

Intelligence Report for Ted Baker (TB)

Executive summary

Key financial information: The financial performance over the last five years is strong, although high liquidity ratio and gearing increase the financial risk.

Industry and competitor analysis: The market value of apparel retail industry has increased over the last five years and will continue to rise in the next five years. Compared to top 3 companies within industry: Marks & Spencer Plc, Associated British Food Plc and Next Plc, Ted Baker is a very large company with a 0.4% market share in 2019. On the other hand, the social media performance of Ted Baker is stronger than its competitor (i.e. Reiss): has more followers, more tweets or posts and higher engagement

Key issues affecting the company at the present time: The broad product portfolio and high recommendation degree are the strengths of Ted Baker and continue expansion provides new growth opportunities in the potential market. On the other hand, excessive dependency on the UK market limits the company's growth and CEO scandal and Brexit cause uncertainty about reputation and supply chain.

Market analysis: The target market for Ted Baker is female consumers aged 12 - 24. In addition, the quality of clothing and range of clothing are the top two factors that influence their satisfaction of brand. Furthermore, male consumers tend to spend more on clothing than female. Moreover, increasingly customers shop online and the decreasing frequency of purchase could affect this market.

Conclusion and recommendation for investors: There are three strengths of Ted Baker's position within the industry: strong financial performance, high potential of apparel retail industry and highest recommendation degree among target market. Therefore, the author argues that Ted Baker is a good company to invest in.

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References

1. Introduction

Headquarters	Ted Baker PLC Ugly Brown Building 6a St Pancras Way London NW1 0TB
Contact	44 20 7255 4800
Website	http://www.tedbaker.com/
Revenue	£617.4 million (2019)
Industry	Apparel manufacturing
Founded	1987 – Ray Kelvin, Glasgow, UK
Symbol for London Stock Exchange	TED
Market Capitalization	£643.06 million (May 22, 2019)

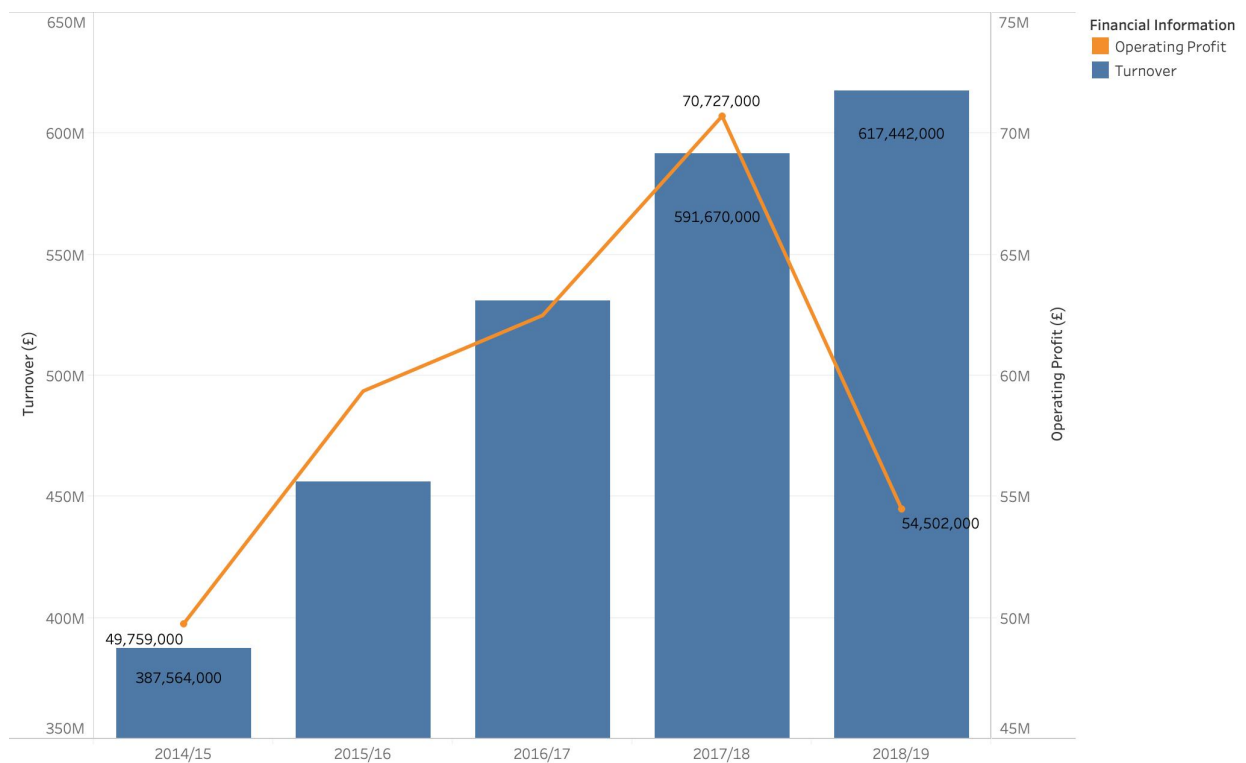
Ted Baker PLC (TB), founded in 1988, is a British luxury clothing retail company that offers a wide range of collections including menswear, womenswear, accessories and so forth. During the past three decades, TB has been a global lifestyle brand with 560 stores and concessions distributed across five continents, 201 stores in the UK, 122 in Europe, 130 in North America, 98 in the Middle East, Africa and Asia, and 9 in Australasia (Ted Baker plc, 2019). In addition, the company operates through three segments: retail, wholesale and licensing and the 2019 annual group revenue surpass GBP 600 million. The aim of this report is to provide a detailed analysis of TB and its competitor (i.e. Reiss Limited) from the aspects of finance, industry and market and finally make recommendations for investors.

2. Key financial information

2.1 Financial performance over the last five years

2.1.1 Profit and loss account

RB Financial Performance, 2014 – 2018



Source: FAME (2019)

Since 2014, the group revenue has increased from about £400M to £600M constantly. The operating profit, however, reached its highest peak at around £70M in 2017/18 but dropped to £50M in the next financial year.

