

Ralph Lauren Professional Write-Up

For the final Capstone Model, the Income Statement, Balance Sheet, and Cash Flow Statements were all coded for Ralph Lauren Corporation using the last 40 quarters of data. These three financial statements were then expanded to include future forecasts for the company, based primarily on the cost of oil and the Consumer Price Index. This was also shown directly in our dashboard, which reconciles to the mini projects completed. The use of the three financial statements was imperative to executing an appropriate projection of possible future outputs for Ralph Lauren Corporation.

For the final Capstone Model, an in-depth analysis of the Income Statement, the Balance Sheet Statement, and the Statement of Cash Flows was performed for the company, Ralph Lauren Corporation. We will begin by analyzing each section individually to fully understand the assumptions, projections, limitations, and outflows of the code for each.

The first section that we will analyze is our “Introduction to Financial Modeling” section. This section incorporates future projections, such as those of projected revenue and projected gross profit at the beginning. Both of these numbers derive from “base” cases in order to project their future outflows. Another assumption used was the weighted average cost of capital as the discount rate for the company. Although the WACC is not an assumption, using the WACC for the calculation of the Net Present Value certainly is. This is our best estimation of the discount rate for NPV. Other assumptions used were the forecast of free cash flows for the company as well as the terminal growth rate (assumed 1% to be conservative for the company) and the discount rates used in our analysis.

The next section that we looked at was the fundamentals of financial statement analysis. In this section, there were multiple key variables computed, including the ratio toolbox, building the ratio dashboard, and an analysis using the z-scores derived from our ratio dashboard.

In order to compare the company’s trends and historical numbers to appropriately set up for later projection of trends within the company, a thorough analysis of the ratio toolbox must be performed in addition to analyzing the ratio dashboard that was created.

In order to analyze the financial statements, vertical and horizontal trend analyses were performed to show the quarterly statement data side-by-side. An important note is the overall trend downwards of the cost of revenue as a percentage of revenue for the company. The trend indicates that the percentages were nearing 50% in late 2016, but dropped to nearly 30% (30.10%) by the end of 2025. This trend indicates decreasing expenditures related to Ralph Lauren’s goods as revenues increased, but not in a dramatic way.

As a common trend in the financial statements during the pandemic in 2020, the cost of goods sold as a percentage of revenue increased to nearly 54% (53.35%). Through further analysis, revenue was at an all-time low from the past 40 quarters of \$487,500,000, in the second quarter of 2020. Compare this

to the quarter previous, during which revenue was \$1,274,100,000. Cost of goods sold expenses significantly decreased as well to \$138,800,000 compared to the quarter previous of \$679,700,000.

Through further analysis using common-size analysis, various trends in data are able to be determined. The first is that cash as a percentage of total assets has increased dramatically from over 7% in the first quarter of 2016 to nearly 323% in 2020 and 2021 quarters, with a slight decline hovering close to 20% in 2024 and 2025 quarters. This indicates increased liquidity in the availability of cash for the company. Through the examination of Ralph Lauren's ratio toolbox, the current ratios and cash ratios indicate that Ralph Lauren is in the "indicative range" as cited by the textbook used for comparison, although an analysis must also be taken of the industry standard, which further indicates that Ralph Lauren's ratios exceed those of the industry standard. Ralph Lauren has a historically high average of days inventory outstanding, with a reported DIO of 151.9 at the end of 2025.

A major inventory problem occurred in 2020 Q2, with DIO rising to nearly 500 days (496.2 days), concluding that Ralph Lauren was unable to sell its products as rapidly as previous quarters allowed them to. In Ralph Lauren's largest competitor's 2025 Q4 10-Q, PVH Corporation cited that the pandemic negatively affected their operations through "supply-chain disruptions due to closed factories, reduced workforces and production capacity, shipping delays...closed stores, and reduced consumer traffic and purchasing". From the 10-Q of Ralph Lauren for the period ended September 25, 2021, the company cited the effects of COVID-19 on its profits: "as a result of the COVID-19 pandemic, the Company has experienced varying degrees of business disruptions and periods of closure of its stores...most notably in Europe where a significant number of the Company's stores were closed for approximately two to three months." This trend has continued throughout the financial statements, during which COVID-19 had a significant impact on the company as well as Ralph Lauren's competitors.

