



BUSINESS

LVMH Misses Expectations As China Flags

- The group saw a “marked deterioration” in sales of fashion and leather goods to Chinese consumers.

BY JOELLE DIDERICH

PARIS – The Chinese dam has broken for LVMH Moët Hennessy Louis Vuitton.

The world's biggest luxury group missed market expectations with a 4.4 percent drop in revenues in the third quarter, blaming lower growth in Japan and a “marked deterioration” in sales of clothing and accessories to Chinese nationals.

Overall sales in its key fashion and leather goods division were down 5 percent on a like-for-like basis versus the same period last year, sharply below a Visible Alpha consensus forecast for a 1 percent increase.

The sector leader's struggles illustrated the depth of the crisis in confidence among Chinese consumers.

Their spending on fashion and leather goods was down in the midsingle digits in the third quarter, after rising in the mid- to high-single digits during the first half of the year, chief financial officer Jean-Jacques Guiony told analysts and journalists on a webcast on Tuesday.

Golden Week Not That Golden

Business in watches and jewelry remained under strain, but did not worsen. The country's National Day Golden Week holiday, which ran from Oct. 1 to 7, did not move the needle either way, Guiony noted.

The French conglomerate, which owns more than 75 brands including Louis Vuitton, Dior, Tiffany & Co. and Sephora, is on a general cost-cutting drive, but it plans to continue investing in stores, communications and events in China next year in the belief that demand will eventually bounce back. “We don't give up,” Guiony said.

“We are still very hopeful that the luxury industry will continue to develop and will continue to surf on the wave of the emergence of the upper middle class,” he added. “We see absolutely no reason why, after a cyclical downturn as we are experiencing today, we shall not be in a position to recover.”

The fortunes of luxury stocks have been closely tied to China's announcements

regarding economic stimulus measures designed to counter flagging growth linked to factors including a slumping property market and high youth unemployment.

The world's second-largest economy is at risk of missing its target of around 5 percent growth in 2024, analysts say.

Guiony said recent announcements showed that Chinese authorities understand the need to spur household spending, though he would not speculate on the timing of a potential turnaround.

“Whether these measures will be sufficient or not, [or] will be completed in the future by further measures, I don't have a clue, but clearly it shows that they are taking the issue very seriously,” he remarked.

Slowdown Since Second Quarter

Reporting results after the market close, LVMH said revenues totaled 19.07 billion euros in the three months to Sept. 30, below the Visible Alpha forecast of 20.01 billion euros.

Stripping out the impact of currency fluctuations, sales were down 3 percent year-on-year, indicating a slowdown from the second quarter, when organic revenues increased 1 percent.

Like-for-like sales in Japan were up 20 percent in the third quarter after a 57 percent jump in the prior three-month period as the yen recovered from its recent weakness.

In the rest of Asia, the trend worsened with a 16 percent decline in the third quarter.

Sales were flat in the U.S. and up 2 percent in Europe, representing a slight quarterly deceleration in both cases.

LVMH does not break down results by brand and Guiony offered little insight on the underperformance of fashion and leather goods, beyond saying that Vuitton was slightly above the division average and Dior slightly below.

Creative Churn

The segment is facing a period of creative churn, with the departure of Hedi Slimane at Celine, to be succeeded by Michael Rider; Kim Jones exiting Fendi, with no successor yet revealed, and Sarah Burton





taking over at Givenchy.

Guiony said LVMH was counting on product innovation to emerge from the market slump, and the onus will be on the new artistic directors to stoke excitement around their offerings, although these won't come on stream for several quarters.

Some analysts have suggested that its cash cow brands are also in need of a refresh.

"The impression is that both LV and Dior are in transition and need a breather before they regroup and restart. Both brands have seen the same womenswear creative directors in place for a long while, which seems less than ideal," Bernstein analyst Luca Solca and his team said in a report in August.

Uncharacteristically, Tuesday's initial press release from LVMH did not include a quote from chairman and chief executive officer Bernard Arnault, with the group merely reiterating its guidance for the year.

But at an event last week celebrating the 10th anniversary of the luxury group's vocational training program for craftspeople, the luxury mogul emphasized the importance of quality products over marketing.

"Our future customers should feel drawn to our products because of their perception of the excellence of our craftspeople, and not because we're trying to reel them in with some classic marketing tactic based on a study of what they want," Arnault said.

LVMH's share price has fallen by 27 percent from its intra-year peak of 872.80 euros on March 14 as inflation has curbed discretionary spending.

But Guiony made clear that LVMH would not be changing strategy or lowering prices in an attempt to win back aspirational customers.

"I think it would be a mistake. We have to stay true to what we are. The offer in luxury has been the key strength over the years," he said. "The current situation is more demand-driven than offer-driven."

Organic sales of watches and jewelry were down 4 percent in the third quarter, while wines and spirits posted a 7 percent drop. On the bright side, perfumes and cosmetics were up 3 percent, and selective retailing rose 2 percent.

Revenues at travel retail operator DFS are still below 2019 levels, and LVMH said last week that it was bringing back Ed Brennan as interim CEO to help steer the business back to growth.

More Management Changes?

There is speculation that other senior management changes are in the works, after a series of big shifts in LVMH's C-suite and the appointments of Arnault's sons Alexandre and Frédéric to its board of

directors.

During this year alone, executive changes have included the nomination of a new deputy CFO and head of LVMH

Fashion Group, as well as the stepping down of Antonio Belloni, LVMH's long-standing group managing director.

In late September, LVMH revealed internally the upcoming departure of Christopher de Lapuente, CEO of the selective retailing division, who is retiring at the end of October.

Even as it tries to rein in spending, the luxury group must deal with a number of unexpected bills in the coming months.

If confirmed, French Prime Minister Michel Barnier's plan to raise the corporation tax would cost LVMH between 700 million and 800 million euros, Guiony said.

Meanwhile, a disappointing Champagne harvest is set to wipe 40 million to 50 million euros from the profits of the division, he added.

Cécile Cabanis, participating in her first call as deputy CFO, said the wines and spirits division would also be hit by China's imposition of temporary anti-dumping measures on brandy from the European Union, a measure that disproportionately affects cognac producers.

Cabanis said China accounts for just under 20 percent of Hennessy's revenues, but tariffs should have limited near-term impact as inventories in China are high due to recent weak demand.

LVMH was the first major player to report third-quarter sales. French group Kering is due to unveil its figures on Oct. 23, followed by Hermès International on Oct. 24.

"For the time being, the material revenue miss of the luxury bellwether LVMH is a clear negative for the industry ahead of the [third-quarter] reporting season and in the run-up to key Christmas and Chinese New Year trading periods," Thomas Chauvet, analyst at Citi, said in a research note after the results.

The Louis Vuitton
flagship on Avenue des
Champs-Élysées in Paris.

