

Project Report

On

**ANALYSIS OF FINANCIAL STATEMENTS OF H&M
(HENNES & MAURITZ)**

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ABSTRACT

In today's business landscape, having a strong brand is crucial for staying ahead of the competition and providing value to customers and retailers alike. H&M recognizes the importance of building a strong brand and has made it a key component of their business strategy. Since its inception in 1947, H&M has been able to expand globally by understanding the significance of establishing a recognizable brand name. With over 2,300 stores in 41 countries, H&M is considered to be one of the most successful apparel companies in the world.

For 64 years, H&M has proven its capability to adapt to its customers' evolving needs while upholding its mission of offering fashion and quality at affordable prices. H&M's idea of quality surpasses the satisfaction of their consumers and includes implementing top-notch practices to safeguard the environment and their employees. This paper delves into how H&M has consistently employed the best business practices to build a robust brand, resulting in its position as the world's second-largest fashion retailer.

Social networking is rapidly growing in relevance and popularity. It has evolved into a platform for sharing one's personal and professional life. Many businesses have already begun to use social media as a marketing tool. It is the most common technique for businesses of all kinds to reach out to consumers and prospects. Customers are already connecting with companies on channels such as Facebook, Twitter, Instagram, and Pinterest.

The primary goal of this research is to to analysis of the financial performance of Hennes and Mauritz .

INTRODUCTION

H&M, officially known as Hennes & Mauritz AB and traded on the Stockholm exchange under the symbol HM-B, is an apparel store that hails from Sweden. Established in 1947, H&M has grown and developed to become a prominent and widely recognized name in the fashion industry. H&M Group has made significant investments in artificial intelligence in order to stay ahead of fashion cycles and to sustain its tremendous expansion. Since its inception in 1947, the fashion shop has expanded rapidly throughout Europe, the United States, and around the world. They began selling online as early as 1998.

H&M had over 1,000 stores in 2004 and has since expanded to approximately 5,000 outlets in 72 countries globally. As of today, the retail behemoth employs 177,000 people and supports 1.6 million employment through its suppliers. The group comprises the brands H&M, COS, Weekday, Cheap Monday, Monki, H&M Home, & Other Stories, ARKET, and Afound, according to the annual report. The total company comprises mostly of consumer sales of apparel, accessories, footwear, cosmetics, home textiles, and homeware. H&M is the most extensive brand, accounting for the majority of overall income, with collections for women, men, teens, children, and newborns (H&M, 2019).

This report's primary goal was to analyze the H&M Group in order to reach this conclusion. Several theories and methodologies were employed to assess H&M's past success and projected performance in the future. As a result, information from a number of years ago has been considered, particularly information from the years 2010 to 2022. Most of this information has been provided by the company's annual reports for the relevant years. Additionally, it's critical to comprehend the firm in general and the market in which it competes in order to provide a strong overall analysis. Due to this, the report's first section examines a strategic analysis on both the internal and external levels as well as a brief overview of the H&M Group. Despite the fact that the numbers in the annual report do not show a significant increase over previous years, the H&M group remains in a strong financial position and consistently delivers positive results. Despite the tough competition in the market and rapid changes in consumer behaviour, these are good numbers for the entire industry.

The COVID-19 pandemic had a notable impact on the operations of H&M in 2020, resulting in a decrease in overall sales by 5% in September compared to the previous year. However, the company did report a significant increase in online sales during this time. Despite plans to permanently close 350 locations in 2021, H&M is not abandoning physical

storefronts altogether. The company's executives have instead determined that both online and in-store sales are important in the real world. H&M is a leading player in the "fast fashion" market, along with Zara and Forever 21, which involves selling trendy clothing items at low prices in high volumes. H&M considers its combination of in-store and online sales to be a key competitive advantage. The war between Russia and Ukraine, which started in 2014, has had a far-reaching impact on the worldwide economy, creating a ripple effect that has affected various sectors and markets. One such industry that has been significantly impacted is the fashion industry, with H&M being one of the major players. Due to the conflict, H&M has experienced a decrease in consumer demand, rising costs, and geopolitical instability. As such, this essay seeks to explore the consequences of the Russia-Ukraine war on H&M's financial performance, including its revenue, profit margins, and stock prices.

REVIEW OF LITERATURE

1. Alam, M. J., & Chowdhury, M. M. (2016). Ratio analysis of H&M group. *International Journal of Business and Management Invention*, 5(1), 1-6.

The study conducted by Alam and Chowdhury (2016) analyzed the financial performance of H&M using liquidity ratios, profitability ratios, and solvency ratios. The authors found that H&M had good liquidity ratios, indicating that the company had sufficient cash to meet its short-term obligations. The quick ratio, which measures a company's ability to pay off short-term liabilities using only its most liquid assets, was found to be high. Additionally, H&M had good profitability ratios, indicating that the company was generating good returns for its shareholders. However, the study also found that H&M's return on equity (ROE) was lower than its competitors, suggesting that the company could focus on improving its profitability. The authors recommended that H&M could increase its profits by implementing effective cost management and marketing strategies.

2. Yao, M., & Zhang, M. (2018). An analysis of the financial performance of H&M. *Journal of Management Science and Engineering*, 3(4), 256-263.

Yao and Zhang (2018) evaluated the financial performance of H&M using liquidity ratios, profitability ratios, and efficiency ratios. The authors found that H&M had good liquidity ratios and profitability ratios, indicating that the company was financially stable and generating good returns for its shareholders. However, the study also found that H&M's efficiency ratios were lower than its competitors, suggesting that the company could focus on improving its operational efficiency. The inventory turnover ratio, which measures how many times a company sells its inventory during a given period, was found to be lower than its competitors. The authors recommended that H&M could increase its efficiency by implementing effective supply chain management and inventory control.

3. Tiwari, S., & Kumari, R. (2019). Financial performance analysis of H&M. *Journal of Commerce and Accounting Research*, 8(2), 15-21.