Through the function `build_activation_red_flags` in the project, certain assumptions were used to identify if Ralph Lauren surpassed certain thresholds for liquidity stress, leverage risk, operating deterioration, and working capital shock. The output helps to determine when and at what threshold the company's historicals did not exceed the threshold, allowing investors and analysts to focus primarily on these periods.

The next three sections focus on the Income Statement, Balance Sheet, and Statement of Cash Flows. The Income Statement references information from volume (total number of stores) and price in order to compute total price and total volume impact for Ralph Lauren and how each is distributed throughout the company. Certain "alerts" have also been added into the company data, such as the Gross Margin alert in the third section of our final project. Revenues for Ralph Lauren have continuously been increasing / steadily increasing throughout the last ten quarters. The highest revenue reported was in 2026 Quarter 3. It is interesting to note that after the earnings call at the beginning of this fiscal year, investors

showed decreased confidence in Ralph Lauren and the stock plummeted. This is important to realize because even though revenues have increased fairly consecutively, with the highest revenues reported in 2026 Quarter 3, investor confidence still decreased. An example of an assumption used in the Income Statement section of our final project was the projection of various balance sheet items into the future (for 5 years based on an annual basis).

The next section reflects our Balance Sheet section, exhibiting total Balance Sheet items, with the exception of cash (computed by a plug account) and reconciled in the next chapter. Computations of “Other” property, plant, and equipment expenditures were necessary in order to correctly reconcile the Property, Plant, and Equipment account. This is a necessary assumption that must be inputted to close the account. Both the equity and debt schedules closed without the use of an “Other” account, and reconciled compared to the csv files. Important notes are that total equity has decreased dramatically over the last 40 quarters, starting at \$3,744,000,000 in 2016 Quarter 3 and ending at \$2,888,400,000 in 2026 Quarter 1.

Lastly, the final section reflects our analysis regarding the Chapter 6 Notebook, particularly the forecasted growth depending on certain economic activities. Both the Consumer Price Index and future oil prices were taken into account to understand the potential increase in growth for various balance sheet and income statement items.

There are certain outliers that we need to be wary of, particularly when considering our tax rates. Some of these have been noted in our final project, in the comment section. Particularly the effective tax rate calculation has resulted in unforeseeably high numbers in a few periods. Along these lines, within the third section (regarding the Income Statement), the statutory versus the effective tax rate versus the normalized effective tax rate has been graphed. This exhibits the tax rate versatility depending on the type of tax rate applied, as mentioned in class. This is important to keep in mind throughout the model.

To address the question of why and how the model remains credible, we look to our manual reconciliations throughout computing the final capstone project and the notebooks. The financial statements were all individually referenced during almost every computation to ensure integrity across all notebooks and the final project. For example, the plant, property, and equipment, debt, and equity roll-forward schedules were all referenced when computing each, with the financial statements from the csv file.

In addition to these manual checks, there are various checks throughout the notebook to ensure integrity remains. One such check is by building exception flags, as mentioned earlier, in the Chapter 2 Notebook, to ensure that certain ratios are exceeded. Another example of a check within the notebooks was ensuring that the cash from Cash From Operations, Cash From Investing, and Cash From Financing all tied out in the end to equal ending cash, which it did in our final Capstone Project.

Throughout the entire semester, Ralph Lauren has either been cited as a moderate buy or a strong buy from multiple reputable investor websites, indicating increased investor confidence in the company. Whenever we were asked to discuss the company and the impact that the company has been facing during the current war / conflict in the Middle East, we have routinely been unable to identify any information from the company regarding their concern. Since most of Ralph Lauren's customer base are wealthy individuals as they operate in the high-fashion industry, it is unlikely that inflation pass-through by the company will greatly affect their demand. The consumers that they primarily cater to are less concerned about the price, but rather about the quality and the new designs / apparel that they are able to obtain from the corporation.

The main reason that Ralph Lauren Corporation would be impacted by the war is through the increase in oil prices as a result of their operations in foreign countries. As the Quarter 1 2025 10-Q states, "almost all of our products are manufactured by foreign suppliers". However, they have a policy of limiting the total percentage of goods that any one country is able to produce to 10%, with the intention of diversifying the risk associated with the importation of their goods.

The company continually references tariffs as being a large hindrance to their business as they affect the total revenue able to be obtained from sale / after importation. However, the corporation's desire to mitigate these tariff effects and the war as an external obstacle not greatly impacting the corporation, leads us to believe that the Ralph Lauren Corporation should be considered a strong investment going forward.