Published Clips

1. **Home Furnishings Retailers Struggle As Fewer Houses Sell—From Williams-Sonoma To Wayfair To Home Depot**
    - Reported on the struggling home furnishings retailers amid a sluggish housing market—highlighting the inverse relationship between the S&P 500 Home Furnishings Index and 30-year mortgage rates in the past several years
    https://www.forbes.com/sites/hyunsoorim/2024/06/21/home-furnishing-retailers-struggle-as-fewer-houses-sell-from-williams-sonoma-to-wayfair-to-home-depot/

2. **Comfort-First Footwear Market Surges: How Ugly Shoes Became A Fashion Statement**
    - Reported on the rise of comfort-first footwear brands such as Birkenstock, Hoka, Crocs, and On Running, highlighting how these once "ugly" shoes have become fashion statements and achieved record-breaking sales, in the week of Birkenstock's earnings release.
    https://www.forbes.com/sites/hyunsoorim/2024/06/06/comfort-first-footwear-market-surges-how-ugly-shoes-became-a-fashion-statement/

3. **The Beloved 90s Fashion Brand Is Making A Turnaround—Even Beating Nvidia Over The Past Year**
    - Covered the resurgence of popular 90s fashion brands—Abercrombie and Gap—that have outperformed tech giant Nvidia over the past year, immediately following their earnings announcements.
    https://www.forbes.com/sites/hyunsoorim/2024/05/31/the-beloved-90s-fashion-brand-is-making-a-turnaround-even-beating-nvidia-over-the-past-year/

4. **Hermès Sales Surge Amid Exclusive Birkin Wave—Despite Global Luxury Slump**
    - Analyzed Hermès' strong earnings despite a global luxury market slowdown, highlighting how ultra-luxury stocks have outperformed the S&P Global Luxury Index in recent years.
    https://www.forbes.com/sites/hyunsoorim/2024/04/25/herms-sales-surge-amid-exclusive-birkin-wave-despite-global-luxury-slump/

5. **Market Lessons: Understanding The Price/Earnings Ratio—With 12 Cheap Stocks**
    - As part of Forbes' 10-part weekly explainer on key stock market ratios, this article provides a detailed overview of how the P/E ratio is calculated, why it matters, and examples of 12 stocks with notably high or low P/E ratios.
    https://www.forbes.com/sites/hyunsoorim/2024/06/08/market-lessons-understanding-the-priceearnings-ratio-with-12-cheap-stocks/

[Clip 1] Home Furnishings Retailers Struggle As Fewer Houses Sell—From Williams-Sonoma To Wayfair To Home Depot

June 21, 2024

TOPLINE

Home furnishings retailers have yet to rebound from the post-pandemic slump, with major players from low- to high-end markets reporting drops in first-quarter sales—as rising mortgage rates and a related slowdown in home sales continue to weigh on demand for big-ticket furniture and home improvement projects.

CHICAGO - MAY 22: Shoppers browse through a Williams Sonoma store on Michigan Avenue May 22, 2003 in Chicago, Illinois [-] GETTY IMAGES

KEY FACTS

- RH, an upscale American home furnishings company formerly known as Restoration Hardware, reported a 1.7% net revenue loss for the quarter ending May 4, to $727 million, amid what CEO Gary Friedman called "the most challenging housing market in three decades" in last week's earnings call.
- Williams-Sonoma saw its net revenue fall 5.4% year-over-year to $1.7 billion for the quarter ending April 28, with sales in Pottery Barn—its high-end brand and largest revenue driver—declining by 10.8%, while its second-biggest West Elm was down 4.1%.
- Ethan Allen, a custom-made furniture retailer, posted a 21.4% decrease in net sales for the quarter ending March 31, citing "sluggish" demand in the overall industry amid elevated interest and inflation rates, according to CFO Matthew McNulty.

- Wayfair, an online home goods company, reported $2.7 billion in net revenue for the quarter ending March 31, down 1.6% year-over-year, though the retailer narrowed its net loss by $107 million following a 13% workforce reduction in January.
- Home Depot reported a 2.3% annual decline in net sales to $36.4 billion for the quarter ending April 28 due to "continued softness in certain larger discretionary projects," according to a company statement.
- Richard McPhail, CFO of Home Depot, said in last month's earnings call that the significant decrease in housing turnover and high interest rates reduced demands for big-ticket home projects like kitchen and bath remodels—which customers typically use financing to fund.
- Lowe's, the second-largest home improvement chain in the U.S. after Home Depot, posted a 4.4% annual decrease to $21.4 billion in net sales for the quarter ending May 3, due to a decline in "DIY big-ticket discretionary spending."
- Consumers are yet to "reengage" and show that "home improvement is inflecting" amid housing affordability challenges and historically low turnover, said Lowe's CFO Brandon Sink in last month's earnings call.

KEY BACKGROUND

Sales for furniture and home furnishings in May were down 6.8% year-over-year, the biggest drop among all retail sectors analyzed, according to a monthly retail report released Tuesday by the Department of Commerce. After furniture and home furnishings sales peaked in January 2023 at almost $13 billion—according to seasonally adjusted U.S. Census Bureau data—the furniture industry has faced a tough economic climate over the past year, with high interest rates and inflation impacting consumer spending on home goods. The housing market slowdown after the post-pandemic home buying boom—fueled by soaring mortgage rates, which hit a 23-year high in October—has further compounded these challenges, as fewer home purchases mean fewer large-scale furnishing projects. Major players in the industry, ranging from high-end to mass-market home furnishings retailers, have felt the brunt of this shift.