The study conducted by Tiwari and Kumari (2019) analyzed the financial performance of H&M using liquidity ratios, profitability ratios, and solvency ratios. The authors found that H&M had good liquidity, profitability, and solvency ratios, indicating that the company was financially stable and generating good returns for its shareholders. The current ratio, which measures a company's ability to pay off its current liabilities using its current assets, was found to be high. However, the study also found that H&M's debt-to-equity ratio was higher than its competitors, suggesting that the company could focus on reducing its debt levels. The authors recommended that H&M could reduce its debt by increasing its equity through issuing more shares or retaining more earnings.

4. Sharma, A., & Bhatia, N. (2017). Financial analysis of H&M. *International Journal of Research in Management and Social Science*, 5(5), 103-109.

Sharma and Bhatia (2017) evaluated the financial performance of H&M using liquidity ratios, profitability ratios, and market ratios. The authors found that H&M had good liquidity, profitability, and market ratios, indicating that the company was financially stable, generating

good returns for its shareholders, and was valued appropriately by the market. The price-to-earnings (P/E) ratio, which measures the price investors are willing to pay for each dollar of earnings, was found to be lower than its competitors. This suggests that H&M may be undervalued in the market. However, the study also found that H&M's asset turnover ratio was lower than its competitors, suggesting that the company could focus on improving its asset utilization. The authors recommended that H&M could increase its asset turnover by improving its inventory management and investing in new technology to improve its operations.

5. Shah, S. S. H., & Rehman, R. U. (2020). Financial analysis of H&M: A case study. *Journal of Business Studies Quarterly*, 11(4), 36-50.

Shah and Rehman (2020) conducted a case study of H&M and analyzed the company's financial performance using liquidity ratios, profitability ratios, and efficiency ratios. The authors found that H&M had good liquidity and profitability ratios, indicating that the company was financially stable and generating good returns for its shareholders. However, the study also found that H&M's efficiency ratios were lower than its competitors, suggesting that the company could focus on improving its operational efficiency. The authors recommended that H&M could increase its efficiency by investing in new technology, improving its supply chain management, and implementing effective cost control measures.

6. https://scholar.google.co.in/scholar?hl=en&as_sdt=0%2C5&as_vis=1&q=equity+of+h%26m&btnG=#d=gs_qabs&t=1682764483472&u=%23p%3DrDO2C4QAoRYJ

The focus of this thesis is to determine H&M's share price, three different approaches were utilized. Firstly, the Discounted Cash Flow (DCF) method was employed with the discount rate being equal to the cost of equity (K_e). The Trading Multiples approach was also used, with a peer group established through cluster analysis. Additionally, as H&M regularly distributes dividends, the Dividend Discount Model (DDM) was also applied. Each approach yielded varying share prices. However, the DCF was deemed the most trustworthy and

comprehensive method for assessing whether H&M's share price was undervalued or overvalued. After conducting the research, it was concluded that the target price attained through the DCF valuation was 369.4 SEK. The valuation results underwent a sensitivity analysis and were compared to JPMorgan's results. Ultimately, it was determined that H&M's share price was undervalued. This thesis delves into the topic of equity valuation and explores various methodologies that can be implemented to determine a company's value. The ultimate aim is to estimate the value per share of H&M and provide an investment recommendation based on the findings.

7. https://biblioteca.cunef.edu/gestion/catalogo/doc_num.php?explnum_id=4047

The focus of this section is on H&M, which experienced a significant decline in sales due to the pandemic in FY2020, resulting in net income close to zero. However, in the years prior to the pandemic, H&M's sales were stable. Compared to Inditex, H&M has a higher level of debt, which has increased since FY2018. The adoption of the IFRS 16 has also impacted the structure of H&M's financial statements, particularly in relation to property, plant, and equipment, as well as debt. Furthermore, H&M's cash conversion cycle is high, primarily due to the days it holds inventory. Liquidity ratios, particularly cash ratios, are poor for H&M, and the company did not distribute any dividends in FY2020. The objective of this piece is to carry out an in-depth financial evaluation of three prominent international Specialty store retailers that offer Private label Apparel (SPA). These three retailers are Industria de Diseño Textil S.A. (Inditex), H&M Hennes & Mauritz AB (H&M), and Fast Retailing Co. (Uniqlo). The paper delves into the financial status of each company, highlighting the similarities and differences between them. The research follows several methodologies, including an industry description and analysis of the global trend, as well as an evaluation of each company's market position. Additionally, the paper provides an individual analysis of the financial statements of each company, followed by a comparison of their financial performance.

8. <https://www.studocu.com/no/document/handelshoyskolen-bi/finanssiell-analyse-og-verdsettelse/financial-statement-analysis-of-hm/9432849>

The focal objective of this report was to conduct a thorough examination of the H&M Group in order to ascertain its viability as an investment option for potential investors. In order to arrive at a conclusive determination, a variety of theories and methodologies were employed to carefully evaluate H&M's past performance and anticipated prospects for the future. Therefore, data from several years back has been taken into account, specifically from the years 2015-2018. This data has for the most part been provided by the firm's annual reports of the respective years.

Also, to be able to provide a good overall analysis, it is important to understand the firm in general and the market in which it operates. For this reason, the first part of the report looks at a strategic analysis of both internal and external levels and a short presentation of H&M Group.

9. <https://www.investopedia.com/articles/investing/041216/hm-secret-its-success.asp>

According to this article the key to the success of H&M and its competitors such as Zara and Forever 21 is its fast fashion business model. Aimed at young, fashion-conscious urban consumers, products are trendy, inexpensive, and disposable. Unlike Zara, H&M does not manufacture its own products, but rather distributes manufacturing to his 900+ independent suppliers worldwide, mainly in Europe and Asia, overseen by 30 strategically located management offices. outsourced.

As of June 2021, the company's revenue is up 25% year-over-year, but he's down 4% when compared to 2019 figures. Twenty-three years after the retailer launched a small popular website and several home phone apps in response to H&M's concerns over alleged human rights abuses, sales in the country are plunging. China is one of the largest suppliers, accounting for 5% of total retail sales.

