

RETAIL

Herms Q1 sales down 6.5pc to \$1.62B over COVID-19 measures globally

April 24, 2020



Herms' recently reopened its store in the Swiss-Italian town of Lugano. Switzerland now is under lockdown as part of COVID-19 prevention measures. Image credit: Herms

By LUXURY DAILY NEWS SERVICE

French luxury conglomerate Herms, hit by COVID-19 lockdowns worldwide, posted revenue first-quarter revenue of \$1.62 billion, a 6.5 percent decrease at current exchange rates and a 7.7 percent drop at constant exchange rates.

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While off to a strong start in January, the Paris-based company attributed the drop to store closures first in China and then Europe, United States and Asia at the end of the quarter. The first-quarter fall was lower in percentage terms than competitors LVMH and Kering.

"Since the beginning of the COVID-19 crisis, protecting the health of our employees and partners has been our priority, and has prompted us to close many stores and, temporarily, certain sites," said Herms executive chairman Axel Dumas in a statement.

"I would like to thank all the employees who have engaged in solidarity initiatives, and all those who are enabling operations to gradually resume," he said.

"The solidity of our craftsmanship model, the appeal of our objects, and the efforts made by all the Herms teams are key assets that will help us confidently overcome the major uncertainties this first period has brought."

Herms' first-quarter revenue drop was not as steep as its French rivals' performance.

In a quarter heavily weighed down by the COVID-19 global lockdowns, Gucci owner Kering posted revenue of \$3.48 billion, down 15.4 percent as reported and a 16.4 percent drop on a comparable basis ([see story](#)).

Similarly, **LVMH Mot Hennessy Louis Vuitton**, slammed by COVID-19 lockdowns in its key markets worldwide, saw first-quarter revenue drop 15 percent to \$11.5 billion compared to the year-ago period, or a 17 percent fall on an organic basis ([see story](#)).

Per Herms:

Sales by geographical area at the end of March (at constant exchange rates unless otherwise indicated)

In the first quarter 2020, all the geographical areas were impacted by the health crisis and stores' closure.

The revenue generated in the group's stores was down by - 7 percent at constant exchange rates.

- In Asia excluding Japan (- 9 percent), Mainland China gradually closed 11 stores as of the end of January, while all stores closed in Macao and opening hours were restricted in Hong Kong. Stores have been progressively re-opened in March in Mainland China, and those in Hong Kong and Macao regained traffic even though reduced due to border control measures. Several countries in the area have experienced a second wave of store closures, further to governmental measures, notably in Singapore, Australia and Thailand since early April. Herms is continuing to roll out the new Web site in Hong Kong and Macao. In Mainland China, all of the stores were able to reopen and activity is increasing again. The Guangzhou store reopened after expansion in early April.
- Japan (+ 1 percent) has displayed remarkable resilience, particularly thanks to the loyalty of local customers. Most stores have been gradually closed since the end of March, following the Japanese government's announcement of a state of emergency for an unspecified period.
- In America (- 6 percent), all the stores have been closed and all ecommerce has been stopped in the United States since March 20, similar to other countries of the region.
- Europe excluding France (- 11 percent) and France (- 9 percent) are strongly impacted, with the network closed mid-March.

Sales by business line at the end of March (at constant exchange rates unless otherwise indicated)

The leather goods and saddlery business line records a decline (- 6 percent) as a result of the closure of our stores in the various geographical areas. As of March 17, Herms announced the closure of its production sites in France to protect employees, except for the Hermes Perfumes site in Vaudreuil, which began producing hydro-alcoholic hand sanitizer, on a voluntary basis. Investments in production capacity have been maintained, with the continuation of the Guyenne et Montereau workshops projects, and the announcements of new sites in Louviers and Les Ardennes region. Herms continues to strengthen its local integration in France.

The group's other business lines have all been strongly affected by the closures of our stores in all the geographical areas, after benefiting from strong momentum in January thanks to the Chinese New Year. The ready-to-wear and accessories (- 11 percent) and silk and textiles (- 20 percent) business lines have been more severely penalized by the decline in sales prior to the store closures. Despite the very successful launch of the beauty line beginning of February, perfumes are down (- 3 percent) as are watches (- 7 percent). The other Herms business lines (+ 4 percent) have fared particularly well thanks to jewelry.

COVID-19 crisis Support and responsibility at Herms

As announced on March 30, Herms' economic and financial solidity enables the group to weather this unprecedented health crisis. Ever true to the group's humanistic culture and our commitments as a responsible employer, and thanks to an adequate cash position, Herms has maintained the basic salary of the 15,500 employees in France and the rest of the world without having recourse to the exceptional governmental subsidies provided in various countries, particularly in France, where the group has waived the benefit of the support scheme for partial employment.

Herms has donated 20 million to AP-HP (Assistance Publique - Hpitaux de Paris). This contribution bolsters the donation of over 30 tons of hand sanitizer produced by the perfumes site in Vaudreuil, and that of more than 31,000 masks from the company's different entities. It has been completed by support for local health services via the Herms subsidiaries around the world.

In this context, following a proposal from executive management, the supervisory board has decided to alter the proposed ordinary dividend distribution to be submitted to the general meeting of shareholders on April 24, 2020, reducing it from 5 to 4.55 per share, i.e. an amount identical to the sum paid in 2019.

Finally, the executive managers have decided to waive the increase in their fixed compensation paid in 2020 and their variable compensation awarded in 2020 for 2019, and will therefore receive a total amount this year identical to the amount they received in 2019.

Highlights

At the end of March 2020, currency fluctuations represented a positive impact of 20 million on revenue.

During the first quarter, Herms International redeemed 18,209 shares for 12 million, excluding transactions completed within the framework of the liquidity contract.

Outlook

At the date of publishing this release, only the stores in Greater China and Korea are open and business is greatly reduced in Japan. Developments in the pandemic and the measures decided by governments do not enable us to anticipate the dates for re-opening stores. Consequently, sales in the second quarter will be significantly impacted by the closures of a significant part of the network.

For 2020, the impacts of the COVID-19 epidemic are currently difficult to assess, as the scale, duration and geographic extent of the crisis evolve every day. The craftsmanship model implemented mostly in France, the balanced distribution network and the local customer base are all factors that contribute to the company's resilience. The group remains highly involved and active: the situation is evaluated regularly and measures are adapted accordingly. In all affected countries, the key concern is the health of all the employees and their families within the framework of the measures taken by medical and public authorities.

Despite this unprecedented economic crisis, Herms has maintained its strategic investments, both in production capacities and the distribution network, in order to prepare to resume business in the best possible conditions, while controlling costs. We have been partially and gradually resuming operations in the production and logistics sites since April 14, in full compliance with safety rules and by applying strict measures to protect the employees present, in consultation with the employees' representative bodies. The group is confident in its ability to mobilize all its employees and to reconnect with its customers.

Thanks to its unique business model, Herms is pursuing its long-term development strategy based on creativity, maintaining control over know-how and singular communication.

With pride in its artisanal model, in 2020 Herms pays tribute to the extraordinary tool that is the human hand, as well as to the ingenuity that drives every one of the house's craftsmen and women. For it is this combination that characterizes the innovative spirit of Herms, its commitment to *Innovation in the making*.

In the medium term, despite growing economic, geopolitical and monetary uncertainties around the world, the group confirms an ambitious goal for revenue growth at constant exchange rates.

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