BIG NUMBER

$53 billion. That's how much furniture and home furnishings retailers in the U.S. are estimated to have generated in sales during the first five months of this year—down 7.9% from last year. No other retail industry saw a larger decline, with the building material and garden equipment sector coming on its heels with a 3.3% annual dip.

Housing Market's Impact on the Home Furnishings Sector

The home furnishings industry is closely tied to the housing market. Since the onset of the pandemic, the S&P 500 Home Furnishings Index has shown an inverse relationship with 30-year mortgage rates.

Chart: Hyunsoo Rim • Source: YCharts • Get the data • Created with Datawrapper

NEWS PEG

In the early stages of the pandemic, people spent more time at home and increasingly invested in home improvements, which led to a significant surge in home furnishings and furniture purchases. Low interest rates and government stimulus packages—coupled with the subsequent housing market boom—further drove demand for home furnishings. Monthly sales of furniture and home furnishings stores in the U.S. soared by more than 200% year-over-year in April 2021, and kept increasing until the end of the pandemic, peaking in January 2023, according to Census Bureau data. As the pandemic eased and consumer spending patterns began to normalize—along with the

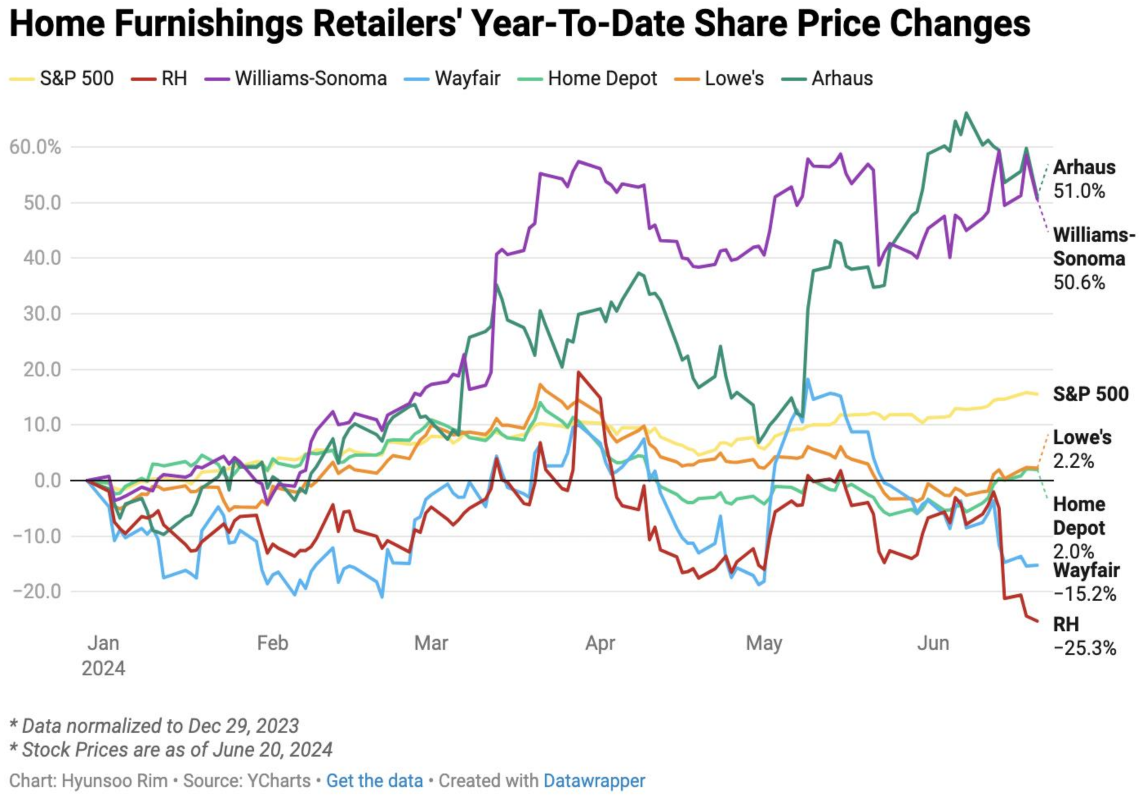
Federal Reserve's hawkish rate hikes starting in March 2022—this had a cooling effect on the housing market and, subsequently, on the demand for home furnishings.

CRUCIAL QUOTE

"We have seen a Covid boom and bust in the sales of many products, ranging from Peloton bicycles to liquor to fireworks. Home furnishing is another one in this boom and bust category. Furniture sales spiked at the end of Covid and now the industry is dealing with the bust," noted Jay Zagorsky, an economics professor at Boston University's Questrom School of Business.

TANGENT

The soft demand has especially impacted bigger-ticket items or home projects. "Softness in big-ticket furnishings and furniture will persist until interest rates come down," noted Neil Saunders, retail analyst at GlobalData, as moving activities declined and financing for large-scale items got more expensive—both due to elevated interest rates. "At present, people are more willing to buy smaller things as part of simple home refreshes," he said. The trend is highlighted in major retailers' first-quarter earnings calls. Home Depot's transactions for items over $1,000 decreased by 6.5% from the previous year, while average-ticket transactions dropped by 1.3%. Lowe's reported a 7.6% annual decline in sales for items over $500, and Williams-Sonoma's high-end brand, Pottery Barn, also saw a continued softness in higher-ticket furniture sales, according to CEO Laura Alber. Yet Alber said the retailer has rather been "very focused on the smalls" and leaned into "easy updates," meaning things that are easy to buy and improve for the home—as demand for furniture has dulled amid the housing slump.