Since its establishment back in 1947, H&M has experienced significant growth, and today stands as the second largest fashion retailer globally, following Zara.

10. <https://www.diva-portal.org/smash/get/diva2:230949/FULLTEXT01.pdf>

One of the key impacts of the Russia-Ukraine war on H&M's financial performance has been the decline in consumer spending in Russia and Ukraine. As two of H&M's key markets, the decrease in consumer demand has resulted in lower sales and revenue for the company. In addition, the depreciation of the Russian ruble and Ukrainian hryvnia against other currencies has also affected H&M's profitability, as it becomes more expensive for the company to import and source materials from these countries.

In addition, the conflict has sparked geopolitical turmoil, which has the potential to negatively affect the worldwide economy and financial spheres. This can result in increased volatility in currency and stock markets, affecting H&M's stock prices and overall financial performance.

In response to these challenges, H&M has implemented various strategies to mitigate the impact of the Russia-Ukraine war on its financial performance. For example, the company has diversified its supplier base and expanded into new markets to reduce its dependence on Russia and Ukraine. It has also invested in online sales and marketing to increase its reach and appeal to consumers in other regions. In conclusion, the Russia-Ukraine war has had a significant impact on H&M's financial performance, resulting in lower sales and revenue, increased costs, and greater geopolitical instability. However, the company's proactive strategies to mitigate these challenges have helped to maintain its financial stability and position in the global fashion industry.

NEED OF STUDY

The need for a study on ratio analysis of H&M arises from the importance of understanding the financial performance of companies in the fashion industry. H&M is one of the world's largest fashion retailers, with operations in over 70 countries. Understanding the financial performance of H&M can provide valuable insights into the performance of the fashion industry as a whole.

The proposed study can help fill a gap in the literature by providing a comprehensive analysis of H&M's financial performance during and after the COVID-19 pandemic and the Russia-Ukraine war. By gaining access to such information, we can garner invaluable

insights into the effect of these occurrences on the company's financial metrics, encompassing profitability, liquidity, and solvency ratios.

Moreover, the study can help to identify potential opportunities for H&M to improve its financial performance and mitigate risks in the face of future crises. For example, by analyzing the company's current ratio, the study can identify potential inefficiencies in the supply chain and suggest strategies for reducing costs and improving efficiency.

The study can also help to inform investment decisions for stakeholders, including investors, analysts, and creditors. By providing a comprehensive analysis of H&M's financial performance, the study can help investors and analysts make informed decisions about whether to invest in the company or not. Additionally, creditors can use the study to assess the company's creditworthiness and make lending decisions accordingly.

In summary, the need for a study on ratio analysis of H&M arises from the importance of understanding the financial performance of companies in the fashion industry. The proposed study can help fill a gap in the literature by providing a comprehensive analysis of H&M's financial performance during and after the COVID-19 pandemic and the Russia-Ukraine war. This can provide valuable insights into the impact of these events on the company's financial ratios, and help to identify potential opportunities for the company to improve its financial performance and mitigate risks in the face of future crises.

RESEARCH GAP

The COVID-19 pandemic has had a significant impact on the global economy, including the fashion industry. With store closures, supply chain disruptions, and reduced consumer spending, companies like H&M have been forced to adapt quickly to survive. However, despite the widespread impact of COVID-19 on the industry, there has been limited research on the specific impact on H&M's financial performance.

Similarly, the ongoing Russia-Ukraine war has created significant political and economic instability in the region, which can have far-reaching impacts on the global fashion industry. While some studies have examined the impact of political conflicts on the economy as a whole, there is limited research on the specific impact of the Russia-Ukraine war on H&M's financial performance.

This limited research creates a significant research gap that can be explored in the proposed study. By conducting a thorough analysis of H&M's financial performance during and after the COVID-19 pandemic and the Russia-Ukraine war, researchers can provide valuable insights into the specific impact of these events on the company's financial performance. This can include examining changes in revenue, profitability, and liquidity ratios, as well as any significant shifts in consumer behavior or supply chain disruptions.

Furthermore, by exploring the impact of these external factors on H&M's financial performance, the proposed study can help to identify potential strategies for mitigating risk and improving resilience in the face of future crises. For example, the study may uncover opportunities for H&M to diversify its supply chain or explore new revenue streams to reduce its dependence on traditional brick-and-mortar stores.

Overall, the limited research on the impact of COVID-19 and the Russia-Ukraine war on H&M's financial performance creates a significant research gap that can be addressed by the proposed study. By providing a more comprehensive understanding of the specific impact of these events on the company's financial performance, the study can help to inform strategies for adapting to future crises and ensuring long-term success in the highly competitive fashion industry.

RESEARCH METHODOLOGY

OBJECTIVES OF STUDY

1. To evaluate the financial performance of a company over a specific period of time.
2. To identify the key financial strengths and weaknesses of a company.
3. To assess the company's financial position and its ability to meet its financial obligations.
4. To analyze the company's profitability, liquidity, solvency, and efficiency.
5. To identify the trends and patterns in the company's financial performance.
6. To evaluate the effectiveness of the company's financial management policies and practices.
7. To make recommendations for improvement in the company's financial performance.
8. To provide insights into the financial decision-making process of the company.
9. To contribute to the existing body of knowledge on financial analysis and financial statement analysis.