RB Financial Performance, 2014 - 2018

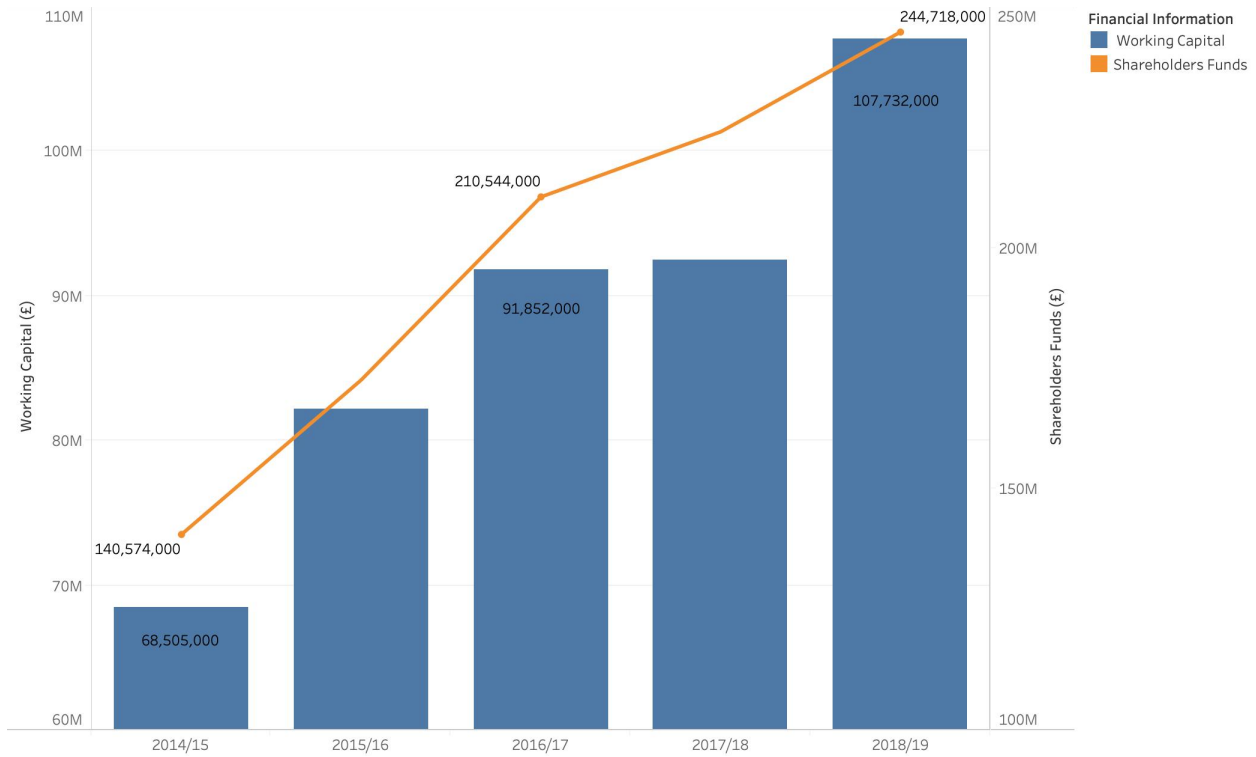


Source: FAME (2019)

The reason of fell in operating profit is that in 2018/19, the cost of exceptional items rocketed three times approximately to that of 2017/18 (from £4M to £12M). As a results, the net income fell for the first time in five years by over £10M to £40M.

2.1.2 Balance sheet

RB Working Capital and Shareholder Funds 2014 - 2018



Source: FAME (2019)

There has been a gradual increase in the TB working capital from £68M to £107M during the last five years but it remained at about £90M in 2017/18. As for shareholders funds, it raised steadily from £140M to £244M.

