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Moncler leveled by the coronavirus despite strong 2019 sales

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To date, one third of Moncler's 14 stores in mainland China have been closed, and foot traffic in its existing stores has declined around 80 percent. Image credit: Shutterstock

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On Oct. 24, Italian puffer-jacket maker **Moncler** reported another year of double-digit growth over the first nine months of 2019, according to its latest financial report.

The Franco-Italian brand's revenue grew by 15 percent at the current exchange rate, exceeding \$1.7 billion (1.6 billion), and its net profit climbed to \$723 million (663 million). But despite a high earning period, the impact of the **coronavirus** was felt immediately.

Just three weeks before news of the outbreak spread on Jan. 24, Moncler's growth was in line with its 2019 results. Mainland China and South Korea continued to lead that growth in Asia, thanks to a 13 percent increase in 2019 despite negative performances in **Hong Kong** and Macau.

But the company **said** that the last few weeks were highly impacted because of the virus, and the situation was getting more critical by the day.

In response, the management team has made a series of cost-cutting actions to help countermand recent losses.

"Together with Mr. [Remo] **Ruffini** and Roberto [Eggs], we started a plan to reduce and/or postpone expenses and some investments, in order to protect our margins," said Moncler's chief corporate and supply officer Luciano Santel in the brand's earnings call.

So far, a third of Moncler's stores in China 14 in total have been closed, and foot traffic in existing stores saw an 80 percent decline.

Most new investments in China have been postponed, including three store relocations and two new store openings. Moncler advertising in China has been suspended until the second half of the year.

The impact of the virus is even having a spillover effect on neighboring countries, particularly their travel retail sales, which are largely reliant on Chinese travelers.

Moncler reported that five duty-free stores in South Korea have already closed, and to minimize losses, the company has redirected some shipments meant for the Chinese market to other regions in Europe where strong sales continue unabated.

"We will probably see a slower recovery from travelers when the coronavirus issue is solved, but probably a faster recovery on mainland China," said Mr. Eggs, Moncler's chief marketing and operating officer.

Jing take

Compared to other luxury players, Moncler gave a detailed and timely overview of the **virus's impact** and described what the company's next steps would be.

It is hard to predict the final impact of this ongoing virus, and some retail decisions are simply out of Moncler's hands. The reopening of retail stores is largely dependent on decisions from the government or shopping malls, for instance.

However, Moncler seems to be doing everything it can to mitigate the cost of the epidemic, from postponing investments to redirecting merchandise.

Given the prompt reaction from its management team and the Chinese government's aggressive efforts to contain the spread of the virus, we have reason to believe that this period will only present a temporary dip in Moncler's overall long-term performance in China.

Morgan Stanley still maintains its overweight rating of Moncler stock, but it has lowered its price target down from \$45.20 (41.50) to \$44.70 (41).

"We treat this headwind as temporary in nature," Morgan Stanley writes of the virus's impact on Moncler's earnings. "The effects of this outbreak could be material in Q1 and secondary effects could potentially spill over into Q2."

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