

## Sector View

## Luxury Goods

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	-1.0%	-8.9%	-9.7%	-3.7%
DJ Stoxx 600	-7.8%	-13.5%	-17.6%	-10.1%

\*Stoxx Sector Indices

## Companies covered

Company	Recommendation	Target Price
<b>CHRISTIAN DIOR</b>	<b>BUY</b>	<b>EUR177</b>
Last Price	EUR162,05	Market Cap. EUR29,449m
<b>HERMES Intl</b>	<b>BUY</b>	<b>EUR360</b>
Last Price	EUR317,55	Market Cap. EUR33,523m
<b>HUGO BOSS</b>	<b>NEUTRAL</b>	<b>EUR103</b>
Last Price	EUR70,54	Market Cap. EUR4,966m
<b>KERING</b>	<b>BUY</b>	<b>EUR180</b>
Last Price	EUR152,5	Market Cap. EUR19,256m
<b>LVMH</b>	<b>BUY</b>	<b>EUR182</b>
Last Price	EUR152,8	Market Cap. EUR77,649m
<b>PRADA</b>	<b>NEUTRAL</b>	<b>HKD41</b>
Last Price	EUR23,1	Market Cap. EUR59,109m
<b>RICHEMONT</b>	<b>BUY</b>	<b>CHF90</b>
Last Price	CHF64,95	Market Cap. CHF36,372m
<b>SALVATORE FERRAGAMO</b>	<b>BUY</b>	<b>EUR26,5</b>
Last Price	EUR20,64	Market Cap. EUR3,484m
<b>THE SWATCH GROUP</b>	<b>NEUTRAL</b>	<b>CHF410</b>
Last Price	CHF341,4	Market Cap. CHF18,741m
<b>TOD'S GROUP</b>	<b>NEUTRAL</b>	<b>EUR84</b>
Last Price	EUR72,65	Market Cap. EUR2,404m

## Q3 2016 earnings: Ralph Lauren cuts FY 2016 outlook due to a challenging US market

Yesterday Ralph Lauren released Q3 2016 earnings (to end-December 2015). As a result of a weak holiday season in North America, Q3 net revenues fell short of CS forecast (USD1.95bn vs. USD2.03bn expected) prompting management to cut the FY 2016 and 2017 outlook and causing a 22% fall in the share price. This publication shows that the US has become a more volatile market for luxury players and puts into perspective the relatively disappointing performance of Hugo Boss in 2015.

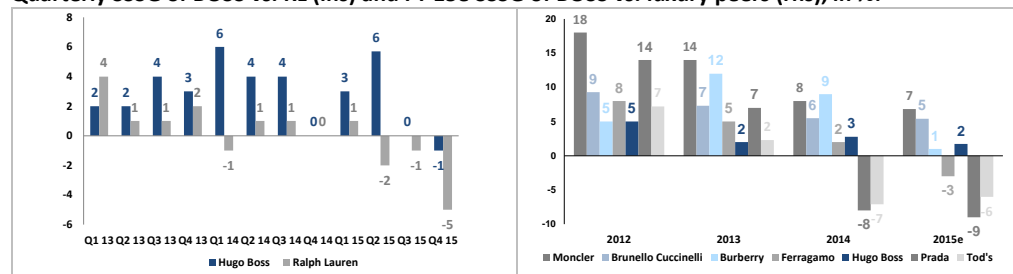
## ANALYSIS

- Q3 net revenues down 4% on a reported basis and 1% FX-n to USD1.95bn**, below the market's expectations at EUR2.03bn and the company's own guidance communicated last November (0-2% as reported). In Retail, consolidated same-store sales decreased by 5% on a constant currency basis, certainly caused by a mid to high single-digit decline in North America.
- Weak quarter in North America (-4% in Q3)**. This decline was due to the disappointing performance in North America, which accounts for ~63% of Ralph Lauren's net revenues. Ralph Lauren faced a **decline in foreign tourist traffic** (~20% of US sales) while the US brand was also sensitive to the **mild winter** across the US during the Fall and Holiday season like other apparel groups (i.e. Hugo Boss or Burberry), which will probably intensify promotions in this market. Last but not least, Ralph Lauren had to cope with **product assortment challenges**, which provoked some sales disruptions. The international net revenue increased 6% FX-n.
- Better-than expected adj. operating margin and EPS were not enough...** Indeed, operating income excluding restructuring charges, amounted to USD266m (CS: USD270m), representing a margin contraction of "only" 180bp to 13.7%, better than the company's target (200 to 250bp decline) and consensus expectations (13.3%e) thanks to a resilient performance by the GM (-20bp to 56.8% vs. CS of 56%). EPS reached \$2.27 and topped the CS forecast of \$2.127.
- Ralph Lauren cuts FY 2016 and 2017 outlook**. With a cautious sales outlook for Q4 (reported net revenues of -2%/0%, +1.5%/-0.5% FX-n), the group has revised down its FY 2016 targets: net revenues are only set to rise 1% FX-n vs. +3.5% previously. This lower top line growth prompts more significant operating deleverage, in addition to the FX headwind. Consequently, the FY 2016 operating margin is set to narrow 290-320bp vs. a 180-230 decline initially. At this point FY 2017 net revenues are expected to be down vs. 2016.

## READ-ACROSS TO HUGO BOSS

- Hugo Boss already pre-announced its FY 2015 preliminary results on 15th Feb showing 5% FX-n sales growth in Q4, driven by a strong increase in Europe (+10% FX-n helped by higher rebates though) while Asia-Pacific and North America were down 7% FX-n and 1% FX-n respectively. Like RL, Hugo Boss also faced a challenging US apparel market (highly promotional), aggravated by the decline in tourist flows (~15% of US sales) and an excess inventory. However, the German group is far less exposed to the US market than RL (~18% of total sales vs. 63% for RL).
- Although Hugo Boss's 2015 SSSG (+2%) was below the LT guidance of mid single-digit, the two tables below show that the German group resisted quite well in comparison to its peers, with only Moncler and Brunello Cuccinelli, which are more high-end, posting higher SSSG rates in 2015.

## Quarterly SSSG of BOSS vs. RL (lhs) and FY 15e SSSG of BOSS vs. luxury peers (rhs), in %:



Source: Company Data, BG ests, IBES



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