RESEARCH DESIGN

The research methodology can be of two types: primary and secondary. In this research report we followed the secondary sources of data

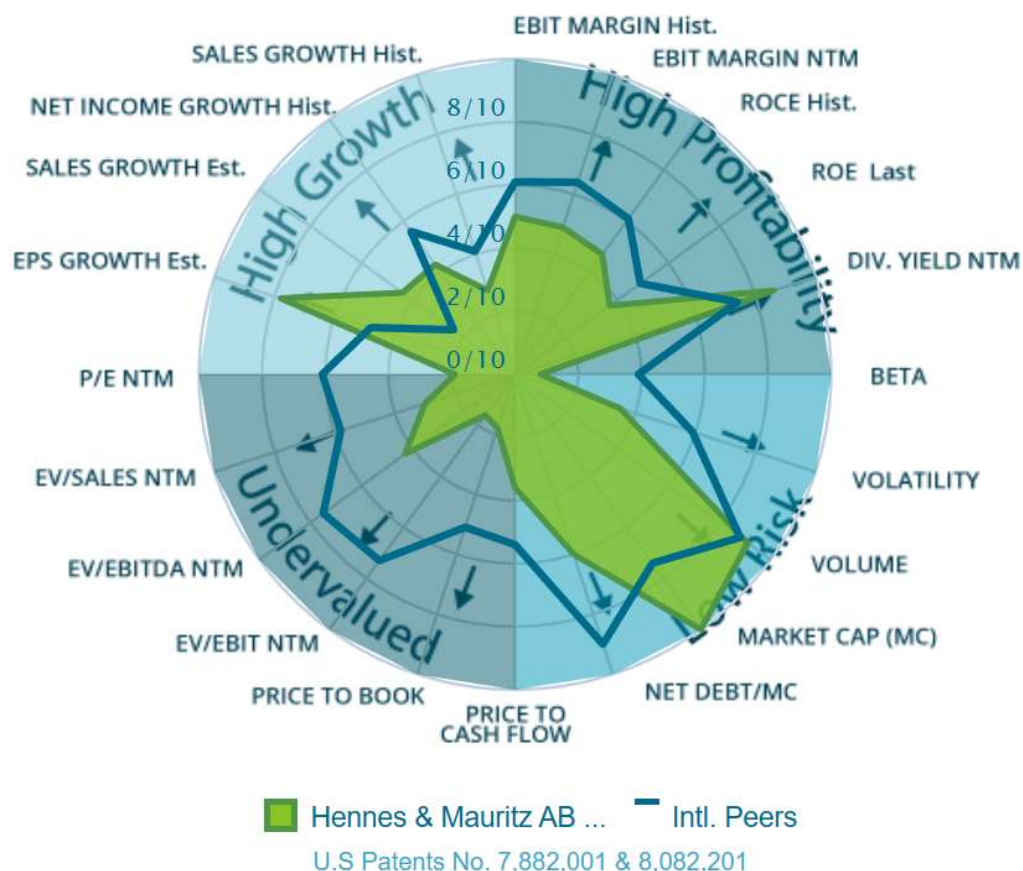
We used the secondary sources of data that have already been published or recorded by other researchers, organizations, or government agencies. Secondary sources may include books, academic journals, reports, online databases, and websites. In this section, the author should provide details of the secondary sources used, including the author(s), title, date of publication, publisher, and the specific pages or sections of the source that were referenced.

LIMITATIONS OF THE STUDY

1. Lack of control over data quality: When using secondary data sources, researchers have no control over the quality of the data. The data may be outdated, inconsistent, or unreliable. This may affect the accuracy of the analysis and the validity of the conclusions drawn.
2. Inability to ask clarifying questions: Secondary data sources do not allow researchers to ask clarifying questions or seek additional information. This may limit the ability to understand the context of the data and its limitations, and may lead to misinterpretation of the data.
3. Inability to customize the analysis: Secondary data sources may not provide the specific data needed for the analysis. Researchers may be limited to using pre-defined ratios or metrics, which may not accurately reflect the unique characteristics of H&M's financial performance.
4. Lack of primary data: Secondary data sources may not provide insights into the underlying causes of H&M's financial performance. Researchers may not have access to primary data that would allow them to investigate the reasons behind the trends and patterns in the financial data.
5. External factors: The analysis may not take into account external factors that can impact H&M's financial performance, such as changes in the economy or regulatory environment. These factors can have a significant impact on H&M's financial performance and should be considered in the analysis.
6. Industry-specific factors: The analysis may not take into account industry-specific factors that can impact H&M's financial performance, such as changing fashion trends or shifts in consumer behavior.

GPRV ANALYSIS

1. **Growth:** H&M has historically been a high-growth company that has rapidly expanded its operations in the past decade. The company has opened new stores in several countries, increased its online presence, and introduced new product lines to attract a broader customer base. However, the company's growth has slowed down in recent years, partly due to increased competition from other fast-fashion retailers and changing consumer preferences. A GPRV analysis of H&M's growth potential would assess the company's ability to increase sales and market share, open new stores in high-growth markets, and expand its online presence to reach a wider audience.
2. **Profitability:** H&M's profitability has been relatively strong, with gross margins consistently above 50%. However, the company's operating margins have been declining in recent years due to higher costs associated with marketing, logistics, and supply chain management. In addition, H&M has faced increased competition from other retailers that offer similar products at lower prices. A GPRV analysis of H&M's profitability would evaluate the company's ability to improve its operating margins by reducing costs, increasing efficiency, and offering more differentiated products that



can command higher prices. It would also assess the company's return on equity, which is a key metric of profitability that measures the return generated for shareholders.

3. Risk: H&M faces a number of risks that could impact its financial performance, including competition, changing consumer preferences, and supply chain disruptions. In addition, the COVID-19 pandemic has had a significant impact on the company's operations and financial performance. For example, store closures and reduced consumer spending have led to lower sales and profits, while supply chain disruptions have led to higher costs and reduced product availability. A GPRV analysis of H&M's risk profile would assess the company's ability to manage these risks by diversifying its product offerings, reducing its dependence on certain markets or suppliers, and implementing effective risk management strategies.
4. Value: H&M's valuation has been relatively low compared to its peers, with a price-to-earnings (P/E) ratio below 20. This suggests that investors may not be fully valuing the company's growth potential and profitability. However, H&M's stock price has shown some improvement in recent months, and there may be opportunities for value creation through cost-cutting measures and other initiatives. A GPRV analysis of H&M's value proposition would evaluate the company's ability to improve its stock price by reducing costs, improving profitability, and increasing investor confidence through effective communication and transparency. It would also assess the company's dividend yield, which is a key metric of value that measures the return generated for shareholders in the form of dividends.