2.1.3 Cash flow statement

TB Cash Flow 2014 - 2018

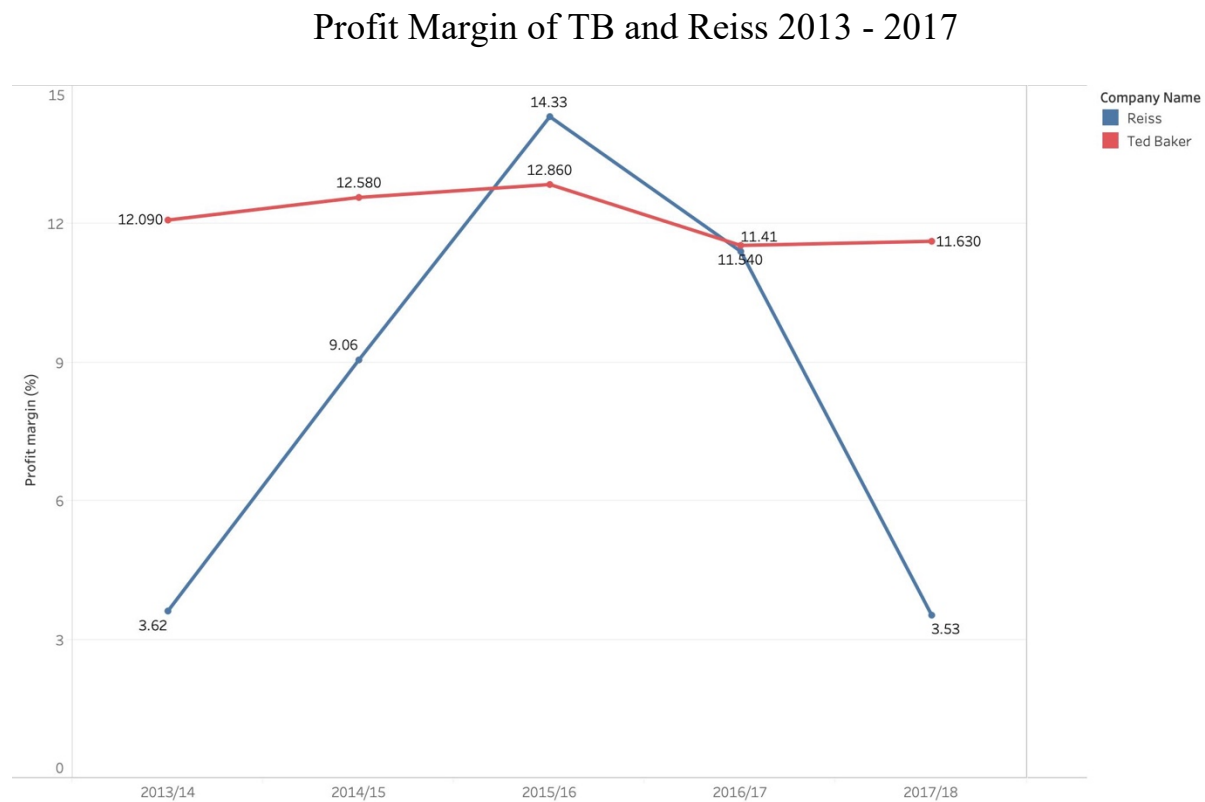


Source: FAME (2019)

The growth of net cash flow from operation activity is gradual from £28M (2014/15) to £66M (2018/19) with minor fluctuations. The cash or equivalent assets, however, always decreased in the past five years and reached the highest point in 2017/18 (£21M), although it fell back over £4m to £17M in 2018/19.

2.2 Ratio analysis with Reiss Limited

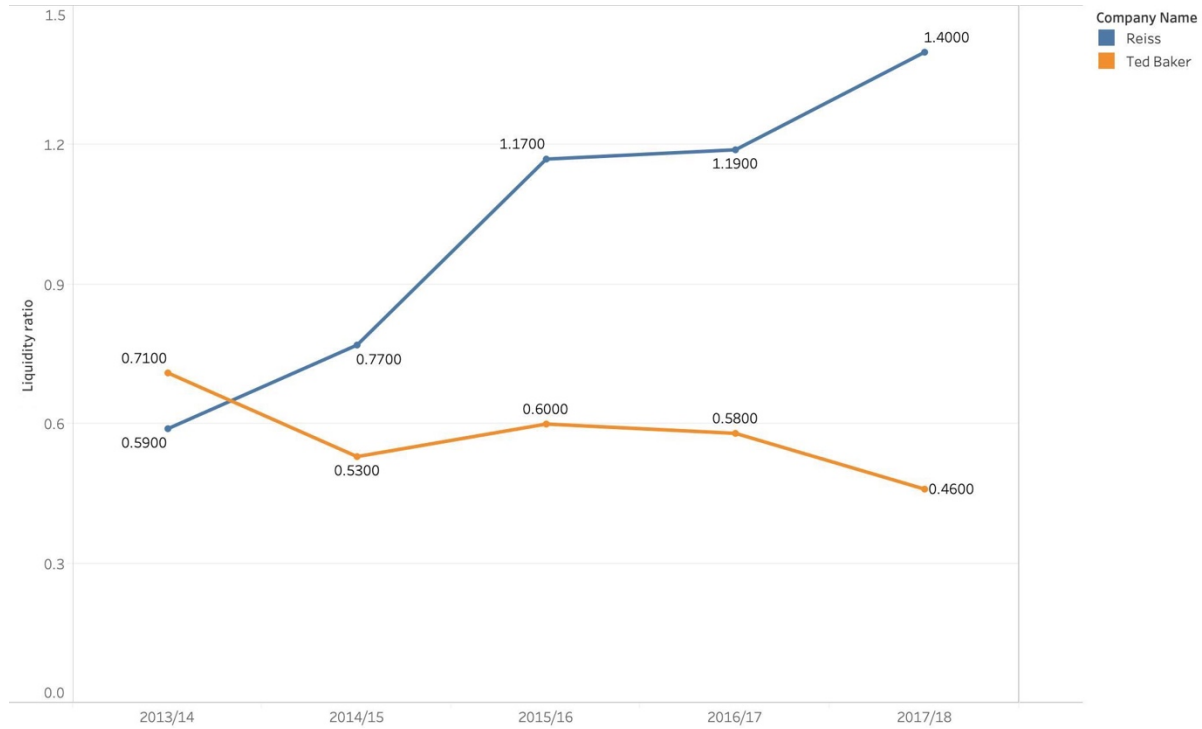
Ratio analysis of TB includes three key financial ratios and is performed with one of the major competitors: Reiss Limited (Reiss), a UK-based fashion brand, because optimal ratios are variety within a different industry. Because there is no financial data of Reiss in 2018/19, the author choose 2013/14 – 2017/18 as the subject.



Source: FAME (2019)

First, the profit margin of TB remained at about 12% from 2013-2018 and Reiss is only higher than TB in 2015/16 at 14.33% but dropped to 3.53% in 2017/18.