CONTRA

While the overall furniture market is struggling, some high-end retailers seem to defy the trend, showing strong gains on Wall Street. Williams-Sonoma's shares are up over 50% year-to-date, with first-quarter profits up 70% from last year. Shares of Arhaus, a premium home furnishings retailer, are also up 51% year-to-date, thanks to increased brand awareness due to more store openings and new product releases, according to Telsey Advisory Group analyst Christina Fernandez. Williams-Sonoma's profit boost is mostly driven by lower freight costs, better supply chain efficiencies, and normalized e-commerce sales with lower merchandise returns post-pandemic, Saunders told Forbes. Despite higher share gains compared to competitors, both companies' revenues still shrank in the first quarter, with Arhaus posting a 3.1% decrease in net sales for the quarter ending March 31.

WHAT TO WATCH FOR

Whether the home furnishings industry will rebound from the post-pandemic slump. Zagorsky told Forbes there's a "bright spot" indicating a recovery: Retail prices for furniture and bedding, according to the Bureau of Labor Statistics' Consumer Price Index data, fell 3.7% year-over-year in May. The cost of overall household furnishings and supplies dropped 2.5%—the first May decline since at least 2019. "Lower prices will help lure consumers back to purchasing larger pieces of furniture and bedding," Zagorsky wrote in an email. A return of consumer confidence, higher travel costs leading to more staycations, and the normalization of home furnishings demand—which was pulled forward during the pandemic—could also revive the market, according to Saunders. Farooq Kathwari, CEO of Ethan Allen, commented in an April press release the retailer is seeing a gradual return of consumer interest in home furnishings "after being previously diverted to other areas like travel." Additionally, although we're still in the down part of the purchase cycle, in a few years it will start to pick up as people replace items they bought in 2020 and 2021, Saunders noted.

[Clip 2] Comfort-First Footwear Market Surges: How Ugly Shoes Became A Fashion Statement

June 6, 2024

TOPLINE Comfort-first footwear brands such as Birkenstock, Hoka, Crocs and On Running reported record-breaking first-quarter sales, as a shift in consumer preferences and strategic marketing tactics have transformed these once "ugly" shoes into fashion statements.

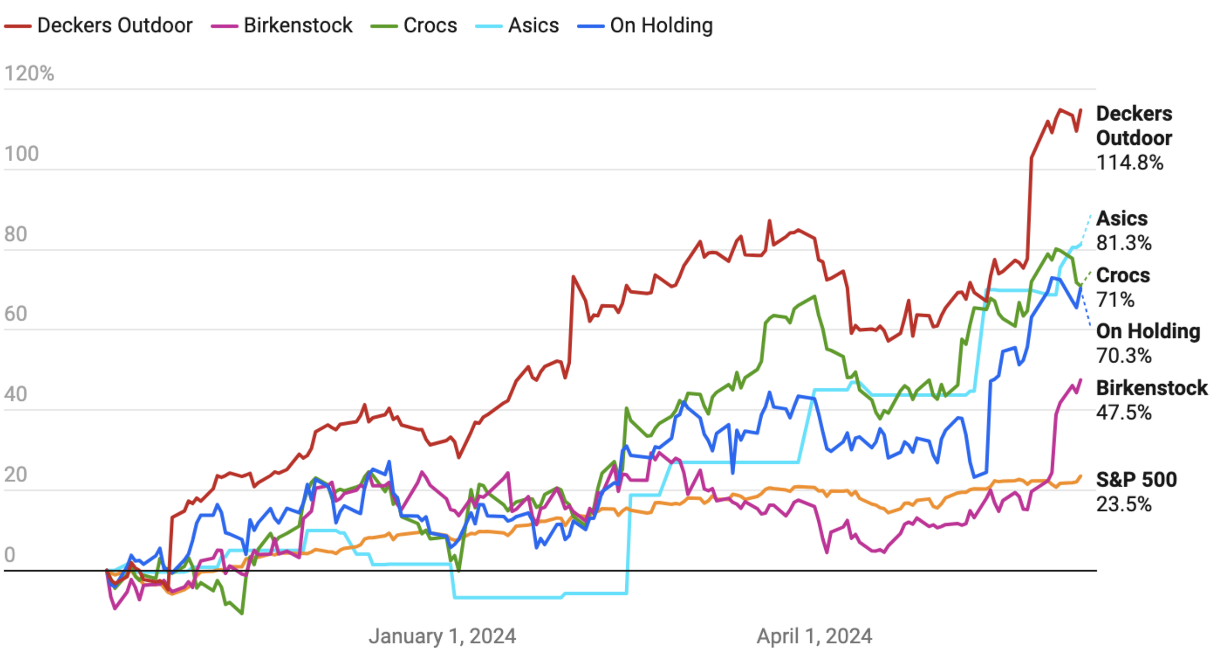
*Birkenstock sandals are seen at a store in Rome, Italy on March 25, 2024. (Photo by Jakub Porzycki/NurPhoto via Getty Images)*NURPHOTO VIA GETTY IMAGES

KEY FACTS

- Birkenstock reported $524 million (€481 million) in revenue for the quarter ending March 31—up 22% year-over-year—and raised its full-year sales growth guidance to 20% from the previous 17-18%.
- The German sandal maker "achieved the highest revenue level" for the first quarter in the company's history, driven by "growing demand for products across all segments, all channels and categories," said CEO Oliver Reichert during last week's earnings call.
- Hoka, a running shoe brand of Ugg-owner Deckers Brands, reported a 34% increase in first-quarter net sales to $533 million, topping half a billion for the first time—fueled by "increased brand awareness," especially in the US and even among non-runners, according to Deckers Brands CEO David Powers.