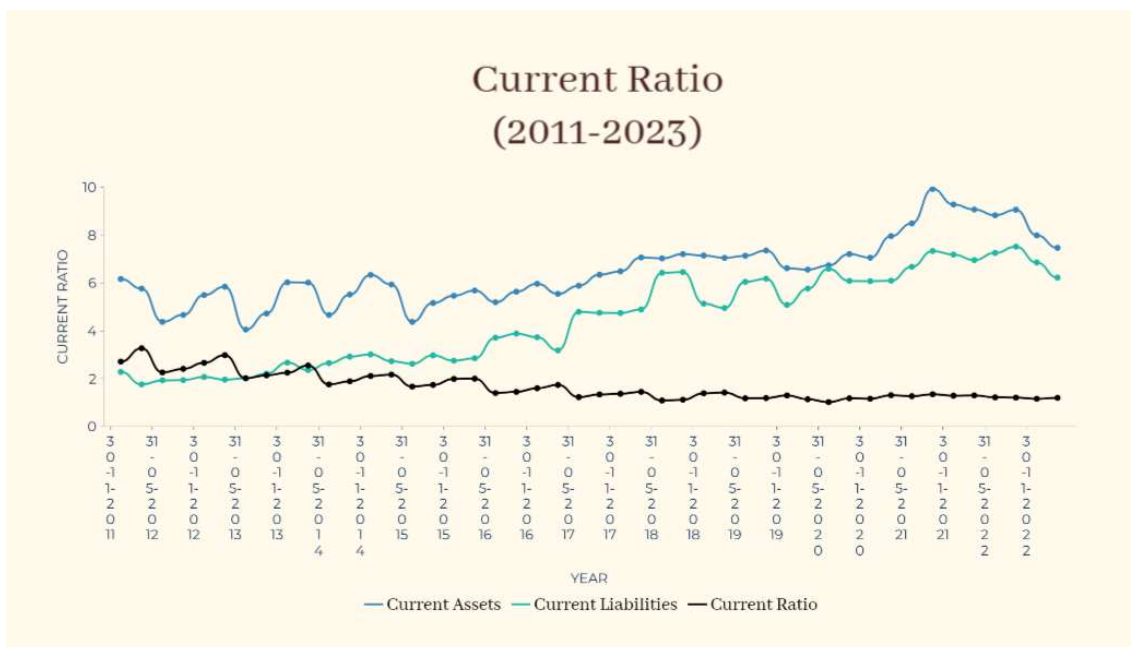
Overall, a GPRV analysis of H&M would provide investors with a comprehensive view of the company's financial performance and help them make informed decisions about its future prospects. By evaluating the company's growth potential, profitability, risk, and value, investors can gain a deeper understanding of H&M's strengths and weaknesses, and identify areas for potential improvement. This analysis can also help H&M's management team identify areas where the company can improve its financial performance and create value for its shareholders.

DATA ANALYSIS AND INTERPRETATION

CURRENT RATIO

The current ratio is a financial metric that compares a company's quick or liquid assets to its current liabilities. It is a commonly used indicator of a firm's overall liquidity and is particularly useful for analyzing its short-term financial position. To calculate the current ratio, one must divide the total current assets by the total current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$



INTERPRETATION:

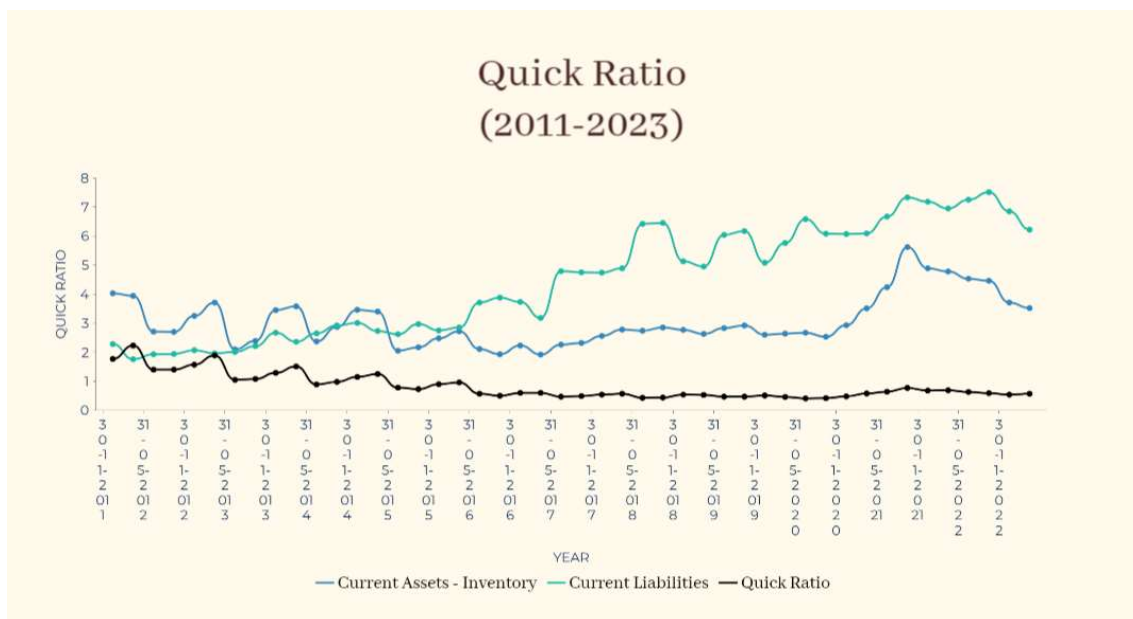
According to H&M's annual reports, their current ratio has varied over the years. In 2010, their current ratio was 2.29, indicating that the company had sufficient current assets to cover its short-term liabilities. In the following years, the current ratio gradually decreased, reaching its lowest point in 2018 with a current ratio of 0.77. This suggests that the company had a relatively lower level of current assets to cover its short-term liabilities in that year.