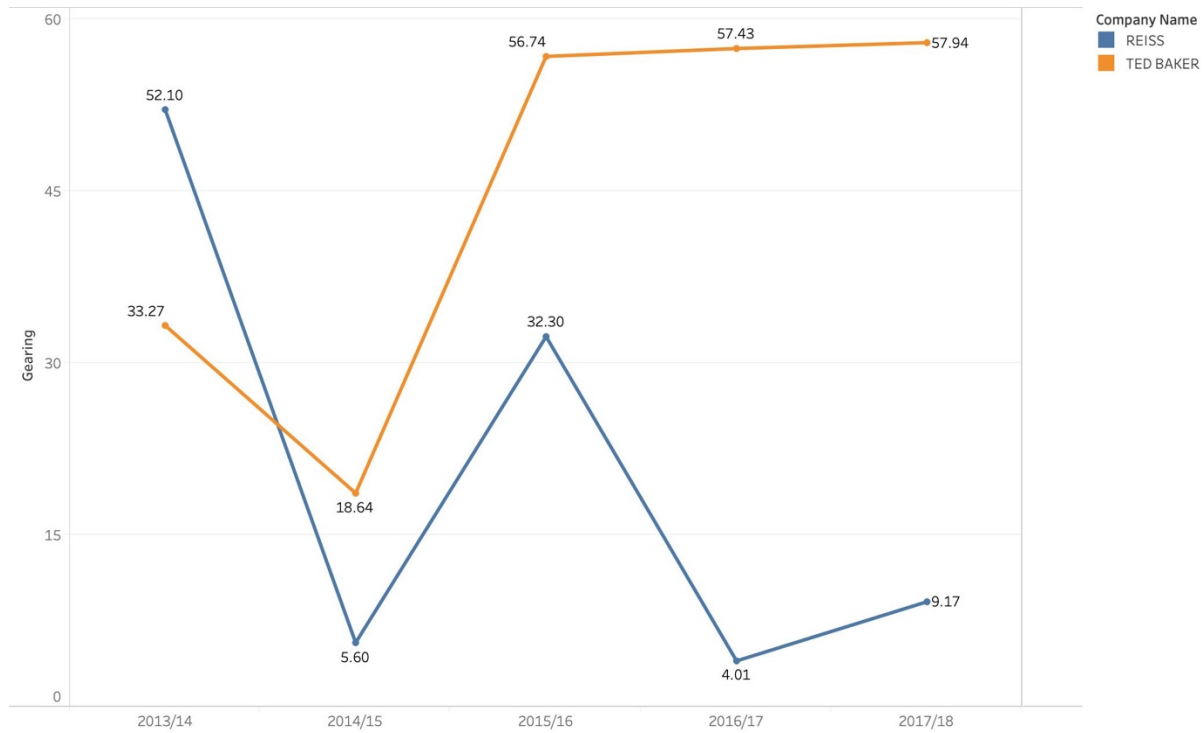
Liquidity ratio of TB and Reiss 2013/14 – 2017/18



Source: FAME (2019)

Second, there has been a gradual increase in liquidity ratio of TB during 2013-2018, from 0.59 to 1.4 approximately. By contrast, that of Reiss slightly fell over 0.25 at 0.46 in 2017/18.

Gearing of TB and Reiss 2013 - 2017



Source: Annual Report & Accounts 2018/19 - Ted Baker Plc (2019)

Third, the gearing of TB initially decreased by about 50% from 33.27 to 18.64 but rocketed and remained at 57 approximately during 2015-2018. In contrast, Reiss dropped sharply from 52.1 (2013/14) to 9.17 (2017/18) with considerable fluctuations.

2.3 Analysis of financial health

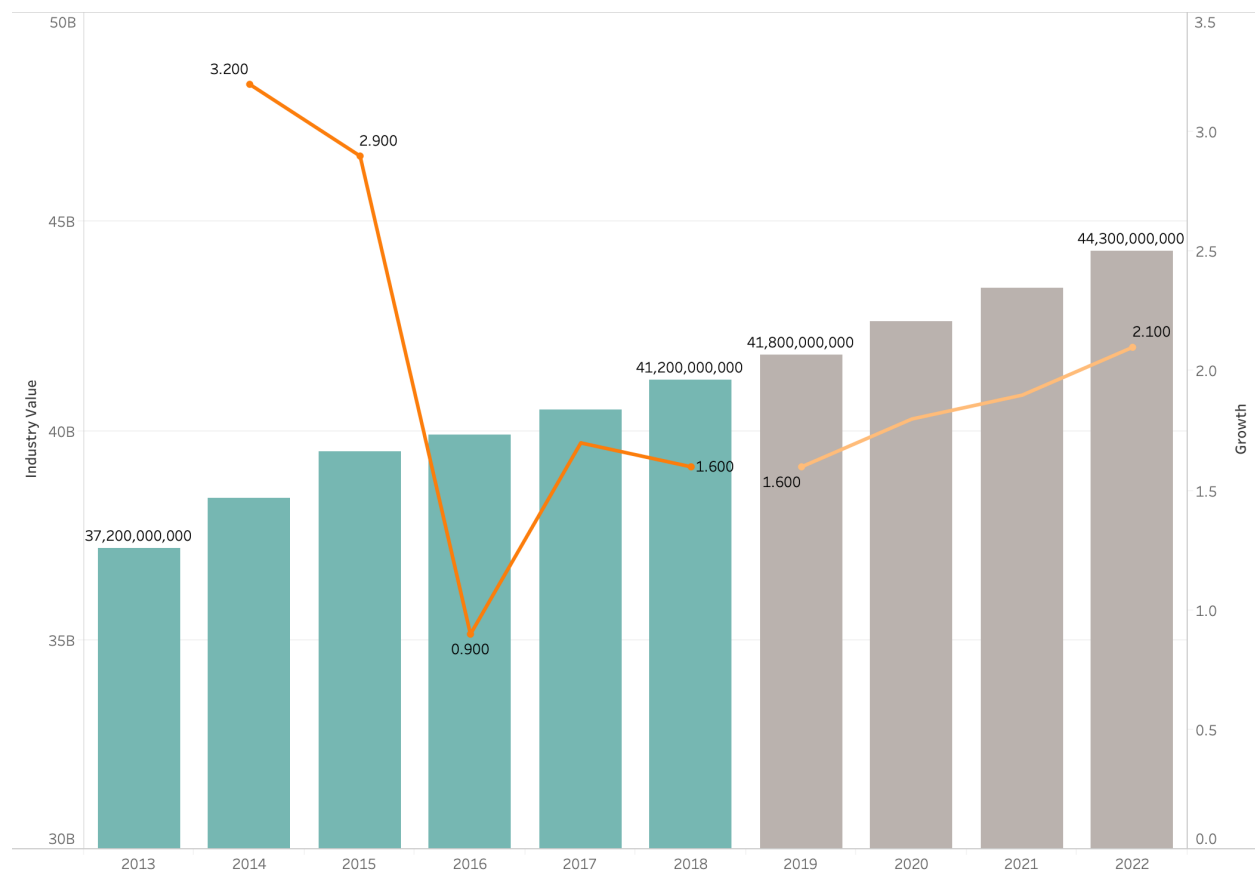
TB has been reporting a strong financial performance in the last five years and here are the following reasons. First, group revenue grew at an annual growth rate of 12.3% during 2014-2018 and annual net income remained over £35M, despite slipped slightly in 2017/18 due to the cost of exceptional items. Second, working capital is adequate (about £35M in 2018/19) and shareholder funds are growing steadily in the last five years. Third, compared to one of the competitors (i.e. Reiss), TB has stable and adequate profit margin (about 12%) but would be at greater financial risk due to the higher liquidity ratio and gearing.