- Once considered chunky and ugly, Hoka has significantly grown its share of total net sales among all Deckers brands, from 11% in the fiscal year 2019 to 42% in 2024.
- Crocs, a Colorado-based shoemaker popular for its distinctive ventilated clogs, saw a 6% annual gain in first-quarter sales to a record $939 million as revenues of its namesake brand were up 14.7%, "driven by robust consumer demand."
- Switzerland-based On Running—known for thick soles and performance-oriented looks—delivered record first-quarter net sales of $570 million (508.2 million Swiss Francs), up 21% from the previous year and surpassing 500 million Swiss Francs for the first time in company history, thanks to "exceptionally strong demand and momentum" in its direct-to-consumer channel.
- Net sales of Japanese sneaker brand Asics—known for its classic dad sneakers with robust yet clunky design—were up 14.3% year-over-year in the first quarter, leading to a more than 100% increase in stock price over the past year.
- New Balance, the dad shoe-turned-trendy brand, is set to launch a new product called the 1906L—referred to as "snoafer" due to its hybrid feature of a sneaker and a loafer—which "fits squarely into the ugly shoe space and is arguably a response to the trend," according to Neil Saunders, managing director and retail analyst at GlobalData.

Comfort-First Shoe Brands Are On The Rise



** Normalized to October 11, 2023, the date of Birkenstock's IPO*
** Stock price as of June 5, 2024*
Chart: Hyunsoo Rim • Source: YCharts • Get the data • Created with Datawrapper

CRUCIAL QUOTES

"The [comfort-first or ugly shoe] trend was initially driven by the desire for comfort over style. This came to the fore during the pandemic when everyone was dressing comfortably and some of that trend has been carried over," Saunders told Forbes. "However, as time has gone on, many of these shoes have become a kind of statement and so are, arguably, something of a fashion and cultural trend. They're a kind of anti-fashion that people buy into to show they don't take themselves or following trends too seriously."

KEY BACKGROUND

The surge in comfortable and functional footwear started prior to the pandemic, but "was definitely accelerated" by it—and continued afterward—as people's priorities changed and preferences shifted to convenience amid a more hybrid lifestyle, according to Beth Goldstein, a footwear and accessories analyst at Circana. "Sacrificing comfort for style now seems somewhat silly. This has morphed into this idea of 'ugly' becoming fashionable," she said. The trend particularly resonates with younger generations. Since 2020, comfort-first brands, including Ugg and Birkenstock, saw almost a 200% increase in media impact value—a metric that measures the monetary value earned by media exposure—driven by rising demand from Gen Z, who prioritize comfort, according to a recent report from data analytics firm Launchmetrics. In Deckers Brands' latest earnings call, Powers said Hoka's growth is "strongest among 18 to 34-year-olds globally, with brand awareness among this influential age group nearly doubling year-over-year." From fall 2022 to 2023, New Balance, Crocs, On Running and Hoka have all gained consumer awareness and popularity among Gen Z as their favorite footwear brands, while Nike—although still holding the top spot—has lost some ground to these brands, according to recent research by Piper Sandler, a financial services firm.

TANGENT

While the rising popularity of ugly shoes mainly stems from their functional and comfortable design, some brands have effectively leveraged marketing tactics—such as celebrity endorsements and media exposure—to enhance their appeal. After Margot Robbie wore a pair of pink Birkenstock Arizona sandals in the Barbie movie, searches for the German shoemaker surged and the brand garnered $34.1 million in media impact value in July 2023, up 28% from the previous month, according to Launchmetrics. Moreover, products that weren't necessarily comfortable still managed to capitalize on their "ugliness" by generating social buzz. Crocs' partnership with Pringles in April led to an immediate sellout of its footwear collection, which was more quirky and Instagrammable than comfortable. Last year, the company's viral red and yellow giant boots, in collaboration with Brooklyn-based art collective MSCHF, were endorsed by many celebrities, including Lil Wayne, Ciara, Paris Hilton and even the renowned stiletto-lover Victoria Beckham. Despite their $350-$450 price range and impractical design, the oversized boots sold out quickly upon release, with the hashtag #bigredboots garnering over 257 million views on TikTok.

CONTRA

Not all brands owned by the classic "ugly" shoemakers are outperforming the market: HeyDude, the casual footwear brand purchased by Crocs in 2022, reported a 17.2% year-over-year loss in first-quarter sales, and the company slashed its full-year outlook to an 8% to 10% decline in sales. Some online critics have called it out as "egregious" or even "the greatest threat to a relationship or marriage"—suggesting the brand fails to strike the right balance between style and comfort. The main problem with HeyDude shoes is that they're not all that comfortable and are also on the wrong side of being ugly, and therefore have ended up missing the mark, Saunders told Forbes. "Ugly doesn't actually mean chucking out any old product. There is a subtle art and sophistication to it, which HeyDude does not seem to get," he said.

[Clip 3] The Beloved 90s Fashion Brand Is Making A Turnaround—Even Beating Nvidia Over The Past Year

May 31, 2024

TOPLINE Abercrombie & Fitch, the iconic fashion brand that dominated the Y2K era, reported record-breaking first-quarter earnings Wednesday, signaling a successful turnaround as young millennials turned back to the nostalgic brand's inclusive revamp—with shares growing over fivefold, outpacing Nvidia over the past year.

Abercrombie & Fitch continues its winning streak as young millennials turn back to the nostalgic brand, favoring its mid-priced inclusive products. GETTY IMAGES

KEY FACTS

- Abercrombie & Fitch reported a 22% annual increase in first-quarter sales topping $1 billion—the "highest first-quarter net sales in company history"—following last year's 16% revenue growth.
- Shares surged more than 20% Wednesday after the earnings announcement, extending to a 459% gain over the past year as of Friday afternoon—outperforming Nvidia's 187% stock growth in the same period.
- The company increased its full-year outlook on net sales growth to around 10%, up from the previous forecast of 4-6%.
- The company's two brands both delivered solid sales growth: Abercrombie brands—targeting millennials aged 23 to 40-plus—posted a 31% increase, while Hollister brands—catering to 13- to 21-year-old Gen Zs—saw a 12% rise.

