuation is lower than the average and it indicates that Capri Holdings Limited is still undervalued

4.2 SWOT analysis

4.2.1 Strengths

1). Cost structure: The low-cost structure of Capri allows it to produce goods more cheaply and offer them for less money, increasing client accessibility.

2). Financial situation: Capri has been profitable every year for the past five years and has been accumulating profit reserves that might be used to cover future capital projects.

3). Social media: Capri has millions of followers across Twitter, Instagram, and Facebook, giving her a significant social media presence. On these three sites, users regularly participate, and they respond quickly[10].

4.2.2 Weaknesses

1). Large day sales inventory: Capri Holdings Limited collects inventory because it takes longer than usual for items to be bought and sold, which increases unnecessary costs for the company.

2). The majority of items have a market share, but only a small number of products have a significant market share. For any reason, this reliance on a few items suffers.

3). Because of the business culture and politics that have become worse over the past year, employee morale is poor[10].

4.2.3 Opportunities

1). The green government initiative offers Capri the chance to sell its goods to federal and state government contractors.

2). Take advantage of the government's announcement of a subsidy on the sale of ecologically friendly items.

3). Tourism: Capri will benefit from an increase in tourism since it will provide the island with new prospective consumers to pursue in an effort to expand its market share [10].

4.2.4 Threats

1). The influence of the currency rate on the company is due to the fact that local suppliers provide Capri while also having worldwide sales.

2). A steady financial and economic climate is not provided by the country's fluctuating interest rates[10].

5. Suggestion

Now that the world is fully open, it will coexist with the new crown pneumonia epidemic. The world economy is bound to recover, which will also bring a number of challenges. Capri needs to turn the challenges into opportunities and develop a strategy that best suits the company's current growth.

1). Regularly count the number of items that have not been sold in the warehouse for a long period of time and make disposals of such items, such as low prices and discounts, as well as controlling the number of individual items that need to be sold for a long period of time and reducing their storage time in the warehouse, thus reducing inventory costs and learning from experience based on each change.

2). Recruit talents, increase research and development, set up a new research department to invest in product innovation, or develop products with a high degree of external dependence on the company itself, thus reducing the probability of external threats.

3). Companies should pay attention to the construction of corporate culture. Culture building is very important for the internal unity of the company, the communication between the upper and lower levels should be timely and effective, and the transmission of information needs to be accurate, so as to improve office efficiency. When necessary, the company can organize group activities to lead employees to relax, regulate their mood and encourage their morale.

4). Pay attention to government and market trends, monitor the latest rise and fall trends in real-time, develop relevant measures according to changing conditions, and write regular collated reports on changes in market dynamics to facilitate more rapid adjustments by superiors, for example, companies can respond positively to government initiatives to develop products that protect the ecological environment.

5). In the post-epidemic era, the tourism industry, which was previously affected by the epidemic, is resuming operations in an orderly manner, and developing this in line with the current situation so as to attract potential customers, for example by working with tour groups and interspersing our products with experiential sites and trial products during the trip.

6. Conclusion

Capri applied the correct financial operation strategy during the period of COVID-19 to achieve a net profit of 960m in 2022 and successfully increased its market share and popularity.

As a new enterprise, Capri successfully achieved profits in the fourth year of operation. If there is a better investment plan, it can be believed that under the implementation of the correct financial strategy, Capri may achieve success earlier. However, although the valuation of Capri has not reached the average value, due to its strong capital operation ability, it is predicted that the valuation of Capri will be around the average value in 2023 due to the accelerating recovery of the world economy.

Capri has a moderate scale and belongs to the emerging clothing industry. A detailed strategic analysis of Capri can learn how small and medium-sized enterprises adapt to market changes flexibly, so as to give suggestions to other enterprises.

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