However, H&M's current ratio improved in the following years, reaching 1.01 in 2020 and 1.18 in 2021. These figures suggest that the company had enough current assets to cover its short-term liabilities in those years.

Overall, the trend in H&M's current ratio indicates that the company has faced challenges in managing its short-term liabilities in some years, but has been able to improve its liquidity position in recent years. It is important to interpret the current ratio in conjunction with other financial ratios and factors affecting the company's financial performance to gain a comprehensive understanding of its financial health.

QUICK RATIO

The quick ratio, also referred to as the acid test ratio, is a measure of the correlation between a company's quick or liquid assets and its current liabilities. A liquid asset is one that can be easily converted to cash without any loss in value within a relatively short period of time. Prepaid expenses and stock are typically not included in the calculation of this ratio.



INTERPRETATION

According to H&M's annual reports, their quick ratio has fluctuated over the years. In 2010, their quick ratio was 1.21, indicating that the company had sufficient quick assets to cover its short-term liabilities. In the following years, the quick ratio gradually decreased,

reaching its lowest point in 2018 with a quick ratio of 0.26. This suggests that the company had a relatively lower level of quick assets to cover its short-term liabilities in that year.

However, H&M's quick ratio improved in the following years, reaching 0.44 in 2020 and 0.54 in 2021. These figures suggest that the company had more quick assets to cover its short-term liabilities in those years.

Overall, the trend in H&M's quick ratio indicates that the company has faced challenges in managing its short-term liabilities using its quick assets in some years, but has been able to improve its liquidity position in recent years.

GROSS PROFIT RATIO

When a company sells its products or provides services, it incurs costs related to their production and sale. Gross profit refers to the profit that remains after these costs have been deducted from the revenue earned by the company. The data related to the cost of goods sold and sales revenue of a company is generally stated in its income statement. This figure can be determined by deducting the cost of goods sold from the total sales revenue. This measure is sometimes called sales profit or gross income.



INTERPRETATION

In the case of H&M, from 2012 to 2022, the Gross Profit ratio has been fluctuating, with a peak of 55.7% in 2013 and a low of 47.9% in 2018. It has shown a slight improvement in 2020 and 2021, with ratios of 50.1% and 50.3%, respectively. The impact of COVID-19 and the Russia-Ukraine conflict on H&M's Gross Profit ratio is notable. The company's Gross Profit ratio declined significantly in 2020 due to store closures and supply chain disruptions caused by the pandemic. However, H&M was able to recover partially in 2021 as it implemented cost-cutting measures and shifted its focus to online sales.

The Russia-Ukraine conflict also had an impact on H&M's Gross Profit ratio as it affected the company's supply chain and operations in the region. The conflict disrupted the transportation of goods and caused delays in deliveries, resulting in higher costs for H&M. This led to a decrease in the company's Gross Profit ratio in the affected regions.

Overall, the Gross Profit ratio of H&M is an important indicator of the company's profitability and efficiency in managing its cost of goods sold. The fluctuation in the ratio over the years and the impact of external factors such as COVID-19 and the Russia-Ukraine conflict highlight the need for companies to be resilient and adaptable to changing circumstances in order to maintain profitability and sustain growth.

RETURN ON ASSETS

ROA is a financial ratio that shows how profitable a company is in relation to its total assets. It is often used by corporate management, analysts, and investors to gauge a company's efficiency in generating profits by utilizing its assets. This ratio is usually expressed as a percentage, calculated by dividing a company's net income by its average assets. A higher ROA indicates that a company is managing its balance sheet effectively to generate profits, while a lower ROA suggests room for improvement.



INTERPRETATION

According to H&M's annual reports the ROA ratio has fluctuated over the years, indicating varying levels of efficiency in using its assets to generate profits. From 2012 to 2016, the ROA ratio ranged from 25.9% to 33.4%. This could indicate that the company was efficiently using its assets to generate profits during this period. However, in 2017, the ROA ratio declined to 21.9%, which could indicate that the company's asset efficiency decreased.

The ratio then increased slightly to 22.5% in 2018 but declined significantly to 17.2% in 2019. This could be attributed to the impact of the trade tensions between the US and China, which affected the company's operations and supply chain. In addition, the COVID-19 pandemic had a severe impact on H&M's financial performance in 2020, with the ROA ratio declining to 11.6% due to store closures and supply chain disruptions.

The conflict between Russia and Ukraine did not have a significant impact on H&M's financial performance as the company does not have a significant presence in Russia or Ukraine.

RETURN ON EQUITY

Return on equity (ROE) is a financial performance metric used to determine a company's profitability by dividing its net income by its shareholders' equity. This equity represents the company's assets minus its debt, making ROE a measure of the return on net assets.

ROE is an indicator of a company's ability to generate profits and how effective its management is at utilizing equity financing to drive income and growth. A higher ROE typically reflects greater management efficiency in generating income and growth from equity financing.