- Once an iconic mall staple in the 1990s and early 2000s, the Ohio-based retailer faced severe criticism and declining popularity in the 2010s due to its controversial and exclusive marketing tactics, including sexualized advertising and refusing to make XL or XXL sizes.
- Under the leadership of CEO Fran Horowitz since 2017, the company has reinvented itself by focusing on inclusivity, broadening its product range and revamping the brand image targeting young professionals who grew up wearing the nostalgic brand.
- The company's inclusive strategy includes offering denim in a range of styles and sizes—such as 90s low-rise baggy jeans, ultra high-rise straight jeans and the Curve Love line which went viral on TikTok—shifting away from its previous image of fitting only slim customers.
- In March, Abercrombie launched the A&F Wedding Shop Collection—tailored to brides and wedding guests—to diversify its product lines beyond casual wear, which Horowitz said "clearly exceeded expectations from the beginning," during the earnings call on Wednesday.

KEY BACKGROUND

Abercrombie & Fitch has undergone a significant transformation over the past decade. In 2015, the company announced it would end its "sexualized marketing" practices using shirtless models and tone down the provocative in-store atmosphere—characterized by dim lighting, strong cologne scents and loud music. After being labeled America's most-hated retailer in 2016, Horowitz, then-chief merchandising officer, committed to fostering "a more diverse and inclusive culture." Upon becoming CEO in 2017, Horowitz spearheaded a comprehensive rebranding, featuring models of various body shapes and skin tones, and expanding product lines. In 2019, the company introduced Curve Love, tailored to curvier customers with sizes up to XXXL, which now accounts for nearly half of the women's denim segment, according to Horowitz's recent interview with Vogue Business. The company also launched Your Personal Best (YPB), an activewear line in 2022, and unveiled a bridal shop in March, catering to the diverse lifestyles of young millennials. On the back of these strategic shifts, the retailer's stock soared 285% in 2023, with an additional 91% surge so far this year.

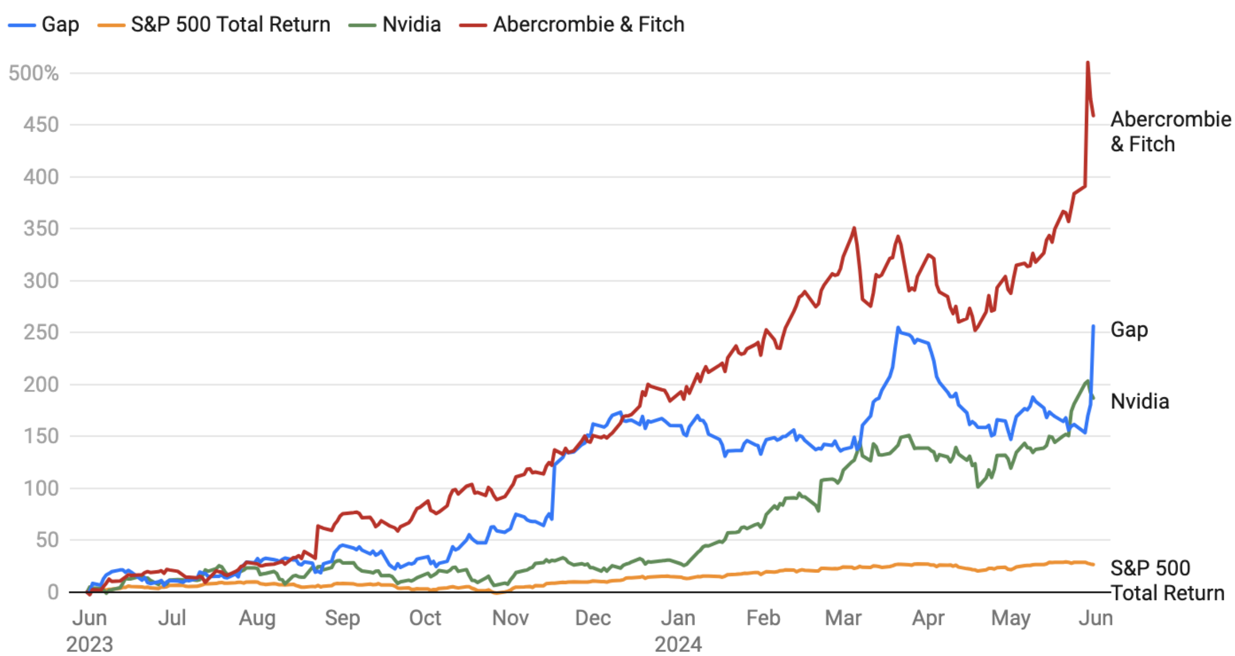
CRUCIAL QUOTE

"The key factor behind Abercrombie's success is a relentless focus on the customer," Neil Saunders, managing director and retail analyst at GlobalData, told Forbes. "The brand has also been transformed from its 1990s vibe into a modern label that is appealing to younger and middle-aged shoppers. On the assortment side, a focus on quality and moving into areas of growth like athleisure and wedding outfits have served Abercrombie very well."

NEWS PEG

The 131-year-old apparel company had a controversial history under its former CEO Mike Jeffries. In a 2006 interview with Salon, he said that the company targeted an “attractive all-American kid with a great attitude and a lot of friends.” He also said the company would “hire good-looking people in our stores,” as “we want to market to cool, good-looking people. We don't market to anyone other than that.” This approach led to a series of controversies, including a $50 million settlement in 2004 over discriminatory hiring practices. Amid increasing criticism and 11 straight quarters of declining same-store sales, Jeffries left the company in 2014. The brand hit a 17-year low stock price below the $10 mark in 2017, five months after Horowitz took over as CEO.