3. Industry and competitor analysis

This section focuses on the apparel retail industry in the UK with the market value over the last five years and provides a major market share. In addition, the author compares the social media of TB with that of Reiss, including Twitter and Instagram.

3.1 Market value and forecast

Market Value of UK Apparel Retail 2013 – 2018 and Forecast to 2022



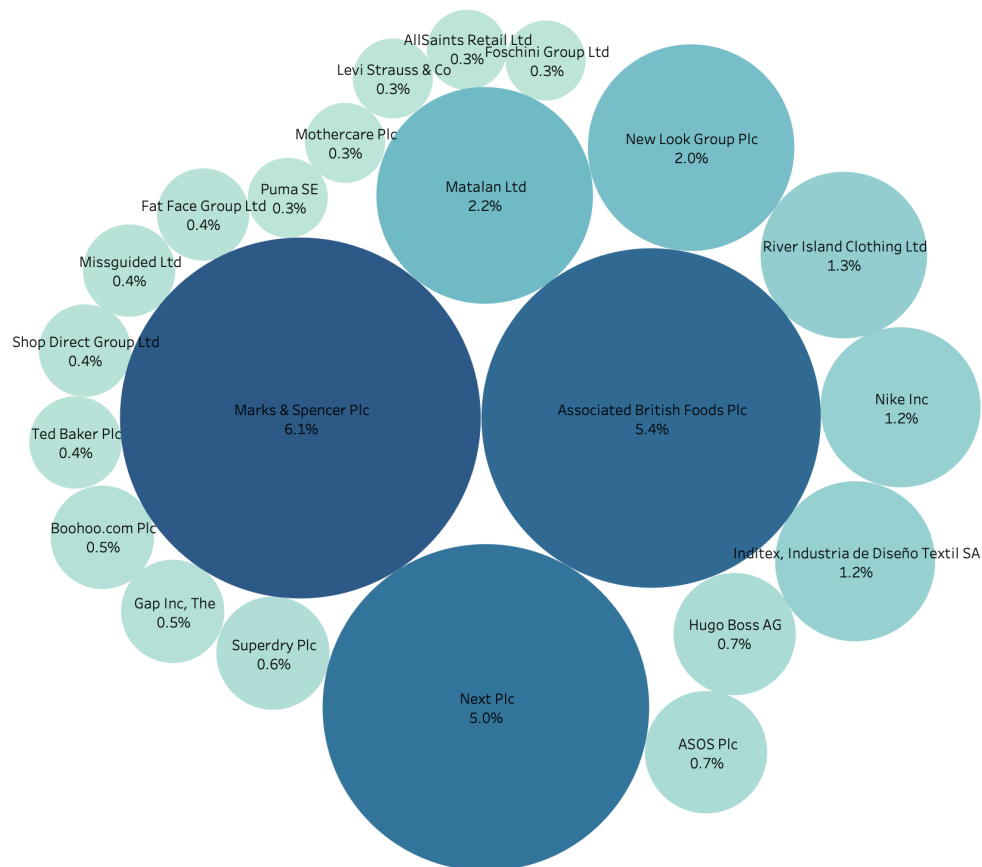
Source: Apparel Retail in the UK – MarketLine (2018)

The apparel retail market includes baby clothing, toddler clothing and casual wear, essentials, formalwear, formalwear-occasion, and outerwear for men, women, boys and girls; excludes sports-specific clothing. In the past five years, apparel retail

market value rises from £37B to £41B approximately but the growth dropped from 3.2 to 1.6 with the lowest point in 2016 (0.9) due to the Brexit. MarketLine (2018) reports predict that values of apparel retail market value will grow steadily in the next five years to 2022 by 6%, reaching about £44B.

3.2 Market share

Market Share of in the UK Apparel Retail 2019

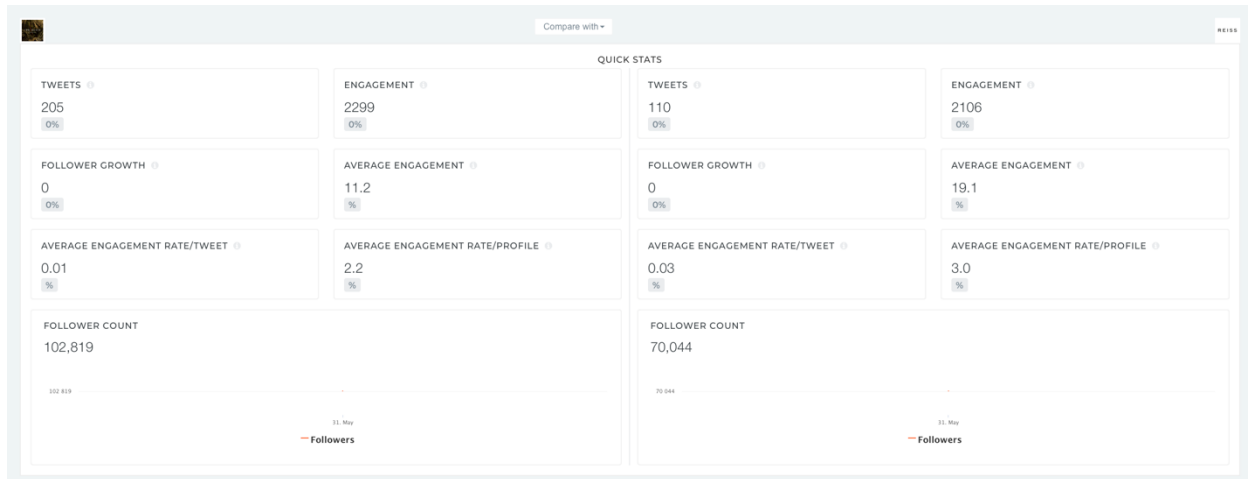


Source: Apparel and Footwear Sources 2019: United Kingdom – Passport Euromonitor (2019)

The top three market share companies are Marks & Spencer Plc, Associated British Foods Plc and Next Plc with percentage of 6.1, 5.4 and 5.0% individually. In addition, there are a great number of companies whose market share is lower than TB, such as AllSaints Retail Ltd. Therefore, concerning the position of industry, TB is a very large company in the retail sale of clothing with a 0.4% market share.

