

Hermes International SCA

CORE HOLDING*

Recommended since 25.07.17

30.08.2024



Country FR	Market capitalization (bn) EUR 228,0	Perf. since reco. (%)
Sector Personal & Household Goods	Free float 24,5%	Hermes International SCA 399,7
Factset RMS-FR	Closing price EUR 2160,00	Sector 22,5
ISIN FR0000052292	ESG Risk score* 10,7 Low risk	

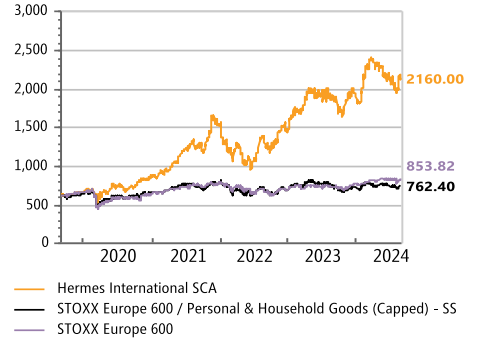
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Originally a harness and saddle maker, French firm Hermès, founded in Paris in 1837, designs, makes and sells luxury products in the fields of leather goods, ready-to-wear clothing, perfumes, watches, lifestyle accessories and tableware. Even today the company is still majority owned by the Hermès heirs (who have a 66.7% stake).

Market - competition - positions - barriers to entry

Hermès is the luxury sector pure play, positioned at the very top of the market, with a predominant share of its business in highly profitable categories: leather goods and silk. In addition to strong international expansion in its traditional businesses, the company has diversified into watchmaking and jewellery, acquiring bootmaker John Lobb, Crystal Saint-Louis and Puiforcat silversmiths.



Source: Factset

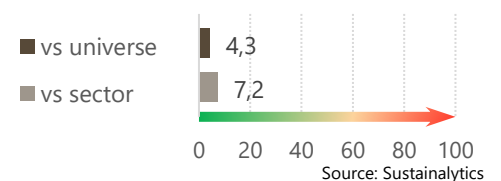
Investment case

- The luxury goods industry has seen exceptional growth in recent years, with sales rising by 12%/year between 2019 and 2023. The use of savings accumulated during the pandemic explains only part of this performance. The sector is benefiting from long-term trends, including the emergence of new middle classes in emerging markets ; the "premiumization" in mature regions ; expansion into "secondary" cities in the United States (Chicago, Atlanta, Phoenix...) ; the rise of the new generations (Gen Z and Alpha), whose consumption of luxury goods starts 3-5 years earlier than their elders, with a larger budget allocated. After these "supercycle" years, we are witnessing a phase of slowdown as we move towards a normalization of growth, which should settle at around 8% from 2025-26. This phase of slowdown is accentuated by a particularly difficult environment in China, impacted by the property crisis and high unemployment (especially among young people).
- Hermès benefits from factors which, while not making it immune to a slowdown, enable it to steer its growth and make it more resilient in times of cyclical downturn : 1/ its much higher-than-average exposure to a VIC clientele ("Very Important Customer"), less sensitive to economic cycles, 2/ the strong desirability of its brand, 3/ excellent management of its production capacities, with demand outstripping supply and a waiting list averaging two years, creating a scarcity effect. With the exception of the very special year 2020, Hermès has not experienced a drop in sales over the last twenty years.
- Historically present in saddlery and leather goods (41% of sales), the company was able to 1/ extend its offer beyond the iconic Kelly and Birkin bags, which have made its success, and 2/ diversify very early on into adjacent activities, such as ready-to-wear (29% of sales) then silk, jewelry, watches, tableware and beauty & perfumery (30% of sales). These last five segments represent more affordable entry points, but are also more cyclical. The company will also continue to benefit from the development of its digital and store network (notably enlargements), supported by the gradual expansion of its production capacities.
- Hermès reassured on the first half in a more difficult environment, with sales up 15% at constant exchange rates, supported by leather goods (+19.1%). However, the decline in silk and watches, which was more pronounced in the second quarter (-5.6% and -4.9% respectively), and fluctuations in exchange rates limited the rise in operating income (+7% on a reported basis).