Y2K Fashion Brands Outperformed the AI Darling Over the Past Year



Normalized to 5/31/2023; Data as of 2:50pm, 5/31/2024

Chart: Hyunsoo Rim • Source: YCharts • Get the data • Created with Datawrapper

TANGENT

While Abercrombie & Fitch is making headlines with its stunning revival, Gap is another nostalgic 90s brand signaling a comeback under new leadership. Following the appointment of Richard Dickson—former president of toymaker Mattel who helped revive Barbie—as CEO last August, the company has undergone a turnaround, which seems to be paying off so far: shares rose by 256% over the past year as of Friday afternoon, with the company’s promising earnings announcement Thursday pushing up shares over 20% after market close. The company posted an annual sales growth of 3% for the first quarter, with all four brands—Gap, Old Navy, Athleta and Banana

Republic—seeing quarterly sales growth "for the first time in what we can't necessarily find in our history," according to Dickson in an earnings call. The company also raised its full-year guidance to "up slightly year-over-year" from the prior outlook of "roughly flat," with its market share gaining for the fifth consecutive quarter. Gap appointed fashion designer Zac Posen, also known as the former Project Runway judge, as the company's creative director in March—which would enhance "the brand's reinvigoration" and has already started to "show up on the scoreboards," according to Dickson. Posen has recently elevated Gap's media exposure by dressing Da'Vine Joy Randolph in a custom denim gown on the Met Gala red carpet, and Anne Hathaway in a white shirt dress for a Bulgari event in Rome—the dress was launched online on Tuesday and sold out within several hours.

[Clip 4] Hermès Sales Surge Amid Exclusive Birkin Wave—Despite Global Luxury Slump

Apr 25, 2024

TOPLINE Hermès—the coveted Birkin and Kelly bag maker—reported a 17% jump in first-quarter sales Thursday on the back of strong leather goods sales and Chinese demand, bucking the global luxury slowdown.

The French luxury house posted strong quarterly sales growth across all geographic areas, including China.© 2024 Bloomberg Finance LP

KEY FACTS

- First-quarter revenue rose 17% from the previous year to $4.1 billion (€3.8 billion), with all geographical areas posting double-digit growth, topping FactSet's consensus estimates of a 13% growth and $4 billion sales (Thursday's report did not include earnings figures).
- The leather goods and saddlery division—where the group derives more than 40% of its revenue—saw a 20% jump in sales on the back of new models, followed by a 16% growth in ready-to-wear and Accessories, its second-largest line; both beat consensus estimates gathered by FactSet.
- Sales in Asia-Pacific, excluding Japan—which account for more than half the group's revenue—grew by 14%, defying China's slowdown that has vexed other luxury peers; Japan and the Americas also saw robust sales increases, at 25% and 12% respectively.
- In contrast to Hermès' performance, the group's two biggest French conglomerate rivals are facing challenges: LVMH reported a modest 3% increase in first-quarter sales, while Gucci owner Kering posted a 40 to 45% profit plunge.

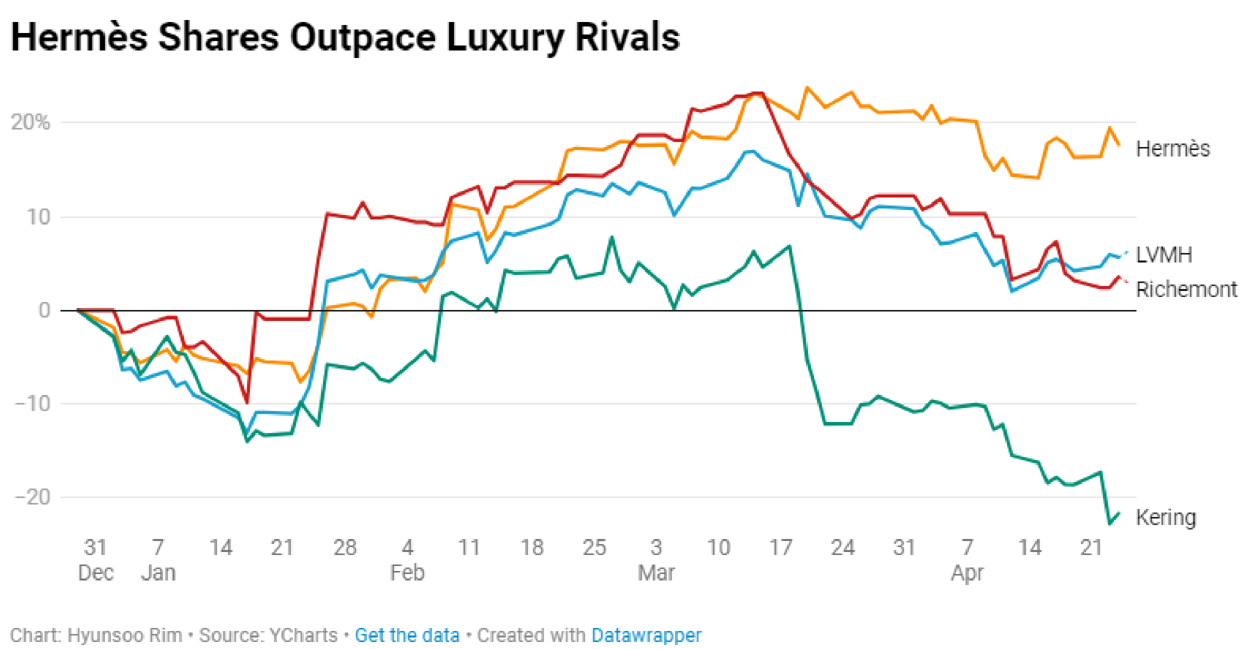
- Hermès shares fell 4.7% in Paris afternoon trading but are up 16.3% year-to-date, beating its rivals LVMH (4.5%) and Kering (-19.1%).