3.3 Social media comparison

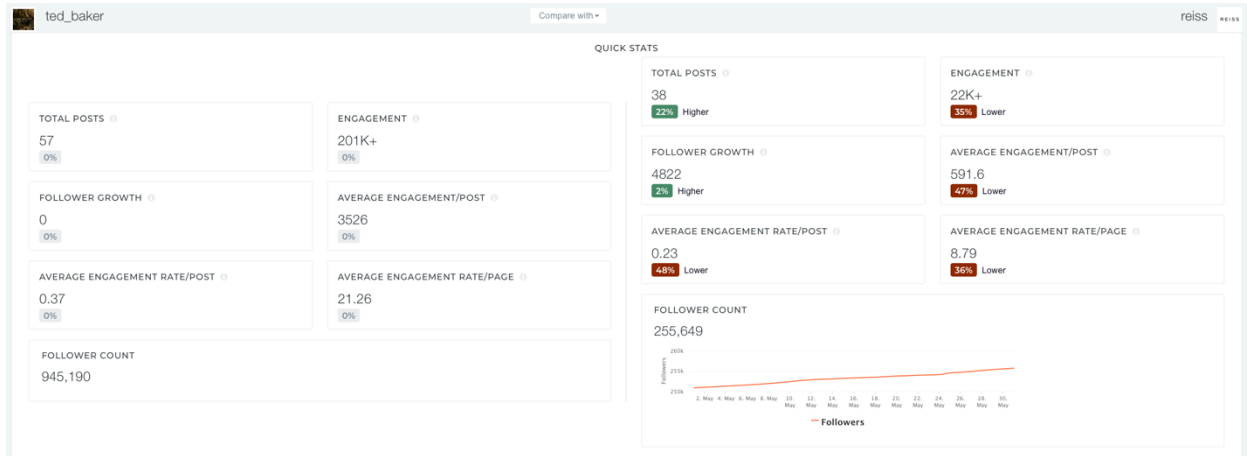
Comparison of Twitter account of TB and Reiss



Source: Socialinsider (2019)

The TB Twitter page (@ted_baker) has 103K followers and 36.7K tweets, which are apparently higher than that of Reiss (@REISS with 70K followers and 22.9K tweets). However, the Reiss received more Likes, about two times than TB (6782 to 3513). In addition, the engagements of these two Twitter accounts, the sum of favourites and retweet, is approximately equivalent in May 2019.

Comparison of Instagram account of TB and Reiss



Source: Socialinsider (2019)

As for Instagram, Ted Baker has more followers and posts than Reiss. More importantly, the engagement of TB is ten times higher than that of Reiss. Therefore, the overall social media performance of TB is stronger than that of Reiss: for both major media platform, TB has more followers and posts or tweets and higher engagement with the audience, although Reiss received more Likes on Instagram.

4. Key issues affecting the company at the present time

4.1 Strengths

TB has a broad product portfolio. The company offers a wide range of collections including Menswear; Womenswear; Global; Phormal; Endurance; Colour By Numbers; Accessories; Bedding; Childrenswear; Eyewear; Footwear; Fragrance and Skinwear; Gifting and Stationery; Jewellery; Lingerie and Sleepwear; Luggage; Neckwear; Rugs; Suiting; Technical Accessories; Tiles; and Watches (Ted Baker, 2019). A broad product portfolio enables the company to avoid excessive dependency on one collection.

Mintel (2018) had said that among several brands, TB is the brand that most people would recommend to others, with 84% of consumers who have shopped with the brand saying that they would be willing to recommend it. The good reputation benefits to attract customers and increase company revenue.

4.2 Weaknesses

MarketLine (2018) identifies that in FY2018, the UK region accounted for 56.8% of the company's total revenue. Although TB 560 has stores and concessions distributed across five continents, it excessively depends on the UK market, which limits the company's growth opportunities in other potential markets.

4.3 Opportunities

Ted Baker has formed a joint venture to expand its network in Mainland China, Hong Kong and Macau (Stockdill, 2019). The continue expansion has enhanced store network and geographic footprint in order to provide scope for new growth opportunities in potential markets.