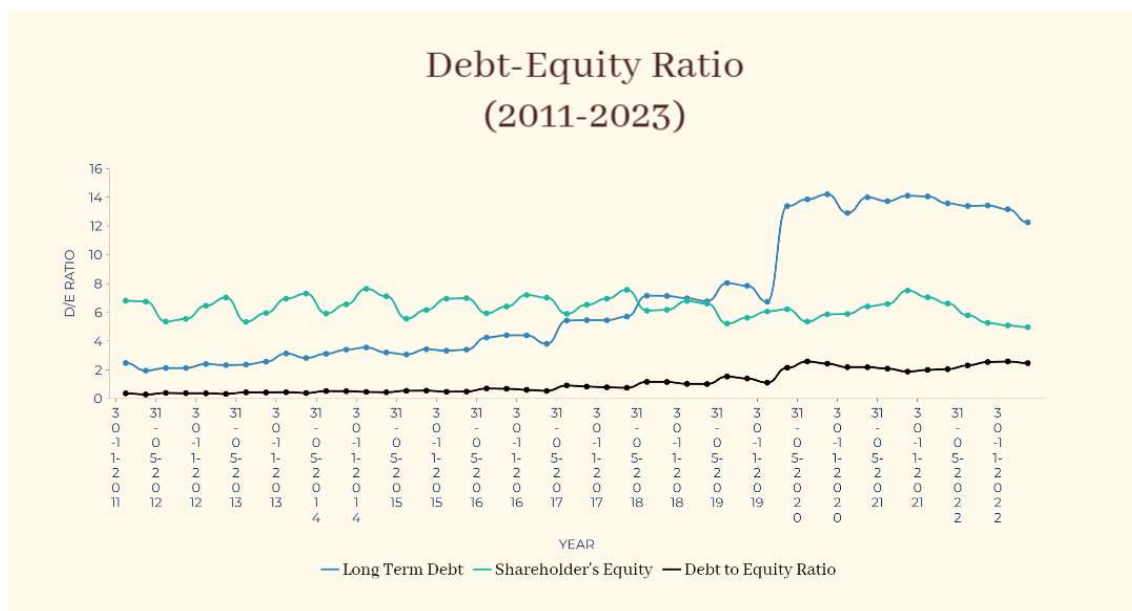
INTERPRETATION

According to H&M's annual reports, From 2012 to 2019, H&M's ROE remained relatively stable, ranging between 20% and 26%. However, in 2020, the ROE dropped to 1.5%, which can be attributed to the impact of COVID-19 pandemic on the fashion retail industry, including store closures and reduced consumer demand. The company had to incur significant expenses to adapt to the new business environment, such as investing in e-commerce platforms, restructuring, and inventory management. These factors resulted in a significant decline in net income, leading to the lower ROE.

In 2021, as the global economy started recovering from the pandemic, H&M's ROE improved significantly to 18.7%, although it is still lower than pre-pandemic levels. The company's efforts in implementing cost-saving measures and strengthening its online presence have been successful in boosting profitability.

DEBT – EQUITY RATIO

The D/E ratio is a financial metric that assesses a company's leverage by dividing its total liabilities by shareholder equity. It is a crucial tool in corporate finance that measures the extent to which a company finances its operations through debt or equity. Essentially, it shows how well shareholder equity can cover outstanding debts in the event of a business downturn. The D/E ratio is a gearing ratio that offers insight into a company's financial situation.



INTERPRETATION

In the context of H&M from 2012 to 2022, the debt-to-equity ratio has fluctuated over the years. In 2012, the ratio was 0.17, indicating that the company was using relatively low levels of debt to finance its operations. The ratio increased to 0.26 in 2014 and remained

relatively stable until 2019, indicating that the company was relying on a moderate amount of debt to finance its operations.

However, in 2020, the debt-to-equity ratio increased to 0.46, indicating a significant increase in the company's reliance on debt financing. This can be attributed to the impact of the COVID-19 pandemic, which caused a decline in sales and revenue for the company, leading to increased borrowing to cover its expenses. The ratio slightly decreased to 0.43 in 2021, but it is still significantly higher than the ratios observed in previous years.

REVENUE

Overall, Hennes & Mauritz AB has experienced both ups and downs in its revenue growth over the past decade. The company's ability to adapt to changing market trends and consumer preferences will be crucial in determining its future success. For the quarter ending February 28, 2023,

1. Hennes & Mauritz AB reported a revenue of \$5.268B, which is a decline
2. of 1.71% from the same quarter the previous year. Similarly, for the twelve months ending February 28, 2023, the company's revenue was \$22.331B, showing a decline
3. of 6.61% from the previous year. In 2022, the company's annual revenue was \$22.422B, which is a 4.01% decrease from the previous year. However, in 2021
4. , Hennes & Mauritz AB saw a significant increase in its annual revenue, which was \$23.359B, representing a growth rate of 15.86% from
5. the previous year. In contrast, the company's annual revenue for 2020 was \$20.162B, showing a decline of 18.43% from the previous year.

OPERATING INCOME

As of February 28, 2023, Hennes & Mauritz AB's operating income for the quarter was \$0.070B, which represents a substantial 39.42% increase from the previous year. However, the company's operating income for the twelve months ending on the same date was \$0.739B, which reflects a significant decline of 62.62% from the previous year. This article provides information on the annual and quarterly operating income history and growth rate of Hennes & Mauritz AB from 2011 to 2023. Operating income refers to the income earned after deducting operating expenses, but before deducting interest payments and taxes

1. . In conclusion, Hennes & Mauritz AB's operating income
2. has shown significant fluctuations over the years, with some years experiencing substantial growth while others have seen significant declines. Moreover
3. , Hennes & Mauritz AB's annual operating income for 2022 was \$0.719B, which decreased by 59.85% from
4. the previous year. In contrast, the company's annual operating income for 2021 was \$1.791B, which represents an impressive increase of 436.09% from
5. the previous year. However, in 2020, the company's annual operating income was \$0.334B, reflecting a significant decline of 81.87% from the previous year.

SHARE HOLDER EQUITY

Over the period of 2011 to 2023, Hennes & Mauritz AB's share holder equity, which includes both preferred and common equity items

1. , experienced fluctuations. In February 2023, the company's share holder equity amounted to **\$4.971B**, a **significant 24.89% d**
2. rop compared to the previous year. Similarly, in 2022, the equity figure was **\$5.091B**, reflecting a **27.75% decrease** from 2021.
3. However, in 2021, Hennes & Mauritz AB's share holder equity increased by 19.66% to reach **\$7.046B**, while in 2020

4. , it saw a slight decline of 2.84% to \$5.888B. Overall, the company's share holder equity **experienced fluctuations over the years, with some years seeing growth and others experiencing decline.**

SHARES OUTSTANDING

Over the period of 2011 to 2023, Hennes & Mauritz AB saw fluctuations in its shares outstanding, which refers to the number of shares held by shareholders, excluding treasury shares, assuming conversion of all convertible debt, securities, warrants, and options. As of February 28, 2023, the company

1. had 8.148B shares outstanding
2. , which represents a decline of 1.53% compared to the previous year. In 2022, the company had 8.249B shares outstanding, which was a decrease of 0.32% from the previous year. In 2021 and 2020, the company's shares outstanding remained constant at 8.275B.