Forbes Valuation

Forbes ranks Nicolas Puech, the fifth-generation descendant of Hermès founder Thierry Hermès, as the world's 126th richest person with an estimated net worth of $14.9 billion. Puech resigned from Hermès' supervisory board in 2014 but still owns about 5% of the company.

Key Background

The recent economic woes in China—the world's second-largest luxury market—have struck a blow to major players like LVMH and Kering. However, Hermès has managed to weather the storm—and outperform its competitors—amid an increasingly polarized Chinese market. While economic pressures have dampened the spending of aspirational consumers—previously the main supporters of the middle-positioned Gucci—Hermès' ultra-wealthy clientele remains undeterred in their demand for its exclusive products. Barclays analysts noted that in a polarized market, the leaders will be those with "a higher exposure to high-end consumers" or "a higher level of pricing power"—criteria that Hermès, the Birkin maker, clearly meets.



Tangent

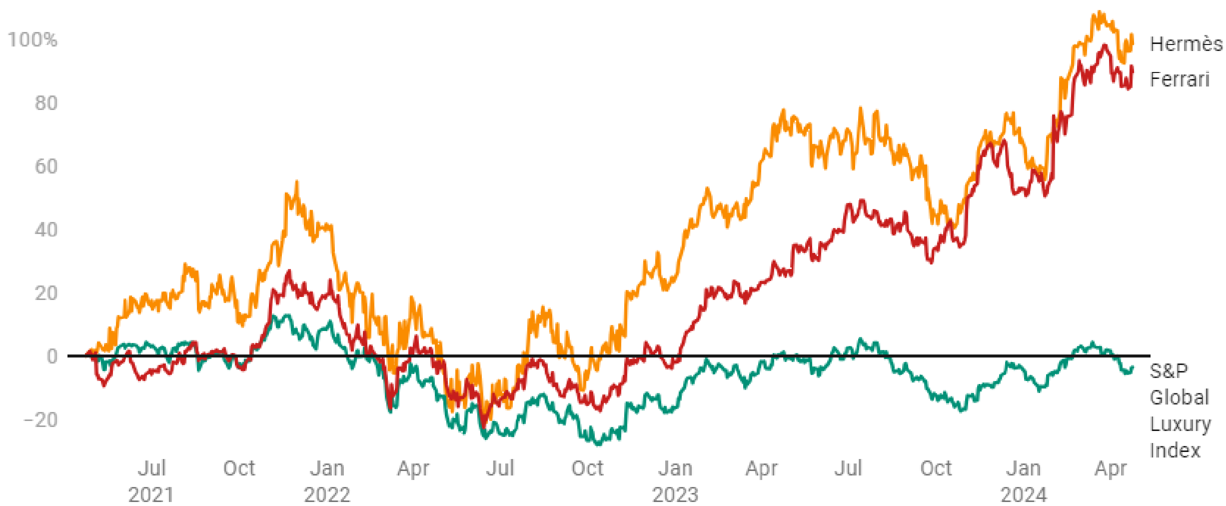
Hermès' exclusive strategy targeting the affluent has cemented its status among the high-end brands. But it has also landed the group in legal trouble, when two Californians filed a class action antitrust lawsuit in March. They accuse Hermès of allowing only customers with "sufficient purchase history of ancillary products" to buy the iconic Birkins—which are not on store displays and can only be viewed in private showings. Amid these controversies, the group plans to raise its prices by 8%-9% this year.

Crucial Quote

Bernstein analyst Luca Solca notes Hermès seems to have embraced Ferrari's philosophy of scarcity as "core strategic tenet," and that it "benefits from the ability to increase prices" when others rather "suffer a consumer spend swing back."

The Ultimate Luxury Surfs The Scarcity Wave

The two status symbols have weathered economic challenges—from high inflation to recession fears—and outperformed global luxury peers



Note: The S&P Global Luxury Index is comprised of 80 of the largest luxury goods/services publicly traded companies, including Hermès, Ferrari, LVMH and Mercedes.

Chart: Hyunsoo Rim • Source: YCharts • Get the data • Created with Datawrapper

Big Number

$513,000 (HK$ 4 million). That's the all-time high price for a Birkin bag—the Himalaya Niloticus Crocodile Kelly adorned with 18k white gold and diamonds, sold at Christie's in 2021—making it the world's most valuable handbag ever auctioned. This figure excludes the few bejeweled limited-edition Birkin bags which were priced at around $ 2 million. Secondary market prices of Birkin sometimes far exceed—even double—their retail prices. According to Solca, this "significant premium" reflects the intense demand for "an immediately available" Birkin or Kelly bag, which are notoriously hard to get—it's not as simple as walking into a store and picking one from a display.

[Clip 5] Market Lessons: Understanding The Price/Earnings Ratio—With 12 Cheap Stocks

Jun 8, 2024

Stock analysis is all about the numbers—specifically, how one number relates to another. A ratio, that is, such as the ratio of a stock price to the earnings it represents. The questions to answer: How is a ratio defined? Why does it matter? How high or low does it have to be to make a stock stand out?