4.4 Threats

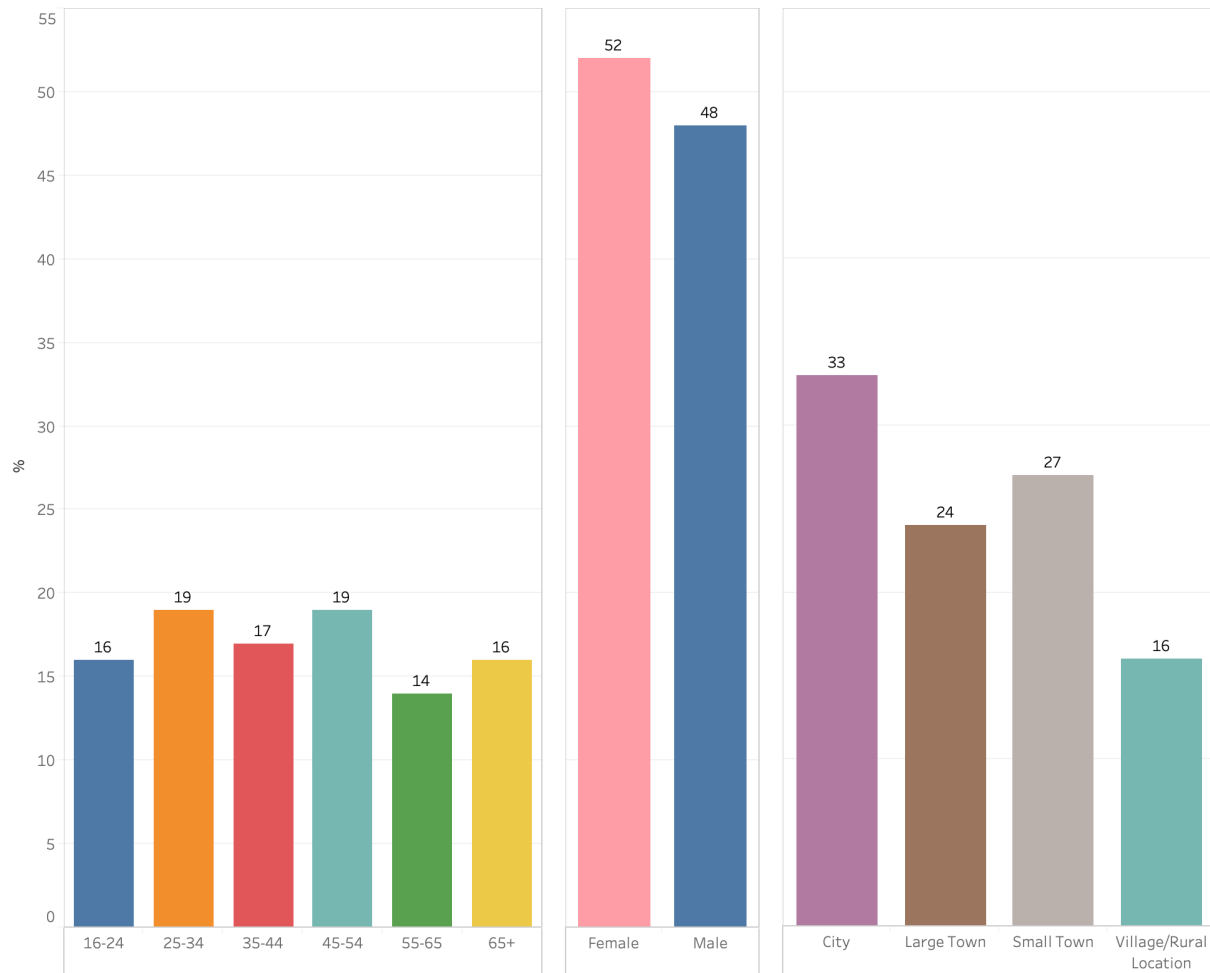
Nexis (2019) reported that TB CEO Ray Kelvin resigned with immediate effect following harassment allegations. The reputation is important to the business. This scandal will damage brand image and could be a critical strike to detail company.

TB had said that Brexit “may delay the movement of goods between the EU27 and the UK affecting both suppliers and customers” if there is no free trade agreement. This will greatly impact wholesale, licensee distributors and outlets.

5. Market analysis

5.1 Market Demographics

Customer Profile by Age, Gender and Location Type

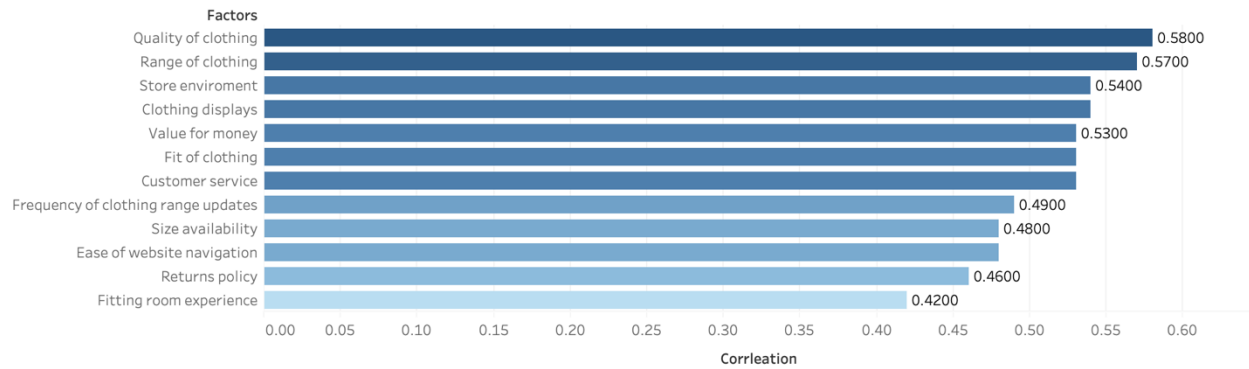


Source: Clothing Retailing UK - Mintel (2018)

For the whole clothing market, the customers aged 25-34 and 45-54 are the top two consumer groups and over half of customer are female (52%). In addition, over one of the third clients are from the city and customers of small-town account for 27%. As for the TB company, it has “the highest levels of usage females’ consumers aged 16-24” (Mintel, 2018).