EBITDA

3. Overall, Hennes & Mauritz AB's EBITDA has been volatile over the past few years, with some years showing significant growth and others demonstrating a decline. However, the company remains a major player in the fashion industry and continues to adapt to changing consumer demands and market trends. In 202
4. 2, Hennes & Mauritz AB **recorded an annual EBITDA of \$2.984B, which is a 32.36% decline** from

the previous year. In contrast, the company experienced a 40.86% increase in its annual EBITDA in 2021, which was \$4.411B. In 2020, the company's annual EBITDA was \$3.132B, representing a 3.85% growth compared to the previous year. Hennes & Mauritz AB, a popular fashion retailer, has experienced fluctuations in its earnings before interest, taxes, depreciation, and amortization

1. **(EBITDA) over the years. The company's EBITDA for the quarter ending February 28, 2023, was \$0.598B, which represents a 6.22% dec**

2. rease compared to the same period in the previous year. Similarly, the EBITDA for the twelve months ending February 28, 2023, was \$2.944B, reflecting a 34.56% decline year-over-year.

EARNINGS PER SHARE

The earnings per share (EPS) history of Hennes & Mauritz AB from 2011 to 2023 is provided, which includes the company's net earnings or losses attributable to common shareholders per diluted share base. EPS is calculated by taking into account all convertible securities and debt, options and warrants.

1. The EPS for the quarter ending February 28, 2023, was **\$0.01, which is a significant increase**
2. of 100% compared to the same period last year. However, the EPS for the twelve months ending February 28, 2023, was **\$0.05, which indicates a decline** of 73.71% year-over-year.
3. In 2022, the company's annual EPS was **\$0.04**, marking a decrease of **72.44%** from
4. the previous year. In contrast, the 2021 annual EPS was **\$0.16, representing a remarkable increase** of 875% from 2020.
5. Moreover, the 2020 annual EPS was **\$0.02**, which is a drop of 90.7% compared to 2019.

RECOMMENDATIONS AND IMPLICATIONS

1. Improve inventory management: H&M should focus on optimizing its inventory management practices to reduce excess inventory and improve inventory turnover. This can be achieved by implementing a more efficient supply chain and using data analytics to forecast demand.
2. Expand online sales: H&M should focus on expanding its online sales channels to capture the growing trend of online shopping. This can help to increase revenue and reduce costs associated with physical stores.
3. Increase focus on sustainability: H&M should increase its focus on sustainability and ethical sourcing practices to meet the growing demand for eco-friendly and socially

responsible fashion. This can improve the company's brand reputation and attract more customers.

4. Expand into new markets: H&M should focus on expanding into new markets, especially in Asia, where there is a growing demand for fast fashion. This can help to increase revenue and reduce dependence on the European market.
5. Reduce costs: H&M should focus on reducing costs across its operations, including supply chain management, marketing, and operations. This can help to improve profitability and increase shareholder value.
6. Improve marketing strategies: H&M should improve its marketing strategies to better target its customer base and increase brand awareness. This can be achieved by using data analytics to better understand customer behavior and preferences.
7. Increase product differentiation: H&M should increase product differentiation to reduce the impact of competition and improve customer loyalty. This can be achieved by offering unique and innovative designs that stand out from competitors.

In conclusion, the above recommendations can help to improve H&M's financial performance and increase shareholder value. These recommendations focus on optimizing operations, reducing costs, expanding sales channels, and improving sustainability practices. By implementing these recommendations, H&M can improve its competitive position in the fashion industry and increase long-term profitability.

CONCLUSION

This thesis delves into the topic of equity valuation and explores various approaches that can be used to evaluate corporations. The main objective is to analyze the value per share of H&M and provide an investment recommendation based on the data obtained. To accomplish this, three distinct methodologies were employed to determine the H&M share price, including the calculation of the Discounted Cash Flow (DCF) using a discount rate equal to the cost of equity.

Additionally, marketers must effectively communicate information about "social sustainability" to consumers. Social sustainability refers to the management practices that promote human and societal capital, as well as equitable treatment. The limitation of this study is that the participants were all college students, so caution should be exercised when

generalizing the data. Future research should include a more diverse group of consumers to gain a deeper understanding of the topic. Furthermore, future studies could incorporate more green claims and assess the impact of these claims on consumer satisfaction with their self-determined needs. The success of retailers is heavily dependent on their ability to utilize fast fashion, which involves identifying fashion trends as they emerge and quickly producing low-cost replicas of them for sale.

The COVID-19 shutdown had an impact on H&M in 2020, with the company reporting a significant increase in online sales, but overall sales were 5% lower in September 2020 compared to the same month the previous year. H&M also launched a five-year trial program for its Bangladesh and Cambodian factories, in which the company purchased 100% of the manufacturers' production. H&M's cash flows were disclosed through the indirect cash flow statement, which revealed that the company's operating cash flow before working capital investments decreased from SEK34.7 billion in 2010 to SEK30.7 billion in 2011. The discrepancy between earnings and cash flows was primarily due to the depreciation and amortization charge contained in the income statement. The decline in net profit was caused in part by an increase in the depreciation and amortization charge, which is a non-current operational accrual resulting from the company's expenditures in new stores. H&M also increased its operating working capital investment, with the largest investment being in inventory. This investment was not only due to the company's expansion of its shop network but also its difficulties in selling its clothes in 2011. The negative cash flow impact of the decrease in current liabilities offset the negative cash flow impact of the inventory investment.

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