In this 10-part series, Market Lessons: The Ratios That Drive Stock Prices, beginning today and continuing with 10 weekly installments, we will examine the key ratios that analysts and famous billionaire investors, from Warren Buffett to Bill Ackman and Carl Icahn, use to evaluate stocks. There will be ratios that compare a company's stock market value to its profits, its enterprise value to its sales and its debt to its stockholders' equity. There will be a number that looks at cash dividends and another that focuses on share buybacks. There will be numbers that get at the quality of earnings. For each ratio, we will display extreme stocks—those that score well above or below the norm.

No single ratio determines whether a stock is a genuine bargain or a company is financially secure. A company could be cheap-looking by one measure but expensive by another, or cheap for a reason or justifiably expensive. A business could be risky when debt is compared to book value but not when debt is compared to market value.

All of these numbers are elements of quantitative analysis, the part of investing that pays no attention to management quality or industry prospects and instead focuses on the numbers in the financial statements. Quantitative methods are not everything in making judgments but they are a necessary first step.

PRICE/EARNINGS

The most basic of metrics for stock valuation is the P/E: share price divided by share earnings. It tells you how many dollars you pay to acquire a dollar of annual earning power.

A high P/E is usually a sign of one of three things: Investors expect terrific growth from the company; the company has valuable assets not generating a commensurate profit; or the profit number is temporarily depressed, such as by a one-time write-off.

A low P/E is likely to reflect one of three converse phenomena: Investors expect miserable growth; the company has some looming liability not yet impacting the bottom line; or the profit number is temporarily inflated, such as from a nonrecurring gain.

For some stocks, no P/E can be reported. The earnings per share is either a negative number or one so close to zero that the ratio is meaningless.

The tables display stocks with earnings multiples far outside the norm. Compare these ratios to what is seen for the average large corporation: The S&P 500 index trades at 28 times its trailing earnings and 22 times the forecast.

Those S&P calculations compare the composite market capitalization of the 500 corporations with their combined net income, money losers included. You get lower multiples by omitting companies with losses; using that method, Morningstar comes up with 21 as the weighted average P/E for the 500 stocks. In the YCharts collection of U.S. firms worth at least $1 billion, a fourth are losing money and the remainder have a median P/E of 22.

Great expectations are in place for the companies on our high-P/E list. They trade at high multiples of both their trailing earnings and what’s expected in 2024. Omitted here: comically high P/Es, such as the 965 multiple recently reported for CrowdStrike Holdings, the cybersecurity outfit, when it eked out a tiny profit.

Palantir has developed very impressive technology that just needs a little more time, so the bulls tell us, to create a gusher of profits. Eli Lilly is trading in part on the successful launch of its anti-obesity drug Zepbound and a diabetes drug that can also be used for weight control. Fair Isaac’s data analysis is a must-have for issuers of credit: You know it for its FICO score.

Most of the wallflowers at the bottom are in unexciting industries. AT&T is perhaps being punished for its clumsy attempt to diversify into content. Altria is in a seemingly doomed line of work. Alongside Tesla, General Motors looks like a lemon.

It might seem that market-beating results could be had by owning cheap companies and shunning the expensive ones. There have been times in the past when that strategy would have worked, but the last decade is not one of them. Since 2014, high-P/E growth stocks have done especially well.

Buyers of low-P/E companies are always at risk of falling into what is called a value trap. In 2020 Bed Bath & Beyond looked like a bargain at 7 times earnings, but even that price turned out to be too rich. The stock went to zero in a 2023 bankruptcy.

There is a reason to pay a premium multiple for a premium business. As Warren Buffett famously said, “It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”

CHEAP

			Price/Earnings		
TICKER	**COMPANY**	**BUSINESS**	**TRAILING**	**FORWARD**	**MARKET CAP ($B)**
GM	General Motors	Cars	5.5	4.8	51.2
UAL	United Airlines Holdings	Airline	6.6	5.2	17.4
UNM	Unum Group	Insurance	7.8	6.4	10.0
CRBG	Corebridge Financial	Pensions & Life Insurance	8.0	6.3	18.9
VLO	Valero Energy Corp	Gasoline Refiner	8.0	9.5	53.1
SIRI	Sirius XM Holdings	Satellite Radio & Pandora	8.8	9.7	11.1
CHTR	Charter Communications	Cable Telecom	8.9	8.5	39.6
ACI	Albertsons	Grocery Stores	9.2	8.2	11.8
T	AT&T	Telecom Services	9.3	7.8	123.8
PHM	PulteGroup	Homebuilding	9.4	9.2	24.8
HPQ	HP	Laptops & Printers	9.6	9.5	32.0
MO	Altria Group	Cigarettes	9.7	9.1	79.6

Source: YCharts

Forbes

EXPENSIVE

TICKER	COMPANY	BUSINESS	Price/Earnings TRAILING	Price/Earnings FORWARD	MARKET CAP ($B)
COST	Costco Wholesale Corp	Discount Retailing	52.4	50.1	355.2
CMG	Chipotle Mexican Grill	Restaurants	67.7	57.1	87.1
FICO	Fair Isaac Corp	Statistical Analysis	72.2	58.1	34.0
EL	Estee Lauder	Cosmetics	74.6	59.3	47.6
NOW	ServiceNow	Cloud Software	83.1	57.6	159.6
DXCM	DexCom	Glucose Monitors	84.4	73.3	52.0
LYV	Live Nation Entertainment	Music Concerts	100.0	67.7	23.6
CSGP	CoStar Group	Real Estate Analytics	119.0	140.4	35.5
LLY	Eli Lilly	Prescription Drugs	120.3	58.4	763.3
WING	Wingstop	Boneless Wings	135.4	111.3	11.2
AR	Antero Resources Corp	Oil & Gas	171.9	57.0	10.7
PLTR	Palantir Technologies	Counterterrorism Software	177.0	64.3	47.3

Source: YCharts

Forbes