5.2 Customer insights related to profitability

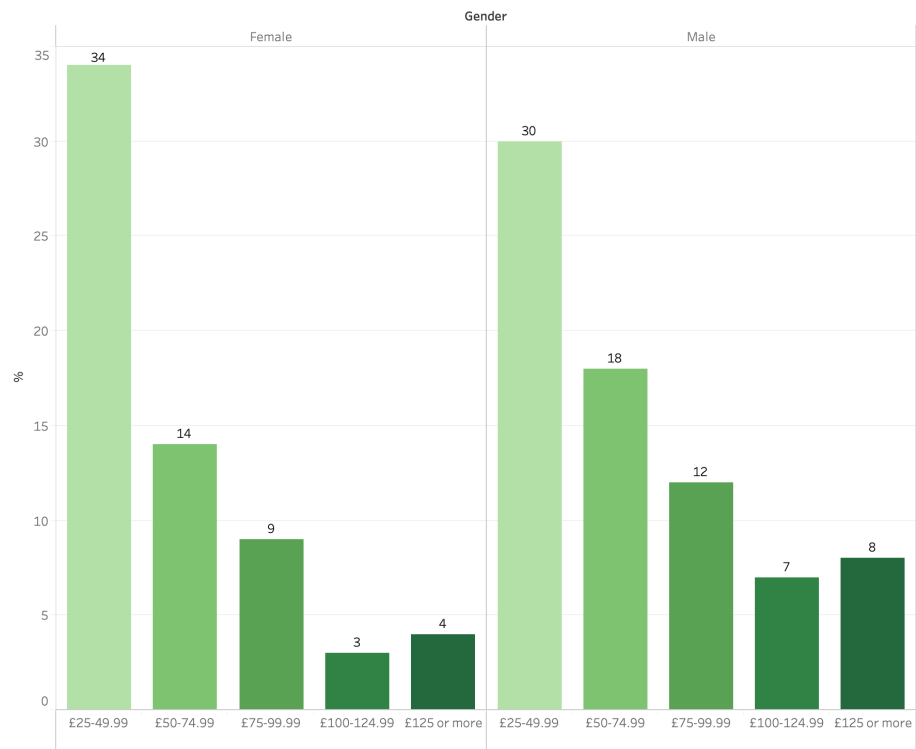
Purchase Drivers for Satisfaction



Source: Mintel (2018)

Concerning about purchase drivers, quality of clothing and range of clothing are top two factors that influence the overall satisfaction. In addition, the customers are in the least concerned about fitting room experience.

Amount spent on clothing by gender



Source: Mintel (2018)

Moreover, the number of male customers is higher when the amount spent on clothing is over £50.

5.3 Social trends

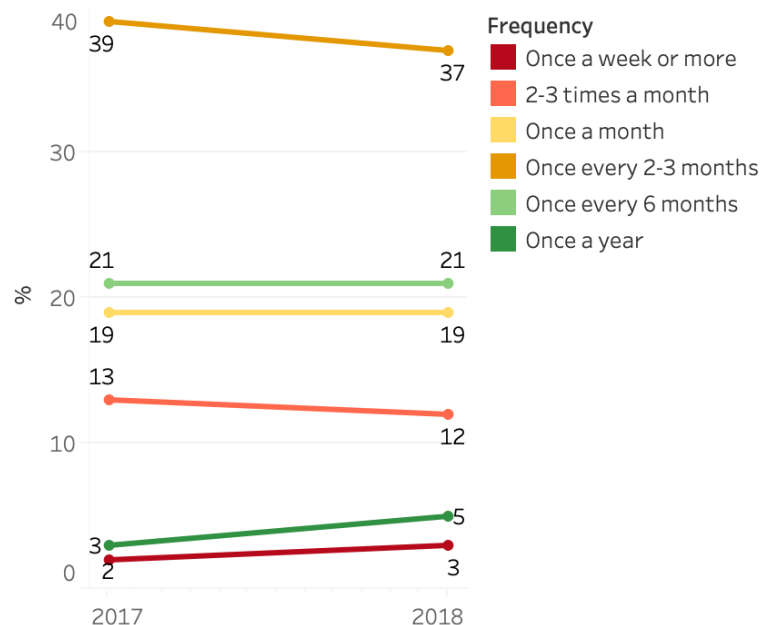
Distribution of Consumer Spending, 2016 - 2018

Year	Clothing specialists	Department stores	Grocers	Online-only and mail order retailers	Others	Sports/outdoor specialists	Total	Total online sales
2016	54.50	12.50	9.00	11.00	3.20	9.80	100.00	23.70
2017	54.80	12.00	8.80	11.60	3.30	9.50	100.00	26.00
2018 (est)	52.60	11.70	8.60	12.30	5.20	9.60	100.00	26.80

Source: Mintel (2018)

The majority of customers continue to shop in-store for fashion items (74%). In contrast, 26% of UK consumers bought clothing online, rising by 10% and will continue to increase to 26.8% in 2018.

Frequency of Purchase in 2017 and 2018



Source: Mintel (2018)

As for frequency of purchase, there has been a decline in the percentage of people buying clothes every two to three months, but the percentage of people shopping just once a year rises. In addition, there has been a steady decrease in the percentage of consumers that are shopping for clothing once a month or more.

6. Conclusion and recommendation for investors

Here are the main findings based on the analysis of Ted Baker in this report:

- The financial performance over the last five years is strong: there is a stable increase in revenue and working capital, although cash & equivalent assets is decreased.
- Compared to Reiss Ltd, Ted Baker has a stable and adequate profit margin but would be at greater financial risk due to the higher liquidity ratio and gearing.
- For the apparel retail industry, market value has increased over the last five years and will continue to rise in the next five years.
- Marks & Spencer Plc (6.1%), Associated British Foods Plc (5.4%) and Next Plc (5.0%) are the top three companies. Concerning the position of industry, Ted Baker is a very large company with a 0.4% market share.
- The overall social media performance of Ted Baker is stronger than competitor Reiss: for both major media platform, TB has more followers and posts or tweets and higher engagement with the audience.
- The broad product portfolio and high recommendation degree are the strengths of Ted Baker and continue expansion provides new growth opportunities in the potential market.
- Excessive dependency on the UK market limits the company's growth and CEO scandal and Brexit cause uncertainty about reputation and supply chain.
- The target market for Ted Baker is female consumers aged 12 - 24.
- The quality of clothing and range of clothing are the top two factors that influence their satisfaction of brand.

- Male consumers tend to spend more on clothing than female.
- There are two social trends could affect this market: increasingly customers shop online and the frequency of purchase is decreasing.

Therefore, the author argues that Ted Baker is a good company to invest in. There are three strengths of the company's position within the industry. First, Ted Baker has a strong financial performance. Second, the apparel retail industry has high potential. Third, Ted Baker has the highest recommendation degree among its target market.

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