ESG - risks and key points

- Thanks to its moderate exposure and sound management of the relevant issues, the company is at low risk of suffering material financial impacts linked to ESG factors.
- It is subject to a moderate level of controversy (need for a skilled workforce for its unique craftsmanship; transferring income to locations that are fiscally advantageous; human rights violations associated with leather producers and tanneries).

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation in EUR**

Current price	Value Bordier Scenario
2160	2 102

Our scenario assumes European 10-year interest rates at 2.5%, sales growth of 11-12%/year over the period, and an EBIT margin of 44% by 2031.

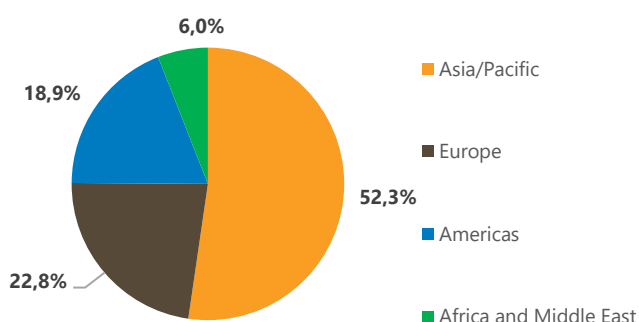
**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of EUR	2022	2023	2024e	2025e	2026e
Sales revenue	11 602	13 427	15 038	17 294	19 542
Sales growth %	29,2%	15,7%	12,0%	15,0%	13,0%
o/w organic	23,4%	20,6%	15,0%	15,0%	13,0%
o/w perimeter	0,0%	0,0%	0,0%	0,0%	0,0%
o/w forex	5,8%	-4,9%	-3,0%	0,0%	0,0%
EBITDA	5 304	6 429	6 963	8 094	9 243
% of sales	45,7%	47,9%	46,3%	46,8%	47,3%
EBIT	4 697	5 650	6 090	7 091	8 110
% of sales	40,5%	42,1%	40,5%	41,0%	41,5%
Adjusted EPS	32,2	41,1	43,4	50,3	57,5
Adjusted EPS growth	37,8%	27,7%	5,4%	16,1%	14,1%
FCF/Sales	29,3%	23,8%	29,0%	29,0%	29,5%
Dividend yield	0,6%	1,2%	0,8%	0,9%	1,1%
ROCE - WACC	29,3%	29,2%	27,8%	26,5%	25,3%
ROE (%)	27,1%	28,4%	26,5%	25,6%	24,6%
Net debt/Ebitda	-137,5%	-133,2%	-147,9%	-166,8%	-185,5%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Ratios

	Hermes International SCA		Stoxx Europe 600	
	Pers. & Household Goods	Sector	Market	Stoxx 600
PE (x)***	2023	46,7	23,3	14,5
	2024e	49,8	21,3	14,5
	2025e	42,9	19,1	13,1
P/B (x)***	2023	13,3	4,6	2,0
	2024e	13,3	4,0	2,0
	2025e	11,1	3,7	1,8
Beta (2Y, daily) vs market:			0,74	

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2013, CEO Axel Dumas.

Key shareholders (if any):

The Hermès family group, comprising H51, H2 and other members of the Hermès family, holds 66.7% of the share capital and 78.5% of the voting rights.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

Hermès is a société en commandite par actions (partnership limited by shares) with a Supervisory Board (Chairman Eric de Seynes) controlling the Executive Management (Chairman Henri-Louis Bauer / Executive Management Axel Dumas).

Agenda

24 Oct. 2024 : Q3 sales

14 Feb. 2025 : 2024 annual results

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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