



## LVMH's fashion sales drop 9% in Q2

The luxury conglomerate cited a tough base of comparison in Japan last year as it posted another down quarter.

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LVMH's fashion sales are sinking deeper into a downturn. The company said Thursday that its fashion and leather goods division dropped 9 per cent in the second quarter to €9 billion, against a consensus of -7 per cent. This comes after the division's sales decreased 5 per cent in the first quarter.

"The bulk of the decline comes from Asia, and more specifically tourism in Japan, which is the reversal of what we saw last year. We saw some local repatriation meaning that Chinese local demand improved but that didn't fully offset the decline in Japan," LVMH CFO Cécile Cabanis told analysts on Thursday. "We don't see any big change in the maison's performance in Q2, meaning Louis Vuitton is still a bit better than the division average, Dior still a bit below the average." The division's profit from recurring operations was down 18 per cent in the first half.

Bernstein luxury goods analyst Luca Solca stresses the beat on profits. "[LVMH's] EBIT has come through 2 per cent or €150 million better than expected, on what appears like cost containment in the face of a difficult demand environment," he says.

For the entire LVMH Group, organic revenue growth was down 4 per cent in the quarter to €19.5 billion, compared to the same period in 2023. Net profits for the group fell 22 per cent in the first half of the year.

"LVMH showed solidity in the current context," Bernard Arnault, chair and CEO of LVMH, said in a statement. "We owe this to the power of our iconic brands and their boundless capacity for innovation, while remaining true to their culture of incomparable artisanal craftsmanship. Beyond the prevailing uncertainties, we remain focused thanks to the long-term vision that has always guided our family group. We are driven by our steadfast pursuit of quality and desirability in everything we create, combined with the modernity of our historic brands."

By category, perfumes and cosmetics grew 1 per cent, watches and jewellery were flat, and selective retailing, which includes cosmetics retailer Sephora, grew 4 per cent. The wines and spirits division fell 4 per cent for the quarter.





By region, Asia (excluding Japan) decreased 6 per cent, an improvement compared to the first quarter when sales were down 11 per cent for the continent. Sales were down 28 per cent in Japan, a deterioration compared with Q1 when sales were down 1 per cent. The US was flat and Europe down 1 per cent.

Luxury as a whole is in a slump, though some brands have managed better than others. Brunello Cucinelli's sales were up 10.7 per cent in H1. Richemont proved resilient, with group sales up 6 per cent, propped up by its jewellery maisons (11 per cent) in Q2. Burberry's like-for-like sales were down 1 per cent. Moncler Group's sales also slipped 1 per cent in Q2. Kering is to report its Q2 numbers on 29 July, Hermès and Prada on 30 July. HSBC estimates Kering sales will be down 14 per cent, Hermès up 9 per cent and Prada Group retail sales up 10 per cent.

As quiet luxury brands like Brunello Cucinelli and Hermès prove resilient, Cabanis referenced LVMH's own. "We have the fastest growing quiet luxury brand in the group," she said, referring to Loro Piana. The LVMH-owned cashmere label has recently been placed under judicial administration following findings of labor exploitation within its outsourced workshops. This came after other brands including Valentino, Dior and Armani faced similar troubles. (The Italian court removed monitoring of a Dior unit in a labour exploitation probe in February.)

Cabanis told analysts: "On Loro Piana, we were not satisfied with the situation, especially because we've been working a lot since last year on reworking on all the processes, making sure that we had more audits in place. So we've done around 5,000 audits last year. What happened at Loro Piana is a subcontractor of a subcontractor of a supplier that was hidden from us. So we couldn't know. It's not that we cannot do better in terms of control, but we didn't know and the day we knew, we stopped the relationship with the supplier.

"This topic is beyond Loro Piana. It's a topic that the full industry in Italy is facing and it's something that we will all have to manage collectively with the associations, with the government. In the meantime, for us it's very clear we are reinforcing control. We are reinforcing the way we look at the relationship and the way we are going to control, in terms of how we audit. But it's not a Loro Piana issue," Cabanis continued.

Cabanis was asked whether or not the findings would harm Loro Piana's image: "It's not going to create and it shouldn't create an impact on the image, because it's not what happened. Still, we need to make sure that, collectively, we can solve or at least improve the situation of the industry. There should be very fair practices and a clean supply chain. Obviously there is still progress to be made."

LVMH has other pressing challenges as it works to turn around a string of quarterly declines. HSBC describes Louis Vuitton as "LVMH's big issue" in a 12 June note, citing "a schizophrenic pull between low end (chocolate, beauty) and high end (exclusive leather ranges), fashion content (Murakami) and more subtle travel-related luxury items". HSBC analysts are asking: "What does LV really stand for? Who is it targeting? What is its USP?"

On Thursday, Cabanis dismissed concerns about the portfolio sprawl by emphasising that 60 per cent of Louis Vuitton's portfolio is leather goods. "But having said that, the brand is very much focused on bringing more sophisticated products. But you also need to connect with the younger generation. You also need to have some offer where you can meet them, onboard them and then they can go through your value later. And we refuse to do that with cheap bags," said Cabanis.

Instead, Louis Vuitton uses accessible product categories such as perfume and small leather goods. "We are working on bringing the best product and with that making sure that the value that is in the product is recognised by our clients. That's really what we do and what we will continue to do because Louis Vuitton has continued to gain market share and if you remove the current context, something where Louis Vuitton has been leading for a while in the industry," said Cabanis. She added that Louis Vuitton's





new stores on New York's 57th Street, Dubai and Macau are growing sales in the double digits and stressed the house's "financial muscle".

Cabanis noted that for the rest of the year, the comparison basis will start improving in China in July but will be tougher in the US in Q4, given last year's post-election surge in luxury goods demand. Arnault said in a statement: "We head into the second half of the year with great vigilance, and I am confident in LVMH's tremendous long-term potential and the commitment of our teams to further reinforce the group's leadership position in luxury goods. Our main shared priority is about offering our customers the most exceptional products."

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